Issue Date June 4, 2007	
Audit Report Number 2007-LA-1012	

TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Central City Lutheran Mission, San Bernardino, California, Did Not Properly Administer Its Supportive Housing Program Grants

HIGHLIGHTS

What We Audited and Why

We audited Central City Lutheran Mission (Mission) in response to a recommendation from the Los Angeles Office of Community Planning and Development.

Our objectives were to determine whether the Mission's Supportive Housing Program grant funding was spent in compliance with U.S. Department of Housing and Urban Development (HUD) requirements and its grant agreements. Specific objectives were to determine whether (1) the grantee had the capacity to operate multiple grants, (2) grant expenses were eligible and adequately supported, (3) matching fund requirements were met, (4) properties purchased with grant funds were retained as required, and (5) participants' rent amounts were calculated correctly.

What We Found

The Mission lacked the capacity to properly administer multiple Supportive Housing Program grants. In addition, it spent $294,072 for unsupported and ineligible expenses and failed to fully support that it provided required matching funds for $429,468 in grant funds. It also prematurely sold two apartment buildings purchased with $280,000 in grant funds without HUD's written approval. Finally, while the Mission correctly verified the eligibility of its clients, it failed to collect more than $13,183 in funds because the rents were not calculated correctly.

What We Recommend

We recommend that HUD not provide the Mission with any future funding until it has implemented adequate systems and controls. We also recommend that HUD require the Mission to reimburse the grants and/or repay HUD from nonfederal funds for the $699,438 in unsupported expenses and $304,102 in ineligible expenses. Additionally, we recommend that HUD require the Mission to correct and implement effective procedures and controls to ensure that all income and expenses are properly considered so that rent calculations are correct.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Mission a draft report on April 23, 2007. The Mission provided its written comments on the requested date of May 9, 2007 and we held an exit conference with the Mission's officials on May 10, 2007. The Mission generally disagreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. Due to the voluminous nature of the Mission's exhibits in their response, we will make them available upon request.

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BACKGROUND AND OBJECTIVES

The Supportive Housing Program is authorized under Title IV of the McKinney Homeless Assistance Act. The program is designed to promote the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing for homeless persons to enable them to live as independently as possible. Eligible activities include transitional housing, permanent housing for homeless persons with disabilities, innovative housing that meets the intermediate and long-term needs of homeless persons, and supportive services for homeless persons not provided in conjunction with supportive housing.

The Central City Lutheran Mission (Mission), located in San Bernardino, California, received its first grant from the U.S. Department of Housing and Urban Development (HUD) in 1999, which it used to start Saint Martin's House, a transitional living space for human immunodeficiency virus (HIV)-positive homeless persons. In 2001, the Mission received a second grant from HUD that helped to extend its program. With this grant, the Mission was able to acquire 8 new homes to provide housing for 28 more persons. This project works specifically with disabled persons to provide long-term supportive housing. Over the past seven years the Mission has received the following grants:

Temporary housing – Saint Martin's House			
Grant number – grant year	**Grant amount**	**Amount expended**	**Housing type**
CA16B809008 – 1999	$63,513	$63,513	Single house
CA16B309013 – 2004	$17,671	$17,671	Single house
CA16B409017 – 2005	$17,672	$15,765	Single house
Subtotal	**$98,857**	**$96,949**	
Permanent housing			
CA16B909002 – 2001	$487,622	$487,622	10 houses
CA16B309012 – 2004	$76,794	$76,794	10 houses
CA16B409005 – 2005	$76,794	$32,051	10 houses
Subtotal	**$641,210**	**$596,467**	
CA16B109001 – 2002	$539,952	$539,952	Apartment buildings
Subtotal	**$539,952**	**$539,952**	
Grand total	**$1,280,019**	**$1,233,368**	

Our objectives were to determine whether the Mission's Supportive Housing Program grant funding was spent in compliance with HUD requirements and its grant agreements. Specific objectives were to determine whether (1) the grantee had the capacity to operate multiple grants, (2) grant expenses were eligible and adequately supported, (3) matching fund requirements were met, (4) properties purchased with grant funds were retained as required, and (5) participants' rent amounts were calculated correctly.

RESULTS OF AUDIT

Finding 1: The Mission Lacked the Capacity to Properly Administer Multiple Supportive Housing Program Grants

The Mission lacked the capacity to properly administer multiple Supportive Housing Program grants in compliance with requirements. It had

- Inadequate accounting systems, controls, and procedures (see findings 2, 3, and 5) and
- Inadequate knowledge of Office of Management and Budget circulars and grant requirements (see findings 2 and 3).

We attribute these deficiencies to the Mission's inadequate emphasis on ensuring that it was operating in accordance with federal requirements. Collectively, these conditions prevent the Mission from carrying out Supportive Housing Program activities as intended by HUD.

The Mission Had Inadequate Accounting Systems, Controls, and Procedures

The Mission had inadequate accounting systems, controls, and procedures in place, which contributed to the deficiencies, discussed in findings 2, 3, and 5 of this report. Specifically, the Mission spent $294,072 in grant funds for unsupported and ineligible expenses, failed to fully support that required grant matching funds totaling $429,468 were met, and failed to correctly calculate program participants' rents and maintain required documentation. In addition to the inadequacies discussed in findings 2, 3, and 5, specific problems with the Mission's accounting systems and controls are discussed below.

Commingling of Funds

The Mission inappropriately commingled its funds. For example, for grant CA16B409017, the Mission commingled all of its expenses paid ($41,566) with grant CA16B409005. It is not clear why the commingling occurred. The Mission changed its accounting software from Quickbooks to Peachtree in 2005; however, this grant was commingled in 2006. During the operation of the grant, the Mission was only operating one other grant. As a result of the commingling, grant CA16B409017 showed no expenses for the temporary housing program for which it was funded, while grant CA16B409005 showed that all of its funding was expensed, plus additional funding to cover the expenses of the temporary housing program.

Financial Data Not Recorded Properly

The Mission used two different accounting software systems between 2000 and 2006; each of them had the capability of separating expenses for each of the Mission's Supportive Housing Program grants. However, a review of the general ledger showed that the financial data was not recorded properly to separate accounts. For instance, in 2000, the Mission set up separate revenue accounts for funding received from each of the various HUD grants and separate revenue accounts for its various other grants. However, it did not always separate expense accounts related to its various HUD and other grants. By 2005, the Mission had several different expense accounts set up for non-HUD grants, each having a different extension; however, only one account was set up for all of its HUD grants. The software used was capable of having various extensions, allowing the Mission to separate expenses for its various HUD, grants but this capability was not used.

Record Keeping Not Adequate

The Mission did not have an adequate system for maintaining grant records. Records from 2000 through 2004 were difficult to locate and, while records for 2005 through 2006 were easier to locate, some invoices and statements for expenses (such as The Home Depot) were nearly impossible to match to the charges found in the Mission's general ledgers. In addition, as discussed in finding 2, the Mission lacked timesheets supporting payroll expenses charged to its Supportive Housing Program grants. A monitoring report by the Human Services System's auditing unit, dated March 25, 2003, stated, regarding a prior finding from a report, dated September 19, 2002, "We were not able to trace the cost claimed to the contractor's [the Mission] general ledger. We were not able to trace the amount claimed per invoice to the employee's timesheet either." An update on that finding stated, "we tested the timesheets for the monitoring period and noted no coding to justify the allocation of payroll charges to the Title I Program." Another report, dated April 5, 2005, from the Mission's certified public accountant stated, "It was noted during the examination of the financial statements for the year ended December 31, 2002, supporting documentation had been requested, however, it was difficult to locate." Statements in each of these reports substantiate that our inability to locate supporting documentation was not an isolated event. Thus, inadequate record keeping has been an ongoing problem at the Mission.

The Mission Had Inadequate Knowledge of Office of Management and Budget and HUD Grant Requirements

The Mission had inadequate knowledge of Office of Management and Budget requirements and HUD grant requirements, which contributed to the deficiencies discussed in findings 2 and 3. Specifically, the Mission spent $294,072 for unsupported and ineligible expenses and failed to fully support $429,468 in required grant matching funds. We attribute these deficiencies in part to Mission officials' inadequate knowledge of the requirements and inexperience by its accounting staff and other personnel. While the case management staff had the Office of Management and Budget grant requirements in their possession via HUD training guides, the bookkeeper did not. Further, with the assistance of the Mission's outsourced certified public accounting firm, the Mission's bookkeeper expressed that she had only recently (late 2006) read each of the grant agreements and become aware of what items and amounts she could charge to the HUD grants. Although the Mission's bookkeeper was knowledgeable and experienced, it was clear that she received a great deal of assistance from the outsourced bookkeeper for information related to grant accounting.

Conclusion

We attribute the deficiencies noted above to the Mission's inadequate emphasis on ensuring that it was operating in accordance with federal requirements. Collectively, these conditions prevent the Mission from carrying out Supportive Housing Program activities as intended by HUD. Until these deficiencies are corrected, there is no assurance that future grant funds will be expended in accordance with requirements.

Recommendation

We recommend that the director of the Los Angeles Office of Community Planning and Development

1A. Not award the Mission additional funding until it implements adequate systems, procedures, and controls.

Finding 2: The Mission Spent $294,072 in Supportive Housing Program Funds for Unsupported and Ineligible Expenses

The Mission spent $294,072 of its $1.23 million in grant funds for unsupported ($269,970) and ineligible ($24,102) expenses. We attribute the deficiencies to the Mission's (1) inadequate knowledge of Office of Management and Budget regulations, (2) inexperienced accounting staff and other employees, and (3) inadequate controls and procedures to ensure that grant expenditures were properly documented and supported. As a result, these improper expenditures prevented the Mission from carrying out its Supportive Housing Program activities as intended.

The Mission Spent $294,072 on Unsupported and Ineligible Expenses

We reviewed grant expenditures totaling $1.5 million[1] for seven grants and found that the Mission spent at least $294,072 in Supportive Housing Program funds for unsupported ($269,970) and ineligible ($24,102) expenses (see appendix D). More specifically, the unsupported expenses related to

- Payroll ($139,341) for employees for whom we did not find timesheets or time activity reports to support that the employees worked on Supportive Housing Program-related grant activities and

- Expenditures ($130,629) for which there were no accounting records to support the nature of the expenses.

The ineligible expenses related to

- Expenses ($18,103) for non-HUD programs,

- Payroll ($5,241) related to positions that were not authorized in the Mission's grant technical submissions, and

- Payroll ($758) for an employee of the Mission's non-HUD-funded Kinship program.

Details of the expenses are discussed separately below.

[1] This amount includes matching funds and excludes ineligible funds.

The Mission Spent $269,970 in Grant Funds for Unsupported Expenses

Unsupported Payroll

Contrary to Office of Management and Budget Circular A-122, for four of the seven grants, the Mission spent $139,341 in payroll expenses for employees whose required supporting timesheets or time activity reports could not be found. Specifically, 22 of 26 employees received payroll checks from the Mission under HUD grants; however, there were no timesheets supporting hours worked. Some of the positions held by these employees were maintenance worker, maintenance supervisor, executive director, social worker, and program director; we have no knowledge of the positions held by others due to a lack of employee files and records maintained by the Mission.

Unsupported Expenditures

Contrary to 24 CFR [*Code of Federal Regulations*] 84.21(b) (2), the Mission had $130,629 in unsupported expenditures for which there were no accounting records to support the nature of the expenses. While the Mission's accounting records accounted for the receipt of grant funds received for its grants, the amounts expensed to each of the grants totaled less than the amounts the Mission had drawn down. Because the Mission receives other sources of non-HUD funding, we were unable to determine specifically how the Mission spent the unsupported funds.

The Mission Spent $24,102 in Grant Funds for Ineligible Expenses

Expenses for Non-HUD Programs

The Mission paid $18,103 in grant funds for non-HUD programs or facilities. Its 2000 thru 2006 general ledgers contained charges to Saint Mathias House, the Clinic, Wartburg Hall, the Rialto Apartments, and the Mission, all of which are non-HUD-funded programs or locations at the time the charges were made. The expenses charged included supplies, utilities, telephones, maintenance, and repairs. The Mission continued charging expenses for the Rialto apartments to its other HUD grants after the grant ended and after the sale of the buildings.

Unauthorized Payroll

In 2000, 2001, and 2002, the Mission spent $5,241 for two employees (chief cook and peer educator) who held positions that were not authorized in the corresponding grant technical submissions submitted to HUD. The Mission was authorized three employees and/or positions: (1) a case manager, (2) an executive director, and (3) a building and grounds coordinator. However, the Mission charged the chief cook's salary to this grant, although for 2000 through 2002, it charged less than $200 to food. Additionally, while other employees' timesheets listed for which program they worked, the chief cook's timesheets did not show to which program(s) his time should have been charged. The peer educator's timesheets also lacked information to identify the work performed related to the HUD grant. Therefore, we concluded that these payroll expenses were ineligible supportive housing expenses.

Ineligible Payroll

In 2004, an outreach worker working for the Mission's Kinship grant program was paid $758 from one HUD grant; however, the Kinship grant is a separate (non-HUD) program from HUD's Supportive Housing Program grant. Therefore, this expense was ineligible.

Conclusion

We attribute the deficiencies noted above to the Mission's (1) inadequate knowledge of Office of Management and Budget Circular A-122, (2) inexperience by its accounting staff and other employees, and (3) inadequate controls and procedures to ensure that grant expenditures were properly documented and supported. As a result, these improper and ineligible expenditures prevented the Mission from carrying out Supportive Housing Program activities as intended.

Recommendations

We recommend the director of the Los Angeles Office of Community Planning and Development require the Mission to

2A. Reimburse the grant and/or repay HUD from nonfederal funds for the $269,970 in unsupported expenses unless it can provide adequate supporting documentation.

2B. Reimburse the grant and/or repay HUD from nonfederal funds for the $24,102 in ineligible expenses.

2C. Establish and implement controls and procedures to ensure that grant expenditures are properly documented and supported.

Finding 3: The Mission Was Unable to Fully Support $758,491 in Required Matching Funds

The Mission's accounting records failed to fully support that it had provided $758,491 in required matching funds for $429,468 in transitional and permanent housing program grant funds. We attribute these deficiencies to the Mission's inadequate knowledge of Office of Management and Budget Circular A-110, inexperience by its accounting staff and other employees, and inadequate controls to ensure appropriate accounting of match funds. As a result, neither HUD nor the Mission was assured that the Mission maximized the effectiveness of the program's intent to house and support HIV-positive homeless individuals.

The Mission Was Unable to Support Match Reported in Annual Progress Reports

Contrary to 24 CFR [*Code of Federal Regulations*] 583.125(c), which requires grantees to pay the percentage of the actual operating costs not funded by HUD, and section 583.145(a), which requires grantees to match funds provided by HUD for acquisition and rehabilitation with an equal amount of funds from other sources, the Mission's accounting records did not fully support match funding amounts reported in its annual progress reports. We reviewed seven of the annual progress reports submitted to HUD by the Mission and found that the reported cash match amounts did not equal those recorded in the Mission's general ledgers.

The Mission's accounting records were deficient and did not identify cash match requirements. Specifically, the Mission was not able to

- Verify cash match in its Supportive Housing Program,
- Ensure that contributions were specific to Supportive Housing Program grants, or
- Determine whether cash match was necessary and reasonable for proper and efficient accomplishment of project or program objectives.

As a result, we were unable to determine the basis used by the Mission to support its dollar amounts reported as expended for matching funds in its annual progress reports to HUD.

The Mission Had Deficient Accounting Records

The Mission provided accounting records that did not record or track its cash match funding used for its HUD Supportive Housing Program grants. Thus, we reviewed every transaction from the Mission's general ledgers to determine which expenses were related to HUD grants according to account descriptions used by the Mission. We separated the transactions by the description given by the Mission, then calculated all of the expenses related to HUD grants, which helped to determine whether or not the Mission met its matching fund requirements. The Mission did not meet its required match funding as required by 24 CFR [*Code of Federal Regulations*] Part 583 and the Mission's grant agreements. Further, for four of the seven grants, we noted that the Mission's accounting records did not even show that it expended the full amount of funding it received from HUD. Below is a schedule showing the cash match required for the seven grants.

	Grant	Grant amount disbursed	Required operating match	Required supportive services match	Required acquisition, rehabilitation, and new construction match	Total required matching funds
1	CA16B809008	$63,513	$0	$0	$0	Not applicable
2	CA16B309013	$17,671	$4,905	$2,500	$0	$7,405
3	CA16B409017	$15,765	$4,905	$2,500	$0	$6,664*
4	CA16B909002	$487,622	$34,188	$75,000	$245,000	$354,188
5	CA16B309012	$76,794	$11,392	$24,998	$0	$36,390
6	CA16B409005	$32,051	$11,392	$24,998	$0	$15,284*
7	CA16B109001	$539,952	$0	$58,560	$280,000	$338,560
	Total	**$1,233,368**	**$66,782**	**$188,556**	**$525,000**	**$758,491**

*This amount was adjusted downward because amount disbursed is lower than actual grant amount awarded.

Our audit found the following

- Grant one did not require matching funds due because the matching fund agreement was not a requirement in that year;
- Grants three and six fully met the matching fund requirements;
- Grants two, four, and five did not meet any of the matching fund requirement (see appendix E); and
- Grant seven did not fully meet the matching fund requirement (see appendix E).

The Mission Did Not Have Adequate Procedures

The Mission did not have adequate procedures for obtaining its required share of its Supportive Housing Program grants during the term of the grant and then using the cash match funds for eligible activities under the individual grants. Such entries should be recorded to fully disclose the nature and extent of the cash match. In addition, such transactions need to be properly supported and recorded. Had this process been in place, the Mission would have been able to clearly show where the cash match for the seven grants reviewed was expensed and directly applied toward specific grant activities.

Conclusion

We attribute the deficiencies noted above to the Mission's inadequate knowledge of Office of Management and Budget requirements governing maintenance of accounting records and financial management systems to document its cash match funding, inexperience by its accounting staff and other employees, and inadequate internal controls to ensure appropriate accounting of matching funds. As a result, neither HUD nor the Mission was assured that it maximized the effectiveness of the program's intent to house and support HIV-positive homeless individuals.

Recommendations

We recommend that the director of the Los Angeles Office of Community Planning and Development require the Mission to

3A. Reimburse the grant and/or repay $429,468 (see appendix E) from nonfederal funds unless it can provide adequate documentation that it met 100 percent of its required match funds.

3B. Establish and implement adequate controls to ensure that grant matching funds are appropriately tracked in the accounting system and that adequate supporting source documentation is maintained.

Finding 4: The Mission Prematurely Sold Two Apartment Buildings without HUD's Written Approval

The Mission prematurely sold two apartment buildings that it had acquired and rehabilitated with Supportive Housing Program funds totaling $280,000 without HUD's written approval as required. We attribute this deficiency to the Mission's disregard of the requirement to obtain HUD's written approval. As a result, (1) the Mission failed to fully serve those homeless individuals that it had intended to serve and (2) formerly homeless individuals were unnecessarily displaced or became homeless again.

The Mission Did Not Receive Written Approval from HUD

The Mission received funding from both the County of San Bernardino's Department of Economic and Community Development in the amount of $450,000 and HUD in the amount of $280,000 to acquire and rehabilitate two apartment buildings in the city of Rialto. The Mission signed separate agreements with each organization. The HUD agreement required the Mission to notify and request permission in writing in the event that it wished to dispose of the properties before the end of the 20-year retention requirement. The Mission received the HUD grant in September 2002 and had disposed of the first apartment building by March 2006 and the second building by April 2006, less than five years after the grant was executed.

We found written documentation sent to the County of San Bernardino, requesting a transfer of the properties located in Rialto, which was carbon copied to HUD. Thus, it is clear that the Mission was aware that it needed to notify HUD of its intentions to dispose of these properties. However, it did not receive any written approval from HUD and did not follow up to obtain HUD's approval. The Mission claimed to have spoken with the deputy director of HUD's Los Angeles Office of Community Planning and Development in December 2005 via telephone and that he stated that the Mission would not have to repay any money; however, the HUD office was unable to substantiate this conversation. Ultimately, HUD was not made aware that the properties were sold until our audit.

We spoke with several clients who once lived in these apartments. One client stated that she had to make her own phone calls to figure out her new living arrangements. This client did not receive a space in one of the Mission's permanent housing program houses in San Bernardino until three months after both Rialto apartments were sold. Although we did not speak with every client who was displaced due to the disposition of the Rialto apartments, it is clear that the Mission did not make housing arrangements for all of the clients who resided there.

The Mission profited $424,000 from the sale of these two apartment buildings. Individually, it profited $48,087 from the sale of the Shamrock building and $375,913 from the sale of the Jackson building. In addition, the County of San Bernardino's Department of Economic and Community Development was repaid its $450,000 grant, and $58,500 was paid in commissions to brokers. We have been unable to determine exactly what happened to the proceeds.

Conclusion

We attribute the deficiency noted above to the Mission's disregard of the requirement to obtain HUD's written approval. As a result, the Mission failed to fully serve those homeless individuals identified in the grant application for whom HUD approved the grant. The Mission's premature sale of the properties also unnecessarily displaced formerly homeless individuals whom it had assisted through the grant program. In the Mission's October 31, 2005, annual progress report, it reported that it had assisted 17 participants, which included seven children. These participants were unnecessarily displaced or became homeless again.

Recommendation

We recommend that the director of the Los Angeles Office of Community Planning and Development require the Mission to

4A. Ensure that it obtains any required HUD approvals in the future.

4B. Reimburse HUD from nonfederal funds for the $280,000 in grant funds expended.

Finding 5: The Mission Failed to Correctly Calculate and Support the Basis of the Participants' Rents

The Mission failed to correctly calculate and support the basis of the program participants' rents. We attribute this deficiency to the Mission's inadequate procedures and controls to assure that required documentation was maintained and also its misunderstanding of the requirements. As a result, the Mission failed to collect additional income of more than $13,000, which could have helped it meet its financial responsibilities and its matching fund requirements.

The Mission Miscalculated Participants' Rents

Contrary to 24 [*Code of Federal Regulations*] 5.240(c) and 583.315, the Mission did not always compute program participants' rents correctly. It failed to calculate correctly 13 of 21 participants' (62 percent) share of cost payments reviewed and failed to maintain all of the required documentation to support the basis of the participants' rents (see appendix F). Specifically, the Mission made the following errors:

- Did not include all income sources in the participants' total annual income (6 of 21),
- Had contradictions between the rental calculation sheet and the share of cost spreadsheet (4 of 21),
- Issued an allowance without adequate support in the file (3 of 21),
- Did not give an allowance for those with support in the file (2 of 21),
- Incorrectly gave a $2,400 credit to annual income (10 of 21),
- Did not maintain required documentation (7 of 21),
- Did not maintain support for rent (7 of 21), and
- Failed to collect rent (1 of 21).

As shown above, the Mission incorrectly gave nearly half of the participants reviewed a $2,400 credit to their annual income, thus causing an incorrect calculation of the participants' rents. According to the Mission's program director, the $2,400 was not paid in monetary benefits because the Mission considered it to be a stipend to the participants. This credit was for those clients who assisted with the Mission's daily operations. However, applying the $2,400 as a credit to the participant's annual income inappropriately reduces the participant's monthly adjusted income, which then reduces the participants' share of cost. The Mission could have gained a considerable amount of rental income had it properly charged the participants the correct amount of rent. For example, one client received a $2,400 credit from his income because he assisted the Mission in maintaining the lawns for various residences. To compensate, the Mission applied a nonmonetary benefit as a stipend of $2,400 credit to his income, thereby reducing his annual income substantially. Thus, the Mission could have collected an additional $1,090 per year had it determined his income accurately.

Conclusion

We attribute the deficiency noted above to the Mission's inadequate procedures and controls for assuring that all income and expenses were properly considered so that accurate rent calculations would be made and all required documentation maintained. In addition, the Mission misunderstood the requirements related to the correct application of the $2,400 stipend. As a result, it failed to collect additional income of more than $13,000, which could have helped it meet its financial responsibilities and its matching fund requirements.

Recommendations

We recommend that the director of the Los Angeles Office of Community Planning and Development to require the Mission to

5A. Correct and implement effective procedures and controls to ensure that rent calculations are performed correctly, which will enable the Mission to generate at least $13,183 in additional income (funds to be put to better use).

5B. Establish and implement procedures and controls to assure that all income and expenses are properly considered in the future and that all required documentation is maintained.

SCOPE AND METHODOLOGY

We performed our audit work between August 2006 and February 2007 at the Mission, located in San Bernardino, California and at the facilities in the surrounding area. The audit generally covered the period January 2000 through July 2006 and covered the seven grants with an effective date in 2005 or prior. To accomplish our objectives, we reviewed applicable guidance and discussed operations with management and employees of the Supportive Housing Program and key officials from HUD's Los Angeles Office of Community Planning and Development. Our primary methodologies included

- Reviewing applicable HUD regulations at 24 CFR [*Code of Federal Regulations*] Parts 84 and 583, Office of Management and Budget Circular A-122, Section 103 of the McKinney Act, and *United States Code* 11383.

- Interviewing appropriate HUD personnel and reviewing relevant grant files to obtain an understanding of Supportive Housing Program requirements and identifying HUD's concerns with the grantee's operations.

- Reviewing the grantee's policies, procedures, and practices in addition to interviewing the Mission's key personnel.

- Reviewing past independent public accountants' reports, prior HUD monitoring reports, and monitoring reports from Human Services System.

- Reviewing bank statements, deposits, invoices, payroll journals, and timesheets.

- Reviewing client files, vendor files, general ledgers, and other documentation provided by the Mission to support funding received from HUD.

We conducted our audit in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures to ensure that grant expenditures were eligible and adequately supported.
- Policies and procedures to ensure adequate financial management and record-keeping systems.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

The Mission did not have

- Policies and procedures to ensure that grant rules and regulations were followed (findings 1 and 4),

- Policies and procedures to ensure that grant expenditures were adequately supported (finding 2), and

- Policies and procedures to ensure that adequate financial management and record-keeping systems were in place (findings 3 and 5).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
2A		$269,970	
2B	$24,102		
3A		$429,468	
4A	$280,000		
5A			$13,183
Total	$304,102	$699,438	$13,183

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations. In this instance, if the auditee implements our recommendations, it will ensure compliance with HUD requirements for eligible grant expenditures.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, if the auditee implements our recommendations, it will ensure compliance with HUD requirements for cash match and supporting documentation for grant expenditures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the auditee implements our recommendation, it will generate more income for its operations by correcting its rent calculations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

CENTRAL CITY LUTHERAN MISSION

A Neighborhood Development Project Empowering People

"Bringing the Word through Creation of Community"

1354 North G Street • San Bernardino, CA 92405 • Phone: 909-381-6921 • Fax: 909-884-5104
email: cclm@cclm.org • web site: www.cclm.org

May 8, 2007

VIA FACSIMILE, ELECTRONIC MAIL (JHOBBS@HUDOIG.GOV) AND
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Joan S. Hobbs, Regional Inspector General for Audit
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Los Angeles, California 90017-3101

Re: Response to Discussion Draft Audit Report
Central City Lutheran Mission, San Bernardino, California

Dear Ms. Hobbs:

We are writing to provide Central City Lutheran Mission's ("CCLM") formal written comments on the Discussion Draft Audit Report (the "Draft Report"), dated April 23, 2007. As set forth in more detail below, CCLM disputes the conclusions contained in the Draft Report. Therefore, CCLM requests that the findings, conclusions and recommendations in the final report be modified in accordance with the evidence provided herein.

Our response to all of the findings come from the perspective of a small, faith-based organization who entered into a relationship with HUD through the City of San Bernardino in 1999 when San Bernardino had 79 abandoned HUD homes – the highest number of any city in the nation. Eight of these properties – with a total of 10 structures – were purchased with HUD funds for the exclusive use of homeless persons with the disability of HIV.

Comment 1

Central City Lutheran Mission, at the time only 3 years old, stepped up to the plate to partner with the city and HUD to develop a unique and innovative program designed to take homeless HIV+ persons, many duo-diagnosed with other physical and psychological illness, off of the street and to provide them with homes that met both city and HUD standards.

As Central City Lutheran Mission grew in its administrative capacity, many things were learned. In the initial years of our grant – an issue raised by many providers during that time – training for the administration of grants was limited. As a new organization, our experience was limited in all of the circulars of OMB and HUD and its stringent requirements for documentation

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and record keeping. For example, a detail which will be looked at further in our response to Finding 2, we did not know that signed time sheet and activity sheets were required to document payroll. We wrongly assumed that cancelled checks and reports from an external payroll agency were sufficient to document hours. Central City Lutheran Mission has grown much since then. The audit, in our opinion, does not reflect that growth nor does it take into account the shared responsibility of the Los Angeles Program Office to provide a new and young organization with the appropriate technical assistance needed to manage a first-time grant.

Central City Lutheran Mission has grown in its capacity to manage multiple grants. There can be no doubt that a difficult job – purchasing and renovating 10 structures in one of America's poorest cities and working with a particularly difficult homeless population – was accomplished. Data and narratives substantiate the existence of a nationally recognized program serving a vulnerable population that no other AIDS service agency services in our region, or in Ryan White's terms, this EMA – an Emergency Metropolitan Area.

Comment 2

An audit needs to include the subjective element of a grant as well as the objective elements. There can be no doubt that funds were not spent on housing for HIV+ homeless persons in the City of San Bernardino. There can be no doubt by anyone's standards that an amazing project has helped hundreds of people over the last seven years. Whether all the "i's" have been dotted and the "t's" crossed remains the question. To the best of its ability, Central City Lutheran Mission will respond to the HUD – OIG's Audit Findings from the perspective of a faith-based community organization which has worked hard to be a partner with many organizations to serve a homeless population that CCLM believes well fits the intentions of the McKinney-Vento Act.

Draft Report Finding 1: The Mission Lacked the Capacity to Properly Administer Multiple Supportive Housing Program Grants

Comment 3
Comment 4
Comment 5
Comment 3

CCLM does not lack the capacity to properly administer multiple supportive housing funds. In fact, since 2005, CCLM has adequately maintained bookkeeping software that enables CCLM to administer multiple grants. In addition, CCLM maintains separate physical files for the various HUD grants that it administers. In addition, CCLM has used HUD-provided time sheets, since they were given to CCLM. Finally, the three (3) CCLM employees who administer HUD grants have gone to HUD-provided training, and continue to seek HUD-training opportunities as they arise. Therefore, CCLM has the capacity to properly administer multiple supportive housing funds.

Comment 6

Central City Lutheran Mission has grown tremendously in its capacity to manage its fiscal records since 2000. A sizable grant from the California Endowment in 2002 helped Central City Lutheran Mission begin an internal process enabling the Accounting Principles of GAP 1999 to be implemented.

The attached "Financial Procedures" (Attachment 1) indicate the current fiscal policies and procedures implemented at Central City Lutheran Mission. The duties of our bookkeeper are clearly outlined. We currently have an external CPA who assists our bookkeeper in maintaining the chart of accounts, monthly bank reconciliations and reports to the Board of Directors on a monthly basis (Attachment 2). An annual external audit is also conducted by yet an additional auditing firm (Attachment 3). Central City Lutheran Mission spends well over

Comment 4

Comment 3

Comment 7

Comment 8

Comment 7

Comment 9

$25,000 annually on these two external firms, in addition to the salary of a full-time bookkeeper. Engagement letters from both firms document their involvement with us in providing careful fiscal management with our staff of all grants.

Beginning with Quicken in 2000, the accounting system has been upgraded to the PeachTree software in 2006. The use of this software, combined with the expertise of our bookkeeper, external CPA and annual audit ensure close scrutiny of all of Central City Lutheran Mission's fiscal transactions.

Central City Lutheran Mission, its staff, its external CPA and auditor stand ready to discuss more in detail with the Los Angeles Office about our capacity to manage multiple grants for the housing of HIV+ homeless individuals.

Draft Report Finding 2: The Mission Spent $294,072 in Supportive Housing program Funds for Unsupported and Ineligible Expenses

As set forth in the accompanying paycheck stubs and program materials, CCLM was appropriately spending its Supportive Housing Program funds for supported and eligible expenses (Attachments 4 through 10). For instance, the Draft Report states that $18,103 was spent for non-HUD programs. However, the Healthcare Clinic provided office and administration space for CCLM's Supportive Housing Program Activities before the Clinic was open and running. Therefore, "Clinic" expenses are properly attributable to the Supportive Housing Program funds. Likewise, expenses for the Rialto properties were properly spent, even after the grant was terminated by HUD, since residents continued to occupy those residences and to do otherwise would have improperly displaced those residents.

There are discrepancies in the "Finding Outlines" and the "Discussion Draft Audit Report" as to the amount of funds allegedly spent for unsupported and ineligible expenses. As noted to staff of the Los Angeles Office during an onsite visit in July, 2005, the back-up information as required by HUD relative to employees involved in renovation work in 2001 – 2002 was not available. Signed time sheets and activity sheets were not kept during that period of time. Attached copies of payroll data in question will show cancelled checks and back-up documentation from an external payroll service which generated these valid payroll checks.

Workers in question, including the work of Central City Lutheran Mission's Executive Director, are explainable in a number of ways.

a) cancelled checks and payroll back-up exists for most workers in question
b) the work of [redacted], MSW, was an ongoing expense for a number of years as [redacted] served as an independent consultant developing this program
c) in the case of a food budget that was not spent, an allocated portion of our cook's salary was billed as he was intimately involved in acquiring food products, storing, bagging and delivering food bags through a local food bank. In addition, he prepared noon and evening meals which were enjoyed by some of the residents.
d) Other isolated individuals, i.e. Coleman and Geierman, were also involved in providing direct services to HIV+ individuals.

The question of documentation or explanations for these payroll questions were raised on

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Names have been redacted for privacy

Comment 10

Comment 7

Comment 11

Comment 12

Comment 13

a Thursday afternoon, at the end of a 1,000 hour audit that ended on the following Friday. There was not effort, through either a written e-mailed request or phone request, to seek informed narratives from current staff, former Board of Directors members who were integrally involved in the construction process to verify the validity of the payroll expenses for neighborhood residents involved in the renovation project. Both men and women were involved in renovation work, accounting for payroll checks to men and women.

A video is attached from 2002 showing the hard work of renovation (Video 1). In this video, many of the persons in question are seen doing honest rehabilitation work in some of the houses, most specifically the house on Perris Street and 1397 North "G" Street.

While it is true that signed time sheets and activity sheets do not exist, it is also true that cancelled payroll checks and documentation from an external payroll service combined with eye-witness accounts and oral history from the numerous workers, residents and board members should satisfy any doubts in the mind of an auditor of the reality of these payroll expenses.

Central City Lutheran Mission was visited by a Program Officer of the Los Angeles Office in 2004. At that time the need for signed time sheets and activity reports was noted as required back-up. Since that time they have been used and are available for review. The only exception to that is the work of our Executive Director/Pastor who is a salaried staff person not paid on an hourly basis. His work is both administrative and hands on work with HIV+ clients. During the early years of this project, not only did he do individual counseling and intervention; he also led the support groups and did much of the referral work until a more solid supportive services component was in place. His resume speaks for itself in terms of his professionalism and capabilities for doing this work. In 2001 he was given the prestigious National Healthcare Leadership Program Award by the Robert Wood Johnson Foundation for his work with HIV+ persons. See the attached document from the Congressional Record for a statement by Congressman Joe Baca about this award and our Executive Director's work (Attachment 11).

A public hearing held in the summer of 2002 also documents in the words of residents themselves in the Supportive Housing Program their gratitude for the services they were receiving at the time (Video 2). The internal evidence of this video documents that houses were bought and renovated. While linking each penny to a given time period linked to particular activity sheet may not be possible, the documentation of work having been completed with limited financial resources clearly speaks on behalf of a conscientious, creative and professional program on the part of Central City Lutheran Mission's staff and administrative team, including its Board of Directors.

Central City Lutheran Mission is open to discussing further with the Los Angeles Office these alleged ineligible expenses one by one to determine ways that appropriate documentation could be provided, in the absence of signed time sheets and activity sheets.

Draft Report Finding 3: The Mission Was Unable to Fully Support $758,491 in Requested Matching Funds

As summarized in the following chart, CCLM did fully support at least $758,491 in required matching funds.

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	Grant	Grant amount disbursed	Required operating match	Required supportive services match	Required acquisition, rehabilitation, and new construction match	Total required matching funds	Total supported matching Funds
1	CA 16B809008	$63,513	$0	$0	$0	not applicable	Not applicable
2	CA 16B309013	$17,671	$4,905	$2,500	$0	$7,405	$10,077
3	CA 16B409017	$15,765	$4,905	$2,500	$0	$6,664	Not disputed ($6,664)
4	CA 16B909002	$487,622	$34,188	$75,000	$245,000	$354,188	$374,844
5	CA 16B309012	$76,794	$11,392	$24,998	$0	$36,390	$36,550
6	CA 16B409005	$32,051	$11,392	$24,998	$0	$15,284	Not disputed ($15,284)
7	CA 16B109001	$539,952	$0	$58,560	$280,000	$338,560	$385,000
	Total	**$1,280,019**	**$66,782**	**$188,556**	**$525,000**	**$758,491**	**$826,979**

Summary of Matching Funds:

1) Not applicable
2) Operating Match:
    ECLA Contributions $5,077
  Supportive Services Match:
    ECLA Contributions $5,000
3) Not disputed
4) Operating Match:
    California Wellness Foundation $25,000
    ELCA $10,000
  Supportive Services Match:
    Macy's Passport $5,000
    Ryan White 2001 $25,594
    Ryan White 2002 $29,000
    Ryan White 2003 $6,250
    ELCA $10,000
  Acquisition and Rehabilitation Match:
    SB County Economic Development Agency $105,000
    CCLM Board of Directors $105,000
    Robert Wood Johnson Foundation $40,000
    ELCA Mission Investment Fund $14,000
5) Operating Match:
    Resident Share of Cost $11,400
  Supportive Services Match:
    Resident Share of Cost $3,567

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Vons $7,000
Ryan White 2004 $13,333
ECLA Contributions $1,250

6) Not disputed

7) Supportive Services Match:
California Wellness Foundation $60,000
Acquisition and Rehabilitation Match:
SB County Department of Economic and Community Development $325,000

The attached match documentation for operations, supportive services, acquisition, rehabilitation, and new construction demonstrates that CCLM properly supported at least $758,491 in required matching funds (Attachments 12 through 15).

It is not clear to Central City Lutheran Mission what other kind of document is being looked for to document these awards and cash matches. It can certainly be understood that a reimbursement grant from Ryan White will not translate into an easily identifiable bank deposit for the exact amount of the award. The Robert Wood Johnson Foundation award, for example, shows a copy of the check received, with a second page showing the allocation of $40,000 for the housing program. There are no "clean" deposits for the match amounts as they do not come in single, simple checks. Central City Lutheran Mission is open to discussing further with HUD what type of documentation would satisfy the auditor's finding.

Draft Report Finding 4: The Mission Prematurely Sold Two Apartment Buildings without HUD's Written Approval

Comment 14

As the attached documents demonstrate, CCLM inquired of HUD whether HUD's consent was required to sell the two (2) Rialto properties. The attached documents include a timesheet from the attorney who represented CCLM in this transaction. The time entry indicates that he contacted [redacted] of the Los Angels Office of HUD (Attachment 16). Also attached is a print-out of an e-mail from the attorney who contacted [redacted] (Attachment 17). In that e-mail, the attorney reports the substance of his conversation with [redacted], i.e., that HUD's consent was not necessary, but that the County of San Bernardino would need to provide its consent. Next is a letter from CCLM to the County, seeking the County's consent (Attachment 18). [redacted] was CC'd on that letter. Subsequently, the County provided its conditional written consent, by letter dated January 31, 2006. (See attached letter from County of San Bernardino, Attachment 19) The County's letter similarly CC'd [redacted]. Yet the Draft Report concludes that "the HUD office was unable to substantiate this conversation [with [redacted]]". Clearly, CCLM attempted to obtain the consent of HUD. HUD disavowed the need for any such consent. Since CCLM received the funds for those properties through the County, CCLM reasonably relied upon [redacted] disavowal.

Therefore, although CCLM did not receive the written consent of HUD for the sale of the two (2) Rialto properties, HUD was consulted, declined to be involved, and had full knowledge of the transaction, before it occurred. CCLM's reasonable reliance on HUD's statement should not be punished by the recommendation in the Draft Report.

Comment 15

In addition, CCLM provided proper relocation assistance. The statements in the Draft

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Report characterize CCLM's actions as unilateral displacements to places such as one resident's "boyfriend's parents" and "in a garage". However, in fact, those residents were consulted about where they wanted to live, and the "garage" was, in fact, a HUD and County approved residence that was converted from what was once a garage into living quarters. Therefore, the final report must correct the mischaracterization of this relocation.

Comment 16

The relationship between the Program Officer of the Los Angeles Office and Central City Lutheran Mission were clearly strained in 2004 – 2005. It is interesting that the hundreds of pages of documentation concerning these strained relations and their impact on Central City Lutheran Mission's ability to function are not included or even referred to in the auditor's report, a report we were told would look at both Central City Lutheran Mission and the Los Angeles Office.

Comment 17

One of the issues in 2005 dealt specifically with the properties in Rialto. Our Program Director was told by the then Program Officer of the Los Angeles Office not to submit a technical submission form for the operations of the Rialto properties. By the time that was clarified, it was too late to submit the technical submission, which in effect meant the defunding by HUD of the operations, supportive services and administrative costs related to the Rialto properties! This period of strained relations with the Program Officer in the Los Angeles Office – strained relations well documented and discussed with the Los Angeles Office Deputies – led to a loss of our Rialto project grant funds from HUD, making it impossible to continue effective management of the Rialto properties and the supportive services program for HIV+ persons with multiple problems, including substance abuse.

Comment 14

Central City Lutheran Mission was aware of the HUD requirement for 20 year occupancy of a building prior to being sold without permission from HUD. As described above, Central City Lutheran Mission believes it made good faith efforts to contact HUD, as we contacted the EDA of the County of San Bernardino, in an effort to explain our position and to move forward with the sale of the property. The decision was not one taken in haste without concern for the residents in the Rialto property. Nor was the decision taken without good faith efforts to contact the Los Angeles of HUD.

Draft Report Finding 5: The Mission Failed to Correctly Calculate and Support the Basis of the Participants' Rents

Comment 18

The thrust of the Draft Report's Finding 5 is that CCLM improperly provided a $2,400 credit to residents of CCLM's supportive housing program. In essence, the Draft Report states that CCLM should have charged more rent of people who would otherwise have been homeless. However, the $2,400 stipend was a proper application of the HUD rules as stated in the SHP Desk Guide under Section K: Calculating Resident Rent (Attachment 20). Under "Income that must be Excluded," annual income does not include the following; (#10) "A resident service stipend; A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, and resident initiatives coordination. No resident may receive more than one such stipend during the same period of time." We believe that this was a proper application of HUD rules.

Central City Lutheran Mission is a faith-based community organization serving a vulnerable population in one of America's poorest cities. In an urban community where gang violence and poverty are real, our staff our especially committed to knowing our residents, the "clients" with whom we work. Each person is known and each person's individual service strategy is memorized by the workers who maintain weekly and in some cases daily contact with the residents. The client base is small and the ratio to the social workers is also small given the amount of face-to-face contact required with people moving from homelessness to more stable environments. While the form documenting a person's contribution for mowing lawn, for example, may not be in the client's file, our staff and interns know this and it is a part of the known culture of our program. To deny the existence of information known on a day-to-day basis by our staff is to overlook one of the most valuable sources of documentation concerning the depth of human relationships and community building that exists in our program. That high quality of subjective improvement of the quality of life is not always and easily put in a one page form. Does that mean it does not exist or did not happen? Central City Lutheran Mission's staff has many ways for documenting and remembering its daily and intense involvement with the people we serve. Our very logo expresses that very well, "Bringing the Word through the Creation of Community."

In conclusion, based on the information contained in, and attached to, this letter, CCLM respectfully requests that the final report be modified in accordance with the evidence provided in this letter. We welcome further conversation and dialogue with the Los Angeles Office prior to the consolidation of any final corrective actions. If you have any questions or comments, please do not hesitate to contact me at your earliest convenience.

Sincerely,

Constance L Showler

Constance L. Showler
President, Board of Directors

Enclosures

cc. Board of Directors
Ratronda Gowdy
Congressman Joe Baca

OIG Evaluation of Auditee Comments

Comment 1 We acknowledge and appreciate the fact that the Mission became a HUD program participant to help homeless persons with HIV. However, it is incumbent upon all grantees to ensure compliance with all requirements pertinent to the grant funds received. The Supportive Housing Program grant funds were awarded to the Mission based on its grant application, which demonstrated the capacity to administer the grant.

Comment 2 The scope of our audit was limited to the five objectives stated in the report; therefore, it would be inappropriate for us to comment on subjective elements of the grant activities.

Comment 3 We disagree that the Mission has the capacity to administer multiple grants as currently structured. While there may have been improvements since the Mission received its first grant, additional improvements are still needed. As discussed in finding 1, our audit disclosed that the Mission had: (1) inadequate accounting systems, controls, and procedures (see findings 2, 3, and 5 of this report); and (2) inadequate knowledge of Office of Management and Budget circulars and grant requirements (see findings 2 and 3 of this report). While Mission employees may have attended some training, our audit showed that the bookkeeper was not sufficiently knowledgeable of grant requirements.

Comment 4 We acknowledge that the Mission implemented a new bookkeeping software program that has the capability of administering multiple grants. However, as discussed in finding 1, the Mission has not implemented this capability to separate expenses for its various HUD grants.

Comment 5 We agree that the Mission keeps separate files that contain the grant agreement and HUD correspondence. However, the Mission also provided us with several boxes that contained the Mission's additional records, such as, invoices and timesheets. The documents were not separated by HUD grant and contained documents from several programs the Mission operates.

Comment 6 As discussed in Finding 1, the Mission's accounting systems, controls and procedures were inadequate during the audit period. If the Mission has now changed its procedures, it can provide them to HUD during the audit resolution process to determine the adequacy of the new procedures.

Comment 7 We disagree that the Mission used its supportive housing program funds for supported and eligible expenses. As discussed in finding 2 of this report, we found that the Mission spent $294,072 of its $1.23 million in grant funds for unsupported ($269,970) and ineligible ($24,102) expenses. We reviewed the attachments 4-10 provided at the exit conference and determined that the documentation did not change our position. The documents provided were mainly copies of checks and check registers. This type of document supports that a payment was made; however, it does not support that the questioned employees worked on supportive housing-related grant activities, nor does it support the nature of the expense in relation to the supportive housing program activities. Additionally, since the Mission did not maintain time activity reports as required by Office and Management and Budget Circular A-122, we cannot determine the portion of the salary expenses that should have been allocated to the supportive housing program grants. The Mission's verbal narratives or written recollection of the nature of the expense, without any supporting documentation, is insufficient. As stated in Office of Management and Budget Circular A-110, the financial management system shall provide records that adequately identify the source and application of funds for federally sponsored activities.

With regard to the ineligible expenses for non-HUD programs, we found that while the clinic provided the office space for the supportive housing program's case worker, program director, and weekly support group, this facility was also used for board meetings, weekly non-supportive housing program meetings, daily childcare, and an after-school program. Therefore, the supportive housing program should not have paid 100 percent of the monthly utility invoices. Instead, the expenses should have been prorated. Additionally, we noted that the use of the clinic was not approved by HUD in the grant technical submission. In addition, the funding for the Rialto apartments was approved from September 2002 through October 2005; thus, payments for expenses after October 2005 were not eligible expenses.

Comment 8: We acknowledge that the dollar amounts in the finding outlines versus the discussion draft report changed. As stated in the e-mail sent to the Mission with the finding outlines, the "Finding Outlines are a summary of what you can expect to find in the upcoming Discussion Draft Report". The finding outlines were provided as a way to keep the Mission informed of our preliminary audit conclusions and gave the Mission the opportunity to discuss any issues or concerns with us about the findings. Similarly, the final published report may have items that have changed from what was in the discussion draft report, in response to the Mission's verbal and written comments.

Comment 9: We did not wait until the Thursday prior to our last on-site day to ask about employees for the first time. We asked the bookkeeper, the program director and the executive director questions about various personnel during the course of the audit. In addition, we reviewed personnel files and timesheets in our attempts to learn more about various employees. In addition, we sent our finding outlines to the executive director on March 7, 2007 for review; we did not receive any feedback or comments from the Mission on the finding outlines. We also note that, as discussed in Comment 7, the Mission's verbal narratives or written recollection of the nature of the expense, without any supporting documentation, is insufficient.

Comment 10: We do not dispute that rehabilitation work was performed. However, without time activity reports we cannot determine who performed the work and the amount of time spent.

Comment 11: The scope of our audit covered the period January 2000 through July 2006, of which part of this period was prior to the Mission's implementation of time activity reports. As previously noted, the Mission's verbal narratives or written recollection, without supporting documentation is insufficient. In addition, as discussed in Comment 5, when we conducted the audit, we found that the time activity reports were not filed with the grant documentation.

Comment 12: The Mission can address this with HUD during the audit resolution process. As recommended, HUD should require the Mission to reimburse the grant and/or repay HUD for the unsupported expenses, unless it can provide adequate supporting documentation. If the Mission can provide adequate documentation to HUD, then it will not be required to repay the unsupported expenses.

Comment 13: We do not dispute that the Mission may have received this funding. However, its accounting records do not support that the funding received was used as cash match on the HUD grants. In addition, the Mission reported various amounts on its annual progress reports to HUD; however, we were unable to trace the amounts claimed to its general ledgers.

Comment 14: The fact remains that the Mission did not obtain HUD's written approval to sell the properties. The Mission should have written directly to HUD to obtain its approval to sell the properties, or obtain a written waiver of the requirement. Nevertheless, we have recommended that HUD require the Mission to repay the grant funds; however, if HUD disagrees with that recommendation it can address it with us during the audit resolution process.

Comment 15: We visited the "garage" in question and it was basically one big room with two closet - like spaces. We can understand why either the family living in the house would object to occupants in the space and/or why the persons to occupy the space would object to staying there. Nevertheless, we have removed the statements from the report.

Comment 16: The nature of the relationship between a specific program officer and the Mission was not within our audit purview; thus, it was not appropriate to include any narrative on this matter. Our audit was restricted to the objectives stated in the report. We did not find that the relationship had any direct impact on the Mission compliance with its grant agreements or other pertinent requirements.

Comment 17: The documentation that the Mission provided to us during the audit did not support this as being the reason for the sale of the apartments. In fact, the Mission previously stated "CCLM is interested in selling the Subject Properties in order to enable it to consolidate its charitable activities in a more focused manner, both functionally and geographically". However, when we asked the executive director on August 8, 2006, why they sold the buildings he said they "no longer have the units because (1) it was difficult to manage due to its location, and (2) the areas are very dangerous due to gangs and drugs resulting in violence and property damage." The area was bad and hazardous to the Mission's clients. Many of the Mission's clients were being accosted on their way to and from their apartments. Furthermore, the program director stated in writing "our program and our residents were trapped in the ghetto."

Comment 18: We disagree. Since the Mission did not actually pay the clients the $2,400 stipend, it was incorrect to deduct it from the clients' income.

Appendix C

CRITERIA

1. **McKinney Act, Title I, Section 103, 42 *United States Code* 11302,** states that the term "homeless" or "homeless individual or homeless person" includes an individual who lacks a fixed, regular, and adequate nighttime residence and an individual who has a primary nighttime residence that is a public or private place not designed for human beings. Further, the McKinney Act states that for the purpose of this Act, the term "homeless" or "homeless individual" does not include any individual imprisoned or otherwise detained under an act of the Congress or a state law.

2. **42 *United States Code* 11383, Section (b)(1),** states that acquisition, rehabilitation, and new construction projects assisted under subsection (a)(1) or (2) of this subsection shall be operated for not less than 20 years for the purpose specified in the application.

3. **42 *United States Code* 11383, Section (c),** states that the Secretary shall require recipients to repay 100 percent of any assistance received under subsection (a)(1) or (2) of this section if the project ceases to be used as supportive housing within 10 years after the project is placed in service.

4. **24 CFR [*Code of Federal Regulations*] 84.21(b)(2)** states that recipients' financial management systems shall provide records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

5. **24 CFR [*Code of Federal Regulations*] 583.125(c)** states that assistance for operating costs will be available for up to 75 percent of the total cost in each year of the grant term. The recipient must pay the percentage of the actual operating costs not funded by HUD. At the end of the each operating year, the recipient must demonstrate that it has met its match requirement of the costs for that year.

6. **24 CFR [*Code of Federal Regulations*] 583.145(a)** states that the recipient must match the funds provided by HUD for grants for acquisition, rehabilitation, and new construction with an equal amount of funds from other sources.

7. **24 CFR [*Code of Federal Regulations*] 583.145(b)** states that the matching funds must be cash resources provided to the project by one or more of the following: the recipient, the federal government, state and local governments, and private resources.

8. **24 CFR [*Code of Federal Regulations*] 583.315(a)** states that each resident of supportive housing may be required to pay as rent an amount determined by the recipient which may not exceed 30 percent of the family's monthly adjusted income (adjustment factors include the number of people in the family, age of family members, medical expenses, and child care expenses). The calculation of the family's income must include

the expense deductions provided in 24 CFR [*Code of Federal Regulations*] 5.611(a), and for persons with disabilities, the calculation of the family's monthly adjusted income must include the disallowance of earned income as provided in 24 CFR [*Code of Federal Regulations*] 5.617, if applicable.

9. **24 CFR [*Code of Federal Regulations*] 5.240(a) and (c)** state that this section applies to families that reside in dwelling units with assistance under the public housing program or the Section 8 tenant-based assistance programs or for which project-based assistance is provided under the Section 8, Section 202, or Section 811 program. The responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or Section 8 housing assistance payment or terminate assistance, as appropriate, based on such information.

10. **Office of Management and Budget Circular A-110, subpart C, section .21, paragraph b, subparagraph 2**, requires the recipients' financial management systems to provide records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.

11. **Office of Management and Budget Circular A-110, subpart C, section .21, paragraph b, subparagraph 7**, states that recipients' financial management systems shall provide accounting records, including cost accounting records that are supported by source documentation.

12. **Office of Management and Budget Circular A-110, subpart C, section .23, paragraph a, subparagraph 1,** states that all contributions shall be accepted as part of the recipient's cost sharing or matching when such contributions are verifiable from the recipient's records.

13. **Office of Management and Budget Circular A-122, attachment B, section 7, subsection m, paragraph 1,** states that charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2).

14. **Office of Management and Budget Circular A-122, attachment B, section 7, subsection m, paragraph 1, subparagraph (2),** states that reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

Appendix D

SCHEDULE OF UNSUPPORTED AND INELIGIBLE EXPENSES

	CA16B809008	CA16B309013	CA16B409017	CA16B909002	CA16B309012	CA16B409005	CA16B109001	
Description	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Total
Completely unsupported	$48,841	$14,357	$0	$44,873	$22,558	$0	$0	$130,629
Unsupported payroll	$2,095	$0	$1,612	$130,345	$0	$0	$5,289	$139,341
Ineligible	$1,252	$0	$4,743	$9,380	$652	$7,317	$758	$24,102
Total	$52,188	$14,357	$6,355	$184,598	$23,210	$7,317	$6,047	$294,072

Appendix E

SCHEDULE OF UNSUPPORTED MATCH FUNDS

Matching funds repayment

	CA16B309013	CA16B909002	CA16B309012	CA16B109001	
Description	**Amount**	**Amount**	**Amount**	**Amount**	**Grand total**
Match fund repayment amount	$17,671	$487,622	$76,794	$75,593	$657,680
Less questioned costs	$14,357	$184,598	$23,210	$6,047	$228,212
Match repayment total	$3,314	$303,054	$53,584	$69,546	$429,468

Matching funds calculations

	A	B	C = A - B	D	E = A + D	F = E - B
Grant	**Disbursed by HUD**	**General ledger supported**	**(Over)/under**	**Total match required**	**HUD-funded + match**	**Difference (over) or under**
CA16B309013[2]	$17,671	$3,314	$14,357	$7,405	$25,076	$21,762
CA16B909002[2]	$487,622	$442,749	$44,873	$354,188	$841,810	$399,061
CA16B309012[2]	$76,794	$54,236	$22,558	$36,390	$113,184	$58,948
CA16B109001[3]	$539,952	$830,342	$(290,390)	$338,560	$878,512	$48,170

Note 2. Operating expenses match requirement applies.
Note 3. Operation expenses and the acquisition and rehabilitation match requirements apply.

For grants CA16B309013, CA16B909002, and CA16B309012, the Mission did not exceed the amount funded by HUD; therefore, the match repayment amount is 100 percent of the funded grant amount less questioned costs. However, for grant CA16B109001, the Mission spent more than it was funded by HUD but did not fully meet its matching funds requirement and was short by $48,170. Therefore, the following calculations are necessary:

> Match supported ($290,390) divided by the required match ($338,560) is 86 percent. The Mission failed to meet its matching fund requirement by 14 percent; therefore, it will have to repay 14 percent of the HUD funding it received, which is $75,593, unless it can provide supporting documentation showing that it met the currently unsupported 14 percent.

Appendix F

SCHEDULE OF RENT CALCULATION DEFICIENCIES

Participant #	A	B	C	D	E	F	G	H	Underpaid	Overpaid
PD5104M57519					x		x		$1,090	
DE6004M52474			x		x				$180	
HT7205F52798								x	$640	
MJ7206M00000									$0	
CL5603M00000									$0	
CM6209M62435							x		$0	
SG8109F56390										$42
ML5608F59693						x	x		$0	
CC6501M61432					x	x			$360	
HH7202M51231	x	x			x	x			$634	
WK7401F53906	x			x					$45	
GB5504F50869	x								$241	
AL5507F50538					x		x		$1,020	
FA7006F51599	x				x	x	x		$6,201	
FJ7109M54452				x	x	x	x		$1,120	
LR4308M54795	x				x	x	x		$1,094	
SJ6310F51105		x	x		x	x			$165	
HJ6410M56737		x			x				$385	
FB6311M53008	x	x	x						$8	
DL6201F50752									$0	
RJ6905M00001									$0	
Total	6	4	3	2	10	7	7	1	$13,183	$42

Note: Our review was limited to the information maintained by the Mission in its participants' files.

Legend

A	Not all income was included in the annual income.
B	The rental calculation sheet contradicts the share of cost spreadsheet.
C	The allowance was issued with no support found in the file.
D	No allowance was given to those with support found in the file.
E	There was no support for $2,400 credit to annual income.
F	Declaration of 0 income, rental calculation sheets, and/or rental receipts were missing.
G	There was no rental support for years 2003, 2004, and/or 2005.
H	Rent was not collected.