



Issue Date October 25, 2010

Audit Report Number 2011-LA-1001

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

//signed//

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The City of Los Angeles Housing Department, Los Angeles, CA, Did Not Always Effectively Administer Its Homelessness Prevention and Rapid Re-Housing Program

HIGHLIGHTS

What We Audited and Why

We audited the Homelessness Prevention and Rapid Re-Housing Program (program) at the City of Los Angeles Housing Department (Department) because it was the second largest single program grant awarded within California under the American Recovery and Reinvestment Act of 2009 (Recovery Act). In addition, our audit is part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) national mandate to monitor grant activities funded by the Recovery Act. Our objective was to determine whether the Department was efficiently and effectively administering the grant funds in compliance with Recovery Act and other applicable requirements. Specifically, we wanted to determine whether the Department had adequate policies and procedures in place to ensure that program expenditures were supported with adequate documentation and subrecipients were monitored to ensure compliance with all applicable regulations.

What We Found

The Department did not always efficiently and effectively administer the grant funds in compliance with the Recovery Act and other applicable requirements. It did not ensure that expenditures were supported with adequate source documentation. Further, its policies and procedures were not adequate to ensure that its subrecipients complied with contractual requirements, maintained source documents for program expenditures, and received adequate monitoring for compliance with Federal requirements.

What We Recommend

We recommend that HUD require the Department to revise its policies and procedures to ensure that adequate source documentation is reviewed before disbursing program funds. We also recommend that HUD require the Department to enforce the Homeless Program services contract between itself and the Los Angeles Homeless Services Authority (Authority) to ensure that the Authority collects, reviews, and maintains adequate source documentation from all of its subrecipients, thereby reducing the risk of fraud, waste, and abuse. Further, we recommend that the Department revise its policies and procedures to ensure that the day-to-day activities of all subrecipients are monitored during the grant term to ensure compliance with Homelessness Prevention and Rapid Re-Housing Program requirements and other applicable Federal requirements.

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 a draft report to the Department on September 27, 2010, and held an exit conference with Department officials on October 7, 2010. The Department provided written comments on October 12, 2010. The Department generally disagreed with our report recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act) became Public Law 111-5 on February 17, 2009. The purpose of the Recovery Act is to (1) preserve and create jobs and promote economic recovery; (2) assist those most impacted by the recession; (3) provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and (5) stabilize State and local government budgets to minimize and avoid reductions in essential services and counterproductive State and local tax increases. The Recovery Act established the Homelessness Prevention and Rapid Re-Housing Program, which is regulated by the U.S. Department of Housing and Urban Development (HUD) and administered by its Office of Community Planning and Development.

The Homelessness Prevention and Rapid Re-Housing Program

The purpose of the Homelessness Prevention and Rapid Re-Housing Program (program) is to provide homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and to provide assistance to rapidly re-house persons who are homeless as defined by section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). The program provides temporary financial assistance and housing relocation and stabilization services to individuals and families that are homeless or would be homeless but for this assistance. Accordingly, eligible program activities are intended to target the following two populations of persons facing housing instability:

- Homelessness prevention activities assist individuals and families that are currently in housing but are at risk of becoming homeless and needing temporary rent or utility assistance to prevent them from becoming homeless or assistance to move to another unit.
- Rapid re-housing activities assist individuals and families that are experiencing homelessness (residing in emergency or transitional shelters or on the street) and need temporary assistance to obtain housing and retain it.

City of Los Angeles Housing Department

The City of Los Angeles' (City) mission is to advocate safe and livable neighborhoods through the promotion, development, and preservation of decent, safe, and affordable housing. The City, a participating jurisdiction, administers the program through the City of Los Angeles' Housing Department (Department). The Department entered into a grant agreement with HUD and was awarded more than \$29.4 million in program funds. The Department kept \$558,003 in administrative funds and allocated the remainder to the Los Angeles Homeless Services Authority (Authority).

Los Angeles Homeless Services Authority

The Department contracted with the Authority to administer the program. The Authority is a joint powers authority established by the County and the City of Los Angeles in 1993 as an independent agency and is the lead agency in the Los Angeles Continuum of Care. The Authority coordinates and manages more than \$70 million annually in Federal, State, County, and City funds for programs providing shelter, housing, and services to homeless persons in Los Angeles City and County. To achieve the objectives of the program, the Authority has contracted with 13 subrecipients and has allocated program funds in the following manner:

Legal Aid Foundation of Los Angeles ¹	\$10,600,669
Housing Authority of the City of Los Angeles	\$9,540,603
People Assisting the Homeless ²	\$2,453,468
Los Angeles Family Housing	\$1,953,467
Special Services for Groups	\$1,953,467
Remainder to Authority	\$2,386,627
Total program funds allocated to the Authority	\$28,888,301

Audit Objective

The objective of our audit was to determine whether the Department was efficiently and effectively administering the grant funds in compliance with Recovery Act and other applicable requirements. Specifically, we wanted to determine whether the Department had adequate policies and procedures in place to ensure that program funds drawn from HUD's Line of Credit Control System were supported with adequate documentation and its subrecipients were monitored to ensure compliance with all applicable regulations

¹ Contracted with four subrecipients

² Contracted with four subrecipients

RESULTS OF AUDIT

Finding: The Department Did Not Always Efficiently and Effectively Administer Its Program

The Department did not always efficiently and effectively administer its program in compliance with Recovery Act and other applicable requirements. Specifically, it did not ensure that program expenditures were supported with adequate accounting documentation. Further, its policies and procedures were not adequate to ensure that its subrecipients

- Complied with contractual requirements,
- Maintained adequate accounting source documentation, and
- Received adequate monitoring for compliance with Federal requirements.

These conditions occurred because the Department overrelied on the Authority to administer the program and did not ensure that more than \$3 million in reimbursements paid to the Authority for grant expenditures was adequately supported. In addition, the Department did not conduct monitoring of its subrecipients for more than 9 months after program inception. Our review of more than \$400,000 expended by the Authority and two subrecipients did not identify any ineligible expenses. However, the Department's overreliance on the Authority put more than \$3 million in grant funds at unnecessary risk for fraud, waste, and abuse.

The Department Did Not Ensure That Expenditures Were Adequately Supported

The Department reimbursed the Authority more than \$3 million in program funds before obtaining and/or reviewing adequate supporting documentation. We reviewed the Department's written payment/reimbursement policies and procedures and found that the procedures did not fully comply with 24 CFR (Code of Federal Regulations) 85.20(b) (criterion D-F, appendix B) and program requirements (criterion B-C, appendix B). The regulations state that the financial management systems of grantees and subgrantees must maintain records which adequately identify the source and application of funds and those records must be supported by such source documentation as cancelled checks, paid bills, payrolls, and time and attendance records. The Department's procedures state that supporting documentation for administrative and program expenditures will be maintained at the Authority (criterion H-I, appendix B). We asked the Department to provide all supporting documentation for payments made to the Authority for the period October 2009 to May 2010 to determine what documents the Department reviewed before reimbursing the Authority. The Department provided accounting records such as general ledger entries, Integrated Disbursement and Information System reports, and summary sheets from the Authority. However, it was not able to provide source documents to support the accounting records mentioned above and later payments made

to the Authority. Department officials stated that they were familiar with the Federal requirements, but the Department did not collect supporting documentation from the Authority because the Authority administered the entire program. Department officials also stated that they relied on the Authority to review all supporting documentation because they did not have the resources to review every document.

The Department Did Not Ensure That the Authority Maintained Adequate Accounting Documentation

The Department did not ensure that its subrecipient, the Authority, complied with contractual requirements. The Department entered into a Homeless Program services contract with the Authority, which placed the responsibility of administering the program upon the Authority. The contract stipulated that the Department would only reimburse the Authority after receiving an invoice and supporting documentation. The contract defined supporting documentation as payrolls, time cards, payment requisitions, rentals, leases, vouchers, and invoices as shown below.

CITY OF LOS ANGELES
HOMELESS PROGRAM SERVICES CONTRACT

Agreement No. C-116077
Contractor: Los Angeles Homeless Services Authority
Program Title: Homelessness Prevention and Rapid Re-Housing

Contractor's reimbursement for expenses incurred in the performance of this Agreement shall be made only upon acceptance by the City of the Contractor's invoice and supporting documentation as identified herein.

The Contractor shall maintain records by line item for every expenditure incurred directly or indirectly under this Agreement. Expenditures shall be supported by properly executed documentation which includes, but is not limited to, pay rolls, time cards, requisitions for payment, rentals, leases, invoices, vouchers, and any other official documents pertinent to the expenditures. Such records shall be maintained in a file and made available for periodic review by authorized representatives of City, federal and/or State agencies or other source(s) of grant funds awarded to the Contractor. Undocumented Expenditures shall not be paid under this Agreement.

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In addition to the stipulation above, the contract stated, "Contractor maintains records for *every* expenditure incurred which includes time cards, requisitions, payment, rentals, leases, invoices, and any other documents pertinent to expenditures." Therefore, the contract was specific in regard to the identity of the contractor and source documentation requirements.

We asked the Authority to provide all supporting documentation for reimbursements for the period October 2009 to May 2010. The Authority provided us with invoices that were the same as those reviewed at the Department, plus the supporting documentation for \$387,931 in administrative expenses incurred for program administration. However, the Authority was not able to provide source documentation for program expenditures incurred by its subrecipients.

Although the contract clearly stated that the Authority was responsible for maintaining source documents for all program expenditures incurred, the Authority violated the contract by not collecting source documents from its 13 subrecipients. Rather, it collected summary sheets and general ledger detail reports, which it submitted to the Department for reimbursement of expenditures.

The Department stated that it was unaware that the Authority did not collect the accounting source documentation as required. The Department was not aware of this violation because it did not conduct monitoring of its subrecipients, for more than 9 months after program inception and more than \$3 million in grants funds were reimbursed to the Authority. The Department provided a summary of the monitoring it conducted at the Authority, which showed that the Department was concerned that the Authority was not collecting "100 percent" source documentation. A Department official agreed that the risk to Recovery Act funds was high because of the Authority's failure to collect, review, and maintain all supporting documentation.

The Department Did Not Implement Adequate Subrecipient Monitoring Procedures

The Department only had draft subrecipient monitoring policies and procedures, so we reviewed the draft version and found that it was not adequate. The procedures did not fully comply with 24 CFR 85.40(a) (criterion G, appendix B) and program requirements (criterion B-C, appendix B). Regulations state, “Grantees are responsible for managing the day-to-day operations of grant and subgrant activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements...” Further, program requirements state, “Grantees are responsible for monitoring all HPRP [program] activities, including activities that are carried out by a subgrantee...” The Department’s procedures showed that fiscal monitoring included three elements:

- Desk-top review - The Department reviewed, approved, and processed monthly cash requests from the Authority;
- Onsite monitoring of the Authority - The Department reviewed fiscal operations and systems of the Authority, as well as a sample of subrecipient transactions and the backup documentation supporting the costs; and
- Fiscal onsite monitoring of the Authority’s subcontractors - The Department reviewed the subrecipients’ cost allocation plan, internal fiscal controls, personnel costs, nonpersonnel costs, and financial management systems. In addition, it selected a sampling of the subrecipients’ billing requests to the Authority along with the backup documentation supporting each request.

The three elements discussed above were not effective in ensuring that the day-to-day activities of all subrecipients were monitored for compliance with applicable Federal regulations and program requirements. Monthly cash requests submitted by the Authority did not provide information pertaining to the Authority’s subrecipients; they only included a summary of expenditures along with the Authority’s trial balance, cash journal, consolidated statement of revenues and expenses, and personnel position reports. Therefore, the Department’s monitoring procedures were ineffective because the Authority did not have subrecipient backup documentation for the Department to review. Further, the Department’s monitoring procedures were also ineffective because the selection of subrecipients for review was based on the Authority’s risk assessment, rather than one conducted by the Department. Additionally, the Department’s procedures stated that it would monitor one subrecipient per quarter. The grant agreement is for the period August 26, 2009-2012,³ which has 12 quarters. The Authority has 13 subrecipients, but the Department had only reviewed one as of July 2010, which left 12 subrecipients to review in 8 quarters. Therefore, if the Department does not revise its monitoring procedures, not all subrecipients will receive onsite monitoring during the grant term.

³ Includes only the months of September 2009-October 2012.

The Subrecipients We Visited Had Adequate Supporting Documentation

We conducted site visits to three of the Authority's 13 subrecipients and found that there was adequate supporting documentation for \$59,690 in grant expenditures billed to the Authority for the period February through April 2010 from each subrecipient.

We conducted our first site visit at People Assisting the Homeless – Weingart Center Association (Center). We determined that the Center provided services associated with the rapid rehousing portion of the program, specifically housing relocation and stabilization services through case management. Therefore, the majority of program funding was for caseworker salaries. We reviewed the payroll records and found adequate support for \$46,350 in salaries paid. Our second site visit was to Neighborhood Legal Services, which provides services associated with the homelessness prevention portion of the program, specifically legal services through case management. We determined that the majority of program funding was for caseworker salaries. We wanted to review support for actual assistance payments; therefore, we chose not to review the support for salaries at Neighborhood Legal Services. Rather, we visited the Housing Authority of the City of Los Angeles (Housing Authority) to review support for actual housing assistance payments. The Housing Authority received referral packages from the subrecipients that provided rapid re-housing services, called regional coordinating agencies (agencies). The referral packages included verifications from agencies that a client was eligible to receive rental and/or utility assistance. The Housing Authority inspected the habitability of the rental unit selected by the agencies and assessed rent reasonableness, then issued payments to property owners and/or utility companies. We reviewed \$13,340 in rental and utility assistance payments and found adequate supporting documentation for the payments.

Conclusion

We attribute the deficiencies discussed above to the Department's overreliance on the Authority to administer the program. While we did not identify any ineligible expenses, for the \$447,621 that the Department reimbursed to the Authority and two subrecipients, the Department's overreliance on the Authority and lack of adequate monitoring procedures not only put the \$447,621 expended by the Authority and two subrecipients at risk, but also put the remaining \$2.6 million in grant funds at future risk of fraud, waste, and abuse.

Recommendations

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

- 1A. Revise its policies and procedures to ensure that adequate source documentation is reviewed before disbursing Recovery Act funds. In addition, the Department should enforce the Homeless Program services contract to ensure that the Authority collects, reviews, and maintains adequate source documentation from all subrecipients, thereby reducing the risk of fraud, waste, and abuse.
- 1B. Revise its monitoring policies and procedures to ensure that it monitors the day-to-day activities of all subgrantees during the term of the grant agreement to ensure that grant- and subgrant-supported activities comply with applicable Federal requirements.

SCOPE AND METHODOLOGY

We performed our onsite audit work from June 3 to July 20, 2010, at the offices of the Department, the Authority, and three subrecipients, all located in Los Angeles. The audit generally covered the period October 2009 through May 2010. We expanded our audit period as needed to accomplish our objective. We reviewed the Department and four of its subrecipients for compliance with applicable laws and HUD regulations. Our methodology included

- Conducting site visits and interviews with pertinent personnel at HUD, the Department, and four Department subrecipients selected at random in a nonstatistical manner;
- Reviewing the program grant agreement between HUD and the Department;
- Reviewing the contract between the Department and the Authority;
- Reviewing accounting policies and procedures, as well as accounting records of the Department to ensure compliance with Recovery Act regulations;
- Reviewing the Department and Authority monitoring policies and procedures;
- Reviewing the Department's organizational charts;
- Reviewing the Department's payment requests totaling more than \$3 million for the period October 2009 to May 2010 and all available supporting documentation;
- Reviewing the Authority's supporting documentation for \$387,931 in administrative expenses, which was 13 percent of the \$3 million reimbursed by the Department.
- Reviewing two additional subrecipients' supporting documentation for \$59,690 in program expenditures, which was 2 percent of the \$3 million reimbursed by the Department.
- Reviewing applicable laws and regulations, including guidance issued by HUD and Office of Management and Budget circulars;
- Reviewing HUD's and the Authority's monitoring reports;
- Reviewing the Department's single audit reports for years 2007-2009; and
- Reviewing the Department's substantial amendment.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures for the review and/or retention of source documentation for program expenditures and
- Policies and procedures for the monitoring of subrecipients to ensure compliance with all applicable regulations.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The Department did not have adequate accounting policies and procedures to ensure that adequate supporting documentation was reviewed before drawing

- program funds from HUD's Line of Credit Control System and reimbursing its subrecipients, and
- The Department did not have adequate subrecipient monitoring policies and procedures to ensure the subrecipients' compliance with program requirements.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

October 12, 2010

Ms. Tanya Schulze
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

Los Angeles Housing Department Comments on Draft Homeless Prevention and Rapid Re-housing Audit Report

Dear Ms. Schulze,

Thank you for meeting with us on October 7, 2010 to discuss the draft audit report on the City's Homeless Prevention and Rapid Re-housing Program (HPRP). We are submitting our comments and proposed revisions for consideration in the final report.

Comment 1

1. It is the Housing Department's opinion that the finding is overly broad in that it implicates both fiscal and programmatic administration of the program. In the exit conference, auditor [REDACTED] stated that the auditors did not have time to review program performance of the City's HPRP. Thus, we request that the finding be revised to cover only the fiscal and monitoring portions of the program.

Comment 2

2. We request that the following sentences or portions of the draft report be revised or deleted:

- a. Page 6: *"In addition, the Department did not conduct monitoring of its subrecipients until 10 months after program inception."* The Los Angeles Housing Department (LAHD) monitored the Los Angeles Homeless Service Authority (LAHSA), its primary sub recipient, and Special Services for Groups (SSG) in June 2010, 8 months after we began our program. An LAHD accountant spent three days at LAHSA and one day at SSG conducting a thorough fiscal monitoring of the HPRP, including a review of payroll, invoices, bank reconciliations, and other accounting documents. Additionally, LAHD staff spent three days conducting programmatic monitoring of LAHSA and one day at SSG. LAHSA also conducted fiscal monitoring of its five primary subrecipients in November 2009 and again May 2010, which were followed up with written reports to each subcontractor and copied to LAHD.

An Equal Opportunity / Affirmative Action Employer

We request that the number of months after the inception of the program that LAHD conducted monitoring of LAHSA be changed from 10 to 8, and that this section reflect that LASHA had conducted fiscal monitoring of the 5 subrecipients twice.

Comment 3

b. Page 6: *“However, the Department’s overreliance on the Authority put the \$28.9 million in grant funds at unnecessary risk for fraud, waste, and abuse.”* We feel it is excessive to state that the entire grant was put at risk in the first eight months of the program. At the time of the audit, the City had drawn down only approximately \$3 million in HPRP funds. The remaining \$25.9 million was never at risk. As stated above, LAHD conducted on-site fiscal and programmatic monitoring of LAHSA in June 2010 and LAHSA had already conducted on-site monitoring of the five subrecipients twice.

We request that this sentence be deleted.

Comment 4

c. Page 7: *“Department officials believed that the Authority was capable of administering the program with minimal oversight because it coordinated and managed more than \$70 million annually in Federal, State, County, and City funds for programs providing shelter, housing, and services to homeless persons in Los Angeles City and County.”* We can assure you that no LAHD official believes that LAHSA should administer the HPRP or any other program funded by the City with minimal oversight. We are fully cognizant of our oversight responsibility and we take it very seriously. LAHD staff [REDACTED], who oversees HPRP for the City, was directly involved in citing and resolving the serious fiscal problems under a prior LAHSA administration.

We request that this sentence be deleted.

Comment 5

d. Page 7: The draft audit report section titled: *The Department Did Not Ensure that the Authority Maintained Adequate Accounting Documentation.* We agree that additional accounting documentation must be collected from LAHSA and the subrecipients to support monthly cash requests. However, this audit section is critical of the LAHD for not enforcing sections of its contract with LAHSA that appear to be stricter than federal requirements. 24 CFR 85.20 (b)(6) requires accounting records to be supported by source documentation, but it does not state *where* that documentation must be maintained. In the City’s HPRP program, source documentation is maintained and available for review during fiscal monitoring visits at the agency that incurred the expense. During the audit, the source documentation was available for inspection by the auditors who did not uncover any ineligible costs in their review of more than \$400,000 in HPRP expenses.

24 CFR 85.20 (b)(2) requires subgrantees to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. Records are maintained at LAHSA that identify the source and application of funds for the program, albeit not the source documentation kept by agencies that subcontract with LAHSA. These records were reviewed by the auditors.

* Names redacted for privacy reasons.

The contract between LAHD and LAHSA includes many provisions that are not required by HUD. We request that the report limit its finding criteria to only the CFRs and HUD program regulations.

Comment 7

In addition, this section states that the Authority had 16 subrecipients. The Authority has 5 subrecipients and the subrecipients have 7 sub-subrecipients, for a total of 12. The subrecipients are: Legal Aid Foundation of Los Angeles, People Assisting the Homeless, Los Angeles Family Housing, Special Services for Groups (SSG), and the Housing Authority of the City of Los Angeles. The sub-subrecipients are Inner City Law Center, Neighborhood Legal Services, LAMP, New Economics for Women, St Joseph Center, and Weingart Center.

Comment 6

In the organizational chart LAHD provided to the auditors, Public Counsel was included as a subcontractor to PATH. That subcontract and all funds paid under it have since been disallowed, and the agency is no longer part of the HPRP program.

- e. Page 9: *“The onsite monitoring of the Authority was ineffective because the Authority did not have subrecipient backup documentation for the Department to review. Further, fiscal on-site monitoring or monitoring of the Authority’s subrecipients was ineffective because the selection of the sub recipient for review was based on the Authority risk assessment, rather than one conducted by the Department.”* We feel it is extreme for the report to categorically declare our monitoring efforts ineffective. Our monitoring of LAHSA cited their lack of collecting sufficient supporting documentation, which the draft report notes on page 8. Regarding our choice to monitor SSG, we did so not because of LAHSA’s risk assessment, but because when LAHSA monitored them they had several findings related to the program aspects of HPRP. We also had some concerns because of SSG’s program data.

Comment 8

We request that the first sentences related to LAHSA be revised to state that the monitoring was not as effective as it could have been due to the lack of source documentation. We request that the sentence related to SSG be deleted entirely.

Comment 7

- f. Page 9: *“Additionally, the Department’s procedures stated that it would monitor one sub recipient per quarter. The grant agreement is for the period of August 26, 2009-2012, which has 12 quarters. The Authority has 16 subrecipients, but the Department had only reviewed one as of July 2010, which left 15 subrecipients to review in 8 quarters. Therefore, if the Department does not revise its monitoring procedures, almost half of the subrecipients might not receive onsite monitoring during the grant term.”* As discussed above, there are 5 subrecipients and 7 sub-subrecipients, for a total of 12. Our procedures anticipated that we would monitor one or two of the 5 subrecipients each quarter. The remaining 7 sub-subrecipients were to be monitored by LAHSA and/or the subrecipients. Additionally, under LAHSA’s procedures each of the 5 subrecipients are monitored every six months for fiscal compliance. The subrecipients also monitor their sub-subrecipients at least once each year.

Comment 5

Comment 8

We request that this section be revised to reflect the correct number of agencies as 12, which would allow each subrecipient and sub-subrecipient to be monitored at least twice more before the end of HPRP.

- g. Page 10: “*Conclusion*”. We request that this section delete the part that refers to putting \$28.4 million at risk for the same reasons as we stated in 2.b. above.

We agree that both LAHD and LAHSA need to collect additional source documentation to support the monthly cash requests and we will require this back-up for September expenses from both LAHSA and the subrecipients and sub-subrecipients. Additionally, LAHD will monitor all subrecipients at least once each year and either LAHD or LAHSA will monitor the sub-subrecipients once each year, as agreed up in the exit conference. LAHD will monitor LAHSA twice each year. We believe that the additional monitoring along with the collection of documentation will address the concerns of the audit report.

Comment 1

Although we understand that this was primarily a fiscal audit, we would like to convey that LAHD, LAHSA, and the nonprofit agencies have all worked extremely hard to implement a successful HPRP program according to the strict federal regulations related to income and the ability of the clients to sustain their housing on their own after the short-term HPRP assistance ends. As we stated in our exit conference, this has been a hands-on collaborative effort with frequent meetings between LAHD, LAHSA and the agencies to discuss program requirements, client eligibility, and eligible costs, and to review data and assessment the program. As of September 31, 2010 HPRP has re-housed or prevented the eviction of 1,450 households and 2,717 people. Attached for your review are meeting agendas and a revised organizational chart.

We are concerned that the negative tone in the report overshadows the accomplishments of the City’s HPRP, and overstates the risk to the HPRP funds. We ask that you consider our comments and revisions in drafting your final report. If you have questions or would like additional information, please contact Suzette Flynn, Housing Services Director, at 213-808-8932 or at suzette.flynn@lacity.org.

Sincerely,

DOUG GUTHRIE
General Manager

DG:RC:SF

Attachments
1 - HPRP Meeting Agendas
2 - Revised HPRP Organizational Chart

Exhibits Made Available on Request

OIG Evaluation of Auditee Comments

Comment 1 The finding includes the review of internal controls, which included the review of policies and procedures for drawdowns, reimbursements, document collection, monitoring, and program administration. Therefore, we believe the finding is accurately written. However, we did change the title of the finding to state "The Department Did Not Always Efficiently and Effectively Administer Its Program", to show that the Department administered some areas better than others.

Comment 2 We disagree. The grant agreement was signed on September 2, 2009 which is program inception. The Department did not conduct monitoring until June 22, 2010, which is 293 days or 10 months rounded. However, we revised the report to state, "more than 9 months" to more accurately state the length of time.

Comment 3 We agree. We have changed the wording in the report to read, "The Department's overreliance on the Authority put more than \$3 million in grant funds at unnecessary risk for fraud, waste, and abuse."

Comment 4 We disagree. The Department's oversight of the Authority consisted of desk reviews of reimbursement requests which consisted solely of summary reports, as well as, onsite monitoring which did not occur until 9 months after program inception and more than \$3 million had been expended. In our opinion, this level of oversight is minimal; therefore, we have revised the statement in the report to clarify the statement.

Comment 5 We disagree. The 24 CFR 85.20 specifically states, "The financial management systems of other grantees and subgrantees must meet the following standards:"

- 24 CFR 85.20 (b) (2) Accounting records. "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."
- 24 CFR 85.20 (b) (6) Source documentation. "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

The regulation specifically states that grantees (the Department) and subgrantees (all other subrecipients) must maintain accounting records and that those records must contain information pertaining to outlays or expenditures [(b)(2)] and be supported by source documentation [(b)(6)]. Therefore, the Department, as well as its subrecipients, was required to maintain source documentation such as

cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Further, we disagree with excluding the terms of the contract between the Department and the Authority from our evaluation of the program. Since the Department is the grantee, and it contracted with the Authority to administer the program, it was important to evaluate the terms and provisions of the contract to assess how the program was to be administered by the Authority. Our evaluation of the contract between the Department and the Authority was consistent with 24 CFR 85.20 by requiring adequate source documentation to be maintained at the Authority.

The Department provided an organizational chart to us which was used during the audit. The chart shows that the Department has 17 subrecipients. We removed the apparent duplicates (PATH Vehicular Outreach, St. Joseph Center, and Gateways Hospital) and recounted the subrecipients, which resulted in a total of 14 subrecipients to the Department and 13 subrecipients to the Authority.

Chart (made available on request)

Comment 6 We disagree. The statement was under the heading "The Department did not implement adequate monitoring procedures". Thus, the statement was made in regard to monitoring policies and procedures. We reviewed the draft subrecipient monitoring policies and found them to be inadequate because they did not fully comply with 24 CFR 85.40 (a). The Department's procedures showed fiscal monitoring included 3 elements and we found all three elements to be ineffective in ensuring that the day-to-day activities of all subrecipients were monitored to ensure compliance with federal regulations. However, we removed the reference to the one subrecipient that had been monitored and revised some of the wording to clarify that we are discussing policies and procedures, rather than an actual monitoring session.

Comment 7 We disagree. However, we recounted the agencies shown on the organizational chart provided to us during our audit, and removed what appeared to be duplicative agencies (see Comment 5). Our recount showed that the Authority had 13 subrecipients, therefore we revised the report. The Department's draft policies and procedures stated that the Department would monitor one subrecipient per quarter. Therefore, not all subrecipients will receive monitoring if the Department does not revise its monitoring procedures.

Comment 8 We agree. We have changed the wording in the report to read, "The Department's overreliance on the Authority put more than \$3 million in grant funds at unnecessary risk for fraud, waste, and abuse." Further, we commend the Department on its commitment to improve its program administration.

Appendix B

CRITERIA

- A. The Recovery Act became Public Law 111-5 on February 17, 2009. The Recovery Act establishes the Homelessness Prevention Fund. The Homelessness prevention portion of the Recovery Act falls under Title XII Transportation, Housing and Urban Development, and related Agencies.
- B. HUD Federal Register Notice FR-5307-N-01 advised the public of the allocation formula and allocation amounts, the list of grantees, and requirements for the Homelessness Prevention Fund, hereafter referred to as the “Homelessness Prevention and Rapid Re-Housing Program (HPRP),” under Title XII of the Recovery Act.
- C. HUD Federal Register Notice FR-5307-N-01, Other Federal Requirements, Section VII, G. Uniform Administrative Requirements states, “All States, Territories, Urban Counties, and Metropolitan cities receiving funds under HPRP shall be subject to the requirements of 24 CFR part 85.”
- D. Regulations at 24 CFR 85.20(b) state, “The financial management systems of other grantees **and** subgrantees must meet the following standards:”
- E. Regulations at 24 CFR 85.20(b)(2) state, “Grantees **and** subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”
- F. Regulations at 24 CFR 85.20(b)(6) state, “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”
- G. Regulations at 24 CFR 85.40(a) state, “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant **and** subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.”
- H. The Department’s Homelessness Prevention and Rapid Re-Housing Program Policies and Procedures – HPRP Funds Disbursement states, “Monthly cash requests must include required back-up documentation, i.e. trial balance and cash balance reports, accounts payable reports, including aged AP reports, and a payroll register for administration staff,

to support the requested payment of the request will be returned to LAHSA [the Authority].”

- I. The subrecipient contract, section 301, Compensation and Method of Payment, section A 4-5 states:
 4. Contractor’s reimbursement for expenses incurred in the performance of this Agreement shall be made only upon acceptance by the City of the Contractor’s invoice and supporting documentation as identified herein.
 5. The Contractor shall maintain records by the line item for every expenditure incurred directly or indirectly under this Agreement. Expenditure shall be supported by properly executed documentation which includes, but it is not limited to, pay rolls, time cards, requisitions for payment, rental, leases, invoices, vouchers, and any other official documents pertinent to the expenditures. Such records shall be maintained in a file and made available for periodic review by authorized representatives of City, Federal, and/or State agencies or other sources(s) of grants funds awarded to the Contractor. Undocumented expenditures shall not be paid under this Agreement.