American Family Housing, Midway City, CA

Special Needs Assistance Program

Office of Audit, Region 9
Los Angeles, CA

Audit Report Number: 2019-LA-1001
December 3, 2018

To: Rufus Washington, Director, Office of Community Planning and Development, Los Angeles, 9DD

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: American Family Housing, Midway City, CA, Administered Its Special Needs Assistance Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of American Family Housing's Special Needs Assistance Program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.

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American Family Housing, Midway City, CA, Administered Its Special Needs Assistance Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited American Family Housing's special needs assistance program funds due to a hotline complaint alleging that the nonprofit used program funds for hotels, spas, raises, and bonuses not related to the program. Our objective was to determine whether the nonprofit administered its program funds in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

We determined that the hotline complaint allegations had no merit. The nonprofit administered its program funds in accordance with HUD requirements for the expenses reviewed. The program expenses reviewed were supported and eligible.

What We Recommend

There are no recommendations.

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Background and Objective

American Family Housing, a nonprofit organization, was established in 1985 and has been providing services to communities in the Southern California for 32 years. It owns more than 50 affordable rental housing properties in three southern California counties – Orange, Los Angeles, and San Bernardino. Its properties offer more than 250 units of housing, which ensure the provision of safe, affordable homes for adults and families. Of these units, 75 percent are family units, and 10 percent are set aside for veterans. The program is authorized under the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009, which was signed into law on May 20, 2009. The HEARTH Act amends and reauthorizes the McKinney-Vento Homeless Assistance Act.

The nonprofit was approved for more than $2.4 million in program funds for grant years 2015 through 2017 for six grants. As of July 18, 2018, U.S. Department of Housing and Urban Development's (HUD) Line of Credit Control System[1] reports showed that the nonprofit had drawn more than $1.5 million. It uses program funds to provide permanent housing and supportive services to chronically homeless adults or households with at least one adult or one child with disabling conditions, such as mental illness, chronic substance abuse, or physical disability, to ensure access to housing without barriers.

The objective was to determine whether American Family Housing administered its special needs assistance program in accordance with HUD requirements.

[1] The Line of Credit Control System is HUD's primary grant disbursement system for handling disbursements for the majority of HUD programs.

Results of Audit

Finding: American Family Housing Administered Its Program in Accordance With HUD Requirements

American Family Housing administered its program funds in accordance with HUD requirements for supportive services, operating, leasing, project administrative, and Homeless Management Information System, also known as HMIS, costs. The nonprofit ensured that these expenses were supported and eligible. Further, we determined that the allegations of the nonprofit's mismanagement of program funds were not valid.

Project Expenses Were Eligible and Supported

The two permanent housing projects provide permanent housing and supportive services to chronically homeless adults or households with at least one adult or one child with disability conditions to ensure access to housing without barriers. We reviewed five of the nonprofit's vouchers and determined that the reimbursed expenses were eligible and supported. These five vouchers are as follows:

Project name	Grant agreement number	Voucher number	Amount
Permanent Housing 2	CA1002L9D021503	501-00296621	$42,648
	CA1002L9D021604	501-00312990	44,783
	CA1002L9D021705	501-00402376	39,198
Permanent Housing Collaborative	CA0562L9D021506	501-00332958	23,410
	CA0562L9D021607	501-00387916	25,552
Total			**175,591**

Expenses included in all five vouchers were generally eligible and supported. Specifically, the nonprofit ensured that its program funds were used for (1) supportive services that addressed the special needs of the program participants, (2) operating costs for the day-to-day operations of permanent housing, (3) leasing costs for rental assistance for its program participants, (4) project administrative costs for program management, and (5) HMIS costs such as purchasing or leasing computer hardware and software. As a result, $175,591 in program expenses for the five projects was supported and eligible.

Allegations of Mismanaged Program Funds Had No Merit

The hotline complaint alleged that the nonprofit's former management mismanaged program funds. Among the concerns was that the nonprofit did not use funds for eligible program expenses. Specifically, there were allegations that the nonprofit used program funds for hotels, spas, raises, and bonuses not related to the program. Based on the review of sampled vouchers, we determined that the expenses were eligible and supported. As a result, the allegations had no merit. We also noted that the nonprofit had hired a new chief executive officer and director of finance to oversee operations.

Conclusion

The nonprofit administered its program funds for the reviewed projects in accordance with applicable HUD requirements. There was no merit to the allegations that the nonprofit mismanaged program funds.

Recommendations

There are no recommendations.

Scope and Methodology

We performed our audit at American Family Housing's office in Midway City, CA, from August 6 to October 2, 2018. Our review covered the period October 1, 2014, to September 30, 2017.

To accomplish our objective, we

- Reviewed relevant background information, including grant applications and agreements.
- Reviewed and analyzed the nonprofit's policies and procedures and internal controls relating to its program.
- Reviewed the nonprofit's audited financial statements for fiscal years 2015, 2016, and 2017.
- Reviewed applicable HUD program rules and requirements.
- Reviewed information from HUD's Line of Credit Control System.
- Reviewed the nonprofit's sampled program expenses.
- Interviewed the nonprofit's personnel responsible for administering the program.

We relied on computer-processed data provided by the nonprofit. We performed a minimal level of testing and found the data to be sufficiently reliable to meet our audit objective.

The audit universe consisted of 43 vouchers totaling more than $1.5 million as of July 18, 2018. We selected a nonstatistical random sample of vouchers from five[2] grants. We used Excel and randomly selected one voucher for each of the five grants. Based on our random sample, we selected five vouchers for review totaling $175,591 during our audit scope for grant years 2015 to 2017. Each of the vouchers had five different cost categories: (1) supportive services, (2) operating costs, (3) leasing, (4) administrative costs, and (5) HMIS. This sampling method did not allow us to project to the universe, but it was sufficient to meet the audit objective.

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

[2] As of July 18, 2018, one of the six grants did not have any disbursements. Specifically, grant number CA0562L9D021708 did not have any disbursements because the effective date of the grant was May 16, 2018, and there were no disbursements at that time. As a result, we reviewed five of the six grants for which the nonprofit incurred program expenses.

objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.

- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to support eligible program expenditures.

- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure that the monitoring of and expenditures for program activities comply with applicable HUD rules and requirements.

We assessed the relevant controls identified above.

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

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

Appendix

Appendix A

Auditee Comments

The nonprofit declined the opportunity to provide a written response.