



**Catholic Social Services of the
Diocese of Scranton
Scranton, PA**

**Supportive Housing and HOME Investment
Partnerships Program Funds**



Issue Date: May 23, 2014

Audit Report Number: 2014-PH-1005

TO: Nadab O. Bynum, Director, Office of Community Planning and Development,
Philadelphia Regional Office, 3AD

//signed//

FROM: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA

SUBJECT: Catholic Social Services of the Diocese of Scranton, PA, Generally Administered
Its Supportive Housing and HOME Program Funds for St. Hedwig's Veterans
Village in Accordance With Applicable Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Catholic Social Services of the Diocese of Scranton's use of Supportive Housing and HOME Investment Partnerships Program funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6730.



May 23, 2014

Catholic Social Services of the Diocese of Scranton, PA, Generally Administered Its Supportive Housing and HOME Program Funds for St. Hedwig's Veterans Village in Accordance With Applicable Requirements

Highlights

Audit Report 2014-PH-1005

What We Audited and Why

We audited the Catholic Social Services of the Diocese of Scranton's (grantee) use of the U.S. Department of Housing and Urban Development's (HUD) Supportive Housing and HOME Investment Partnerships Program funds used for the renovation of St. Hedwig's Veterans Village. We audited the grantee because we received a complaint alleging misuse of HUD funds and a potential conflict of interest involving the construction management company. Our audit objective was to determine whether the grantee used its HUD funds related to St. Hedwig's Veterans Village in accordance with key HUD requirements to (1) maintain adequate documentation to demonstrate that renovation, operating, and administrative costs of the project were eligible; (2) assist only eligible tenants; (3) accurately calculate rents; and (4) avoid conflict-of-interest situations.

What We Recommend

This report contains no recommendations.

What We Found

The grantee generally used its HUD funds related to St. Hedwig's Veterans Village in accordance with key HUD requirements. The allegations in the complaint did not have merit. The grantee generally incurred eligible renovation, operating, and administrative costs that were supported by adequate documentation. It assisted eligible tenants and generally calculated rents accurately. The alleged conflict-of-interest situation did not exist.

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BACKGROUND AND OBJECTIVE

The HOME Investment Partnerships Program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 as amended. Program regulations are at 24 CFR (Code of Federal Regulations) Part 92. HOME is the largest Federal block grant program for State and local governments, designed exclusively to create affordable housing for low-income households.

The Supportive Housing program is designed to develop supportive housing and services that will allow homeless persons to live as independently as possible. Program regulations are at 24 CFR Part 583. Eligible applicants are States, units of local government, other governmental entities such as public housing agencies, and private nonprofits.

Catholic Social Services (grantee) is a nonprofit community service organization operating on a nonsectarian basis. The grantee purchased the former St. Hedwig's School in Kingston, PA, and renovated it to create St. Hedwig's Veterans Village (project), which provides permanent housing for veterans. The project consists of 10 1-bedroom apartments and 2 2-bedroom apartments. Of the 12 units, 3 were designated as HOME units.

The renovation cost of the project was more than \$2.2 million. The grantee used non-Federal funds totaling \$1.7 million for the project and received U.S. Department of Housing and Urban Development (HUD) funds from two sources. In February 2011, HUD's Philadelphia Office of Community Planning and Development awarded the grantee a Supportive Housing program grant for the renovation, operation, and administration of the project. Additionally, in December 2011, the Luzerne County Office of Community Development provided the grantee a forgivable, non-interest-bearing, deferred payment, 15-year loan from its HOME program. As of August 2013, the following amounts were authorized and disbursed:

HUD funding sources	Authorized amounts	Disbursed amounts
2011 HOME grant	\$400,000	\$400,000
2011 Supportive Housing program grant	369,022	266,709
Totals	\$769,022	\$666,709

The grantee, as a developer in the HOME program, was not required to follow Federal procurement requirements.

As of January 2013, the project renovation was complete, and as of August 2013, all 12 units were occupied.

Our audit objective was to determine whether the grantee used its HUD funds related to St. Hedwig's Veterans Village in accordance with key HUD requirements to (1) maintain adequate documentation to demonstrate that renovation, operating, and administrative costs of the project were eligible; (2) assist only eligible tenants; (3) accurately calculate rents; and (4) avoid conflict-of-interest situations.

RESULTS OF AUDIT

Finding: The Grantee Generally Administered HUD Funds for the St. Hedwig's Project in Accordance With Applicable Requirements

The grantee generally used its HUD funds related to St. Hedwig's Veterans Village in accordance with key HUD requirements. The allegations in the complaint did not have merit. The grantee generally incurred eligible renovation, operating, and administrative costs that were supported by adequate documentation. It assisted eligible tenants and generally calculated rents accurately. The alleged conflict-of-interest situation did not exist.

Renovation Costs Met Program Requirements

The grantee incurred eligible renovation costs that were supported by adequate documentation. Although the complaint alleged that HUD funds were misused, that allegation had no merit. Regulations at 24 CFR Parts 92 and 583 required that the grantee maintain adequate documentation to support the eligible use of program funds. We reviewed nine transactions totaling \$599,000 to determine whether costs were eligible and adequately supported. The payments were supported by invoices for services, such as elevator repair; electrical; and heating, ventilation, and air conditioning repairs for the project, and other supporting documentation submitted by the construction manager.

Operating and Administrative Costs Generally Met Program Requirements

The grantee generally ensured that operating and administrative costs of the project met program requirements. Regulations at 24 CFR Part 583 required that the grantee maintain adequate documentation to support the eligibility of program funds. We reviewed \$25,102 in operating and administrative expenditures to determine whether the costs were eligible and properly supported. The expenditures were generally eligible and properly supported by documentation, such as salary records, timesheets, utility invoices, and other documentation. We identified only minor issues relating to the calculation and allocation of salary and benefit costs and reported them to the grantee in a separate letter.

Tenants Met Eligibility Requirements, and Rents Were Generally Calculated Correctly

The grantee ensured that tenants met eligibility requirements. All tenants were income eligible, were veterans, and met the definition of homelessness. The grantee had maintained sufficient documentation in its files, such as tenant intake worksheets, applications, income documentation, documentation showing that the tenants were veterans, and other pertinent documentation.

The grantee generally calculated rents accurately. We identified only minor issues relating to the calculation of rents and reported them to the grantee in a separate letter.

The Alleged Conflict of Interest Did Not Exist

The complaint alleged that the owner of the construction management company was the cousin of the grantee's director of housing and residential services. We found no indication that the two individuals were related. Neither the owner nor the construction management company was prohibited from doing business with HUD.

The owner of the construction management company had previously served on the grantee's board of directors for more than 5 years. The owner of the construction management company announced his resignation from the board in March 2009. Three months before resigning, in December 2008, the construction management company entered into a contract with the grantee for preconstruction services and construction management services related to the St. Hedwig's project. Although the owner of the construction management company had entered into a contract with the grantee while actively serving on the board of directors, the grantee's bylaws did not prohibit this arrangement. The bylaws prohibited this arrangement only when the contract involved payment with government funds. In this case, the grantee did not apply for HOME funds from Luzerne County until December 2011. By that time, the owner of the construction management company was no longer a board member. Therefore, the HOME program conflict-of-interest regulations did not apply. Regulations at 24 CFR Part 92 state that no employee, agent, consultant, officer, elected official, or appointed official of the participating jurisdiction or subrecipient receiving HOME funds, who has exercised any function or responsibilities with respect to activities assisted with HOME funds or who is in a position to participate in a decision-making process or to gain inside information with regard to HOME activities, may obtain a financial interest or benefit from a HOME-assisted activity or have an interest in any contract, subcontract, or agreement for that

individual or those with whom he or she has family or business ties during his or her tenure or for 1 year thereafter.

Conclusion

The allegations in the complaint did not have merit. The grantee generally used its HUD funds related to St. Hedwig's Veterans Village in accordance with key HUD requirements. The grantee generally incurred eligible renovation, operating, and administrative costs that were supported by adequate documentation. It assisted eligible tenants and generally calculated rents accurately. The alleged conflict-of-interest situation did not exist.

SCOPE AND METHODOLOGY

We conducted the audit from August 2013 through March 2014 at the grantee's office located at 33 East Northampton Street, Wilkes-Barre, PA, and our offices in Philadelphia, PA. The audit covered the period August 2009 through July 2013 but was expanded as necessary.

To achieve our objective, we reviewed

- Applicable HUD regulations at 24 CFR Parts 583, 5, 84, and 92 and other directives that govern the program.
- The grantee's agreement with HUD and Luzerne County, general ledger, policies and procedures, board meeting minutes, and other construction documentation related to the renovation of the St. Hedwig's project.
- Luzerne County's HOME program documentation and other documentation relating to the St. Hedwig's project.
- The construction manager's bank statements, canceled checks, and other documentation used to support the receipt and payment of HUD funds to subcontractors.
- The files for all 13 tenants who have occupied St. Hedwig's Veterans Village.

We conducted interviews with the grantee's employees, HUD staff, and the construction manager of the project.

Between March 2012 and August 2013, the grantee executed 18 transactions requesting program funds totaling \$666,709 (\$400,000 in HOME funds and \$266,709 in Supportive Housing program funds) of the \$769,022 in HUD funds awarded to the project. Of the 18 transactions, we reviewed 9 transactions for project rehabilitation costs totaling \$599,000, or 90 percent (\$400,000 in HOME funds and \$199,000 in Supportive Housing program funds), to determine whether program eligibility requirements were met. Of the remaining nine transactions totaling \$67,709 for operating and administrative expenses of the project, we reviewed five transactions totaling \$25,102 to determine whether the costs were eligible and properly supported.

To achieve our audit objective, we relied in part on computer-processed data from HUD and grantee databases. We used information from HUD's Integrated Disbursement and Information System¹ and its Line of Credit Control System² to review the disbursements of program funds. We compared data from those systems to program records maintained by the grantee. Although we did

¹ The Integrated Disbursement and Information System is the drawdown and reporting system for all of HUD's Office of Community Planning and Development formula grant programs including the HOME program.

² The Line of Credit Control System is the system HUD uses to disburse and track the payment of Supportive Housing program funds.

not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that it calculates program fees correctly and properly maintains documentation in its tenant files.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the grantee's internal control.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the grantee in a separate letter, dated May 8, 2014.

Appendix A

AUDITEE COMMENTS



CATHOLIC SOCIAL SERVICES
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May 13, 2014

Mr. David E. Kasperowicz
Regional Inspector General for Audit
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

RE: Audit of Catholic Social Services of the Diocese of Scranton Inc. The use of HUD funds related to the renovation of the St. Hedwig's Veteran Village in Kingston, PA.

Dear Mr. David E. Kasperowicz:

The purpose of this correspondence is to officially reply to the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) regarding its final results of the audit review of Catholic Social Services of the Diocese of Scranton's use of Supportive Housing and HOME investment Partnership Program Funds.

The HUD-OIG final audit review of the St Hedwig's Veterans Village stated that CSS operated the renovations in accordance with all key HUD applicable requirements. The report concluded that the allegations in the complaint did not have merit.

Catholic Social Services is grateful that the HUD-OIG audit review vindicated CSS. Our experience as a non-profit during the audit is that the information requested is intense and the review itself required a total commitment from our staff. This commitment of our staff time and resources will never be recaptured for our programs and clients.

Catholic Social Services would like to commend you and your staff for their professionalism, and courtesy. If you require any further information please do not hesitate to contacting me.

Respectfully yours,

A handwritten signature in blue ink, appearing to read "S. Nocilla".

Stephen R. Nocilla, MA.
Diocesan Director of
Housing and Residential Services
Catholic Social Services of the
Diocese of Scranton, Inc.

CC: Kimberly Harrison