



U.S. Department of Housing and Urban Development
Office of District Inspector General for Audit
Capital District
Room 3154
451 7th Street, SW
Washington, DC 20410

September 28, 1998

**Audit Memorandum
No. 98-AO-251-1806**

MEMORANDUM FOR: John Garrity, Acting Director, Office of Special Needs Assistance Programs, DES

FROM: David J. Niemiec, Acting District Inspector General for Audit, Capital District
3GGA

SUBJECT: Innovative Homeless Initiatives Demonstration Program
The Community Partnership for the Prevention of Homelessness
Washington, DC

Introduction

We completed a review of the Innovative Homeless Initiatives Demonstration Program (Demonstration Program) at the Community Partnership for the Prevention of Homelessness (CPPH). Our review focused on the manner in which CPPH maintained controls over the way its subgrantees complied with the terms of their contracts that were funded under Grant Agreement DC00I94-1008.

We concluded that CPPH's management controls over onsite monitoring of subgrantees and subgrantee submission of annual audited financial statements were weak. Similar problems were also noted during a December 1996 review of a CPPH subgrantee in which we identified over \$400,000 in unsupported funds. In our view, we do not believe that CPPH has taken sufficient steps to help prevent the misapplication of funds from occurring again. Also, CPPH drew down Demonstration Program funds in excess of amounts needed to satisfy disbursements for a 3-day period, as specified in its grant agreement.

We are recommending that your office have CPPH: begin describing the results of its monitoring efforts in its annual reports by providing the name, location, and conclusions that were reached on each monitoring visit; begin withholding payments to subgrantees that do not submit audited financial statements on time; and implement procedures that restrict the draw down of funds from the Line of Credit Controls Systems (LOCCS) to its immediate needs. We are also recommending that you withhold further funding to CPPH until the necessary financial and

management controls have been implemented and all subgrantee audited financial statements are received and reviewed.

Background

In 1994, the District of Columbia (District), CPPH, and the Department of Housing and Urban Development (HUD) signed an agreement that transferred the responsibility for implementation of the goals and objectives of the DC Initiative to CPPH. The DC Initiative represents an agreement to transition the District's homeless care system from a shelter-based to a continuum of care approach. The DC Initiative is supported by: (a) a \$20 million grant under the HUD Demonstration Act of 1993; (b) District-appropriated funds for homeless services; (c) McKinney funds gained through national competitions; (d) HUD formula grants to the District; (e) HUD competitive funds flowing through the DC Housing Authority; (f) HUD funds for HIV/AIDS programs; and (g) private sector funds.

As part of the DC Initiative, HUD provided grant funds of \$20 million to CPPH. The funds were available over 3 years to CPPH under grant agreements DC00I94-1007 and DC00I94-1008.¹ These agreements require CPPH to contract for the provision of shelter and supportive services for homeless individuals and families and to monitor these service providers to ensure compliance with their grant agreements. CPPH contracted with 37 providers and paid them approximately \$4 million from DC00I94-1008 grant funds during fiscal year 1997.

CPPH annually reports to HUD describing the actions it has taken to provide shelter and supportive services to homeless individuals and families. This includes a listing and brief description of the providers selected, efforts undertaken to obtain funding from outside sources, and the success of those efforts.

On December 17, 1996, the OIG completed a review of the use of funds by the Community for Creative Non-Violence (CCNV) a subgrantee of CPPH at the time. We disallowed expenditures of \$406,871 because they were for items that were either unallowable or unsupported. This represented about 65 percent of the funds CPPH had provided. The lack of a timely financial statement audit of CCNV contributed to the misapplication of grant funds. We recommended that CPPH be instructed to perform additional onsite monitoring of subgrantees including reviews of financial records to prevent similar problems from happening in the future. The recommendation has not been satisfactorily implemented by CPPH.

Scope and Methodology

Our review of CPPH covered its activities during fiscal year 1997 and was performed between April and July 1998 at CPPH; House of Ruth Inc., Madison Shelter; New Hope Ministries, Inc., Mt. Vernon Place Shelter; and the United Planning Organization, Mary Herring Safe House. In view of our prior audit findings, we focused our review on the management

¹ Under grant agreement DC00I94-1007, \$611,874 was advanced for the District's hypothermia program and other small grants related to the continuum of care. Under grant agreement DC00I94-1008, HUD made \$19,388,126 available over 3 years to Community Partnership pursuant to the authority of section 2(c) of the HUD Demonstration Act of 1993.

controls maintained by CPPH to ensure that subgrantees were fulfilling their contract reporting, accounting, and audit requirements and whether CPPH was properly drawing down funds from LOCCS. For the selected subgrantees, we determined whether reporting and financial system controls were in place.

Because your office was simultaneously conducting program reviews of 10 subgrantees, we chose 3 subgrantees not being reviewed by your office. Your staff verbally informed us that there were no issues detected at the 10 subgrantees that they were reviewing that needed further review by us. At the completion of our onsite audit work, your staff's report had not been finalized.

Review Results

Limited Monitoring of Subgrantees' Financial Operations

CPPH contracts with nonprofit organizations to provide shelter and supportive services to homeless individuals and their families. It is responsible for monitoring these providers to ensure they are complying with the terms of their agreements. Onsite monitoring of subgrantees, reviews of subgrantee requests for reimbursement, and the receipt and review of annual audited financial statements were the only sources used to ensure that subgrantees were fulfilling their financial responsibilities.

CPPH's Contract/Grants Administrator and the Controller are responsible for overseeing the subgrantee's financial operations. They oversee the subgrantee's financial operations by reviewing both the requests for reimbursement and the audited financial statements. Prior audits and this review show a continuing weakness on the part of CPPH to obtain audits from all subgrantees timely. CPPH did not enforce the contract provision which states that payments will be withheld if audited financial statements are not received within 90 days after the end of the subgrantee's fiscal year. Even though the grant agreements of the subgrantees required an annual financial statement report, only 4 out of 37 subgrantees actually submitted audited financial statements for fiscal year 1997. In addition to the foregoing, CPPH did not perform onsite monitoring of the subgrantees financial operations. Without the timely submission of audited financial statements or periodic onsite monitoring reviews, CPPH can not identify any misapplication of grant funds by subgrantees and take appropriate corrective action.

During our review, CPPH hired a program monitor to take over the responsibility of performing programmatic and financial monitoring of subgrantees. The program monitor will be responsible for conducting evaluations of all new subgrantees prior to the release of funds to ensure that adequate accounting controls are in place. Also, the monitor will be responsible for conducting routine site visits to review case management files, financial records, the facility's physical condition, and overall compliance with contract requirements.

Grant Funds Were Drawn Down in Excess of Immediate Needs

According to its grant agreement, CPPH is to comply with Treasury Circular 1075 (31 CFR § 205) which requires grantees to implement cash management procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. The Treasury sets a maximum pre-issuance funding limit of three business days

prior to the day on which the grantee makes a disbursement. The amount transferred is limited to the minimum required to meet immediate cash needs. Moreover, grant operating instructions include specific instructions to access funds from LOCCS, as follows:

A grantee may not make more than one payment request per day and must make drawdowns as close in time as possible to its disbursements. LOCCS is designed so that grantees can draw down funds when needed. Funds drawn down should be disbursed in payment of program costs within three days of receipt of funds. That is, grantees should not draw down funds unless they expect to expend those funds within three days.

To minimize the administrative burden of requesting funds from LOCCS, CPPH's Controller based the amount to be drawn down on the historical average needed to meet subgrantee's requests for reimbursement. This resulted in drawing an average of \$1 million every two months. This was enough to meet two months of reimbursements, because some subgrantees do not submit requests for reimbursement on a monthly basis. Drawdowns should be based on actual needs not anticipated needs and should not result in excessive amounts being drawn down from LOCCS.

Recommendations

We recommend that your office have CPPH:

1. Begin describing its monitoring efforts in its annual report by providing the name, location, and results of all onsite monitoring visits that were performed during the year.
2. Withhold payments to subgrantees that do not submit audited financial statements on time.
3. Implement procedures to restrict draw down of funds from LOCCS to immediate needs in accordance with the grant agreement.

We also recommend that you withhold funding from CPPH until the necessary management controls have been implemented and audited financial statements are received and reviewed.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this audit.

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If you have any questions, please call me or Joan S. Hobbs, Assistant District Inspector General for Audit, on (202) 708-0351.