



Palladia, Inc., New York, NY
Supportive Housing Program



Issue Date: July 25, 2014

Audit Report Number: 2014-NY-1008

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

Karen A. Campbell-Lawrence//SIGNED//
For
FROM: Edgar Moore,
Regional Inspector General for Audit, New York-New Jersey, 2AGA

SUBJECT: Palladia, Inc., New York, NY, Did Not Administer Its Supportive Housing
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 Palladia, Inc.'s administration of its Supportive Housing Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation in the body of the report 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 Web site. 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 212-264-4174.



July 25, 2014

Palladia, Inc., New York, NY, Did Not Administer Its Supportive Housing Program in Accordance With HUD Requirements

Highlights

Audit Report 2014-NY-1008

What We Audited and Why

We audited Palladia, Inc.'s administration of its Supportive Housing Program. We selected Palladia for review based on a request from the U.S. Department of Housing and Urban Development's (HUD) New York City Office of Community Planning and Development. The objectives of the audit were to determine whether Palladia officials (1) carried out program-assisted activities with the appropriate beneficiaries, (2) expended program grant funds in compliance with HUD and applicable regulations, and (3) maintained effective program and financial management controls.

What We Recommend

We recommend that the Director of the HUD's New York City Office of Community Planning and Development instruct Palladia officials to (1) provide documentation to justify more than \$1.6 million in unsupported costs; (2) provide adequate supporting documentation to substantiate that the cash match of \$584,579 was met for the operating and supportive services costs, and (3) maintain supporting documentation and strengthen oversight controls over disbursements that are sufficient to ensure compliance with applicable regulations.

What We Found

Palladia officials generally carried out their program-assisted activities with the appropriate beneficiaries; however, they did not provide support for how program grant funds were expended and they did not maintain effective program and financial management controls. These deficiencies are attributed to Palladia's management predecessors' lack of knowledge of Federal regulations and failure to (1) implement and follow adequate policies and procedures to properly prepare and maintain source documentation for HUD reimbursed vouchers and non-Federal cash match funds, and (2) establish an adequate record-keeping system. Consequently, Palladia officials could not assure HUD that program grant funds were spent in accordance with HUD rules and regulations and that the effectiveness of the grant activities was fully maximized as intended by HUD. As a result, we considered more than \$1.6 million in program operating expenditures to be unsupported and \$584,579 in required non-Federal cash matching funds for operating and supportive services to be unsubstantiated.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding: Palladia Officials Did Not Implement Adequate Record-Keeping and Financial Management Systems	4
Scope and Methodology	10
Internal Controls	12
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	14
B. Auditee Comments and OIG's Evaluation	15
C. Schedule of Unsupported Vouchers	20
D. The Projects Selected for Review	21

BACKGROUND AND OBJECTIVES

The Supportive Housing Program (the Program) is authorized by the McKinney-Vento Homeless Assistance Act (42 United States Code 11381 to 11389). The program is designed to promote the development of supportive housing and services, such as assisting homeless persons with their transition to permanent housing and providing services so that these former homeless persons can live as independently as possible. Eligible activities include transitional housing, permanent housing for homeless persons with disabilities, supportive services only, and innovative supportive housing.

Palladia, Inc. was established in 1970 as a nonprofit multiservice agency in New York City that serves families and individuals with special needs. According to its web site, Palladia's clients are largely urban with nearly 2,000 clients per day in 31 distinct programs. The programs that Palladia provides include residential substance abuse treatment, outpatient and transitional treatment, homeless and domestic violence shelters, alternatives to incarceration, permanent supporting housing programs, and a wide range of special initiatives and collaborations. Palladia provides supportive permanent housing to homeless and disabled individuals and families in more than 400 units.

According to the U.S. Department of Housing and Urban Development's (HUD) Line of Credit Control System (LOCCS)¹, HUD authorized and Palladia disbursed \$10.4 million for 27 grants awarded for 10 Supportive Housing Program projects during the audit period, July 1, 2010, through June 30, 2012. We selected a nonstatistical sample of 6 of the 10 program projects for review to determine whether Palladia officials expended program grant funds in compliance with HUD and applicable regulations. The 6 program projects had 723 tenant files and we selected a nonstatistical sample of 80 of the 723 tenant files from the sample of 6 program projects for review to determine whether Palladia officials carried out their program activities with the appropriate beneficiaries. See Appendix D for the projects selected for review.

Our audit objectives were to determine whether Palladia officials (1) carried out program-assisted activities with the appropriate beneficiaries, (2) expended program grant funds in compliance with HUD and applicable regulations, and (3) maintained effective program and financial management controls.

¹LOCCS is a HUD grant disbursement system that provides disbursement controls for over 100 HUD grant programs and every year LOCCS disburses over \$20 billion to thousands of HUD business partners.

RESULTS OF AUDIT

Finding: Palladia Officials Did Not Implement Adequate Record-Keeping and Financial Management Systems

Although Palladia officials generally carried out their program-assisted activities with the appropriate beneficiaries, they did not provide support for how program grant funds were expended in accordance with HUD rules and regulations, and had not implemented adequate record-keeping and financial management systems. Specifically Palladia officials did not (1) maintain source documentation to support 30 of 38 vouchers, which represented approximately \$1.6 million in program expenditures; (2) establish a record-keeping system to substantiate the \$584,579 in required non-Federal cash match funds expended for operating and supportive services costs; and (3) reconcile financial and accounting records (for example, the general ledger did not match their annual performance reports and LOCCS drawdowns). These deficiencies are attributed to Palladia's prior management staff's lack of knowledge of Federal regulations and failure to (1) implement and follow adequate policies and procedures to properly prepare and maintain source documentation for HUD reimbursed vouchers and non-Federal cash match funds, and (2) establish an adequate record-keeping system. Consequently, Palladia officials could not assure HUD that program grant funds were spent in accordance with HUD rules and regulations and that the effectiveness of the grant activities was fully maximized as intended by HUD. As a result, we considered more than \$1.6 million in program operating expenditures to be unsupported, and \$584,579 in required non-Federal cash matching funds for operating and supportive services costs to be unsubstantiated.

Activities Carried Out With Appropriate Beneficiaries

Palladia officials generally carried out their program-assisted activities with the appropriate beneficiaries as evidenced by our review of 80 out of 723 tenant files selected from a sample of six program projects. Each of the 80 files reviewed contained documentation to support the homeless and disability status of the tenants such as the signed HUD Homeless Status Certification, and letters from shelters and families regarding the tenant's homelessness and New York City Housing Referral Application, or evidence from a hospital or clinic documenting a disability. Thus, Palladia officials are administering these activities to the appropriate clientele.

Inadequate or Lacking Source Documentation

Palladia officials could not provide adequate source documentation to support more than \$1.6 million in disbursements associated with 30 of 38 vouchers pertaining to the six program projects reviewed. Palladia officials were able to provide source documentation for only 8 of the 38 vouchers tested. The remaining 30 vouchers were not supported by source documentation, such as payroll records, invoices, rental leases, utility bills, and other records related to the expenditures. Regulations at 24 CFR (Code of Federal Regulations) 84.21(b) require grantees and subgrantees to maintain records, which adequately identify the source and application of funds provided for financially assisted activities. This deficiency is attributed to Palladia's prior management staff that failed to follow Palladia's internal accounting manual, thereby ignoring the written policies and procedures to properly prepare and maintain source documentation for HUD reimbursed vouchers and non-Federal cash match funds. Palladia Policies and Procedures Manual contained written procedures for the administration of government grants, and had a billing process requiring supporting documentation for each voucher, and records retention procedures. However, since these procedures were not followed, there was no assurance that more than \$1.6 million in program funds was expended for eligible program activities.

According to current Palladia officials, former management staff members did not maintain source documentation for program expenditures before June 2011 due to their lack of knowledge pertaining to record keeping. Also, current officials stated that they could not provide any support for prior expenses because they believed that it would take two to three staff members working full time for 2 months to prepare the missing source documentation for the 30 unsupported vouchers and reconcile their financial and accounting records. However, current Palladia officials contended that after HUD performed a monitoring review in June 2011, they maintained complete source documentation associated with program vouchers going forward. Our review disclosed that one of the six sampled programs projects, with a project period of July 1, 2011, to June 30, 2012, was supported with complete source documentation for its two vouchers. However, without source documentation to substantiate the 30 vouchers that we requested for review, there was no assurance that more than \$1.6 million in program funds was expended for eligible program activities. See appendix C for the list of unsupported vouchers.

Lack of a Record-Keeping System

Palladia officials did not maintain a record-keeping system to ensure that supporting records were available for review in accordance with Federal and HUD rules. Regulations at 24 CFR 84.21(b) requires that grantees and subgrantees maintain records, which adequately identify the source and application of funds provided for financially assisted activities. In addition, 24 CFR 84.23(a)(1) states that all contributions, including

cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the criteria and are verifiable from the recipient's records. For example, source documentation, such as invoices, payroll records, and utility bills to substantiate the program expenditures, was not maintained as discussed above. Also, the rent rolls for five program projects and the records substantiating the funding source for the six program projects were not maintained. In addition, the eligible program expenses paid for with non-Federal cash match funds for five of the six program projects in our sample were not maintained. Further, due to lack of a record-keeping system, Palladia officials could not provide documentation in a timely manner. For example, Palladia officials took more than 2 months to provide the general ledger detailing the cash match for one of the six program projects reviewed; however, the general ledger did not support the funding source of the non-Federal cash match funds. As a result, the funding source for the non-Federal cash match was not substantiated for the six program projects in our sample.

In addition, the eligible program expenses of \$584,579 (\$382,299 and \$202,280) in required non-Federal cash matching funds for operating and supportive services costs could not be substantiated for five of the six program projects in our sample. Based on HUD LOCCS, the tables below show an analysis of Palladia's cash match funds for operating and supportive services costs.

Cash match analysis for "Operating Costs" for five of the six sampled program projects

Program project name	Operating costs	Required cash match[@]	Total operating costs
Aegis	\$262,245	\$87,415	\$349,660
Esperanza	369,183	123,061	492,244
Flora Vista	87,401	29,134	116,535
Hill House	116,194	38,731	154,925
Stratford House	311,873	103,958	415,831
Total	\$1,146,896	\$382,299[@]	\$1,529,195

@ We were not provided with any evidence of the source of the required cash match of \$382,299.

@@ 24 CFR 583.125(c) states that assistance for operating costs will be available for up to 75 percent of the total cost in each year of the grant term. The recipient must pay the percentage of the actual operating costs not funded by HUD. At the end of each operating year, the recipient must demonstrate that it has met its match requirement of the costs for the year. For example, $\$262,245/0.75 = \$349,660$ in total cost and $\$349,660 * 0.25 = \$87,415$ (required cash match).

Cash match analysis for “Supportive Services Costs” for five of the six sampled program projects

Program project name	Supportive services costs	Required cash match^{@@@}	Total supportive services costs
Aegis	\$100,426	\$25,107	\$125,533
Esperanza	233,746	58,437	292,183
Flora Vista	109,549	27,387	136,936
Hill House	106,978	26,745	133,723
Stratford House	258,420	64,605	323,025
Total	\$809,119	\$202,280[@]	\$1,011,399

@ We were not provided with any evidence of the source of the required cash match of \$202,280.

@@@ Per Palladia’s grant agreement with HUD, the recipient must provide a 25 percent cash match for supportive services. For example, \$100,426 *0.25 =\$25,107 (required cash match).

The deficiency noted above is attributed to Palladia’s turnover in management staff, including its chief executive officer, chief financial officer, and assistant vice president of finance, who failed to implement policies and procedures to ensure that grant matching funds were appropriately recorded and that adequate supporting source documentation was maintained. Consequently, Palladia officials could not assure HUD that they administered the program in accordance with requirements.

Financial and Accounting Records Not Reconciled

Palladia officials failed to reconcile their financial and accounting records associated with their Supportive Housing Program. Therefore, program expenditures reported on their general ledgers did not match their annual performance report, and program revenues reported on their general ledgers did not match LOCCS drawdowns for the six program projects in our review (see table below).

Reconciliation of Palladia’s general ledger, its annual performance report, and LOCCS drawdowns

Program project name	General Ledger expenses	APR** Expenses	Expenses per GL* and APR match	GL Revenues	LOCCS drawdowns	GL revenues and LOCCS drawdowns match
Aegis	\$468,421	\$456,728	No	\$400,130	\$390,609	No
Dreitzer Women and Children	589,284	407,108	No	553,480	407,108	No
Esperanza	830,689	829,548	No	787,524	798,493	No
Flora Vista	231,486	228,934	No	260,605	205,621	No
Hill House	282,635	234,153	No	282,635	234,153	No
Stratford House	696,455	595,243	No	644,819	595,243	No
Total:	\$3,098,970	\$2,751,714		\$2,929,193	\$2,631,227	

* GL = general ledger

** APR = annual performance report

Our review of Palladia’s financial and accounting records, including its general ledger, annual performance reports, and drawdowns from LOCCS disclosed that for the six program projects sampled, the amounts reported to HUD could not be reconciled with Palladia’s records. When requested, Palladia officials were unable to explain and reconcile the differences reported for the six program projects. Further, officials stated that they could not allocate staff resources during the time our onsite audit work was performed to reconcile their financial and accounting records. Regulations at 24 CFR 84.21(b)(7) and 574.450 require that accounting records be supported by source documentation, and each project sponsor agree to maintain and make available to HUD financial records sufficient to ensure proper accounting and disbursing from a grant under this part to ensure that the program requirements were met. Palladia officials attributed this noncompliance with HUD rules and regulations to their former management staff. However without performing reconciliations between their financial and accounting records, there was no assurance that funds were expended for eligible program activities and accurately recorded in accordance with HUD requirements.

Conclusion

Palladia officials generally carried out their program activities with the appropriate beneficiaries; however, they could not provide documentation demonstrating that they properly expended program funds in accordance with regulations, and officials could not demonstrate that they implemented adequate record-keeping and financial management

systems. Specifically, (1) inadequate or a lack of source documentation provided no assurance that more than \$1.6 million in program funds was expended for eligible program activities; (2) \$584,579 in required non-Federal cash match funds expended for operating and supportive services costs was unsubstantiated due to the lack of a record-keeping system; and (3) financial and accounting records were not reconciled, assuring that funds were expended for eligible program activities, and accurately recorded in accordance with HUD requirements. Thus, Palladia officials could not assure HUD that program grant funds were spent in accordance with HUD rules and regulations and that the effectiveness of the grant activities was fully maximized as intended by HUD. We attribute these deficiencies to Palladia's management predecessors' lack of knowledge of Federal regulations and failure to (1) implement and follow adequate policies and procedures to properly prepare and maintain source documentation for HUD reimbursed vouchers and non-Federal cash match funds, and (2) establish an adequate record-keeping system.

Recommendations

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

- 1A. Provide documentation to justify that the \$1,615,057 in unsupported costs is associated with eligible program activities. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.
- 1B. Strengthen oversight controls over disbursements to ensure that adequate supporting documentation is maintained and complies with applicable regulations.
- 1C. Follow its policies and procedures for record-keeping to maintain records that adequately identify the source and application of funds provided for financially assisted activities.
- 1D. Provide records detailing the funding sources of the non-Federal cash match for the six grant activities reviewed.
- 1E. Provide source documentation to substantiate that the \$584,579 in required non-Federal cash matching funds for five of the six program projects reviewed were met.
- 1F. Reconcile its accounting records to ensure that total revenues and expenditures in its general ledgers reconcile to the revenues and expenditures reported in its annual performance reports and LOCCS.

SCOPE AND METHODOLOGY

We performed our onsite audit work at Palladia's office located at 2006 Madison Avenue, New York, NY, from September 2013 to February 2014. Our audit generally covered the period July 1, 2010, to June 30, 2012, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Researched and reviewed HUD handbooks, the Code of Federal Regulations, HUD grant agreements, Office of Management and Budget circulars, the McKinney-Vento Homeless Assistance Act, HUD's notice of funding availability, the HUD Supportive Housing Program Desk Guide, annual performance reports, and program budget instructions.
- Reviewed Palladia's policy and procedures used to administer its program.
- Interviewed officials of the New York HUD Office of Community Planning and Development and Palladia.
- Reviewed applicable HUD monitoring reports.
- Obtained and reviewed Palladia's annual audited financial statements, annual performance reports, general ledgers, LOCCS drawdowns, program budget, bank statements, organizational chart, job descriptions, tenant files, and available source documentation for program disbursements.
- We relied in part on computer-processed data primarily for obtaining background information on the Palladia's expenditure of program funds. We performed a minimal level of testing and found the data to be adequate for our purposes.
- Reviewed Palladia's Website for general background information.

We reconciled the authorized and disbursed amounts of Palladia's program grants during our audit period, July 1, 2010, to June 30, 2012, with LOCCS drawdowns. Palladia received \$10.4 million in HUD funds for 27 grant activities associated with 10 Supportive Housing Program projects. Included in the population of 10 projects were 4 projects that were not selected for testing because HUD had recently reviewed one project in 2011, one project consisted of minimal grant amounts, another project had a zero grant balance, and the last was a scattered site project. Thus, only the 6 remaining projects were suitable for our testing purposes. Therefore, we selected a non-statistical sample of one grant from each of the 6 Supportive Housing Program projects for review to determine whether Palladia expended program funds in accordance with HUD rules and regulations. The non-statistical sample of 6 out of 27 grants equating to \$2.6 million, represented 22 percent of the total grants (6/27) and 25 percent of the universe (\$2,631,227 / \$10,404,569).

We also selected a non-statistical sample of 80 out of the 723 tenant files pertaining to the 6 sampled projects for review to determine whether Palladia officials carried out their program activities with the appropriate beneficiaries. The 80 tenant files were selected from the top, middle, and bottom of the 6 tenant lists. Our sample of 80 files represented approximately 11

percent of the universe (80 / 723), and consisted of six program projects as shown below:

Number	Program project name	Project period	Amount disbursed	Number of tenant files	Samples of tenant files
1	Aegis	January 1, 2011 – December 31, 2011	\$390,609	96	8
2	Dreitzer Women and Children	July 1, 2011-June 30, 2012	407,108	97	10
3	Esperanza	August 1, 2010 – July 31, 2011	798,493	304	31
4	Flora Vista	November 1, 2010 – October 31, 2011	205,621	22	5
5	Hill House	July 1, 2010 – June 30, 2011	234,153	46	10
6	Stratford House	November 1, 2010 – October 31, 2011	595,243	158	16
	Total:		2,631,227	723	80

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

- Programs operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that funds 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 Deficiencies

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

- Palladia officials did not have adequate controls over program operations when they did not maintain source documentation for more than \$1.6 million in HUD disbursements associated with 30 of 38 vouchers in accordance with HUD rules and regulations (see finding).
- Palladia officials did not have adequate controls over validity and reliability of data when they did not perform reconciliations of their general ledgers to their annual performance reports and LOCCS drawdowns (see finding).
- Palladia officials did not have adequate controls over compliance with laws and regulations when they did not comply with HUD regulations for disbursing program funds and establishing a record-keeping system (see finding).
- Palladia officials did not have adequate controls over safeguarding resources when they disbursed more than \$1.6 million in program funds without maintaining source documentation and had weaknesses in their administrative controls when they did not establish a record-keeping system (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	\$1,615,057	
1E		\$584,579

- 1/ 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.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the supporting documentation is provided to substantiate the required cash match of \$584,579, HUD can be assured that program funds will be put to good use.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



June 17, 2014

Edgar Moore
Regional Inspector General for Audit
Office of Inspector General
U.S. Dept. of HUD
26 Federal Plaza Suite 3430
New York, NY 10278

Dear Mr. Moore:

In response to the draft audit report conducted by the HUD OIG, Palladia, Inc. respectfully submits the following comments.

Founded in 1970, Palladia, Inc. is one of the largest 501(c)(3) not-for-profit, multi-service agencies of its kind in New York City. Palladia serves approximately 14,000 people per year in 29 programs. Palladia has been working with HUD since 1988. Our programs include fourteen supportive housing programs, with 425 units and more than 700 tenants. Palladia has nine HUD-funded programs along with two Shelter Plus Care rental subsidy contracts totaling approximately \$7.1 million per year. During the period under review by the HUD OIG, Palladia also operated three transitional housing programs with 150 beds that helped approximately 500 people annually.

Palladia has 43 years of experience serving urban, low-income individuals and families with special needs, and is nationally recognized for our innovative service. Our integrated support services model comes from understanding co-occurring disorder trends and patterns as well as the increasingly complex needs of our clients including those living with HIV/AIDS, mental illness, substance use disorder, and other complex physical health problems. The history, experiences, and clinical characteristics of our clients mirror the trends in unmet and emerging needs locally and nationally including: homelessness, HIV/AIDS and other chronic health conditions, mental illness, substance use disorder, trauma, domestic violence, poor employment histories, and lack of vocational/educational training. We believe that affordable supportive housing is a critically important stabilizing factor that assists our clients and tenants in their path to stability and recovery.

Palladia has been working with the New York HUD Field Office since a Field Office voucher review in 2011 to improve our policies and procedures. Palladia was among many HUD-funded nonprofits in New York City who worked with the New York Field Office to improve procedures. As you are probably aware, the entire nonprofit sector is facing severe resource constraints due to government cutbacks, while at the same time technology, quality assurance

Palladia, Inc.
2006 Madison Avenue
New York, NY 10035
T 212.979.8800
F 212.979.0100
palladiainc.org

Behavioral Health Services
Homeless and Shelter Services
Housing Services
Special Initiatives

Ref to OIG Evaluation

Auditee Comments

Comment 1

and reporting demands of funders has increased dramatically. Palladia's 44 contracts with 11 different City, State and Federal Funding agencies create a complex and rapidly changing set of expectations. Palladia prides itself on our ability to respond to this challenging environment.

Comment 2

We are disappointed that the draft report does not adequately acknowledge the exemplary work Palladia has done to respond to concerns raised by the Field Office. For example, the HUD time and attendance reporting requirements are very challenging to implement in the context of electronic time keeping systems, which are becoming standard in the nonprofit sector. Working with the Field Office, Palladia created an improved time and attendance system that tracks eligible HUD activities for all staff who work in a HUD-funded program. Palladia currently employs approximately 135 staff who track their time using our HUD Activity Log system. As we reported to OIG auditors, Palladia has provided free training and technical assistance to several other New York City-based providers, who are interested in replicating our activity log system, yet the draft report does not mention this example of our extraordinary efforts not only to comply ourselves, but to help other agencies to comply.

Comment 3

Moreover, the draft report does not adequately convey the financial sacrifices that Palladia has made to provide the maximum benefit to all of our tenants in the face of fiscal pressure. One indication of this effort is the fact that Palladia recorded more than \$3 million in General Ledger expenses in the six contracts examined by the HUD OIG as compared to only \$2.6 million in LOCCS drawdowns during that same time. This represents \$400,000 in expenses by Palladia on these programs beyond our HUD reimbursement. The \$3 million in GL expenses is in line with the actual value of the contracts.

Comment 4

Considering this context, we are disappointed HUD auditors did not expand their scope to more fully document the substantial improvements in reporting for Palladia's HUD contracts that began after our work with the Field Office. Although the draft report does mention that the only one such contract was selected for review during this period, and that this contract "**was supported with complete source documentation for its two vouchers,**" the report does not explain why the auditors failed to more fully investigate, understand and report on Palladia's improvements.

Finally, we have specific comments (attached) as to how the final report could be modified to better reflect the audit's findings:

Thank you for considering our comments.

Sincerely,



Mark Hurwitz
President/CEO

Comment 5

ATTACHMENT- Suggested amendments to draft report.

- *The heading on the top right of the Highlights page should read:*
Palladia, Inc., New York, NY, Did Not Administer Its Supportive Housing Program in Accordance with HUD Requirements with Respect to Documentation of Expenditures and Cash Match.

- *There is no indication that previous management had a lack of knowledge of regulations, nor is there evidence of a lack of program and financial controls except failure to provide source documentation for vouchers. Therefore, the first sentence of the **What We Found** section of the Highlights should read, "*
Palladia officials generally carried out their program assisted activities with the appropriate beneficiaries; however, they did not show support for how grant funds were expended. These deficiencies are attributed to Palladia's management predecessors' failure to..."

- *Similarly, Page 4, 1st paragraph should read,*
Although Palladia officials generally carried out their program-assisted activities with the appropriate beneficiaries, they did not show support for how funds were expended in accordance with HUD rules and regulations, and had not implemented adequate record-keeping and financial management systems."

- *Page 5, 2nd paragraph, should be broken into two paragraphs reading as follows:*
According to current Palladia officials, former management staff members did not maintain source documentation for program expenditures before June 2011 due to their failure to follow established policies and procedures. Also, current officials stated that it would take additional time and resources to prepare the missing source documentation for the 30 unsupported vouchers and reconcile their financial and accounting records. Palladia officials stated that their vouchers were corrected and began to be approved by the HUD Field Office beginning June 2011. They stated that vouchers were corrected from June 2011 going forward and that providing the supporting documentation would require a significant investment of time and resources for contracts during the period that overlapped with the time frame of the HUD OIG.

Current Palladia officials contended that after HUD performed a monitoring review in June 2011, they maintained complete source documentation associated with program vouchers going forward. Our review disclosed that one of the six sampled programs projects, with a project period of July 1, 2011, to June 30, 2012, was supported with complete source documentation for its two vouchers. However, without source documentation to substantiate the 30 vouchers that we requested for review, there was no assurance that more than \$1.6 million in program funds was expended for eligible program activities. See appendix C for the list of unsupported vouchers.

- *Page 6, 1st paragraph: Rent rolls were maintained and provided. Therefore:*
Also, the records substantiating the funding source for the six program projects were not maintained.

- *Page 7, 1st paragraph: As noted elsewhere, Palladia has existing policies. This audit was not reviewing program effectiveness.*

Comment 5

The deficiency noted above is attributed to Palladia's turnover in management staff, including its chief executive officer, chief financial officer, and assistant vice president of finance, who failed to implement Palladia's existing policies and procedures to ensure that grant matching funds were appropriately recorded and that adequate supporting source documentation was maintained. Consequently, Palladia officials could not assure HUD that they administered the program in accordance with requirements.

- *Page 8, Conclusion 2nd paragraph: Palladia properly expended these funds but could not provide documentation to HUD.*

Palladia officials generally carried out their program activities with the appropriate beneficiaries; however, they could not provide documentation demonstrating that they properly expended program funds in accordance with regulations. They could not demonstrate that they implemented adequate record-keeping and financial management systems...

- *Page 18, Dreitzer Women and Children: criteria correction and the reason for ending the project.*

Dreitzer Women and Children: During the project period, July 1, 2011, through June 30, 2012, HUD authorized and Palladia disbursed \$407,108 in program funds to Dreitzer, which was a residential facility with programs for both mother and child. Dreitzer Women and Children promoted a drug free life style and good mental health for a woman through a multidisciplinary team approach. The criteria for admission was that the individual had to be experiencing: substance abuse, homelessness, and either was pregnant or has one child under three years old in their care. According to Palladia officials, Dreitzer Women and Children was closed after the project period ended on June 30, 2012.

OIG Evaluation of Auditee Comments

- Comment 1** Palladia officials provided background information on their agency, citing the many people served and programs administered. However, our audit only covered Palladia's ten Supportive Housing Program projects awarded funding from July 1, 2010 through June 30, 2012.
- Comment 2** Although Palladia officials did not state disagreement with the finding, they expressed disappointment that we did not acknowledge the work Palladia had done in response to HUD field office concerns, claiming improvements were made to their electronic time keeping-system as an example. However, the scope of our review did not include the verification of Palladia's response to HUD's concerns, nor Palladia's ability to help other New York City providers on how to use the HUD Activity Log system. We did not test Palladia's electronic time keeping system; therefore, we did not report on it.
- Comment 3** Officials contend that the draft report does not convey the financial sacrifices they have made while faced with fiscal pressure. The financial sacrifices that Palladia officials have made were not within our scope of review; therefore, we have not conveyed this information in this report. Further, it should be noted that officials did not update their general ledger to reflect what was actually reimbursed by HUD. Thus, this only reinforces the audit result that there was no assurance that HUD funds were accurately recorded in accordance with HUD requirements.
- Comment 4** Palladia officials expressed disappointment that we did not expand our scope to fully document Palladia's improvements in reporting for HUD contracts. However, Palladia officials did not express disagreement on our finding. We did not review the vouchers that fell outside of our audit period, July 1, 2010 to June 30, 2012. Thus, we have not reported on them.
- Comment 5** We have taken Palladia officials suggested amendments to the draft report into consideration and made revisions to the final report where necessary.

Appendix C

SCHEDULE OF UNSUPPORTED VOUCHERS

No. of vouchers	Project Name	Voucher amounts	Voucher Number
1	Aegis	\$31,219	001-796053
2	Aegis	3,102	001-791589
3	Aegis	72,547	001-780145
4	Esperanza	26,090	001-804545
5	Esperanza	17,051	001-796099
6	Esperanza	126,671	001-791600
7	Esperanza	138,496	001-780142
8	Esperanza	177,072	001-770863
9	Esperanza	203,554	001-757973
10	Flora Vista	14,513	001-804558
11	Flora Vista	9,347	001-796055
12	Flora Vista	5,526	001-791387
13	Flora Vista	44,267	001-780150
14	Flora Vista	22,134	001-774834
15	Flora Vista	42,944	001-761409
16	Flora Vista	17,472	001-756579
17	Hill House	23,453	001-804560
18	Hill House	20,060	001-796056
19	Hill House	7,105	001-791586
20	Hill House	44,177	001-780151
21	Hill House	22,088	001-774826
22	Hill House	30,366	001-760773
23	Hill House	17,183	001-756581
24	Hill House	69,721	001-751144
25	Stratford	34,667	001-804552
26	Stratford	55,163	001-796054
27	Stratford	58,198	001-791384
28	Stratford	117,481	001-780148
29	Stratford	58,740	001-774830
30	Stratford	104,650	001-761410
Totals:		\$1,615,057	

Appendix D

THE PROJECTS SELECTED FOR REVIEW

Aegis: During the project period, January 1 through December 31, 2011, HUD authorized and Palladia disbursed \$390,609 in program funds to Aegis, which is a domestic violence crisis shelter that provides short-term, 90-day, and residential support services for families who must immediately leave their homes due to domestic violence. Some of the supportive services that Aegis provides are individual counseling, substance abuse assessment, housing advocacy, child and adolescent support groups, and recreational and cultural activities.

Dreitzer Women and Children: During the project period, July 1, 2011, through June 30, 2012, HUD authorized and Palladia disbursed \$407,108 in program funds to Dreitzer, which was a residential facility with programs for both mother and child. Dreitzer Women and Children promoted a drug free life style and good mental health for a woman through a multidisciplinary team approach. The criteria for admission were that the individual had to be experiencing: substance abuse, homelessness, and either was pregnant or has one child under three years old in their care. According to Palladia officials, Dreitzer Women and Children was closed after the project period ended on June 30, 2012.

Esperanza: During the project period, August 1, 2010, through July 31, 2011, HUD authorized and Palladia disbursed \$798,493 in program funds to Esperanza, a community residence providing temporary housing, short-term case management, and substance abuse services to men. This transitional housing project's average length of stay is between 6 and 9 months. Some of the supportive services that Esperanza provides are income maintenance counseling and individual and group substance abuse counseling.

Flora Vista: During the project period, November 1, 2010, through October 31, 2011, HUD authorized and Palladia disbursed \$205,621 in program funds to Flora Vista, which provides 20 studio apartments to individuals with disabilities who were formerly homeless. Some of the supportive services that Flora Vista provides for its tenants are substance abuse treatment, counseling, legal assistance, entitlement advocacy, and community program referrals.

Hill House: During the project period, July 1, 2010, through June 30, 2011, HUD authorized and Palladia disbursed \$234,153 in program funds to Hill House, which provides 43 units to individuals who have personal histories of homelessness and addiction. Some of the supportive services that Hill House provides are health education and support, case management, substance abuse counseling and recreational and socialization activities.

Appendix D

THE PROJECTS SELECTED FOR REVIEW

Stratford House: During the project period, November 1, 2010, through October 31, 2011, HUD authorized and Palladia disbursed \$595,243 in program funds to Stratford House, Palladia's largest permanent supportive housing program, which provides 60 one, two, and three-bedroom apartments for formerly homeless families who have struggled with disabilities, such as mental illness and substance abuse. Some of the supportive services that Stratford House provides are legal assistance and entitlement advocacy, case management, substance abuse counseling, and community program referrals.