Issue Date	October 18, 2011
Audit Report Number	2012-NY-1002

TO: Vincent Hom, Director, Community Planning and Development, 2ADM1

//SIGNED//

FROM: Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The City of New York, NY, Charged Questionable Expenditures to Its Homelessness Prevention and Rapid Re-Housing Program

HIGHLIGHTS

What We Audited and Why

We audited the City of New York, NY's (City) administration of its Homelessness Prevention and Rapid Re-Housing Program (HPRP) funded under the American Recovery and Reinvestment Act of 2009. We selected the City for review based upon a recommendation from the Director of the U.S. Department of Housing and Urban Development's (HUD) New York City Office of Community Planning and Development and because it was the largest grantee in New York State. The objectives of the audit were to determine whether City officials (1) disbursed HPRP funds efficiently and effectively in accordance with HUD and other applicable requirements; (2) had a financial management system in place to adequately safeguard the funds; and (3) adequately monitored their subgrantees to ensure compliance with Recovery Act requirements, HPRP guidelines, and other applicable HUD regulations.

What We Found

City officials did not always follow applicable HUD regulations in administering the City's HPRP. Specifically, they (1) disbursed HPRP funds for questionable rental assistance payments and salary expenditures, and (2) did not adequately monitor subgrantees. As a result, program funds were used for ineligible rental assistance and unsupported administrative salaries. Consequently, City officials could not assure HUD that all HPRP disbursements complied with HUD rules and

regulations. We attribute these deficiencies to City officials' failure to establish adequate controls over disbursements and monitoring of subgrantees to ensure compliance with regulations.

What We Recommend

We recommend that the Director of HUD's New York City Office of Community Planning and Development instruct City officials to (1) reimburse from non-Federal funds $93,436 for ineligible costs pertaining to questionable rental assistance, (2) provide documentation to justify $329,937 in unsupported salary expenses, and (3) strengthen subgrantee monitoring procedures to ensure that all policies and procedures are implemented, thus complying with HPRP 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 discussed the results of the review during the audit, provided a copy of the draft report to City officials, and requested their comments on August 18, 2011. City officials provided their written comments on September 15, 2011. We held an exit conference on September 16, 2011, at which time City officials generally disagreed with the finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Homelessness Prevention and Rapid Re-Housing Program (HPRP) is a new housing program under the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development. It was funded on February 17, 2009, under the American Recovery and Reinvestment Act of 2009, which provided $1.5 billion in funding. The purpose of HPRP 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 rehouse 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. Eligible program activities are intended to target the following two populations of persons facing housing instability:

- 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.

- 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.

The City of New York was awarded $74 million in HPRP funds in July of 2009, and it is the largest HPRP grant recipient in New York State. The City's HPRP grant funds are administered by the New York City Department of Homeless Services, which uses 23 subgrantees to provide services to HPRP participants. As of July 25, 2011, the Department has disbursed a total of $47.1 million in HPRP funds.

The mission of the Department is to prevent and address homelessness in New York City. In collaboration with other public agencies and not-for-profit partners in the private sector, the Department works to prevent homelessness before it occurs, reduces street homelessness, and assists residents transitioning from shelters into appropriate permanent housing.

The objectives of the audit were to determine whether City officials (1) disbursed HPRP funds efficiently and effectively in accordance with HUD and other applicable requirements; (2) had a financial management system in place to adequately safeguard the funds; and (3) adequately monitored subgrantees to ensure compliance with Recovery Act requirements, HPRP guidelines, and other applicable HUD regulations.

RESULTS OF AUDIT

Finding: City Officials Charged Questionable Expenditures to the City's Homelessness Prevention and Rapid Re-Housing Program

City officials charged questionable rental assistance expenditures and administrative salaries to its HPRP. Specifically, they (1) disbursed $93,436 for excess rental arrears and payments issued directly to participants, (2) made disbursements of $329,937 for unsupported administrative salary expenses, and (3) did not adequately monitor their subgrantees. Consequently, there was no assurance that HPRP funds were disbursed in accordance with HUD and other applicable requirements. We attribute these deficiencies to City officials' failure to establish adequate controls over disbursements and subgrantee monitoring policies and procedures. As a result, $93,436 in ineligible rental assistance payments and $329,937 in unsupported salary expenses were charged to the program, and subgrantees were not adequately monitored.

The Department of Homeless Services executed an agreement with HELP Social Service Corporation (HELP) to provide homeless prevention services to those individuals and families at imminent risk of homelessness and who were likely to seek shelter services from the Department and assist them in remaining stably housed or transitioning successfully back to their community without experiencing homelessness.

During the audit period, August 1, 2009, to December 31, 2010, weaknesses in the City's controls over disbursements and monitoring policies and procedures were noted as described below.

Ineligible Rental Assistance

During the audit period, City officials made disbursements to HELP for ineligible items totaling $93,436. Specifically, $59,430 was disbursed for rental arrears in excess of the 6-month eligibility requirement, and $34,006 was disbursed for payments issued directly to program participants.

HUD's HPRP Notice FR-5307-N-01, dated March 19, 2009, section IV (A), provides that rental assistance may be used to pay up to 6 months of rental arrears for eligible program participants. The program was intended to provide short- to medium-term rental assistance to HPRP participants for no more than 18 months. Rental arrears or back rent may be paid if the payment enables the program participant to remain in the housing unit for which the arrears are being paid.

A review of the requests for financial assistance, checks issued, and participant leases revealed that 30 of 94 participants were provided $59,430 in rental

assistance to pay for rental arrears in excess of the 6-month eligibility requirement. City officials stated that the payments represented short- or medium-term rental assistance but could not provide documentation to support this assertion. This condition occurred because City officials had weaknesses in their controls over disbursements that prevented them from obtaining supporting documents before making payments. As a result, $59,430 in HPRP funds was expended for rental arrears in excess of the 6-month eligibility requirement and was, therefore, ineligible.

Further review of disbursement controls revealed that documentation to support subgrantee invoices was not reviewed or monitored by City officials. This deficiency was evident when City officials could not provide requested documentation to support disbursements during the review. City officials stated that they would have to contact the subgrantees to obtain the information requested and that any information provided had not been reviewed by City officials. According to the City's procedures, the subgrantee was required to submit a monthly bill to the City for each month that services were provided, including a certification made by the designated financial officer of the subgrantee, attesting to the accuracy of the bill and that supporting documents were in the files of the subgrantee.

In addition, HELP issued checks directly to 21 participants, totaling $34,006 for the Work Advantage Savers program. The Work Advantage Savers program is a New York City program that provides rental support for 1 to 2 years to help domestic violence and homeless shelter residents obtain permanent housing. HPRP Notice FR-5307-N-01, dated March 19, 2009, section IV(B)(3), provides that HPRP funds used to support program participants must be issued directly to the appropriate third party, such as the landlord or utility company, and in no case are funds eligible to be issued directly to program participants. City officials stated that the Work Advantage Savers program was funded by the City and should not have been paid with HPRP funds. However, since HPRP funds were issued directly to 21 participants for the Work Advantage Savers program, which was not an activity under the HPRP, this expense of $34,006 was ineligible and should be repaid with non-Federal funds and used for other eligible HPRP priorities. This deficiency occurred due to City officials' failure to review the supporting invoice before disbursing HPRP funds to the subgrantee.

Unsupported Salary Expenses

A total of $329,937 in salary expenses was charged to HPRP for 30 HELP employees for the period June through September 2010 without adequate support. The salaries charged to the HPRP grant included the program director, program assistant, case manager, and case manager supervisor. However, HELP officials could not provide a basis for the salaries charged to the HPRP grant. Further, the officials could not provide adequate personnel activity reports or other supporting

documentation to substantiate that salary costs charged were allowable HPRP expenses. HELP officials stated that the salary costs charged were based on the approved budget provided by the Department of Homeless Services and not actual expenses. Office of Management and Budget (OMB) Circular A-87, attachment B, requires that when employees work on multiple activities, a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation. Consequently, since this information was not provided, City officials could not assure HUD that the $329,937 in unsupported salary expenses was used for HPRP grant expenses. This deficiency occurred because of weaknesses in the City's monitoring procedures, which did not require a review of documentation to support subgrantee invoices.

Inadequate Monitoring of Subgrantees

City officials had inadequate monitoring procedures for the City's subgrantees. They made disbursements to subgrantees without a review of supporting documentation for invoices provided by the subgrantees. Specifically, the subgrantees submitted monthly invoices, including a certification signed by their financial officer, and City officials paid the invoice. No further review of supporting documents, such as general ledgers, canceled checks, paid vendor invoices, and other source documents, was conducted. According to HUD HPRP Notice FR-5307-N-01, dated March 19, 2009, section V(I), grantees are responsible for monitoring all HPRP activities carried out by a subgrantee to ensure that program requirements are met. As a result of these inadequate monitoring procedures, City officials could not assure HUD that HPRP funds disbursed were for eligible expenditures and were in accordance with HUD rules and regulations. This deficiency occurred because of weaknesses in the City's monitoring policies and procedures, which allowed approval of monthly subgrantee invoices without a review of source or supporting documents to substantiate the costs billed.

According to City officials, Independent Public Accountant (IPA) firms were contracted to perform monitoring reviews for each of the subgrantees annually as part of the City's compliance with the single audit requirement. However, as of September 16, 2011, a finalized audit report had not been issued; thus, city officials have no assurance as to whether expenditures to date are eligible and proper. City officials should have developed their own procedures for monitoring their subgrantees. This lack of adequate monitoring exhibited noncompliance with HPRP Notice FR-5307-N-01, section V(I), Monitoring, and placed HPRP funds at risk of being used for expenses that were not eligible and in accordance with HUD rules and regulations.

Conclusion

City officials charged questionable rental assistance expenditures and unsupported salaries to the City's HPRP. Specifically, they made disbursements of $93,436 for ineligible items, consisting of $59,430 related to payments for rental arrears over the 6-month eligibility requirement, $34,006 for payments issued directly to participants, and $329,937 in unsupported salary costs. These deficencies occurred because City officials had weaknesses in their controls over disbursements and subgrantee monitoring policies and procedures. As a result, $93,436 was disbursed for ineligible items, and $329,937 was disbursed for unsupported salary costs, which could have been used for other HPRP priorites.

Recommendations

We recommend that the Director of HUD's New York City Office of Community Planning and Development instruct City officials to

1A. Reimburse from non-Federal funds $93,436 for ineligible costs charged to HPRP; specifically, $59,430 related to payments for rental arrears over the 6-month eligibility requirement and $34,006 for payments issued directly to participants.

1B. Provide documentation to justify the $329,937 in unsupported salary costs incurred between June and September 2010. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.

1C. Establish and implement adequate controls and procedures to ensure that subgrantees are monitored in compliance with all applicable requirements.

1D. Develop a cost allocation plan for future salary costs charged to the program to ensure compliance with OMB Circular A-87, attachment B.

1E. Strengthen controls over disbursements to ensure that all costs charged to the program are eligible and adequately supported with source documentation in compliance with applicable requirements.

SCOPE AND METHODOLOGY

We performed onsite audit work at the offices of the New York City Department of Homeless Services, located at 33 Beaver Street, New York, NY, between February and June 2011. The audit scope covered the period August 1, 2009, through December 31, 2010, and was expanded when necessary. We relied in part on computer-processed data primarily for obtaining background information on the City's expenditure of HPRP funds. We performed a minimal level of testing and found the data to be adequate for our purposes.

To accomplish the objectives, we reviewed relevant HUD regulations, program notices, grant agreements between the City and HUD, and the agreements between the City and its subgrantees. In addition, we reviewed accounting policies and procedures and accounting records to test for compliance with HUD rules and regulations. We conducted interviews with HUD officials to obtain an understanding of HUD's concerns with the City's administration of its program and interviewed key personnel responsible for the administration of the City's HPRP. Further, we reviewed the City's audited financial statements for fiscal year 2010 and tested disbursements selected to ensure compliance with HUD regulations.

We selected a non-statistical sample of disbursements made to the City's subgrantees. The universe of disbursements included 24 voucher payments for the period ending December 24, 2010. We selected every second voucher payment over $250,000 until the selection consisted of 3 voucher payments or 10 percent in total. We tested 3 of 24 voucher payments, which amounted to $1.97 million, or 20 percent of the total drawdown of $9.76 million to test for compliance with the HPRP notice, HUD rules and regulations, and other Federal guidelines.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

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 objectives:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- City officials did not have adequate controls over compliance with laws and regulations, as well as with safeguarding resources, when they did not always comply with HUD regulations while disbursing program funds and monitoring program subgrantees to ensure that adequate supporting documents were obtained before making payments (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$93,436	
1B		$329,937

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.

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 the 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

Department of Homeless Services

Seth Diamond
Commissioner

Fran S. Winter
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Commissioner

33 Beaver Street
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September 14, 2011

BY HAND
Mr. Edgar Moore
Regional Inspector General for Audit

U.S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza
New York

Re: DHS' Response to Audit Report on the Monitoring of the Agency's Administration of its Homelessness Prevention and Rapid Re-Housing Program

Dear Mr. Moore:

This letter is the New York City Department of Homeless Services' ("DHS" or the "Agency") response to the U.S. Department of Housing and Urban Development's (HUD) Office of the Inspector General's (OIG) Draft Audit Report dated August 18, 2011 ("Draft Report"), concerning DHS' administration of its Homelessness Prevention and Rapid Re-Housing ("HPRP") Program.

I. INTRODUCTION

Comment 1

The City of New York entered into a Grant Agreement with HUD for the HPRP Program in the amount of $73,929,729 on August 1, 2009. That Agreement required expenditures of HPRP Program funds to be in accordance with the provisions of the Homelessness Prevention Fund of the American Recovery and Reinvestment Act ("ARRA"). Under the Agreement, the City, with DHS as the administrator of the grant, is responsible for "ensuring that each entity that administers all or a portion of the [City's] HPRP grant funds or receives all or a portion of the [City's] HPRP grant funds to carry out HPRP activities fully complies with the HPRP requirements." (City of New York - HUD Grant Agreement at 1). The purpose of the HPRP Program is to provide homelessness prevention assistance to households who would otherwise become homeless and to provide assistance to rapidly re-house persons who are homeless. The guidelines, eligibility requirements and limitations of the HPRP Program are found in the HUD HPRP Notice FR-5307- N-01, issued March 19, 2009 (the "HPRP Notice").

On February 9, 2011, auditors from the HUD-OIG office (the "Auditors") held an Entrance Conference with DHS to begin an audit of the Agency's

Ref to OIG Evaluation **Auditee Comments**

Comment 1 administration of the HPRP Program during the period August 1, 2009 through December 31, 2010. On August 18, 2011, following months of onsite audit work and review of relevant documentation, the Auditors issued a Draft Report finding that "City Officials Charged Questionable Expenditures to the City's Homelessness Prevention and Rapid Re-Housing Program." (Draft Report at 5).

Following is (1) a summary of DHS' responses to the Draft Report; (2) a brief outline of the HPRP Program; and (3) the Agency's detailed response to each of the Report's recommendations and the findings on which they are based.

II. EXECUTIVE SUMMARY

Comment 2 The Draft Report concludes that the City "charged questionable expenditures to the City's [HPRP] Program." (Draft Report at 5). This conclusion is based on the finding that (1) a DHS provider disbursed $93,436 for "excess rental arrears and payments issued directly to participants"; (2) a DHS provider made disbursements of $329,937 for "unsupported administrative salary expenses"; and (3) DHS "did not adequately monitor their subgrantees." *(Id.)* The Draft Report attributes these "deficiencies" to the City's failure to establish "adequate controls over disbursements and subgrantee monitoring policies and procedures." *(Id.)* The Auditors therefore recommend that the City reimburse from non-HPRP funds $93,436 of allegedly ineligible costs relating to alleged rental arrears and direct payments to clients, provide documentation to support $329,937 in allegedly unsupported salary expenses, and strengthen subgrantee monitoring procedures to ensure compliance with HPRP requirements.

First, the Draft Report finds that HPRP Provider HELP USA ("HELP") improperly disbursed $59,430 for rental arrears in excess of the HPRP Notice requirement of a 6-month limitation on such payments. However, the identified payments are *not* rental arrears; rather, they are short and/ or medium term rental assistance payments to eligible HPRP clients made pursuant to payment plan agreements with HPRP clients and their landlords. Rental assistance, unlike rental arrears, may be paid up to eighteen (18) months. (HPRP Notice Section IV(A)(1)(a)(1)). As discussed in detail below, the Draft Report further finds —incorrectly — that DHS did not provide documentation demonstrating that these payments were for rental assistance.

Second, the Draft Report finds that HELP improperly disbursed $34,006 for Advantage Savers payments directly to HPRP clients in contravention of the HPRP Notice. To the extent this did, in fact, occur, it was not the result of any failure on DHS' part to adequately train or monitor HELP or other subgrantees. DHS made clear through its trainings of and subsequent communications with HPRP providers that Advantage Savers payments were not eligible for HPRP funding. Moreover, the Agency provided the Auditors with training material and communications with HPRP providers demonstrating this. HELP will submit documentation substantiating payment from non-HPRP funding or DHS will recoup the expenditures from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

Third, the Draft Report finds that HELP charged $329,937 in salary expenses for 30 HELP employees for the period June through September 2010 without adequate supporting documentation. DHS also made clear to its providers through HPRP contract amendments and

Comment 2 billing memoranda that provider staff must maintain separate ledgers for HPRP and non-HPRP funding. HELP will submit documentation substantiating payment proper salary expenditures or DHS will recoup the expenditures from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

Finally, the Draft Report finds that the Agency's procedures for monitoring its HPRP providers were inadequate and that the Agency made disbursements to subgantees without a review of supporting documentation for provider invoices. Contrary to this finding, DHS has in place multiple quality assurance controls in the form of robust training, monitoring and auditing processes, which ensure that its subgrantees' expenditures are appropriate and properly supported. As discussed in greater detail below, the Agency has provided significant training to all of its HPRP providers, performs yearly risk assessments of its providers to monitor and identify problem areas with respect to, among other things, documentation of client eligibility and provision of services, and maintenance of complete and accurate case files. DHS further requires all monthly invoices be accompanied by a signed Certification attesting to the validity of the expenditures and that providers maintain all supporting documentation for subsequent audits. In addition, consistent with the Agency's regular audit protocols of auditing DHS contracts with its human services providers, DHS has assigned two of its contracted Certified Public Accountant ("CPA") firms to audit the financial records and expense documentation of all of its HPRP providers, including HELP. These audits are in various stages of completion and the final audit reports resulting from these audits will be shared with HUD as soon as they are completed. Should these audits identify ineligible or improper expenditures; the provider will reimburse the Agency for those amounts, pursuant to explicit language in their contracts of their obligation to do so.

III. HPRP OVERVIEW

A. Programs

Comment 2 As stated above, HUD awarded DHS $73,929,720 for its administration of the HPRP Program. Pursuant to HUD guidelines, DHS must spend 60% of the funding within the first two years of the Program. To carry out the HPRP Program, DHS works with 22 providers carrying out 24 HPRP programs in four basic areas: Homebase homelessness prevention program, Anti-Eviction Legal Services, Mobile Rapid Re-Housing Assistance and Outreach/Drop-in/Street Solutions (collectively, "HPRP Providers").[1] Each of these programs is briefly described below:

- **Homebase:** The Homebase program is a network of neighborhood-based centers throughout the City's five boroughs, which are operated through contracts with eight not-for- profit social service providers. Homebase prevents homelessness by screening and identifying households at risk of entering shelter and provides emergency case management services, including housing location, financial education, legal services, mediation, budgeting, household repairs, and assistance in obtaining work support benefits. Homebase providers offer both short and medium-term, flexible financial

[1] DHS staff and other City agencies (DYCD, DOHMH and DFTA) also carry out HPRP activities but such activities were not part of the present audit.

Comment 2

assistance so that clients can maintain or secure stable housing. Homebase also provides diversion and rapid re-housing services, which include a mix of short- and long term housing options and financial assistance, to homeless New Yorkers to assist them in returning to the community. Homebase assesses the strengths of each client to identify the resources that will best help them to obtain or retain permanent housing without entering the shelter system.

- **Legal Services**: Not–for–profit organizations across the City provide comprehensive legal services to prevent at-risk households from becoming homeless due to eviction and entering shelter as a result. Services may include: preparation and filing of required court papers, negotiations with landlords, and representation in administrative or court proceedings related to tenant/landlord matters and housing issues.

- **REAP Mobile Rapid Re- Housing:** The REAP program is designed to assist homeless families with children move out of shelter and into permanent housing as rapidly as possible. REAP works to mitigate housing barriers, to identify housing options, to advocate with brokers and landlords, and to assist in the registration and inspection of apartments to facilitate the move out of families who exit shelter with a rental subsidy.

- **Outreach/Drop-in/Street Solutions:** DHS contracts with non-profit organizations to provide outreach and housing placement services to persons who are street homeless. These programs operate 24 hours a day/7 days a week. Outreach services are focused on the placement of individuals into supportive housing and other alternatives to shelter. The path toward such housing begins with canvassing the streets for individuals at risk, engaging homeless individuals, and providing them with emergency or crisis intervention services, case management and benefits advocacy.

  DHS also contracts with drop-in centers, which act as housing hubs throughout the City to rapidly re-house street homeless individuals unwilling or reluctant to enter the City's shelter system. The primary mission of a drop-in center is to help street homeless clients move to permanent housing. Staff members conduct an initial HPRP eligibility assessment that entails, among other things, verification of housing status and income. They also develop an individualized housing service plan for each client and provide a range of services to assist clients in obtaining housing, such as crisis intervention services, case management, medical and mental health services and benefits advocacy.

B. DHS-HPRP Provider Contracts: Relevant Provisions

All of DHS' HPRP Provider contracts contain HPRP-required provisions, including provisions concerning funding, eligible activities and monitoring. ("Contract Amendments"), Attachment A of the Contract Amendment includes the following relevant provisions:

- Inspections and audit of accounts and records. All books of account and records relating to this Contract shall be subject to inspection and audit by the City, the Federal Government, or their designees. (Id. at Attachment A (I)(b))

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- Inspections. The City and the Federal Government shall have the right to inspect the work and activities of the Contractor under this Contract at such time and in such manner as they shall deem appropriate. (Id. at Attachment (A(I)(f))

Comment 2 Attachment C of the Contract Amendment details eligible HPRP participants and activities. This section states, in pertinent part:

- Financial Assistance. Grantees and contractors must not make payments directly to program participants, but only to third parties, such as landlords or utility companies. (Id. at Attachment C(II)(A))

- Rental Assistance is an eligible activity, with "Short–term Rental Assistance" not to exceed rental costs accrued over a period of 3 months, and with "Medium-term Rental Assistance" not to exceed rental costs accrued over a period of 4 to 18 months. (Id. at Attachment C(II)(A)(1)(b)-(c))

- 18 Month Cap on Assistance . . . . [N]o program participant may receive more than 18 months of any kind of HPRP assistance under HPRP. (Id. at Attachment C(II)(A)(1)(d))

- Rent Arrears. (i) Rental assistance may also be used to pay up to 6 months of rental arrears for eligible program participants. (ii) Rental arrears may be paid if the payment enables the program participant to remain in the housing unit for which the arrears are being paid or move to another unit. (Id. at Attachment C(II)(A)(1)(f))

Moreover, all the HPRP Provider contracts state:

- [Section 3.4] Within thirty (30) days after the end of each calendar month Contractor shall submit to the Department, an invoice, in duplicate, setting forth its charges for the services performed during the preceding month together with such documentation and justification of such charges, in such form as the Department may reasonably request to substantiate the City's obligations to make payment under this Agreement. In the event that Contractor cannot substantiate any portion of said request for payment ("Disputed Amount") to the Department's satisfaction, the Department shall have the right to deduct from the request for payment an amount equal to said Disputed Amount.

- [Section 4.13] The Department may, at its option, withhold for the purposes of set-off any monies over to the Contractor under this Agreement up to the amount of any disallowances or questioned costs resulting from any audits of the Contractor with regard to this Agreement or any other Agreement between the parties hereto, including any Agreement for a term commencing prior to the commencement date of this Agreement.

C. Training and Monitoring of HPRP Providers

In order to ensure the efficient and effective disbursement of HPRP funds for eligible HPRP activities, DHS provided and continues to provide its HPRP Providers with comprehensive

Ref to OIG Evaluation **Auditee Comments**

Comment 2 trainings on the HPRP Program and its various requirements. These trainings included seminars at DHS, onsite work at providers' headquarters, retreats, refresher courses, and substantial written materials and guidance. The Agency commenced its training program soon after the signing of the Grant Agreement and training on a variety of topics has continued to date. As an example, DHS provided trainings on the following topics to its HPRP Homebase Providers:

DATE	TOPIC
6/24/09 -6/25/09 2009	Regional HPRP Training
8/26/09	Provider Meeting: HPRP Eligible Activities and Requirements
9/24/09	Budget and Monthly Billing Training
10/1/09	HPRP Retreat, Full Day
12/2/09	Provider Meeting: Documenting HPRP Eligibility/HPRP Desk Guide
12/15/09	HPRP Desk Guide
1/27/10	Provider Meeting: Financial Assistance Policies and Procedures
2/1/10	FY10: Funding Requirements, Internal Controls, Risk Assessment and Budget Modification
2/3/10 – 3/3/10	Rapid Re-housing Training Series
3/9/10	HUD HPRP Webinar Series Announcement
3/11/10 - 4/2/11	Provider Site Visits: Risk Assessments and On-site Technical Assistance
3/24/10	Provider Meeting: HUD Revisions to HPRP Eligibility Documents
5/19/10	Revised HPRP Desk Guide
6/10/10	Budget and Monthly Billing Training
6/23/10	Revised Financial Assistance Policies and Procedures
7/12/10 - 8/23/10	On-Site Program HPRP Trainings & On-Site Technical Assistance
9/13/10 - 9/17/10	Database Training and User Guide
2/2/11 - 2/10/11	Provider Site Visits: Risk Assessments and On-site Technical Assistance
2/16/11	Provider Meeting: HPRP Summary of Risk Assessments and Best Practices

In addition to this comprehensive training, DHS staff also conducts yearly risk assessments of its HPRP Providers to assess HPRP Program compliance. If, in the course of the risk assessments conducted onsite with the Provider, DHS discovered issues with the Provider's application of the HPRP Program, DHS required the Provider to develop and submit a Corrective Action Plan, which became the starting point for the subsequent Risk Assessment. Risk Assessments and Corrective Action Plans for all Homebase and Legal Services providers were given to and discussed with the Auditors during their review.

Finally, and as discussed in greater detail below (Section IV(4)), DHS utilized the contracts it had with two independent accounting firms ("CPA firms") to provide for the financial auditing of

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Comment 2 DHS' HPRP Providers. These audits began in February 2011 and the CPA firms are finalizing reports for many of the Providers at this time.

IV. AUDIT RESPONSES

The Auditors specifically audited three DHS HPRP providers: HELP, CAMBA and Partnership for the Homeless. Notably, the Auditors had no adverse findings with respect to CAMBA or Partnership, only as to HELP. DHS provides the following responses to Auditors' findings.

A. HELP's Rental Assistance Payments

Comment 3 The Draft Report finds that HELP made $59,430 in payments to HPRP-eligible clients for rental arrears in excess of HPRP's 6-month rental arrears limitation. However, the payments identified by the Auditors were not rental arrears; to the contrary, they were ongoing short and/ or medium term rental assistance payments not subject to the 6-month limitation. Unlike rental arrears, these payments were not for past due rent obligations that the client incurred *prior to* HPRP enrollment that resulted in eviction proceedings or is prohibiting Homebase from relocating the client to more appropriate housing. (see HUD HPRP FAQ available at http://www.hudhre.info/index.cfm?do=viewFaqById&faqID=411) ("rental assistance may also be used to pay up to 6 months of rental arrears for eligible program participants facing eviction for non-payment of rent if the payment enables the program participant to remain in the housing unit for which the arrears are being paid").

Case record documentation conclusively establishes that the $59,430 in payments was, in fact, short and/ or medium term rental assistance -– an eligible HPRP activity. As was explained to the Auditors at the Preliminary Exit Conference, it has been DHS' experience that providing rental assistance prior to a client's demonstrated compliance with program requirements results in poor outcomes (e.g., shelter entry). Oftentimes, when DHS provided rental assistance at this juncture, it found that clients disengaged from the program, by rejecting services intended to address the underlining issues that resulted in their housing crisis. Consequently, DHS provides rental assistance payments after demonstrated compliance in order to foster such cooperation, provide incentives for clients to be good stewards of public resources and enhance positive outcomes for the households served. Indeed, according to the HUD guidance entitled "Designing and Delivering HPRP Financial Assistance": "Flexibility is a hallmark of HPRP. HUD permits – even encourages – grantees to consider a broad range of rental assistance program design options." (Available at http://www.hudhre.info/documenst/HPRP_FinancialAssistance.pdf).

Consistent with this philosophy, in order to preserve a client's permanent housing, HPRP Homebase Providers and the client's landlord agree that Homebase will pay a portion of the client's rent upon that client's compliance with a housing stabilization service plan developed by Homebase and agreed to by the client. Pursuant to such agreements, Homebase either makes rental assistance payments immediately following the client's contribution towards rent for a given month, or makes aggregate rental payments after several months upon completion of the client's service plan. That these payments are for rental assistance and not rental arrears is further evidenced by the fact that landlords consider payments pursuant to clients' housing

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Comment 3 stabilization service plans to be ongoing rental assistance payments, and not payments for arrears.

HELP initiated these rental assistance payments by entering into written agreements with clients stating that "HELP USA rent assistance will be offered to you in increments of 3 months, as long as you continue to be eligible for Homebase, and remain in full compliance with the program. Your case will be reassessed at the conclusion of each subsidy period for continued assistance." In City Fiscal Year 2010[2], HELP entered into oral agreements with clients' landlords concerning these rental assistance payments and documented these agreements in its database. In CFY11, HPRP Providers utilized written agreements to document these payments. Support for this type of agreement is found in the HPRP Notice itself, which states that "Grantees may require program participants to share in the cost of rent, utilities, security and utility deposits, moving, hotel or motel, and other expenses as a condition of receiving HPRP financial assistance." (HPRP Notice Section IV (A) (2)).

All of the questioned payments made by HELP are short and/ or medium-term rental assistance, as the initial Provider request to make the rental assistance payment postdates the client's entry into the HPRP Program and predates the relevant rental period. The clearly distinguishes these payments from rental arrears. This is clearly supported by a HUD HPRP FAQ answer which states that "For one-time payment of rental arrears … the start date in the Financial Assistance Provided record **must** correspond to the day the Financial Assistance was approved. The end date should be identical to the start date." (Available at http:// www.hudhre.info/index.cfm?do=viewFaqByID&faqID=751) (emphasis added).

With respect to the Auditor' findings, DHS meticulously reviewed the questioned payments and **in each and every case** identified the payments not as rental arrears but as ongoing short and/ or medium term rental assistance. DHS created a spreadsheet describing the dates of the rental assistance requests and rental assistance payments and provided it to the Auditors at a meeting on June 30, 2011 along with a written description of the above rental assistance policy. However, as the finding remained in the Draft Report, DHS now offers the following case summaries, supported by the documentation in each client's case record and in the HELP database, for each of HELP's ongoing rental assistance payments that the Auditors have questioned.

Notably, the evidence demonstrating that the questioned payments are indeed rental assistance payments consists of the very same documentation reviewed by the Auditors (i.e., HELP's database and client file) and is included in the DHS spreadsheet referenced above. In each and every case below, the client had enrolled with Homebase **prior** to any requests for financial assistance having being made, and the financial assistance request **always** predated the rental period in question. Moreover, in all but one of the cases below, HELP had diverted the client from entering shelter and had placed the client into permanent housing **prior** to making any rental assistance payment. And in all cases, HELP and the client had entered into a written agreement and HELP and the client's landlord had entered into an agreement to pay ongoing rental assistance contingent upon both the client's continued eligibility and participation in the

[2] City Fiscal Year 2010 began on July 1, 2009 and ended on June 30, 2010.

Comment 3 HELP Homebase program and payment of a portion of the monthly rent.

1. **A.T.** enrolled with Homebase on April 16, 2009. The specific payment cited as an arrear by Auditors for this case covered May 2010.[3] On January 26, 2010, HELP submitted an initial financial assistance request for months March-May 2010.[4] HELP submitted a request to proceed on May 6, 2010. And on May 27, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

2. **J.E.** enrolled with Homebase on July 23, 2008. The specific payment cited as an arrear by the Auditors or this case covered May 2010. On September 15, 2009, HELP submitted an initial financial assistance request for months March-May 2010. HELP submitted a request to proceed on May 12, 2010. And on May 16, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.[5]

3. **S.S.** enrolled with Homebase on June 8, 2009. The specific payment cited as an arrear by the Auditors on this case covered June 2010. On June 9, 2009, HELP submitted an initial financial assistance request for June 2010. HELP submitted a request to proceed on June 6, 2010. And on June 16, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

4. **J.G.** enrolled with Homebase on April 2, 2009. The specific payment cited as arrear by the Auditors for this case covered May to June 2010. On Nov. 11, 2010, HELP submitted an initial financial assistance request for months March-May 2010. HELP submitted a request to proceed on May 25, 2010. And on June 3, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on June 24, 2010, HELP submitted an initial financial assistance request for

[3] The documentation the Auditors provided DHS describing the disallowed payments did not include the month to which the disallowed payment referred. Consequently, DHS assumed that the Auditors disallowed the payment of any rental assistance payment past six (6) months, as the Auditors had assumed these payment to be rental arrears and the HPRP Notice limits rental arrears payment to six (6) months.

[4] The "initial financial assistance request date" demonstrates a consultation with the client, where the client and the case manager discuss the provision of ongoing rental assistance conditioned on the client's compliance with Homebase requirements. The case manager drafts the financial assistance justification and requests/ collects required paperwork from the client and/or landlord. Homebase approves the rental assistance payment only upon the client meeting the terms of the agreement, as verified by Homebase submitting a "request to proceed." Because of the structure of these agreements, payments would necessarily follow the completion of a multiple-month rental period within which the household would need to meet the terms of its agreement.

[5] HELP mistakenly categorized this payment in its database as "rental arrears;" however, as evident by the summaries and in all other HELP documents in the client file, this financial assistance payment constitutes short/medium term rental assistance. This mistake in categorization is also true for clients J.E., J.G., T.V., V.C. and S.C.

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June 2010. HELP submitted a request to proceed on June 30, 2010. And on July 14, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

5. **B.P.** enrolled with Homebase on July 31, 2008. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. On May 17, 2010, HELP submitted an initial financial assistance request for months April- June 2010. HELP submitted a request to proceed on June 23, 2010. And on June 23, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

6. **C.H.** enrolled with Homebase on April, 2005 (diverted October 10, 2008). The specific payment cited as an arrear by the Auditors for this case covered June 2010. On May 26, 2010, HELP submitted an initial financial assistance request for June 2010. HELP submitted a request to proceed on May 26, 2010. And on June 3, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

7. **T.V.** enrolled with Homebase on November 3, 2008. The specific payment cited as arrears by the Auditors for this case covered April to June 2010. On May 12, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on May 12, 2010. And on July 13, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

8. **K.R.** enrolled with Homebase on May 13, 2009. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. On May 10, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 11, 2010. And on June 22, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

9. **M.F.** enrolled with Homebase on May 9, 2009. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. On December 9, 2009, HELP submitted an initial financial assistance request for months March- May 2010. HELP submitted a request to proceed on April 30, 2010. And on June 7, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on June 7, 2010, HELP submitted an initial financial assistance request for June 2010. HELP submitted a request to proceed on June 7, 2010. And on June 8, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

10. **W.F.** enrolled with Homebase on May 1, 2009. The specific payment cited as arrears by the Auditors for this case covered April to June 2010. On May 12, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 17, 2010. And on June 30, 2010, HELP

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approved the financial assistance payment request and paid rental assistance on the client's behalf.

11. **S.S.** enrolled with Homebase on December 8, 2008. The specific payment cited as arrears by the Auditors for this case covered June 2010. On May 19, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on May 24, 2010. And on June 18, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

12. **V.C.** enrolled with Homebase on May 20, 2008. The specific payment cited as arrears by the Auditors for this case covered March to June 2010. On May 10, 2010, HELP submitted an initial financial assistance request for months Feb-March 2010. HELP submitted a request to proceed on May 26, 2010. And on May 28, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on May 13, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on May 27, 2010. And on May 28, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

13. **A.F.** enrolled with Homebase on June 23, 2009. The specific payment cited as arrears by the Auditors for this case covered June 2010. On April 8, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 23, 2010. And on June 23, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

14. **S.N.** enrolled with Homebase on March 28, 2009. The specific payment cited as arrears by the Auditors for this case covered June 2010. On May 25, 2010, HELP submitted an initial financial assistance request for June 2010. HELP submitted a request to proceed on May 26, 2010. And on June 22, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

15. **M.M.** enrolled with Homebase on May 29, 2009. The specific payment cited as arrears by the Auditors for this case covered April to May 2010. On February 28, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 29, 2010. And on July 7, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

16. **J.C.** enrolled with Homebase on December 14, 2005. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. On April 22, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 30, 2010. And on July 12, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

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17. Y.R. enrolled with Homebase on July 21, 2008. The specific payment cited as arrears by the Auditors for this case covered April to June 2010. On April 29, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 22, 2010. And on June 22, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

18. **A.M.** enrolled with Homebase on January 28, 2009. The specific payment cited as arrears by the Auditors for this case covered March to June 2010. On Oct. 5, 2009, HELP submitted an initial financial assistance request for months March-May 2010. HELP submitted a request to proceed on May 11, 2010. And on June 3, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on June 4, 2010, HELP USA submitted an initial financial assistance request for June 2010 rent. HELP submitted a request to proceed on May 11, 2010. And on June 4, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

19. **K.S.** enrolled with Homebase on January 21, 2009. The specific payment cited as arrears by the Auditors for this case covered June 2010. On May 14, 2010, HELP submitted an initial financial assistance request for months May-June 2010. HELP submitted a request to proceed on May 15, 2010. And on May 15, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

20. **C.S.** enrolled with Homebase on February 3, 2009. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. On November 13, 2009, HELP submitted an initial financial assistance request for months March-May 2010. HELP submitted a request to proceed on May 19, 2010. And on June 8, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on June 7, 2010, HELP submitted an initial financial assistance request for June 2010 rent. HELP submitted a request to proceed on May 19, 2010. And on June 8, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

21. **S.C.** enrolled with Homebase on June 2, 2008. The specific payment cited as arrears by the Auditors for this case covered June 2010. On April 29, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 21, 2010. And on July 14, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

22. **M.M.** enrolled with Homebase on June 25, 2009. The specific payment cited as arrears by the Auditors for this case covered June 2010. On January 30, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on July 6, 2010. And on July 16, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

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23. *D.K. enrolled with Homebase on June 25, 2009. The specific payment cited as an arrear* by the Auditors for this case covered June 2010. On September 4, 2009, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on May 11, 2010. And on June 14, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

24. **L.P.** enrolled with Homebase on April 28, 2009. The specific payment cited as an arrear by the Auditors for this case covered June 2010. On June 23, 2010, HELP submitted an initial financial assistance request for months May-June 2010. HELP submitted a request to proceed on June 23, 2010. And on July 9, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

25. **M.K.** enrolled with Homebase on April 20, 2009. The specific payment cited as anarrear by the Auditors for this case covered June 2010. On February 10, 2010, HELP submitted an initial financial assistance request for months March-June 2010. HELP submitted a request to proceed on May 28, 2010. And on June 1, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

26. **I.V.** enrolled with Homebase on October 28, 2008. The specific payment cited as an arrear by the Auditors for this case covered June 2010. On March 11, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 16, 2010. And on June 23, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

27. **N.Z.** enrolled with Homebase on August 18, 2008. The specific payment cited as an arrear by the Auditors for this case covered months May to June 2010. On March 5, 2010, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on May 17, 2010. And on June 24, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

28. **Y.S.** enrolled with Homebase on January 27, 2009. The specific payment cited as an arrear by the Auditors for this case covered months April to June 2010. On December 30, 2009, HELP submitted an initial financial assistance request for months April-June 2010. HELP submitted a request to proceed on June 24, 2010. And on July 9, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

29. **D.A.** enrolled with Homebase on April 17, 2008. The specific payment cited as arrears by the Auditors for this case covered May to June 2010. February 1, 2010, HELP submitted an initial financial assistance request for March-May 2010. HELP submitted a request to proceed on May 13, 2010. And on May 16, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf. Additionally, on June 16, 2010, HELP submitted an initial financial assistance request for

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months June 2010. HELP submitted a request to proceed on June 16, 2010. And on June 16, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

30. **Y.V.** enrolled with Homebase on August 20, 2009. The specific payment cited as an arrear by the Auditors for this case covered August 2010. On July 7, 2010, HELP submitted an initial financial assistance request for months July-August 2010. HELP submitted a request to proceed on July 7, 2010. And on August 20, 2010, HELP approved the financial assistance payment request and paid rental assistance on the client's behalf.

As demonstrated above, each and every one of the above case summaries, and the case file documentation upon which they are based, make clear that each of these payments were for short and/ or medium term rental assistance. Accordingly, DHS disagrees with the Auditors' finding that HELP made ineligible rental arrears payments. To the contrary, all of the above-referenced payments were for ongoing rental assistance.

B. HELP's Advantage Savers Payments

Comment 4

The Draft Report finds that HELP issued checks directly to 21 participants, totaling $34,006 for the Advantage Savers Program. As HPRP funds cannot be issued directly to program participants, the Auditors conclude that these payments were not HPRP-eligible.

DHS enacted the Advantage Savers Program as a means of incentivizing ex-shelter clients who moved into permanent housing through the City's Advantage rental assistance program to save money each month. Advantage Savers provided a match of an Advantage participant's monthly rent contribution for those participants who could demonstrate savings. Importantly, the City funded Advantage Savers payments through City Tax Levy ("CTL") and not HPRP funding.

DHS' Homebase providers, which also provided many HPRP services, aided Advantage tenants to become eligible for the Advantage Savers Program, and were provided sufficient funding in their budget for Advantage Savers payments to eligible clients. As Homebase providers received both DHS and HPRP funding for its programs, DHS repeatedly communicated to all Providers that Advantage Savers must come from DHS funding, and not from HPRP.

DHS provided the Auditors with packets of training materials and procedures that were distributed to its Homebase providers, including HELP, which contained information on the Savers Program as well as the prohibition on the use of HPRP funds to make Savers payments. For example, on February 1, 2010, DHS sent a memo to HELP advising it that the Agency had re-evaluated the FY'10 amount to be allocated to the Advantage Savers line of HELP's budget, under DHS funding. Moreover, on February 24, 2010 and June 16, 2010, DHS sent emails to HELP reminding the Provider that Advantage Savers payments were not HPRP-eligible and "may only be allocated to DHS funding."

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Comment 4 HELP will submit documentation substantiating payment from non-HPRP funding or DHS will recoup the expenditure from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

C. Salary Expenses

Comment 5 The Draft Report finds that a total of $329,937 in salary expenses were charged to HPRP with respect to 30 HELP employees for the period June through September 2010 and that these expenditures lacked adequate support. The Auditors cite United States Office of Management and Budget Circular A-87's requirement that when employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation.

As stated above, the contracts between DHS and all of its HPRP Providers, including HELP contain the following language:

> Accounts. The Contractor shall maintain a separate and distinct set of accounts, records, documents, and other evidence showing and supporting: all allowable cost incurred… The system of accounts employed by the Contractor shall be satisfactory to the City and in accordance with generally accepted accounting principles consistently applied.

Moreover, on February 1, 2010, DHS sent a memo to its HPRP Providers advising them to submit an internal controls memorandum stating the requirement for, *inter alia*, "[s]ubstantiating services rendered and claimed under this contract [which] are eligible." The Agency did not receive such a memorandum from HELP.

DHS has directed HELP to submit any additional documentation beyond what has already been reviewed by the Auditors to support the salaries cited in the Draft Report. The Agency also has requested that the Auditors identify these 30 employees by providing a list of their names as HELP. Upon receipt of the employee list, HELP will submit documentation substantiating proper salary expenditures or DHS will recoup the expenditures from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

D. DHS Monitoring of Its HPRP Providers

Comment 6 The Draft Report finds that DHS officials conducted inadequate monitoring of its HPRP Providers, which resulted in approval of monthly subgrantee invoices without a review of the source or supporting documents to substantiate the costs billed. Moreover, the Draft Report states "contrary to the contention of City officials, the [CPA] firms were not contracted to perform monitoring reviews of disbursements on behalf of the City."[6]

[6] DHS reached out to the Auditors to explain this statement – whether it meant that the Auditors disputed DHS' contention that such contracts existed or that the DHS contracts with the CPA firms did not apply to HPRP. The Auditors refused to respond. This is troubling as DHS provided the Auditors with the relevant CPA firm contracts.

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Comment 6 Notably, the Auditors came to this wide-ranging conclusion despite the fact that they identified issues with respect to only one of the three HPRP Providers that were subject to their audit, and, further, of the $1.97 million the Auditors reviewed (20% of the total HPRP drawdowns in the audit period), the Auditors seek reimbursement of only $93,436 for allegedly ineligible HPRP costs --- just under 5% of the audited costs, nearly two-thirds of which DHS disputes. (See Draft Report at 2; Section IV(1), *supra*).

As stated above, DHS has implemented a quality assurance process to train, monitor and audit its HPRP providers. DHS described its training and monitoring process above and more fully describes its audit process below.

1. HPRP Provider Contracts

Prior to the City's receipt of HPRP funding and implementation of its HPRP Program, DHS had existing contractual relationships with all of its HPRP Providers within the scope of this audit. As one of its first steps in implementing the Program, DHS amended these contracts to add HPRP requirements. These Contract Amendments contain important oversight provisions concerning inspection and audit of accounts and records. (see Section III.B, supra). These requirements, based on Section V (I) of the HPRP Notice, reinforce to the HPRP Providers that they must disburse funds in accordance with HPRP requirements and that DHS will monitor them to insure their disbursement of funds is appropriate and sufficiently supported.

2. HPRP Provider Invoices

As a general matter, beginning in July 21, 2009 (after HUD awarded the City its HPRP funding), the Agency's HPRP Providers could seek reimbursement for their expenses through two funding streams: HPRP funding and DHS funding (non-HPRP funding from alternative Federal, State and local funding streams).[7] DHS, through its HPRP Provider Contract Amendments and ongoing training, made clear to Providers exactly what contracted activities fell within which funding stream.

Procedurally, HPRP Providers expend funds to effectuate the HPRP Program and submit monthly invoices to DHS. The Agency then reimburses Providers each month based on a review of their invoice and the Provider's budget, and then draws down the relevant amount from HUD.

Specific to invoices for reimbursement, DHS drafted and distributed Billing Instructions to its HPRP Providers, detailing the process pursuant to which they should submit invoices to DHS. The Billing Instructions inform Providers to submit a monthly bill to DHS for each month that services are provided, along with a cover letter, a certification, an expenditure report, an ARRA/HPRP Supplement Report (if applicable), and a DHS Certified Performance Summary.

As to the Certification, the Billing Instructions provide that Providers will designate a financial officer to certify and attest to the accuracy of the monthly bills and all associated documents.

[7] Rapid Re-Housing Assistance receives 100% HPRP funding.

Comment 6 Furthermore, every monthly bill must include the following language, signed by the financial officer:

> I, hereby, certify that the charges reported herein have been incurred for services provided pursuant to the terms of the contract with the City of New York acting by and through the New York City Department of Homeless Services; that the itemized invoices, supporting documents, and records evidencing payment are in the files of this organization and are available to the New York City Department of Homeless Services and the entities with the requisite authority to inspect and audit such documents; that the charges are just, true, and correct; and that no part thereof has been previously included in an invoice to the City of New York, paid, satisfied or otherwise settled.

Upon submission of certified bills, DHS Finance analyzes the submission against the Provider's pre-approved line-item budget (both for DHS funding and HPRP funding) and provides the requested reimbursement if the expenditure is within the Provider budget. As per the Billing Instructions, if a bill exceeds the permissible budget, DHS will disallow the overclaimed portion and request the Provider to adjust its expense for that month and the year-to-date budget to reflect an allowable expense. Moreover, the Certification puts the Provider on notice that documentation must be maintained to support each and every invoice sufficient for monitoring and audits by DHS, by DHS' contracted CPA firms and other oversight entities.

3. HPRP Provider Audits

Consistent with DHS' audit protocol of auditing its human services contractors and in order to ensure that expenditures are properly supported and that funding is properly utilized, DHS has assigned two of its contracted CPA firms to, among other objectives, perform audits of DHS' HPRP providers.

Specifically, DHS entered into contracts with Daniju CPA, PC ("Daniju") and A.F. Paredes & Co., CPA's ("Paredes"), on July 2, 2008 to perform audits of DHS human services contract providers. The initial contract term ran through June 30, 2011, with options to renew from July 1, 2011 through June 30, 2014. The contracts called for the CPA firms to audit those providers to "provide the Department with the information and assurance that the funds were spent by the service provider for the purposes for which they were authorized, that the service provider met the stated service goals and objectives and that the financial and programmatic reports furnished by the service provider were accurate and provided reliable information." These contracts were in place prior to the existence of the HPRP Program.

Following the development of HPRP, DHS recognized the requirement to financially and programmatically audit and monitor its HPRP Providers. The Agency's Prevention, Policy and Planning Division conducts the programmatic risk assessments of all HPRP Providers on an annual basis, as described above. And, following a Modification Agreement with the CPA firms in February 2011, which increased the amount of their contracts to "conduct additional audits for the period July 1, 2010 through June 30, 2011" as directed by DHS, the Agency added financial audits of HPRP Providers to the CPA firms' portfolios.

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Comment 6 In February 2011, DHS notified Daniju and Paredes in writing of their assignments to audit DHS' HPRP providers. Daniju would audit the DHS' Street Solutions/Outreach and Street Solutions/Drop-in providers, while Paredes would audit DHS' HPRP Homebase and Anti- Eviction providers (which includes HELP).

On February 9, 2011, DHS notified HELP that contracted CPA firms "will conduct audits of HPRP funds covering the period of July 1, 2009 through December 30, 2010. The purpose of the audit is to verify the appropriate use of such monies."

Through these contracted CPA firms, DHS is able to review and audit the HPRP expenditures of its contracted providers to determine, among other things, whether the Providers' expenditures under the program were appropriate and properly supported. By e-mail dated April 8, 2011, in response to the Auditors' specific questions, DHS explained the purpose and scope of the CPA audits to the Auditors:

> Q: Does DHS conduct monitoring of the supporting documentation maintained by providers, and if so, what type of monitoring is conducted?
>
> A: Prevention monitors the provision of services through a comprehensive case management database, rapid rehousing assessment and placement documentation submission process. The placement documentation is submitted to DHS program staff and is verified by staff. Prevention also communicated with provider staff on a consistent and frequent basis. In addition, Prevention goes on-site regularly to verify site location, condition and operations.
>
> DHS has several CPA firms under contract that it engages to perform audits of contract providers on an as needed basis. The agency engaged two such firms to conduct financial audits of all DHS not-for-profit providers receiving HPRP funds. These audits are currently in progress and cover the period July 1, 2009 through December 31, 2010. Final audit reports are expected by June 2011. **The CPA auditors have been tasked with auditing HPRP providers to ensure that claimed HPRP expenditures are in accordance with HPRP requirements and are properly documented.**

(Emphasis added)

To date, the CPA firms have (1) finalized the audits of eight programs; (2) completed exit conferences with four programs (3) finished the on-site reviews and issued draft reports for nine programs; and (4) are in the process of field work or finalizing draft reports for three programs.

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Comment 6 This quality assurance control – robust and ongoing training, consistent dissemination of guidelines and memoranda, yearly risk assessments and corrective action plans, certification of invoices and CPA audits – ensures that the Agency's HPRP Providers are adequately trained, monitored and audited.

IV RESPONSE TO RECOMMENDATIONS

With respect to the Auditors' specific recommendations, DHS responds as follows:

1A. Reimburse from non-Federal funds $93,436 for ineligible costs charged to HPRP; specifically, $59,430 related to payments for rental arrears over the 6-month eligibility requirement and $34,006 for payments issued directly to participants.

Comment 3

DHS RESPONSE: DHS disagrees with the finding of $59,430 in eligible rental arrears payments, for as described above in Section IV(1), those payments constitute ongoing short and/ or medium-term rental assistance payments. As to the finding of $34,006 in eligible Advantage Savers payments, HELP will submit documentation

Comment 4

substantiating payment from non-HPRP funding or DHS will recoup the expenditures from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

1B. Provide documentation to justify the $329,937 in unsupported salary costs incurred between June and September 2010. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.

Comment 5

DHS RESPONSE: HELP will submit documentation substantiating proper salary expenditures or DHS will recoup the expenditures from HELP and will adjust or reduce future HPRP claims by the corresponding amounts.

1C. Establish and implement adequate controls and procedures to ensure that subgrantees are monitored in compliance with all applicable requirements.

Comment 6

DHS RESPONSE: DHS disagrees with this recommendation as it already has sufficient quality assurance controls in the form of comprehensive training, monitoring and auditing programs to ensure that its HPRP Providers disburse HPRP funds in accordance with all HPRP requirements.

1D. Develop a cost allocation plan for future salary costs charged to the program to ensure compliance with OMB Circular A-87, attachment B.

Comment 7

DHS RESPONSE: DHS disagrees with this recommendation as DHS has provided training on Budget and Monthly Billing and on Financial Assistance Policies and Procedures and HPRP Providers comply with that OMB Circular. DHS will, however, reiterate to HELP the need to maintain separate ledgers for HPRP and non-HPRP funding.

Ref to OIG Evaluation	**Auditee Comments**
	1E. Strengthen controls over disbursements to ensure that all costs charged to the program are eligible and adequately supported with source documentation in compliance with applicable requirements.
Comment 8	**DHS RESPONSE:** DHS disagrees with this recommendation. The Agency has sufficient controls over disbursements through the monthly billing and audit process through ongoing trainings, yearly risk assessments, consistent updating of program materials and guidelines and independent CPA audits.

In closing, we thank the Auditors for their efforts in performing this review and giving DHS an opportunity to respond to the Draft Report's findings and recommendations.

Sincerely,

//SIGNED//
Ellen Howard-Cooper
Deputy Commissioner
Prevention, Policy & Planning

//SIGNED//_____
Steve Pock
Deputy Commissioner, Fiscal &
Procurement Operations

cc: DHS
Seth Diamond
Fran Winter
Anne Heller
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Lula Urquhart
Michael King
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Mayor's Office of Operations
George Davis, III

OIG Evaluation of Auditee Comments

Comment 1 City officials provided introductory background information pertaining to when the grant agreement was executed, terms of the agreement, and the dates of the OIG audit process.

Comment 2 Officials for the City provided an Executive Summary of the draft audit report to which they disagree with the finding regarding the rental arrears. However, officials agree with the finding pertaining to payment for advantage savers program and the unsupported salary expenses. In addition, the officials' response included background information on the HPRP program, which included an overview of the Homelessness Prevention and Rapid Re-Housing programs they are funding. In addition, officials also included an overview of contract provisions and training material that they provided to subgrantees. Lastly, Section IV of the auditee comments details the officials' response to the audit finding. Refer to comments 3 through 8 below.

Comment 3 Officials of the City disagree with the finding regarding the rental arrears in the amount of $59,430 contending that the costs were for ongoing short and medium term rental assistance payments. Our testing showed that all payments questioned were for rental arrears as evidenced by rental payments being made after rent was due. However, officials were unable to provide adequate documentation during and after the audit field work was completed to support that the payments were made for short and medium term rental assistance payments and not rental arrears. City officials state that the subgrantee "HELP" entered into oral agreements with client landlords concerning the rental assistance payments during the period reviewed. Therefore, without a written agreement there is no assurance that the landlord did not consider the rents not paid as arrears. Further, the response includes all cases reviewed during the audit, however some dates were not correct, specifically, case number 4, listed November 11, 2010 when the correct date should have been November 16, 2009. Further, City officials included a footnote explaining that HELP mistakenly categorized some payments as rent arrears. When reviewing the files, OIG did not find any indication that the categories were incorrect. Therefore, the finding has not been revised and costs for rental arrears are considered ineligible and will have to be reimbursed from non-Federal funds.

Comment 4 City officials generally agree with the context of the finding related to the $34,006 paid for the Advantage Savers program, a program funded by the City. Officials conclude that the supporting documentation will be submitted by its subgrantee to substantiate the payment or the officials will recoup the expenditures from its subgrantee and will reduce future HPRP claims. Therefore, the City officials' effort to address the finding and the applicable section of recommendation 1A pertaining to the Advantage Savers program is responsive to the finding.

Comment 5 City officials agree with the finding related to the $329,937 in unsupported salary costs. The City has required its subgrantee to submit additional documentation to support the $329,927 in unsupported salary costs or they will recoup the expenditures and/or reduce future subgrantee claims. Thus, City officials' actions are responsive to the finding and recommendation.

Comment 6 City officials disagree with the finding related to the inadequate monitoring of its HPRP providers. City officials contend that the providers are adequately trained and monitored. Further, the officials have engaged an outside Certified Public Accounting (CPA) firm to conduct audits of its subgrantees, and disagree with the wording in the draft report stating otherwise contrary to their intentions. However, City officials did not review supporting documents to support payments made to subgrantees, and relied on a certification from the subgrantee when making payments from HPRP funding. This measure placed HPRP funding at risk of being used to pay for expenses that are ineligible and not in accordance with HUD rules and regulations. In addition, City officials provided that CPA firms conducted monitoring and financial review of the Homebase subgrantees. However, finalized reports were not completed at the time of our exit conference; thus, we have revised the draft to reflect the fact that since supporting documents for payments were not reviewed and the CPA's reports were not yet issued, City officials have no assurance as to whether expenditures to date are eligible and proper. Consequently, City officials did not not adequately monitor its subgrantees for the HPRP program, a fact further supported by City officials response that should these CPA audits identify ineligible or improper expenditures, the provider will reimburse the City for those amounts.

Comment 7 City officials disagree with the recommendation**,** however officials intend to reiterate to the subgrantee that they maintain separate ledgers for HPRP and non-HPRP funding. Nevertheless, although the City officials plan is responsive to the recommendation, it is imperative that this plan also comply with OMB Circular A-87, Attachment B when individuals work on more than one activitity.

Comment 8 City officials disagree with the recommendation, contending that there are sufficient controls over disbursements. However, City officials failed to identify deficiencies regarding disbursement found during our audit and are awaiting the final audit reports from outside CPA firms to determine whether there are any disbursements made for ineligible expenses. Therefore, if the City implements OIG's recommendation to strengthen controls, it will further prevent ineligible expenses from being paid from HPRP funding.