



Issue Date December 18, 2007

Audit Report Number 2008-LA-1003

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: Homes for Life Foundation, Los Angeles, California, Did Not Properly Administer Its Supportive Housing Program Grants

HIGHLIGHTS

What We Audited and Why

We audited Homes for Life Foundation (Foundation) as a result of on-site audit work performed as part of a separate audit of the Los Angeles Homeless Services Authority's (Authority) administration of Supportive Housing Program funds. Our audit objective was to determine whether the Foundation applied and tracked its U.S. Department of Housing and Urban Development (HUD) Supportive Housing Program cash match in accordance with applicable laws, regulations, and requirements.

What We Found

The Foundation did not administer its Supportive Housing Program grants in compliance with HUD requirements. Specifically, it could not adequately support that it met the statutory 25 percent cash match requirement of \$389,291 for all 12 grants reviewed. Further, it inappropriately charged \$5,487 in duplicate operational costs that were charged to both HUD and the Los Angeles County Department of Mental Health and \$107,365 in unsupported duplicate salaries. We attribute these deficiencies to the Foundation's inadequate understanding of the cash match record-keeping rules and regulations, its inadequate financial management system, its failure to implement a cost

allocation plan that met HUD requirements to distribute shared costs among its multifunded projects, and the Authority's failure to monitor the Foundation's cash match operations.

What We Recommend

We recommend that HUD require the Foundation and/or the Authority¹ to (1) provide adequate supporting documentation to substantiate that the cash match of \$389,291 was met or repay more than \$2 million in grant funds expended from nonfederal funds, (2) implement a financial management system that adequately identifies the source and application of all cash match funds for federally sponsored activities, (3) repay \$5,487 in duplicate costs from nonfederal funds, (4) provide support to substantiate that \$107,365 in salaries was not double charged to HUD's Supportive Housing Program and the Department of Mental Health's Independent Living Program or repay it from nonfederal funds, and (5) establish and implement a cost allocation plan that meets HUD requirements by allocating program expenditures for its multifunded projects equitably.

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 with any copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft report to the Foundation and the Authority on November 7, 2007, and held an exit conference on November 20, 2007. The Foundation and the Authority provided their written comments on November 30, 2007. The Foundation and the Authority disagreed with our report findings.

The complete text of the responses from the Foundation and the Authority, along with our evaluation of those responses, can be found in appendix B of this report. Due to the voluminous nature of the Foundation's attachments in its response, we will make them available upon request.

¹ HUD awarded Supportive Housing Program funds to the Authority (10 grants), which it then passed through to the Foundation to carry out the grant activities. The Authority was ultimately responsible for compliance with the grant agreements and other HUD requirements. The remaining four grants were direct grants to the Foundation, so it was responsible for compliance with the four grant agreements with HUD.

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BACKGROUND AND OBJECTIVES

The Supportive Housing Program is authorized under Title IV of the McKinney-Vento Homeless Assistance Act (*United States Code* 11381-11389). 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 Homes for Life Foundation (Foundation) was formed as a housing corporation in 1986 and as a 501(c)(3) tax-exempt organization in 1987. The primary purpose of the organization is to establish a network of permanent, affordable, service-enriched housing for individuals who suffer from mental disabilities and those who are homeless or are at imminent risk of becoming homeless.

The Foundation received funding from the U.S. Department of Health and Human Services, passed through the Los Angeles County Department of Mental Health, and from the U.S. Department of Housing and Urban Development (HUD). The Foundation received direct grants from HUD, as well as grants that were awarded to the Los Angeles Homeless Services Authority (Authority), which were then passed through to the Foundation to carry out the grant activities. Since July 2001, the Foundation has been awarded 14 Supportive Housing Program grants totaling a little more than \$4 million, of which four grants, totaling \$701,328, are currently active. We reviewed 12 of the 14 grants, of which eight grants, totaling \$1.57 million, were passed through the Authority and four grants, totaling \$1.3 million, were received directly from HUD. The 14 grants are shown below.

	Contract number	Project	Grant amount
Passed through the Authority			
1	CA16B400051	Athena Homes	\$250,000
2	CA16B500040	Athena Homes	\$250,000
3	CA16B300010	Denker Consolidated	\$300,205
4	CA16B500004	Denker Consolidated	\$150,102
5	CA16B500005	Garden Villas Homes	\$128,963
6	CA16B400008	Harbor Gateway Homes	\$135,413
7	CA16B500002	Harbor Gateway Homes	\$135,413
8	CA16B300114	HFL Van Nuys Apartments	\$228,179
		Subtotal passed-through grants reviewed	\$1,578,275

9	CA16B800027	Birch Grove ²	\$643,552
10	CA16B900050	Elm Street Homes ³	\$490,041
		Subtotal passed-through grants not reviewed	\$1,133,593
		Subtotal all passed-through grants	\$2,711,868
Direct grants			
11	CA16B960017	Cedar Street Homes	\$743,737
12	CA16B500035	Cedar Street Homes	\$337,590
13	CA16B300004	Harvest House	\$146,091
14	CA16B500009	Harvest House	\$73,047
		Subtotal direct grants	\$1,300,465
		Total	\$4,012,333

We initiated our audit based on results obtained during a separate audit of the Authority⁴ and its administration of Supportive Housing Program grant funds. During the audit of the Authority, we reviewed the Foundation’s cost eligibility and cash match administration. Our limited review determined that the Foundation generally followed HUD rules and regulations with regard to cost eligibility. However, we determined that a limited scope audit focused on cash match was warranted based on potential deficiencies identified.

In July 2007, the County of Los Angeles Department of Auditor-Controller conducted a compliance review of the Foundation’s Department of Mental Health Medi-Cal billings. The county’s report cited that the Foundation “(1) did not have a detailed cost allocation plan to allocate overhead and other shared costs; and (2) reported program expenditures based on maximum contract amounts and not actual expenditures. As a result, the Foundation cannot identify the expenditures attributed to specific programs and may not have appropriately billed its expenditures to Department of Mental Health’s program.” The Foundation generally agreed with the results of the review and provided a written response stating that it was in the market for new accounting software, which it intended to implement by July 2008.

Our audit objective was to determine whether the Foundation applied and tracked its HUD Supportive Housing Program cash match in accordance with applicable laws, regulations, and requirements.

² This grant was not reviewed since it did not require match funds.

³ This grant was not reviewed since it did not require match funds.

⁴ Audit report 2007-LA-1013, Los Angeles Homeless Services Authority (June 8, 2007).

RESULTS OF AUDIT

Finding 1: The Foundation Could Not Adequately Support That It Provided \$389,291 in Required Matching Funds

The Foundation could not adequately support that it met the statutory 25 percent cash match requirement of \$389,291 for all 12 grants reviewed. We attribute these deficiencies to the Foundation's inadequate understanding of cash match record-keeping rules and regulations; its failure to implement an adequate financial management system to record and track expenditures and its related match by fund, grant, or program; and the Authority's failure to monitor the Foundation's cash match operations. As a result, it could not assure HUD or the Authority that it maximized the effectiveness of the Supportive Housing Program's intent.

The Foundation Could Not Adequately Support That It Provided \$389,291 in Required Matching Funds

Contrary to Office of Management and Budget Circular A-133 and 24 CFR [*Code of Federal Regulations*] 85.24(b)(6), requiring that cash match be verifiable from the recipient's records (see appendix E), the Foundation could not completely justify that it met the statutory 25 percent cash match requirement of \$389,291 for all 12 Supportive Housing Program grants. While the Foundation's records showed that there were sources of funds available to be used as cash match, its accounting system lacked the capability of recording transactions by program or grant; thus, the expenditures for all of its programs and activities were commingled and not identifiable by the source of funds. Consequently, it was impossible to identify the source and application of the cash match. In many instances, the Foundation claimed Department of Mental Health funds as the source of cash match, but program billings were not prepared to substantiate the expenditures because they were not required by the Department of Mental Health. However, under HUD rules and regulations, it was necessary to prepare those billings to show that cash match requirements were met. Details of the deficiencies for all 12 grants are summarized in appendix C and discussed by grant below.

- **CA16B400051 (Athena Homes)** - Between December 2005 and November 2006, \$209,348 in cash match was reported as having been provided for this grant; however, \$24,590 in match related to the operations budget under the technical submission was met, based on our review of the Independent Living Program billings and checks.⁵

⁵ A total of \$51,958 in eligible operations match was available, which is \$27,368 in excess of the required \$24,590 in operations match.

The required cash match for supportive services of \$34,345 was not met and was, therefore, unsupported. We could not fully verify that the custodial care salaries charged and paid for under the Independent Living Program were related to salaries eligible under the grant because, according to the accountant/asset manager, the amounts requested for reimbursement were intended to capture 1/12 of the maximum contract amount. The timesheets and pay stubs of its employees, which were attached to the monthly billings, could not be tied to the salary reimbursement amount, so we could not be assured that those funds went to pay for eligible salaries.

- **CA16B500040 (Athena Homes)** - Between December 2006 and June 2007, \$120,866 in cash match was reported as having been provided for this grant; however, \$14,213 in cash match related to the operations budget under the technical submission was met, based on our review of the Independent Living Program billings and checks.⁶

As with the first Athena Homes grant, the accountant/asset manager drew down 1/12th of the maximum contract in the amounts requested from the Independent Living Program for custodial care salaries; therefore, we could not be assured that those funds went to pay for eligible salaries as approved by the technical submission. The required cash match for supportive services of \$20,120 was not met and was, therefore, unsupported.

- **CA16B300010 and CA16B500004 (Denker Consolidated)** - Between November 2004 and June 2007, \$496,827 (\$332,182 and \$164,645, respectively) in cash match was reported as having been provided for these grants; however, the \$94,490 in required cash match (\$71,347 and \$23,143, respectively) was not met, based on our review of the income statement generated from the financial management system. The Foundation claimed to have allocated its costs and cash match by tenant rents; however, this method did not ensure that the revenues were allocated to eligible expenses. We were unable to validate whether the \$911,488 in rents collected (\$691,302 and \$220,186, respectively) was used for the required cash match. Moreover, the Foundation did not provide any additional documentation to substantiate that the rents collected were used for eligible cash match items. Therefore, the required cash match amount of \$94,490 (\$71,347 and \$23,143, respectively) was unsupported.
- **CA16B500005 (Garden Villas Homes), CA16B400008 and CA16B500002 (Harbor Gateways), and CA16B300114 (Van Nuys Apartments)** - The source of cash match for these grants was Department of Mental Health Medi-Cal funds, which were also used for other purposes and were ineligible under the Supportive Housing Program. The funds appeared as “HFLF” on the lump sum checks received by the Foundation and were accounted for in the general ledger under the “administrative” cost center and commingled with Department of Mental Health funds for other

⁶ A total of \$27,391 in eligible operations match was available, which is \$13,178 in excess of the required \$14,213 in operations match.

nonrelated projects. The commingled funds could no longer be tracked. Therefore, it is unclear whether they were used for eligible or ineligible items. Consequently, we could not determine whether these funds were used as cash match and were eligible. Therefore, a total of \$104,678 in required match for these four grants was unsupported. We noted that this deficiency was also identified in the county's compliance review (discussed in the background section of this report), which indicated that the Department of Mental Health may not have been billed appropriately. A summary of each of these grants is shown in the chart below.

Grant	Project name	Time period	Reported but unverified match	Unmet match
CA16B500005	Garden Villa Homes	October 2006 - June 2007	\$ 22,178	\$ 23,578
CA16B400008	Harbor Gateways	October 2005 - September 2006	\$ 124,721	\$ 32,141
CA16B500002	Harbor Gateways	October 2006 - June 2007	\$ 89,010	\$ 23,866
CA16B300114	Van Nuys Apartments	January 2006 to June 2007	\$ 33,839	\$ 25,093
		Total	\$ 269,748	\$ 104,678

- CA16B960017 and CA16B500035 (Cedar Street Homes) and CA16B300004 and CA16B500009 (Harvest House)** - The source of cash match for the Cedar Homes grants was the Department of Mental Health Supportive Services Residential Program and tenant rents, while the source of cash match for Harvest House was the Department of Mental Health Medi-Cal and tenant rents.

Based on the Supportive Services Residential Program billings, \$374,091 was requested and was eligible as match for the operations budget for grant CA16B960017. According to a Department of Mental Health representative, the \$374,091 was provided through a series of cash flow advances, comprised of lump sum payments that paid for various Department of Mental Health programs including the Supportive Services Residential Program. However, neither the Department of Mental Health representative nor the Foundation's accountant/asset manager could provide a detailed summary of the cash flow advances to verify that the amount was indeed paid to the Foundation. There was no correlation between the \$374,091 and the cash flow advance checks, evidencing receipt of payment. For grant CA16B500035, we were able to validate that \$56,344 in match related to the operations budget under the technical submission was met, based on our review of the Supportive Services Residential Program billings and checks received from the Department of Mental Health.

The Foundation claimed to have allocated its costs and cash match by tenant rents; however, this method does not ensure that the revenues were allocated to eligible expenses. We were unable to verify that a total of \$402,501 in tenant rental income was met and used for the required match, based on our review of the income statement generated from the financial management system for the four grants reviewed. We were also unable to verify that \$74,250 in Department of Mental Health Medi-Cal funds was used for cash match. Moreover, the Foundation did not

provide any additional documentation to substantiate that the rents collected were used for eligible cash match. As a result, \$135,658 in required cash match for the Cedar Street Homes and Harvest House grants were unsupported. A summary of each of these grants is shown in the chart below.

Grant	Project name	Department of Mental Health Supportive Services Residential Program	Tenant rents	Department of Mental Health Medi-Cal	Reported but unverified match	Required match	Unmet match
CA16B960017	Cedar Street Homes	\$ 374,091	\$ 163,506	\$ -	\$ 616,405	\$ 71,524	\$ 71,524
CA16B500035	Cedar Street Homes	\$ 56,344	\$ 75,812	\$ -	\$ 802,796	\$ 74,129	\$ 17,785
CA16B300004	Harvest House	\$ -	\$ 136,603	\$ 50,250	\$ 152,357	\$ 34,784	\$ 34,784
CA16B500009	Harvest House	\$ -	\$ 26,580	\$ 24,000	\$ 63,330	\$ 11,565	\$ 11,565
	Total	\$ 430,435	\$ 402,501	\$ 74,250	\$ 1,634,888	\$ 192,002	\$ 135,658

The Foundation’s Financial Management System Was Inadequate

During our audit scope, the Foundation reportedly provided \$2.7 million in cash match funds and certified that it had been provided. Although the Foundation had multiple sources of funds from which it reportedly provided the required grant cash match, we were unable to validate its sources primarily due to its inadequate financial management system. The financial management system was out of date and could not track expenditures and the Foundation’s related match by fund, grant, or program. The Foundation fully acknowledged the software’s shortcomings and had supplemented the system with a multitude of Excel spreadsheets, which purportedly supported that match for eligible expenses was available; however, there was no direct link between the Excel spreadsheets and the financial management system. Because the financial management system did not clearly identify what portion of expenditures was paid for by match funds, we unsuccessfully attempted to validate the match reported on the Excel spreadsheets provided. We then reviewed other supporting documentation, such as Department of Mental Health and tenant rent checks as well as the Department of Mental Health’s Independent Living and Supportive Services Residential Programs billings, as an alternative procedure in an attempt to validate the cash match. However, as discussed above, in all 12 grants, all or a portion of the cash match was unsupported based on our review.

According to the Foundation’s certified public accountant, she identified the financial management system’s limitations several years ago and had informed the Foundation of the issue, yet it claimed to have only been made aware of its system’s limitations when the County of Los Angeles Department of Auditor-Controller conducted an audit last year. The Foundation also attributed its predicament to the Authority’s not monitoring and notifying it of any operational noncompliance or shortcomings. The Foundation

apparently disregarded HUD requirements and neglected to make a concerted effort to follow those requirements until it was forced to take action as a result of the Auditor-Controller review. Had it taken a more proactive approach in documenting its billings to the Department of Mental Health and addressed the financial management system's weakness, its lack of cash match support may not have been an issue.

Conclusion

We could not validate whether the Foundation had \$2.4 million in reported match to meet the \$389,291 in required cash match for all 12 HUD Supportive Housing Program grants. We attribute the Foundation's cash match deficiencies to its inadequate understanding of cash match record-keeping rules and regulations, which require that match be verifiable from the recipients' records; its failure to implement an adequate financial management system that tracks expenditures and its related cash match according to fund, grant, or program; and the Authority's failure to monitor the Foundation's cash match operations. A prior audit⁷ of the Authority's Supportive Housing Program grant administration concluded that the Authority did not perform on-site fiscal monitoring of its project sponsors as required. Consequently, neither HUD nor the Authority was assured that the Foundation maximized the effectiveness of the Supportive Housing Program's intent to house and support the homeless.

Recommendations

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

- 1A. Require the Foundation to provide adequate supporting documentation to substantiate that it has met the match requirement of \$253,633 or require the Authority to repay \$998,492⁸ in passed-through grant funds expended from nonfederal funds. In addition, the Foundation should identify and support any match related to grant funds expended after our audit cutoff date, or the Authority should repay these grant funds.
- 1B. Require the Foundation to provide adequate supporting documentation to substantiate that it has met the match requirement of \$135,658 or repay \$1,013,280⁹ in direct grants expended from nonfederal funds. In addition, the

⁷ Audit report 2007-LA-1013, Los Angeles Homeless Services Authority (June 8, 2007).

⁸ We calculated the \$998,492 as a percentage of total Supportive Housing Program funds disbursed. For grants CA16B400051 and CA16B500040, we deducted the duplicate costs of \$74,919 (\$5,487 related to operational costs and \$69,432 related to salaries) and \$37,933 (related to salaries) before applying the percentage, respectively. Details of this amount can be found in appendix D.

⁹ We calculated the \$1,013,280 as a percentage of total Supportive Housing Program funds disbursed. Details of this amount can be found in appendix D.

foundation should identify and support any match related to grant funds expended after our audit cutoff date or repay these grant funds.

- 1C. Require the Foundation to implement a financial management system that adequately identifies the source and application of all cash match funds for federally sponsored activities and provides for accurate, current, and complete disclosure of the cash match activities of each federally sponsored project or program on the individual HUD grant it is awarded.
- 1D. Require the Foundation to update and revise its policies and procedures to include detailed cash match requirement guidance. Specifically, it should stress the necessity for adequate record keeping and preparing of supporting documentation.
- 1E. Suspend the release of funds from the Foundation's current authorized grants until an adequate financial management system has been implemented and supporting documentation for the unsupported match has been provided and defer awarding the Foundation additional grants until the issue has been resolved.
- 1F. Require the Authority to monitor the Foundation's compliance with its cash match requirements.

Finding 2: The Foundation Inappropriately Charged \$112,852 in Duplicate Costs

The Foundation inappropriately charged \$5,487 in duplicate operational costs that were charged to both HUD and Department of Mental Health and \$107,365 in unsupported duplicate salaries. We attribute these deficiencies to cost allocation plans that did not meet HUD requirements and the Foundation's emphasis on gaining reimbursement of maximum contract amounts from its various grant sources. As a result, HUD could not be assured that grant funds were used to pay actual and not estimated costs and that no duplication of payments existed.

The Foundation Improperly Charged Identical Costs to Both HUD and the Department of Mental Health

Contrary to Office of Management and Budget Circular A-110 (see appendix E), we identified that \$5,487 in duplicate operational expenditures was charged to both the Department of Mental Health and HUD's Supportive Housing Program Athena Homes grant, CA16B400051. The charges were related to transportation/van lease (\$655) and food (\$4,832). After we brought this matter to the attention of the Foundation, the accountant/asset manager reviewed it and agreed that the duplicate charges were made.

We also determined that \$107,365 in salaries was paid from the Supportive Housing Program grants, CA16B400051 (\$69,432) and CA16B500040 (\$37,933), and appear to have been paid from the Department of Mental Health Independent Living Program as well. According to the accountant/asset manager, salary reimbursements from the Independent Living Program that were derived from maximum contract amounts. For example, in the December 2005 Independent Living Program billing, the Foundation charged \$7,396 for custodial care salaries; however, that amount was not based on actual salary costs but, rather, on 1/12 of the total budget per month or in this particular case, the remaining balance to be drawn for the contract year (which is illustrated in the accountant/asset manager's notes shown below).

Supportive Services Expenses			
1.21	Transportation	\$14,000.00	\$ 632.17 (1.21)
1.22	After Care Housing Assist.	\$33,268.00	\$ 2,618.34 (1.22)
1.23	Activities	\$4,700.00	\$ 1,424.42 (1.23)
1.24	Custodial Care (salaries)	\$110,932.00	\$ 7,396.30 (1.24)

TOTAL BUDGET \$ 110,932⁰⁰
 YTD \$ 103,535 70 7
 BAL. \$ 7396 30
 @ 12/30/05

Although timesheets and pay stubs were attached to the monthly billings, the salaries could not be traced to the support. Consequently, we could not be assured that the salaries paid by the Supportive Housing Program were not also paid by the Independent Living Program. After our preliminary meeting with the Foundation, we were provided with additional documentation to support that the salaries could be traced to specific employees, but based on what we were told during fieldwork, the additional support contradicted the Foundation's previous statement. This support was apparently created after the fact to make it appear that duplicate charges did not occur. Had the Foundation implemented an appropriate cost allocation plan and not relied on drawing down maximum contract amounts, this duplication would not have occurred.

We reviewed the timesheets and pay stubs that were attached to the Independent Living Program billings and identified the salaries that were charged to the Supportive Housing Program for grant CA16B400051 and its renewal, CA16B500040. The chart below shows a summary of salary costs that were charged to both the Supportive Housing Program and the Independent Living Program.

Athena Homes			
CA16B400051		CA16B500040	
	Unsupported costs		Unsupported costs
Date	Salaries	Date	Salaries
December 2005	\$ (7,396)	December 2006	\$ (10,216)
June 2006	\$ (5,280)	January 2007	\$ (10,077)
July 2006	\$ (11,021)	February 2007	\$ (9,841)
August 2006	\$ (10,589)	March 2007	\$ (7,799)
September 2006	\$ (11,528)	Total	\$ (37,933)
October 2006	\$ (9,580)		
November 2006	\$ (14,038)		
Total	\$ (69,432)		

Conclusion

We attribute the Foundation's inappropriate duplicate charges to its lack of an acceptable cost allocation plan to equitably assign joint expenditures for its multifunded projects.

Further, The Foundation did not apply reasonable drawdown procedures to ensure that actual and not estimated costs were repaid to the Foundation. Consequently, it failed to ensure that HUD grants were spent in accordance with requirements and were not overburdened to fund the entire cost of grant activities and that no duplication of payments existed.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Foundation to

- 2A. Repay \$5,487 in duplicate costs relating to Athena Homes grant CA16B400051 from nonfederal funds.
- 2B. Provide adequate support to substantiate that the \$107,365 (\$69,432 from CA16B400051 and \$37,933 from CA16B500040) in salaries was not double charged to the Department of Mental Health and HUD or repay HUD from nonfederal funds.
- 2C. Establish and implement a cost allocation plan that meets HUD requirements by allocating expenditures for its multifunded projects equitably.
- 2D. Revise, update, and implement detailed drawdown policies and procedures to ensure that actual and not estimated costs are reimbursed from authorized grant funds.

SCOPE AND METHODOLOGY

We performed our audit work at the Foundation, located in Los Angeles, California, from June through October 2007. Our audit generally covered the period November 2004 through July 2007. We expanded our scope when necessary.

To accomplish our audit objectives, we

- Reviewed applicable HUD regulations, *Code of Federal Regulations*, and Office of Management and Budget circulars.
- Obtained an understanding of the Foundation's procedures, including its controls to ensure that it properly administered its Supportive Housing Program.
- Reviewed HUD's Los Angeles Office of Community Planning and Development grant files associated with Supportive Housing Program grants received by the Foundation.
- Reviewed 12 of the 14 grants awarded to the Foundation. We reviewed the Foundation's 12 Supportive Housing Program active and recently expired grants, including the grant agreements, technical submissions, annual progress reports, monthly invoice billings (cash match tracking sheets and related general ledger expenses), and bank account. The remaining two were not reviewed because there was no cash match requirement for these two grants.
- Queried the Line of Credit Control System to determine the authorized, drawn, and balance of grant award amounts.
- Interviewed the Foundation's accountant/asset manager to acquire an understanding of its cash match procedures, practices, tracking, and application.
- Reviewed the Foundation's December 31, 2004 and 2005, audited financial statements.
- Reviewed the contract and amendments related to the contract between the Foundation and the County of Los Angeles Department of Mental Health.
- Reviewed the compliance report prepared by the County of Los Angeles Mental Health and the Foundation's response to the review.
- Reviewed the County of Los Angeles Department of Mental Health billings for the Independent Living Program and Supportive Services Residential Program.

We performed our review in accordance with generally accepted government auditing standards.

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 that management has implemented to ensure accurate, current, and complete disclosure of financial results.
- Policies and procedures that management has implemented to reasonably ensure that its Supportive Housing Program grants are carried out in accordance with applicable laws and regulations.

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 item is a significant weakness:

- The Foundation did not have sufficient controls in place to ensure that its Supportive Housing Program grants were carried out in accordance with applicable laws and regulations (findings 1 and 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1A		\$998,492
1B		\$1,013,280
2A	\$5,487	
2B		\$107,365
Totals	\$5,487	\$2,119,137

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 situation, the Foundation charged \$5,487 in duplicate operational costs that were charged to both HUD and the Department of Mental Health.

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. We calculated the \$2,011,772 (\$998,492 and \$1,013,280) as a percentage of total Supportive Housing Program funds disbursed. For grant CA16B400051, we deducted the ineligible amount of \$5,487 and unsupported duplicative amount of \$69,532 from the total disbursed, before arriving at the unsupported amount. Similarly, for grant CA16B500040, we deducted the unsupported duplicative amount of \$37,933 from the total disbursed, before arriving at the unsupported amount. The total unsupported duplicative amount is \$107,365 (\$69,532 and \$37,933). Details of the breakdown can be found in appendix D.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



LOS ANGELES
HOMELESS
SERVICES
AUTHORITY

Rebecca Isaacs
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November 30, 2007

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Re: Discussion Draft Audit Report
Homes for Life Foundation

Dear Ms. Hobbs:

Thank you for your letter of November 7, 2007 regarding findings from your audit of Homes for Life Foundation.

We have reviewed your findings and have the following responses on the items noted in the Draft Audit Report.


Finding No. 1 - The Foundation Could Not Adequately Support That It Provided \$389,291 in required Matching Funds.

We agree that the Homes for Life Foundation's accounting software has made it difficult to easily trace matching funds to the appropriate grant or program from directly within the general ledger. This difficulty is a function of the age of the accounting system, and its lack of flexibility in setting up cost centers and programs. However, we believe that Homes for Life Foundation has provided supplemental schedules that provide documentation to support that required cash matching funds were provided during the periods audited. We believe that the documentation provided by Homes for Life Foundation demonstrates that the matching funds were adequate to meet grant requirements, and have been applied to the appropriate grant. The documentation includes supplemental Excel spreadsheets prepared by the Foundation that we have been able to directly link to Homes for Life Foundation's general ledger. This supplemental information has been provided to you by Homes for Life Foundation on November 20, 2007, and with their response to this Discussion Draft Audit Report.

Finding No. 2 - The Foundation Inappropriately Charged \$112,852 in Duplicate Costs.

We agree that the Foundation inappropriately charged \$5,487 in duplicate charges. The Homes for Life Foundation has provided LAHSA with documentation to support \$107,365 in unduplicated staff salaries. Homes for Life Foundation is submitting this documentation to you with their response to the Discussion Draft Audit Report. LAHSA is committed to working with your office and Homes for Life Foundation to resolve all findings as quickly as possible. We sincerely appreciate the time and consideration HUD-OIG has provided both LAHSA and Homes for Life Foundation during this audit process. If you have any questions or comments regarding the documentation submitted by Homes for Life Foundation, or our comments, please do not hesitate to contact Terri Carroll, our Chief Financial Officer, at 213-683-3333.

Sincerely,


Rebecca Isaacs
Executive Director

- A Joint Powers Authority Created by the City and County of Los Angeles -

Comment 1

Comment 2



Homes for Life Foundation

8939 S. Sepulveda Boulevard, Suite #460, Los Angeles, CA 90045 Phone (310) 337-7417 Fax (310) 337-7413 www.homesforlife.org

November 29, 2007

Ms. Joan Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region IX
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Subject: Discussion Draft Audit Report (Homes for Life Foundation)

Dear Ms. Hobbs:

This letter responds to the U.S. Department of Housing and Urban Development, Office of Inspector General ("OIG") in connection to the OIG draft audit report (the "Draft Audit Report") sent to Homes for Life Foundation (HFLF) dated November 7, 2007. The Draft Audit Report gives HFLF only 15 days from its issuance to provide the OIG written comments in response to it – and the OIG granted only one very short extension up through and including November 30, 2007 (collectively the "OIG Response Period").

It is Homes for Life Foundation's concern that the OIG Response Period does not provide sufficient time for Homes for Life Foundation to investigate and gather all of the information necessary to fully respond to the Draft Audit Report. Nevertheless, out of an abundance of caution, and in an effort to fully cooperate and comply with the Draft Audit Report and the OIG Response Period, Homes for Life Foundation has as quickly as it could put its' responses together. Homes for Life Foundation must therefore reserve any and all rights it may have to object to this procedure at a later date and to modify responses at such time as additional or different information may come to Homes for Life Foundation's attention or which may otherwise come to light. Accordingly, none of these responses should be understood to be a final response concerning these matters. Instead, the responses from Homes for Life Foundation are with a full reservation of rights to change any of its stated positions or any of the evidence given in support of its' positions until such time that Homes for Life Foundation or its representatives have had sufficient opportunity to conduct a full review of the Draft Audit Report or related subsequent reports and the facts and circumstances related to them.

Homes for Life Foundation Federal Tax ID# 33-0248725

Comment 3

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Regional Inspector General for Audit
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Based on the foregoing, a Table of Contents listing attached documents and exhibits is attached to this letter. We also appreciate your taking time to meet for an exit conference on your regular day off on November 20, 2007, to review and discuss the Draft Audit Report. I also provided you with a copy of a proposed vendor agreement for the lease / purchase of advanced accounting software with technical assistance we expect to have fully implemented by July 2008.

The Draft Audit Report contends that Homes for Life Foundation did not administer its Supportive Housing Program grants in compliance with HUD requirements, and that it had not adequately supported its required cash match, and had duplicated several charges. OIG attributes these deficiencies to inadequate understanding of record keeping rules, inadequate financial management systems, failure to implement a cost allocation plan, and failure to monitor cash match requirements.

As we discussed at our meeting on November 20, Homes for Life Foundation *strongly disagrees* with this conclusion:

1. While Homes for Life Foundation's accounting software does not provide flexibility to allow certain record-keeping through its General Ledger, Homes for Life Foundation has **fully documented** and provided to auditors evidence of required matches through spreadsheets, contracts, and other documentation. It has long been our understanding that such documentation is allowed under HUD guidelines. Exhibits of this information are attached to this letter, and are fully available to OIG for review.

Homes for Life Foundation's supervising accountant also explained that to the extent certain information was not reviewed by OIG during its audit, that it was the result of our not having received a clear request from OIG for the information. He also explained that if OIG had requested additional information at that time, then Homes for Life Foundation would have provided it.

Please therefore find attached comments and exhibits in rebuttal of Finding 1 and Finding 2 to reflect our total disagreement with Finding 1, and partial disagreement with Finding 2. In regards to Finding 2, we agree that Homes for Life Foundation inadvertently over-billed HUD or Department of Mental Health by \$5,487. However, we disagree that Homes for Life Foundation over-billed \$107,365 in salaries. As demonstrated during our November 20 meeting, we were able to substantiate the foregoing comments by providing exhibits, viewgraphs of exhibits, and a cost allocation plan for salaries.

Comment 4

Comment 5

Comment 6

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Comment 7

During the exit conference, the Chief Financial Officer of the Los Angeles Homeless Services Authority (LAHSA) and a consulting accountant to LAHSA requested clarification from OIG on whether supplemental spreadsheets were acceptable documentation for the General Ledger. Based upon clarification from OIG during that meeting, it again was our understanding that the use of such alternate means was allowable.

Comment 8

2. Accounting and other staff of Homes for Life Foundation have attended numerous training sessions over the years sponsored by HUD and LAHSA regarding methods of cash-match, record keeping and other information related HUD funding. The purpose of the sessions was to provide information to multiple grantees. At no time during those training sessions and open discussion periods was there any indication that Homes for Life Foundation's accounting system was inadequate. Homes for Life Foundation's accounting system is also consistent with the description contained in its applications for funding under the Supportive Housing Program. At no time during reviews of Homes for Life Foundation's applications for funding did HUD or LAHSA take exception to the description of the accounting system, nor condition funding on any changes that needed to be made to the system.

Comment 9

3. Homes for Life Foundation has had a cost allocation system implemented throughout its history. These cost allocations are shown on spreadsheets, and while not shown in the General Ledger due to the nature of its accounting software, do adequately allocate costs and assure that there is no duplicate billing. The conclusion that there is no cost allocation system was unwarranted, so we ask OIG to consider our comments and attached exhibits.

Comment 10

4. Cash match requirements are carefully monitored by accounting staff of Homes for Life Foundation, and in many cases our match vastly exceeds that required by HUD. Homes for Life Foundation has far more than satisfied its cost sharing or matching requirements based on spreadsheets showing source documents that include client rents tracked in program departmentalized accounts and in DMH contract budget pages. Billings to DMH do not reflect the allocations because DMH has not required Homes for Life Foundation to include such information in billings, nor have we previously been asked and/or required by HUD or LAHSA to prepare DMH billings in such a manner.

Comment 11

5. Homes for Life Foundation **strongly disagrees** with verbiage in the Draft Audit Report and has therefore attached a document called Summary of Requested Amendments to Verbiage in the Discussion Draft Audit Report. Two examples of requests for amendments to verbiage in the Draft Audit Report relate to conversations OIG auditors held with (a) an accountant who

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U.S. Department of HUD
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works for an outside auditing firm, and (b) with the supervising accountant of Homes for Life Foundation. We were later advised that both individuals' conversations with OIG auditors were misconstrued and not correctly represented in the Draft Audit Report. (Please see written statements prepared by the Certified Public Accountant and Homes for Life Foundation's supervising accountant, as attached exhibits.)

Homes for Life Foundation's staff and board of directors are devoted to developing high quality housing with supportive services on behalf of homeless persons suffering from chronic mental illness. We are very proud of our 20 year history of carrying out this mission, and lengthy waiting lists for our permanent housing are a testament to the huge unmet need.

Based on our comments, documentation and exhibits, we respectfully request that OIG accept our accounting records, financial spreadsheets and supportive documentation attached to this letter. The audit goes to the core of the existence of our non-profit, so your consideration is greatly appreciated, and we hope for a positive outcome.

If you have any questions regarding these comments and attachments, please feel free to contact me at (310) 337-7417 .

Sincerely,



Carol M. Liess
Executive Director
HOMES FOR LIFE FOUNDATION

Cc: Terri Carroll, Chief Financial Officer, LAHSA

Attachments

OIG Evaluation of Auditee Comments

- Comment 1 - We disagree. The documentation that was provided to us was inadequate to demonstrate that funds were applied properly to meet grant requirements. The supplemental excel spreadsheets are not reliable given that the Foundation re-created them as a result of learning of our audit findings and that spreadsheets must be supported by other documentation such as Department of Mental Health billings and checks. Based on our interview with the accountant or asset manager, we ascertained that billings were not prepared for any other Department of Mental Health programs except for the Independent Living Program, Supportive Services Residential Program, and County General Funds Realignment Program. This indicates that Department of Mental Health Medi-Cal, County General Funds, and other related monies were not properly documented and is therefore not supported. In the Foundation's response to our report, it states that "DMH has not required Homes for Life Foundation to include information in billings." Without such billings, we cannot determine the validity of those excel spreadsheets. The Foundation did not provide other reliable, relevant information to corroborate that the excel spreadsheet information is accurate.
- Comment 2 - The Foundation provided us with copies of excel spreadsheets that are contrary to the information we gathered during our audit fieldwork and were created after it was informed of our audit findings. The Foundation did not provide adequate documentation to support that it did not charge \$107,365 in duplicate staff salaries. The main intent of the accountant or asset manager when he prepares monthly Department of Mental Health billings is to draw 1/12th of the maximum contract amount (i.e. his support is with estimated and not actual costs). The billings would show, for example, that \$16,500 was requested for the month of September, however, a breakdown of how the \$16,500 was derived was not provided. As support for the Department of Mental Health billings, he simply attaches the timesheets and pay stubs of employees without an allocation of how much or of which employee's pay he has drawn to represent the \$16,500. Note that some of these identical timesheets and pay stubs for the same time period are also attached to the HUD Supportive Housing Program billings, except in those billings, he prepares a detailed allocation of the amount to be drawn. When we asked him how he derived the \$16,500, we were told that the numbers were "plugged". After we informed the Foundation of our audit findings, the Foundation prepared excel spreadsheets that show an allocation of salary but the salaries of employees whose pay was charged to HUD were not included. The Foundation could not provide us with spreadsheets to show the allocation when we requested it during our audit fieldwork. The Foundation could not provide supporting documentation for the numbers on the excel spreadsheets that were provided with their response to this report.
- Comment 3 - The Foundation was provided with ample time to investigate and gather all the information necessary to respond to the findings. We provided the Foundation copies of the finding outlines on October 12, 2007 and conducted a preliminary meeting to discuss the outlines and any concerns it had with respect to our conclusions. The outlines generally reflected the conclusions made in the draft audit report, which was provided on November 7, 2007, giving the auditee almost a month to gather all the information necessary to disclaim the findings. Moreover, during the exit conference, we provided the auditee and the Authority with an extension to provide their written comments. We have consistently applied this policy with all of our auditees. The Foundation is welcome to provide any additional documentation to HUD during the audit resolution phase to resolve its grievances.

- Comment 4 - We agree that the Foundation's "accounting software does not provide flexibility to allow certain record keeping through its general ledger." However, as evidenced by the Foundation's written response, which was provided to us after our audit fieldwork, the Foundation has not fully documented it has met its cash match as it should during the term of the HUD Supportive Housing Program grants, many of which had expired at the completion of the audit. Had the Foundation fully documented and had knowledge of its record keeping responsibilities, the excel spreadsheets and other reliable support (such as Department of Mental Health billings for Medi-Cal) for such spreadsheets would have existed during the audit, which was not the case. While excel spreadsheets are an acceptable form of documentation, they cannot stand alone and must be supported by source documents.
- Comment 5 - We agree that certain information was not reviewed by us during our audit; however, it was not because we were unclear with our request as the Foundation did not have such documentation during our audit. It was not until after we informed the Foundation of our findings that it requested information on what documentation it may re-create to prove it had the match. We were prudent and diligent in requesting cash match related documentation and have spent a substantial amount of time piecing together what documentation it had in order to show that cash match was met. However, we will not violate accounting standards to aid the auditee by allowing them to re-create information that simply is not supportable. We asked for very specific information numerous times and none was provided.
- Comment 6 - A majority of the exhibits provided by the auditee contained excel spreadsheets that we could not validate or verify with other documentation. We cannot in good conscience state that cash match was met, when the additional documentation does not provide evidence of this. See comment #2 above regarding our position on finding #2. The Foundation is welcome to provide any additional documentation to HUD during the audit resolution phase to resolve its disagreements with our report.
- Comment 7 - We agree that supplemental spreadsheets are an acceptable form of documentation; however, they are not source documentation and are not necessarily reliable if they cannot be supported by other source documentation like checks, Department of Mental Health billings, Supportive Housing Program billings, etc..
- Comment 8 - As stated by the Foundation, the purpose of a HUD or Authority-sponsored training is to provide grant administration information to multiple grantees. The purpose of those trainings is not to audit or perform a review of the Foundation. Due to the lack of monitoring conducted by HUD or the Authority, neither agency found the Foundation's accounting system as deficient. Given that neither agency has ever gotten a chance to review the Foundation's accounting system it would not be reasonable for them to comment on the system during training. Prior to the current CFO's arrival at the Authority, the extent of the Authority's monitoring consisted of desk reviews.
- Comment 9 - We agree that the Foundation has a cost allocation plan; however, it is not being implemented properly as we identified duplicate costs during the course of the audit, which the Foundation agreed to (see auditee's response, comment 4). We agree to change the verbiage in our report to state that the Foundation lacked an acceptable cost allocation plan that met HUD standards.
- Comment 10 - Our audit of the Foundation's cash match concluded that matching requirements were unmet for all 12 grants in our review. The additional documentation provided with the auditee's comments also are not enough to show the actual application of the match.

What was provided to us were excel spreadsheets and those are not source documents that are always reliable.

Comment 11- Based on the information we were provided, we agree to change three items of the report:

- Remove the sentence signifying that the Foundation is implementing its new software in January 2008;
- Remove any references to the word "plugged." However, this does not excuse the fact that maximum contract amounts are the accountant or asset manager's basis for draw downs; and
- Amend the verbiage regarding the Foundation's lack of a cost allocation plan to state that the Foundation lacked an acceptable cost allocation plan that met HUD standards.

As for the section regarding the statement made by the Foundation's certified public accountant, we will not make the changes as requested since we did not print unsupported information. We were informed that she was the Foundation's auditor for the past five to six years and that she was aware of the accounting system deficiency; however, because she took alternative steps to satisfy her, she issued a report with an unqualified opinion and without a finding. We were informed she was aware of the accounting software's shortcomings several years ago, but did not feel it was an issue given the size and amount of grants it had received and that she had discussed this with management. The point we want to stress in including the statement in our report is that the Foundation was made aware of the accounting software issue before the County of Los Angeles Department of Auditor-Controller compliance review, but did not act promptly to rectify the problem.

Appendix C

SCHEDULE OF REQUIRED, MET, AND UNMET CASH MATCH

	Grant number	Project	Supportive services required match	Operations required match	Homeless Management Information System required match	Total match required	Reported match	Verified operations-related match ¹⁰	Met match	Unmet match	Percentage of unmet match
Passed through the Authority to the Foundation											
1	CA16B400051	Athena Homes	\$ 34,345	\$ 24,590	\$ -	\$ 58,935	\$ 209,348	\$ 51,958	\$24,590	\$ 34,345	58
2	CA16B500040	Athena Homes	\$ 20,120	\$ 14,213	\$ -	\$ 34,333	\$ 120,866	\$ 27,391	\$14,213	\$ 20,120	59
3	CA16B300010	Denker Consolidated	\$ 43,090	\$ 28,257	\$ -	\$ 71,347	\$ 332,182	\$ -	\$ -	\$ 71,347	100
4	CA16B500004	Denker Consolidated	\$ 13,769	\$ 9,374	\$ -	\$ 23,143	\$ 164,645	\$ -	\$ -	\$ 23,143	100
5	CA16B500005	Garden Villas Homes	\$ 23,578	\$ -	\$ -	\$ 23,578	\$ 22,178	\$ -	\$ -	\$ 23,578	100
6	CA16B400008	Harbor Gateways	\$ 32,141	\$ -	\$ -	\$ 32,141	\$ 124,721	\$ -	\$ -	\$ 32,141	100
7	CA16B500002	Harbor Gateways	\$ 23,866	\$ -	\$ -	\$ 23,866	\$ 89,010	\$ -	\$ -	\$ 23,866	100
8	CA16B300114	Van Nuys Apartments	\$ 16,488	\$ 8,438	\$ 167	\$ 25,093	\$ 33,839	\$ -	\$ -	\$ 25,093	100
Subtotal			\$ 207,397	\$ 84,872	\$ 167	\$292,436	\$ 1,096,789	\$ 79,349	\$38,803	\$253,633	87
Direct grants to the Foundation											
9	CA16B960017	Cedar Street Homes	\$ 17,785	\$ 53,739	\$ -	\$ 71,524	\$ 616,405	\$ -	\$ -	\$ 71,524	100
10	CA16B500035	Cedar Street Homes	\$ 17,785	\$ 56,344	\$ -	\$ 74,129	\$ 802,796	\$250,522	\$56,344	\$ 17,785	24
11	CA16B300004	Harvest House	\$ 15,525	\$ 19,259	\$ -	\$ 34,784	\$ 152,357	\$ -	\$ -	\$ 34,784	100
12	CA16B500009	Harvest House	\$ 5,027	\$ 6,538	\$ -	\$ 11,565	\$ 63,330	\$ -	\$ -	\$ 11,565	100
Subtotal			\$ 56,122	\$ 135,880	\$ -	\$192,002	\$ 1,634,888	\$250,522	\$56,344	\$135,658	71
Total			\$ 263,519	\$ 220,752	\$ 167	\$484,438	\$ 2,731,677	\$329,871	\$95,147	\$389,291	80

¹⁰ The match that was verified consisted of operations-related match only. In all three grants, the match that was verified was in excess of the 25 percent operations match requirement.

Appendix D

SCHEDULE OF UNSUPPORTED AND INELIGIBLE AMOUNTS

	Grant number	Project	Operating period	Authorized amount	Paid by HUD	Percentage of unmet match	Unsupported	Unsupported due to duplicate salary costs	Ineligible	Total questioned cost
Passed through the Authority to the Foundation										
1	CA16B400051	Athena Homes	December 1, 2005 - November 30, 2006	\$ 250,000	\$ 247,484	58	\$ 100,088	\$ 69,432	\$ 5,487	\$ 175,007
2	CA16B500040	Athena Homes	December 1, 2006 - November 30, 2007	\$ 250,000	\$ 144,162	59	\$ 62,675	\$ 37,933	\$ -	\$ 100,608
3	CA16B300010	Denker Consolidated	November 1, 2004 - October 31, 2006	\$ 300,205	\$ 299,683	100	\$ 299,683	\$ -	\$ -	\$ 299,683
4	CA16B500004	Denker Consolidated	November 1, 2006 - October 31, 2007	\$ 150,102	\$ 97,225	100	\$ 97,225	\$ -	\$ -	\$ 97,225
5	CA16B500005	Garden Villas Homes	October 1, 2006 - September 30, 2007	\$ 128,963	\$ 98,908	100	\$ 98,908	\$ -	\$ -	\$ 98,908
6	CA16B400008	Harbor Gateways	October 1, 2005 - September 30, 2006	\$ 135,413	\$ 135,013	100	\$ 135,013	\$ -	\$ -	\$ 135,013
7	CA16B500002	Harbor Gateways	October 1, 2006 - September 30, 2007	\$ 135,413	\$ 100,244	100	\$ 100,244	\$ -	\$ -	\$ 100,244
8	CA16B300114	Van Nuys Apartments	January 1, 2006 - December 31, 2008	\$ 228,179	\$ 104,656	100	\$ 104,656	\$ -	\$ -	\$ 104,656
Subtotal				\$1,578,275	\$1,227,375	87	\$ 998,492	\$ 107,365	\$ 5,487	\$1,111,344
Direct grants to the Foundation										
9	CA16B960017	Cedar Street Homes	July 1, 2005 - June 30, 2006	\$ 743,737	\$ 737,591	100	\$ 737,591	\$ -	\$ -	\$ 737,591
10	CA16B500035	Cedar Street Homes	July 1, 2006 - June 30, 2007	\$ 337,590	\$ 337,590	24	\$ 81,022	\$ -	\$ -	\$ 81,022
11	CA16B300004	Harvest House	December 1, 2004 - November 30, 2006	\$ 146,091	\$ 146,091	100	\$ 146,091	\$ -	\$ -	\$ 146,091
12	CA16B500009	Harvest House	December 1, 2006 - November 30, 2007	\$ 73,047	\$ 48,576	100	\$ 48,576	\$ -	\$ -	\$ 48,576
Subtotal				\$1,300,465	\$1,269,848	71	\$ 1,013,280	\$ -	\$ -	\$1,013,280
Total				\$2,878,740	\$2,497,223	80	\$ 2,011,772	\$ 107,365	\$ 5,487	\$2,124,624

Appendix E

CRITERIA

- A. **Regulations at 24 [Code of Federal Regulations] 85.20(a)(2)** state that fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Paragraph (b)(2) states that the financial management system of grantees and subgrantees must meet the following standards: grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities.
- B. **Regulations at 24 [Code of Federal Regulations] 85.24(b)(6)** state that costs counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees.
- C. **Regulations at 24 [Code of Federal Regulations] 85.40(a)** state that grantees are responsible for managing the day-to-day operations of grant and subgrant activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.
- D. **The 2005 Super Notice of Funding Availability, part III, subpart B**, states that for all Supportive Housing Program funding for supportive services and homeless management information systems, a grantee must provide a 25 percent cash match. This means that of the total supportive services budget line item, no more than 80 percent may be from Supportive Housing Program grant funds. The cash source may be the grantee, other federal programs, state and local governments, or private resources. Documentation of the match requirements must be maintained in the grantee's financial records on a grant-specific basis.
- E. **Regulations at 24 [Code of Federal Regulations] 574.500(b)(4)** state that the responsibility for grant administration requires compliance with such other terms and conditions, including record keeping and reports for program monitoring and evaluation purposes, as HUD may establish for purposes of carrying out the program in an effective and efficient manner.
- F. **Office of Management and Budget Circular A-110, Uniform Administration Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, subpart C, section 23(a)**, states that all contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all the following criteria:
1. Are verifiable from the recipient's records;

2. Are not included as contributions for any other federally assisted project or program;
3. Are necessary and reasonable for proper and efficient accomplishment of project or program objectives;
4. Are allowable under the applicable cost principles;
5. Are not paid by the federal government under another award, except where authorized by federal statute to be used for cost sharing or matching;
6. Are provided for in the approved budget when required by federal awarding agency; and
7. Conform to other provisions of this Circular, as applicable.

Subpart C, section (20)(b), requires that a grant recipient's financial management system shall provide for the following:

- Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements set forth in section C.52. If a federal reporting agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.
- 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.
- Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure that they are used solely for authorized purposes.
- Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.
- Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient.
- Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source documentation.

F. **Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations, subpart A, section 4(a)**, states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with relative benefits received. An allocable cost to a federal award must be treated consistently with other costs incurred for the same purpose in like circumstances and

1. If it is incurred specifically for the award,
2. Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
3. Is necessary to the overall operation of the organization, even if a direct relationship to any particular cost objective cannot be shown.