



Veterans First, Santa Ana, CA

Supportive Housing Program

Office of Audit, Region 9
Los Angeles, CA

Audit Report Number: 2015-LA-1002
April 16, 2015



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

//SIGNED//

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

Subject: Veterans First, Santa Ana, CA, Did Not Administer and Spend Its HUD Funding 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 Veterans First's Supportive Housing 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 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 213-534-2471.



Audit Report Number: 2015-LA-1002

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Veterans First, Santa Ana, CA, Did Not Administer and Spend Its HUD Funding in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited Veterans First's Supportive Housing Program (SHP) based on a referral from the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's Office of Investigation and a hotline complaint, alleging that Veterans First employees were directed to prepare false accounting documents. Our objective was to determine whether expenditures Veterans First charged to its SHP grants and program fees it charged to its SHP clients were eligible and supported.

What We Found

Some of the complaint allegations had merit. Veterans First charged its SHP grants \$530,808 in unsupported payroll and other costs. We also identified \$3,245 in ineligible costs. In addition, Veterans First's accounting system data were unreliable and unauditible. Further, Veterans First continued charging clients a 19 percent program fee after a change in regulations disallowed the practice and did not adequately maintain documentation in its client files.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require Veterans First to provide adequate supporting documentation for \$530,808 in unsupported costs or repay its program from non-Federal funds and repay its program \$3,245 in ineligible costs. Additionally, we recommend that Veterans First implement accounting system procedures and controls and that HUD suspend its funding until such controls are in place. We also recommend that Veterans First repay the applicable clients the overcharged program fees, which combined totaled \$15,435, and implement additional policies and procedures for the review and maintenance of client income documentation and rent determinations.

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Background and Objective

Veterans First has provided services to Orange County, CA's veterans since 1971. It is the only 501c(3) agency in Orange County that provides services exclusively to the region's homeless and at-risk veterans. Veterans First provides a multitude of services, including housing, meals, life coaching-counseling, life skills, access to mental health counseling, benefit counseling, and transportation as well as job training and employment placement assistance. Veterans First has four U.S. Department of Housing and Urban Development (HUD)-funded housing locations:

- Veterans Village (Josephine House) permanent housing,
- Veteran Self-Determination (Anaheim House) temporary housing,
- Veterans Housing Project (Benton House) temporary housing, and
- Veteran Family Housing (Susan House) permanent housing.

Josephine House is pictured below.



Veterans First is supported primarily through its four HUD grants and grant funding from the U.S. Department of Veterans Affairs (VA). It also receives donations.

Supportive Housing Program

The Supportive Housing Program (SHP) is authorized by Title IV of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. (United States Code) 11381-11389). SHP is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the

provision of supportive housing to homeless persons to enable them to live as independently as possible.

Veterans First received the following SHP funding:

Name	Grant number	Amount	Address	Type
Veterans Village	CA0810L9D021204 8/1/13 -7/31/14	\$215,696	12781 Josephine Street Garden Grove, CA	Permanent housing
Veteran Self-Determination	CA0564L9D021205 9/1/13 – 8/31/14	\$162,745	(1) 1135 W. North Street Anaheim, CA (2) 1130 W. North Street Anaheim, CA	Temporary housing
Veterans Housing Project	CA0565L9D021205 11/1/13 – 10/31/14	\$259,661	13231 Benton Street Garden Grove, CA	Temporary housing
Veteran Family Housing	CA1122B9D021100 2/1/13 – 1/31/14	\$213,187	121 Susan Street Santa Ana, CA	Permanent housing
Grand total		\$851,289		

Our objective was to determine whether expenditures Veterans First charged to its SHP grants and program fees it charged to its SHP clients were eligible and supported.

Results of Audit

Finding 1: Veterans First Did Not Adequately Support the Eligibility of Its SHP Expenses

Veterans First did not adequately support the eligibility of its SHP expenses. Specifically, it was unable to fully support expenditures for supportive services, operating, and administrative costs in accordance with 2 CFR (Code of Federal Regulations) Part 230 and charged ineligible costs to its HUD grants. Specifically, Veterans First did not adequately support most of its employee salaries, including its employee salary allocations. This condition occurred because Veterans First did not have sufficient procedures and controls for its accounting system, payroll, and Line of Credit Control System (LOCCS)¹ drawdowns and the data in its accounting system were unreliable and unauditible (see finding 2). As a result, HUD had no assurance that \$530,808 in program funds was used for reasonable program costs, and \$3,245 in funds was not available for eligible program expenses.

Veterans First Did Not Support Expenses Charged to Its SHP Grants

Veterans First did not maintain adequate documentation to support \$530,808 in expenses charged to the HUD grants sampled, including projected salary expenses (\$457,357),² expense allocations (\$27,472), and other costs included in LOCCS draws (\$45,979) (see appendix D).

Veterans First Did Not Properly Support Its Salary Expenses

Our nonstatistical sample of drawdowns for each of the four HUD grants identified unsupported payroll costs totaling \$22,643. Veterans First did not have timesheets to support the time of most of the employees whose time was charged to the four HUD grants reviewed. Also, Veterans First was unable to provide sufficient documentation for employees' time, showing actual time spent working on specific HUD grants as required by 2 CFR 230, appendix A, section A.2.g, Basic Considerations (see appendix C). Additionally, when timesheets were provided, they lacked sufficient information to clearly determine which house the employee worked at or whether the employee worked for a HUD- or VA-funded house. As a result, HUD had no assurance that salaries charged to its four HUD grants were correct. Based on the results of our review, we

¹ LOCCS is HUD's primary grant disbursement system for most of its programs.

² Due to problems with Veterans First's accounting system (see finding 2), we had to estimate salaries charged to the grants. Veterans First's payroll averaged \$80,000 monthly, and more than half of this payroll expense was allocated to the four HUD grants, resulting in an estimate of \$480,000 for calendar year 2013. Since this amount would include the unsupported \$22,643 questioned as part of our draw reviews below, we excluded the latter from the estimate to avoid duplicating the amount.

questioned the eligibility of all additional salary costs charged to the four HUD grants totaling an estimated \$457,357 for calendar year 2013.

During our audit, Veterans First provided us with two different payroll allocations, which were different from each other and did not match what was charged to the general ledger. Additionally, the written basis for the first salary allocation methodology received, titled Employee Allocation for Payroll, did not correspond to the costs in the general ledger. Veterans First prepared a second salary allocation in November 2014, which was supposed to be applicable to the audit period; however, it also did not match the expenditures in the general ledger. The president stated that this latter allocation should have been in place but was not used by the accounting staff.

The original payroll allocations provided included the employee's name, position, and percentage of time allocated to the following six categories:

1. HUD – Anaheim,
2. HUD – Benton,
3. VA – Broadway-Manor,
4. HUD – Josephine,
5. HUD – Susan, and
6. Corporate.

Many of the HUD grant-related employees had a 20 percent split across all categories, excluding corporate, while others had either a 50-50 split between grants or 100 percent charged to one grant. However, the basis for the salary allocations did not consistently match. For example, at Benton House,

- One employee's salary was allocated as a 20 percent split, but his salary should have been allocated 100 percent to the VA.
- Another employee's salary that was allocated as a 50-50 split between two of the HUD grants should have had 50 percent reallocated from one HUD grant to the VA grant.
- A third employee's salary was supposed to be split among three HUD grants, and the rest of his salary was to be charged to the VA. However, it appeared that his salary was not split accordingly.

In each of these cases, although the allocation made in the general ledger did not match the basis for the allocation, Veterans First had not made the necessary corrections. There were similar problems found with the timesheets for all four HUD grants.

Veterans First Did Not Have Adequate General Expense Allocations

Veterans First did not adequately document other general expenses totaling \$27,472 to show that the amounts allocated to the HUD grants were reasonable, including

- Maintenance costs of \$12,875,
- Payroll of \$9,605 (as discussed in the section above),³
- Consulting of \$4,187,
- Auto insurance of \$649, and
- Utilities of \$156.

For example, we reviewed 100 percent of the invoices paid to R&S Maintenance Services for the period July 2012 through June 2013 and identified two additional invoices as part of our nonstatistical review of LOCCS drawdowns. The invoices did not itemize the type of work performed at each house, the amount of time spent at a house, or at which unit the work was performed as required by 2 CFR Part 230, appendix A, section A.2.g, Basic Considerations. In some instances, Veterans First provided R&S Maintenance Services invoices, but in other cases, it could provide only invoices generated from its own QuickBooks system. Our comparison of the invoices generated from both sources for the same period did not match, which made the reliability of the documentation questionable. We identified \$12,875 in maintenance expenditures recorded in the general ledger and allocated to the four HUD properties; however, the controller admitted that he had reallocated expenditures in QuickBooks without reviewing invoices, based on instructions received from Veterans First's president. As a result, we questioned the reliability and the validity of the data in the general ledger.

Another example identified as part of our nonstatistical sample review of Veterans First's LOCCS drawdowns was questionable invoices for auto insurance from IPFS Corporation totaling \$649. Veterans First provided nothing to show how these expenses were attributed to the HUD properties, such as what vehicle or how often the vehicle was used for HUD clients. Basically, the invoices were split among the five properties without an explanation of how the expenses were allocated. As a result, the costs were unsupported.

Veterans First Had No Support for LOCCS Draw Expenses

Our sample of LOCCS drawdowns for the four HUD grants found \$45,979 in expenditures with no supporting documentation, including

- Unknown expenses of \$20,309,
- Payroll costs of \$13,038 (as discussed above),⁴
- Supplies and utilities of \$5,666,
- Consulting costs of \$1,106, and
- Other operating costs of \$5,860.

³ The \$9,605 in unsupported payroll costs was offset against the questioned \$480,000 payroll estimate to avoid duplication.

⁴ The \$13,308 in unsupported payroll costs was offset against the questioned \$480,000 payroll estimate to avoid duplication.

Veterans First's draws generally exceeded the costs listed in the general ledger for most budget categories in our sample of LOCCS drawdowns. In other cases, Veterans First could not provide documentation to support expenses listed in the general ledger. For example, Josephine House's general ledger showed that \$11,523 was spent on operations; however, Veterans First could not support more than \$10,000 of these expenses. In another example, Veterans First drew down \$11,664 for supportive services from the Susan House grant but provided supporting documentation for only \$2,025, leaving \$9,639 unsupported as unknown costs. Therefore, HUD could not be reasonably assured that this funding was spent on eligible grant expenses. Overall, Veterans First failed to provide supporting documentation for \$45,979 in expenses (see appendix D).

Veterans First Charged Its HUD Grants for Ineligible Expenditures

We reviewed random LOCCS 2013 drawdowns for all four HUD grants and identified a total of \$3,245 in ineligible expenditures charged to the HUD grants (see appendix D).

- Marketing – Veterans First allocated \$426 to the 3 HUD grants for 61 t-shirts with the Veterans First logo. This cost is considered a marketing or promotion expense, which is unallowable according to 2 CFR Part 230, appendix B, section 45.
- Cable television – Although HUD's onsite monitoring report, dated September 30, 2013, had previously informed Veterans First that cable television was "ineligible per the SHP Desk Guide and at 24 CFR 583.125(b) Grants for operating costs," Veterans First charged four Time Warner Cable invoices totaling \$353 to the grants.
- Case management – Veterans First charged the program \$2,135 in salary and \$252 in payroll taxes for an employee funded through a VA grant.
- Supplies – Veterans First charged the program for \$78 in supplies for an employee funded by a VA grant.

Conclusion

Veterans First did not adequately support the eligibility of its SHP expenses in accordance with applicable HUD requirements. This condition occurred because Veterans First did not have sufficient procedures and controls for its accounting system, payroll, and LOCCS drawdowns and due to turnover of key staff. Also, the data in its accounting system were unreliable and unauditible (see finding 2). As a result, \$530,808 was spent for unsupported costs, and \$3,245 in program funds was spent for ineligible costs. Therefore, these funds may not have been available for eligible SHP activities.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require Veterans First to

- 1A. Support or repay \$73,451 in unsupported costs to the program from non-Federal funds.
- 1B. Support or repay the payroll allocation, estimated at \$457,357, to its SHP grants for 2013.
- 1C. Repay \$3,245 in ineligible costs to the program from non-Federal funds.
- 1D. Establish and implement a written methodology for its salary allocation.
- 1E. Establish and implement a written methodology for its general allocations.
- 1F. Establish and implement written policies and procedures to maintain adequate employee timesheet records for each employee charging time to its SHP grants.
- 1G. Establish and implement procedures and controls for accounting, including entries and tracking corrections in its accounting system and approval of all checks including payroll.
- 1H. Establish and implement written policies and procedures to require necessary supporting documentation for all expenditures charged to its HUD grants.

Finding 2: Veterans First's Accounting System Was Unauditable

Veterans First's accounting system data were unreliable and unauditable, and Veterans First did not obtain HUD approval for significant budget deviations. This condition occurred because of constant turnover of the accounting staff between 2011 and 2014 and a lack of accounting system controls. As a result, Veterans First's accounting system was unable to accurately show which expenses belonged to each of its four HUD grants, and expenses were not aligned with the HUD-approved budgets, which also led to its inability to provide financial statements for fiscal years 2011, 2012, and 2013.

Data in the Accounting System Were Unreliable

Veterans First's accounting system data were unreliable and unauditable. Regulations at 24 CFR 84.21, Standards for financial management systems, require grantees' financial management systems to provide accurate, current, and complete disclosure of each federally sponsored project (see appendix C).

In 2013, Veterans First's certified public accountant ended its engagement with Veterans First for its 2011 and 2012 financial statements and single audit reports required by HUD. The accountant informed us that its key issue with Veterans First was a lack of supporting documentation for entries in its QuickBooks accounting system. Additionally, Veterans First was constantly changing its accounting figures, payroll allocations, revenues, and expenses. In one submission to the accountant, the expenses exceeded the revenues, and in a later submission, the revenues exceeded the expenses.

Although it was not a violation, the certified public accountant also noted the commingling of funds in the main account. Veterans First initially deposited revenues from HUD and the VA into separate accounts, but then all funds were moved to the main commingled account from which all expenses were paid. Therefore, the general ledger entries were the only way to track the use of the funds, making accurate accounting entries particularly important to ensure compliance with HUD requirements.

The president stated during the entrance conference that items had not been charged to the correct grants and that the audits for 2011, 2012, and 2013 needed to be completed. Based on this constant adjustment of accounting transactions, we deemed the accounting system data to be unreliable and unauditable.

Veterans First Deviated From Its Budget Without Amending Its Agreement With HUD

Veterans First's grant agreement stated that it was prohibited from moving more than 10 percent of its funding from one budget line item in a project's approved budget to another without a written amendment to the agreement. This requirement is further supported by 24 CFR 578.105(b) (see appendix C). A review of the LOCCS draws for each of the four HUD grants revealed that Veterans First violated this requirement for its operating and supportive services budget line items.

For example, Susan House was approved for a case manager, a child care coordinator, and bus passes under supportive services. However, funds were instead spent on employment-education and client services salaries, and there were no expenditures for the approved budget line items.

Our nonstatistical sample of the four HUD grant expenses identified a total of \$13,258 in expenses over the 10 percent restriction (see appendix D). Although the funds were apparently used for costs allowable under SHP, it was unclear whether HUD would have approved these substantial amendments. It also illustrated a lack of proper controls to ensure that expenditures were aligned with the approved budget and grant agreement.

Staff Problems and Turnover Contributed to Accounting Issues

Veterans First's accounting staff problems contributed to unreliable accounting data and budget issues. In July 2012, Veterans First hired a consultant as a certified financial officer to do its accounting. However, the consultant had no nonprofit experience or education in accounting.

After the consultant left in August 2013, Veterans First hired a new certified financial officer. The president alleged that this individual embezzled from the company. However, we were unable to confirm this allegation as a result of the unreliable data in the accounting system. Veterans First then hired a bookkeeper, who did not know how to properly use Veterans First's QuickBooks accounting system. The bookkeeper hired two staff members who knew QuickBooks, and the certified financial officer was eventually fired.

In May 2014, the president hired a replacement controller, who allegedly gave himself an unauthorized pay raise. Soon thereafter, the president hired an outside bookkeeper to do the accounting on a part-time basis. Veterans First's full-time accounting clerk quit before the end of our audit fieldwork, which left only the part-time bookkeeper.

Overall, the staffing issues contributed to the inconsistent accounting, poor controls, and a general lack of knowledge of the financial and accounting transactions that transpired during the audit period.

Veterans First Lacked Controls

Although Veterans First had financial policies and procedures, they were incomplete, and it did not follow them. For example, it did not have sufficient controls over its accounting system. There were no policies or procedures regarding making correcting entries in the QuickBooks accounting system. The controller made changes to the general ledger in the system without making a journal entry. Additionally, each new accounting team entered correcting entries into QuickBooks without journal entries to support the adjusted entries. As a result, there was no documentation to explain or support why various changes were made in the system from 2011 to the end of the audit period.

These changes were also made to the accounting system without supporting documentation, often based on the president's direction; thus, there were no supporting documents, such as invoices, for costs entered into the accounting system. Further, there was no way to identify the changes made because the accounting system did not have an audit trail. We were able to identify some changes by comparing two sets of documents, such as general ledgers received at different times. In many instances, there were no invoices so staff would create a third-party invoice in the accounting system and pay it without a signature from management. In other cases, there was an invoice but no supporting documentation stating what service was performed.

Conclusion

Veterans First's accounting system was unreliable and unauditable due to the turnover of its accounting staff and its lack of accounting system controls. The lack of controls and staffing issues also contributed to deviations from the HUD-approved budget. As a result, Veterans First's accounting system was unable to accurately show which expenses belonged to each of its four HUD grants. In addition, expenses were not aligned with activities and amounts approved by HUD. Also, Veterans First had been unable to complete financial statements for fiscal years 2011, 2012, and 2013 as the result of inadequate accounting records. Collectively, the poor control environment created a high risk for the misspending of SHP funds (as discussed in finding 1).

Recommendations

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

- 2A. Require Veterans First to implement additional procedures and controls for its accounting system.
- 2B. Require Veterans First to hire qualified staff with an appropriate level of accounting and system expertise.
- 2C. Require Veterans First to implement procedures and controls to ensure that significant budget amendments are submitted to HUD for approval.
- 2D. Suspend funding to Veterans First until adequate controls are in place, along with knowledgeable accounting personnel.

Finding 3: Veterans First Charged Clients a Disallowed Program Fee

Veterans First continued charging clients a program fee after it was disallowed by HUD on July 31, 2012. This condition occurred because Veterans First's president was not aware of the change in rules regarding program fees until she attended training in September 2013. As a result, Veterans First overcharged clients 19 percent of their income for program fees for up to 14 months totaling \$15,435.

Veterans First Was Unaware of Changes Regarding Program Fees

Veterans First continued charging a 19 percent program fee to its SHP clients living in its Josephine House, a permanent housing HUD home, after July 31, 2012. The Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act ended program fees as of July 31, 2012⁵ (see appendix C); however, Veterans First's president stated that she was unaware of this change until she attended a seminar on the HEARTH Act in September 2013. Our review of 22 client files found that Veterans First continued to use outdated rent calculation forms that included the 19 percent fees as recently as our review in 2014. As a result, 8 of the 22 clients living in Josephine House continued to be charged a 19 percent program fee totaling \$15,435 in overcharges (see appendix E).

Veterans First Did Not Support Prior Program Fee Rates

Before July 31, 2012, when program fees were allowed, HUD had five specific requirements for charging program fees, which required grantees to maintain written supporting documentation showing

1. That the fee was for a supportive service,
2. That SHP funds were not used to pay for that portion of the service,
3. How the fee was determined,
4. That the fee was reasonable, and
5. That the participants were aware of how the fee was used.

Veterans First did not meet four of the five requirements for program fees charged before July 31, 2012.⁶ Although the fees were used for supportive services, it was not clear whether the fees were used for SHP expenses. Additionally, there was no written documentation to show how the fee percentage was determined to show that the 19 percent fee was reasonable for the services provided. Finally, based on the Josephine House rules, clients were told that the 19 percent fee was for "additional services" but were given no specific details.

⁵ The citation was codified under 24 CFR 578.87(d).

⁶ Since the charges occurred more than 2 years ago, we did not perform additional analysis to determine additional questioned costs.

Conclusion

Veterans First continued charging eight clients a 19 percent program fee after program requirements suspended the use of the fee. In addition, it did not properly document the reasonableness of the fee during the period when it was allowed. As a result, Veterans First overcharged its clients to participate in the program.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require Veterans First to

- 3A. Repay the applicable clients the overcharged program fees, which combined totaled \$15,435 (see appendix E).
- 3B. Update its resident rent calculation worksheet used for its Josephine House clients and remove program fees.

Finding 4: Veterans First Lacked Sufficient Documentation in Its Client Files

Veterans First’s client files lacked sufficient documentation to support clients’ incomes. This condition occurred because Veterans First did not have specific policies regarding income information and collection as part of its case manager manual (policies and procedures) for its clients. Although there was no issue with client eligibility, the accuracy of the 30 percent of income that clients paid for rent was questionable, and clients may have paid incorrect rents.

Veterans First’s Client Files Were Incomplete

Veterans First’s client files lacked sufficient documentation to support clients’ incomes. Of 80 client files reviewed, 25 (31 percent) were missing income documents to support the income reported on the rent calculation sheet (see appendix F). For example, one client did not have documentation to back up the income amounts listed on his rent calculation sheet, although the rent calculation sheet claimed that his income was from Supplemental Security Income. Additionally, general ledger information indicated that another client may have been overcharged between \$134 and \$148 per month based on the income amount identified. However, without the supporting income documentation, there was no way to determine whether the client was overcharged.

In addition, we found several instances in which a client’s recorded rent amount changed with no explanation in the client file for the adjustment in rent amount. There were also instances in which a minimum rent was charged without explanation, client payments did not match or were not posted to the general ledger, or it appeared that overstated income was used to calculate rent.

Overall, the following deficiencies were identified in 40 of the 80 client files⁷ reviewed (50 percent) (see appendix F):

- Missing income documents for 25 clients,
- Missing rental agreements for 8 clients,
- Changes to rent amount without explanation for 5 clients,
- Minimum rent of \$450 charged without explanation for 5 clients,
- General ledger not matching what the client paid for 3 clients,
- Rental payment(s) not posted in the general ledger for 2 clients, and
- Overstated income used to calculate monthly rental payments for 2 clients.

The SHP Self-Help Monitoring Tool states, “...a regular review of income (at least annually) must be conducted for all residents being charged rent so appropriate adjustments may be made. If there is a change in family composition, or a decrease in resident income, the resident may request an interim review of income and the rent may be adjusted accordingly” (see appendix C). Based on our review of the files, this process was not consistently followed with Veterans First’s clients.

⁷ Individual client files may have had more than one deficiency.

Conclusion

Overall, there were significant problems and missing information from 40 of the client files (50 percent) reviewed. These inconsistencies occurred because Veterans First had inadequate policies and procedures. As a result, it was unclear whether SHP clients were charged appropriate rent amounts.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require Veterans First to

- 4A. Establish and implement written policies and procedures on the review and maintenance of client income documentation and rent determinations.
- 4B. Review all files for the 40 clients with file inconsistencies, obtain applicable missing documentation, recalculate the rent amounts, and make any necessary adjustments to rent.

Scope and Methodology

We performed our onsite audit work at the Veterans First office in Santa Ana, CA, from June 17 to December 18, 2014. Our review generally covered the period July 1, 2011, to June 30, 2014, and was expanded as necessary.

To accomplish our objective, we performed the following:

- Held discussions with key Veterans First employees and HUD Office of Community Planning and Development staff involved with the administration of SHP;
- Interviewed the complainants from the hotline complaint;
- Interviewed the certified public accountant personnel who conducted Veterans First's audit engagement;
- Reviewed Veterans First's payroll documents and available timesheets;
- Reviewed Veterans First's LOCCS drawdowns, bank statements, and available supporting documentation for SHP expenditures;
- Reviewed grant applications, agreements, and annual performance reports from HUD;
- Reviewed relevant financial and accounting procedures and records;
- Reviewed Veterans First's organizational charts;
- Reviewed Veterans First's client files for each of its four HUD properties; and
- Reviewed applicable SHP regulations, including guidebook and CFR requirements.

We reviewed a sample of SHP LOCCS drawdowns for fiscal year 2014 for all four HUD grants to determine whether expenses were adequately supported. We nonstatistically selected 1 draw for each grant to include expenditures for all 4 HUD properties from a universe of 31 draws. We were unable to review additional draws beyond these four due to the significant delays in obtaining the backup documentation from Veterans First.

We reviewed 100 percent of the 80 client files for current clients living in the 4 HUD properties. The list of current clients was as of June 30, 2014, our cutoff date for this audit. We reviewed the house agreement, rental calculation worksheet, and supporting documentation for the clients' reported incomes.

We found that data contained in Veterans First's QuickBooks accounting system were unreliable and did not always match source documentation provided. We, therefore, determined the data to be unreliable for our use during the audit.

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 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:

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures and that clients pay appropriate rent amounts.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program charges are supported and comply with program funding guidelines and restrictions.

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:

- Veterans First did not follow policies and procedures to ensure that costs allocated to its SHP were adequately supported and in accordance with HUD requirements (see findings 1 and 2).
- Veterans First did not have adequate controls over the validity and reliability of data when it made correcting and adjusting entries in its accounting system (see finding 2).
- Veterans First did not have adequate controls over compliance with laws and regulations when it failed to update its policies in accordance with new regulations regarding program fees (see finding 3).

- Veterans First did not have adequate controls over the validity and reliability of data when it did not have income support in client files to ensure that rent calculations were correct (see finding 4).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$73,451
1B		\$457,357
1C	\$3,245	
3A	\$15,435	
Totals	\$18,680	\$530,808

- 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



March 25, 2015

Email: Tschulze@hudoig.gov

Tanya Schulze
U.S. Department of Housing and Urban Development
Regional Inspector General for Audit
611 W. 6th Street, Suite 1160
Los Angeles, CA 90017

Dear Ms. Schulze:

Attached to this letter is the Veterans First response to the Office of Inspector General HUD audit.

We are sending you this via email and will be sending a hard copy via Federal Express to the office address listed above.

Sincerely,

A handwritten signature in blue ink that reads "Deanne Tate".

Deanne Tate
President

CC:

1611 North Broadway Santa Ana, CA 92706 714-547-0615

www.veteransfirstoc.org

Providing Services to Veterans Since 1971

STATEMENT FROM VETERANS FIRST

Veterans First was founded over 44 years ago to provide services to veterans. As the only non-profit in Orange County providing services exclusively to homeless and at-risk veterans and their families since 1994, we are inundated from the moment we open our doors to closing. Over the last 7 years, we have housed over 1,085 veterans. Annually we provide services to over 1,500 veterans and their families which includes our Annual Stand Down that we having been coordinating since 2011.

Comment 1

As will be explained in our narrative, we acknowledge our books including our general ledger were not auditable, therefore we ask the question where did the figure of \$530,808 come from that is being recommended that we repay or is not allowable when Support Services paid from HUD was \$322,868?

Comment 2

We acknowledge our client files need some work which is already in process but we have not overcharged our clients with malicious intent but rather due to lack of knowledge of changes in the laws governing HUD.

Comment 3

Although there are portions of the Findings that we were unable to provide an adequate answer due to lack of sufficient information supplied such as names, dates or grants, our staff is continuing to research these items and make corrections as necessary.

Comment 4

Finally, the only people who prepared false accounting documents were, in fact, the hotline complainants.

Comment 5

Finding 1: Veterans First Did Not Adequately Support the Eligibility of Its SHP Expenses:

While Veterans First cannot argue that the reason for this Finding is lack of controls and procedures is not that we didn't have them in place but had a series of reprehensible people pose as Controllors and bookkeepers while they were totally unqualified. Every person who works in our accounting department is given a copy of the HUD approved Financial Policy & Procedure manual, the fact that they don't follow it is the problem. Anyone who knows accounting and follows the manual can do non-profit accounting.

Comment 6

Veterans First Did Not Properly Support Its Salary Expenses

As will be evidenced, the time cards and payroll sheets for all employees charged to HUD for each individual grants will be produced. In addition, the Finding states \$530,808 in expenses included projected salary expenses of \$457,357. This amount is incorrect as the total Support Services for all four grants is \$322,868 for the time period of 1/1/2013 to 12/31/2013. Although a project may be charged a certain amount for an employee does not mean that it is being paid by HUD but is allocated to that project for accounting purposes.

Comment 7

The statement that the timesheets that were provided were insufficient is confusing as these same time sheets have been reviewed by HUD numerous times and each time corrections and updates have been made.

Comment 8

Allocations are typically based on the number of beds in each grant. But there are exceptions, i.e. Veterans Family Housing is not included in the cost of delivering or purchasing food as food is seldom distributed to this property. This was explained in detail to the auditors. The statement that many of the grant-related employees had a 20% split across all categories is incorrect. We conveyed to the auditors that the majority of employee's time was split according to the number of people (beds) in each grant. The procedure for allocation is written in our Financial Policy & Procedure Manual. Without knowing the name of the position it is impossible to respond to the claims.

Veterans First Did Not Have Adequate General Expense Allocations Totalling \$27,472:

1. Expenses of \$12,875 invoiced by R&S Maintenance provided handy-man maintenance to all the houses. Broken sinks, stopped up toilets, Bed Bug removals, replace broken windows, screens, patch holes in the walls whatever need to be done 24 hours a day seven days a week they are on call. They submitted an invoice twice a month showing the percentage of work done at each specific property but not a list of the work performed which is why the auditors felt this should not be allowed. We had eight individual houses (including VA) and seven 2-bedroom apartments housing over 160 veterans and their families. R&S Maintenance are kept busy constantly. If we had simply put them on payroll this would not have been an issue.

Comment 9

There was never a need for Veterans First to generate invoices for R&S Maintenance; this was something the "Controller" [REDACTED] instituted after he was hired. When it was learned of what he was doing he was told it was a waste of time since we had to have the original invoice why the duplication? The auditors stated that they reviewed 100% of R&S Maintenance invoices they are correct and the ones that were generated by Veterans First are incorrect. We will produce all invoices by R&S.

Comment 10

In addition the "Controller" lied to the auditors. He was NEVER told to reallocate expenditures in QuickBooks without reviewing invoices. Mr. [REDACTED] was hired based on his knowledge of QuickBooks and nonprofit accounting to clean up the books and reallocate expenses when they were misapplied but NEVER to do this without reviewing every invoice to determine where it should be rightfully classified.

Comment 3

2. Without knowing what employees the auditors are referring to it is impossible to adequately respond to this claim;

* Names redacted for privacy reasons.

Comment 3

3. Without knowing what Consulting costs of \$4,187 the auditors are referring to it is impossible to adequately respond to this claim;
4. Without knowing when the IPFS Corp. Insurance of \$649 was drawn down on which LOCCS for which grant and the date that the auditors are referring to it is impossible to adequately respond to this claim;
5. Without knowing what Utilities of \$156 and for which grant the auditors are referring to it is impossible to adequately respond to this claim.

Veterans First Had No Support for LOCCS Draw Expenses

1. Without knowing what unknown expenses of \$20,309 and for which grant the auditors are referring to it is impossible to adequately respond to this claim.
2. Without knowing what payroll costs of \$13,038 and for which grant the auditors are referring to it is impossible to adequately respond to this claim.
3. Without knowing what supplies and utilities expenses of \$5,666 and for which grant the auditors are referring to it is impossible to adequately respond to this claim.
4. Without knowing what Consulting costs of \$1,106 the auditors are referring to it is impossible to adequately respond to this claim;
5. Without knowing what other operating costs of \$5,860 the auditors are referring to it is impossible to adequately respond to this claim.

Comment 3

Veterans First Charged Its HUD Grants for Ineligible Expenditures

1. Marketing – Absolutely agree this should not have been charged to HUD;
2. Cable TV – Time Warner is used for Internet and telephone. The bookkeepers should have not charged HUD for the cable access and this will be corrected;
3. Without knowing which employee the auditors are referring to it is impossible to adequately respond to this claim;
4. Without knowing which employee the auditors are referring to it is impossible to adequately respond to this claim.

Comment 3

RECOMMENDATION – RESPONSES

Comment 11

- 1A. Given the information necessary to respond, Veterans First will either provide the support or repay the \$73,451;
- 1B. As stated earlier there was not \$457,357 in HUD funds allocated for payroll to the 2013 SHP grants. We will support all payroll paid with SHP dollars or repay what we are unable to support;
- 1C. Given the information necessary to respond, Veterans First will either support or repay the \$3,245;
- 1D. The written methodology for salary allocations will be provided;
- 1E. The written methodology for general allocations will be provided;
- 1F. The written Policy & Procedures for maintaining adequate timesheet records will be provided;
- 1G. The written Financial Policy & Procedures will be provided;

Comment 6

1H. The written Supporting Document Policy & Procedures will be provided.

**FINDING 2: Veterans First's Accounting System was Unauditable
Data in Accounting System was Unreliable**

While we agree with part of this statement, there are several declarations here that we will take issue with and will explain. First, the CPA firm did not disengage Veterans First. We informed them that what they presented as audited financial statements for 2011 and 2012, after paying them \$40,000 and countless hours spent with our "CFO", was totally inaccurate. The CPA firm was led astray due to the CFO intentionally giving them false information to hide the fact that he was embezzling. They failed to inform the President/CEO or the Board during the audit that the information they were auditing didn't make any sense and there was obviously misallocation of funds, i.e. charging Stand Down expenses to the VA when Stand Down is Department of Labor. They also failed to inform the President/CEO or the Board that taxes hadn't been paid for five quarters or that rental receipts didn't match reported income.

The use of the word "admitted" as if we were trying to hide the fact that the books were a mess is an unfair statement. The President/CEO informed the OIG upon their arrival as to the state of the books.

After the CPA presented us with the financial statements, the realization that we needed to reconcile these books became the number priority of this agency. We then proceeded through a series of so-called "professional" bookkeepers/controllers only to have them replicate the others in incompetency and thievery.

Veterans First Deviated from Its Budget Without Amending Its Agreement with HUD

It has been our understanding since receiving the first grant and attending many HUD conferences that a Budget Line Item was an appropriation that is itemized on a separate line in a budget such as Support Services and Operations each being a Budget Line Item. Now we are told that is actually the "activities" within that Budget Line Item that is not allowed a shift of more than 10% from one approved eligible activity to another. However, we are not familiar with how they were allocated in the general ledger but the Child Care Coordinator did her job along with serving as the Housing Coordinator, the Case Manager performed his job and served as the Life Skills instructor. The only function not performed under this Budget Line Item was the bus passes as everyone in the housing program has a car and there was no need so we added it to the salary of the Child Care/Housing Coordinator.

Staff Problem and Turnover Contributed to Accounting Issues

Every person who works in our accounting department is given a copy of the HUD approved Financial Policy & Procedure manual, the fact that they didn't follow is

Comment 12

Comment 13

Comment 14

Comment 15

Comment 16

the problem. Anyone who knows accounting and follows the manual can do non-profit accounting.

We don't know where the auditors received the information that the CFO that the Board hired in **May of 2012** and who was fired in **September of 2013**, had no experience since he was the CFO of several multi-national companies prior to working for us. He was fired for embezzling NOT his replacement [REDACTED]. We were not asked for the proof of his embezzlement although we explained to the auditors how he accomplished it with the help of his bookkeeper and that it has been reported to the Orange County District Attorney.

His replacement, [REDACTED], had been highly recommended by another nonprofit that we held in great regard and respect. After bringing him on board, he hired two bookkeepers without our consent or knowledge and proceeded to over paid them. None of the three had any experience in nonprofit bookkeeping or knew QuickBooks which we learned after a couple of months of being lied to and given falsified P&L's. This disbarred attorney, who was also an alcoholic, created more chaos in the books even worse than they were when he started. When we fired him after about 9 weeks, he swore his revenge and called the OIG for HUD, VA and the IRS.

After [REDACTED] we hired [REDACTED] who was caught embezzling and also lied about his experience with non-profits. The bookkeeper the auditors refer to who left while they were there; left due to personal problems she was experiencing in her marriage. Currently we have a Bookkeeping Service, PrivaSicuro that provides 20 hours a week in our office and another 10 hours outside our office. We also have an in-house person handling the day-to-day accounts payable and receivable. PrivaSicuro's main function is to continue to clean up the books and prepare them for a CPA audit. She had to start with the VA which has been completed and is almost done bringing the HUD books current.

Veterans First Lacked Controls

The Policy & Procedure Manual that is given to every accounting person was written several years ago with updates as they occur. It was not only approved by the HUD office in Los Angeles but they helped us write it. We were unaware that it was incomplete and will have our CPA make the changes as recommended here.

As stated earlier the auditors were lied to and did not ask the President/CEO if there was any truth to the lies they were being told. The President/CEO has NEVER directed the bookkeepers to make changes unless it was to correct, upon being questioned, about an allocation of an expense but NEVER without documentation. It was [REDACTED], to our knowledge that started the practice of inventing invoices as that was never previously done.

RECOMMENDATIONS – RESPONSES

- 2A. This is currently being done
- 2B. This has been accomplished

Comment 17

Comment 18

* Names redacted for privacy reasons.

- 2C. Recently accomplished and submitted to HUD
- 2D. If funding is suspended then the agency will no longer be able to conduct the business of helping homeless veterans and their families..

Comment 19

**Finding 3: Veterans First Charged Clients a Disallowed Program Fee
Veterans First was Unaware of Changes Regarding Program Fees**

While we acknowledge the statement as it is was reported to the auditors, no client has been charged the 19% since we were notified in 2013.

Veterans First Did Not Support Prior Program Fee Rates

We were informed several years ago at a HUD Conference that if we were providing services above and beyond our budget that we could charge up to 19% in additional fees. Unfortunately, we were not informed of the five specific requirements which we fulfilled but would have been more diligent in documenting. We provided individual care such as washing their clothes, making their beds, changing their sheets, cleaning their bathrooms, transporting them to the bank, the stores and VA hospital, etc. While these are allowable we didn't have the staff allowance to perform these special duties that are necessary for the clientele we take care of at this facility.

Comment 20

RECOMMENDATIONS – RESPONSES

- 3A. We have contacted the 8 clients that were overcharged and have made arrangements with them to repay them the money;
- 3B. The Rent Calculation forms are generated upon entrance into the program, when there is a change in income and annually. The 19% was removed from the Rent Calculation forms in September of 2013.

Comment 21

**Finding 4: Veterans First Lacked Sufficient Documentation In Its Client Files
Veterans First Client Files Were Incomplete**

The Case Manager Manuals have been updated to include these recommendations.

- Missing Income documents for 25 Clients: We were able to find 19 of the missing income documents. Of the remaining 6 we have rent calculations that state the source of income with client signatures. We are unable to verify the source of income as the clients have subsequently left the program and we are unable to contact them.
- Missing rental agreements for 8 clients: We were able to find 6 of the missing rental agreements. Of the remaining 2 clients, although we don't have a formal rental agreement we have a signed Program Rules which states the terms and conditions of their stay in the residence and the amount they are agreed to pay from the rent calculation. These are signed by the clients.
- Changes to rent amount without explanation for 5 clients: Since we are not aware of when this occurred, we cannot accurately respond.

Comment 22

Comment 3

Comment 3

Comment 23

Comment 18

- Minimum rent of \$450 charged without explanation for 5 clients: This was an error caused by a misunderstanding by the In-Take Assessment person at the time. In January of 2014, a new system of In-Take Assessment was implemented. The Case Managers are now responsible to calculate at in-take which is then reviewed by HMIS Administrator for any errors.
- General Ledger not matching what client paid: Since we are not aware of when this occurred, we cannot accurately respond.
- Rental payments not posted to the General Ledger for 3 clients: Since we are not aware of when this occurred, we cannot accurately respond.
- Overstated Income used to calculate monthly rental payment on 2 clients: We are reviewing the files but need to know specifically the time frame that is being questioned as at this time we are unable to accurately respond with the information we have been given.

RECOMMENDATIONS – RESPONSES

- 4A. Although these procedures and policies were not in the Case Manager Handbook, they do exist and each Case Manager has been given the written procedure. Since January 2014 the HMIS Administrator has been designated to review in-take and annual rent calculations. The new Executive Director will be charged upon quarterly review of client files with the Case Managers and to be diligent to note changes in income and status upon reviewing proof of income. This will all be written and included in the updated Case Manager Handbook.
- 4B. Review of the files has been done and with additional information to be supplied by the auditors we will be able to finish correcting any errors and make necessary adjustments.

OIG Evaluation of Auditee Comments

- Comment 1 The questioned amount of \$530,808 is shown in detail in table 2, which can be found in appendix D of the report. We also provided Veterans First with schedules that break down the \$60,576. The \$12, 875 in R&S Maintenance Services represents invoices reviewed for the period July 2012 through June 2013, August 2013, and November 2013. How we derived \$457,357 in estimated payroll costs is explained in footnote 2 of the audit report. Veterans First may clarify the actual payroll with HUD as part of the audit resolution process.
- Comment 2 We did not state that Veterans First overcharged its clients with malicious intent. We simply indicated that Veterans First continued charging its clients a program fee after the HEARTH Act was enacted on July 31, 2012, disallowing the fee.
- Comment 3 We provided Veterans First with draft finding outlines, along with detailed schedules supporting our questioned cost amounts, in January 2015. We also provided updated schedules in March 2015. We verbally discussed the outlines and schedules with the president-chief executive officer. At no point did Veterans First indicate that it had insufficient information to identify the questioned expenses back to its general ledger and draw requests. However, we will forward additional documentation so it can address the questioned amounts with HUD.
- Comment 4 The report stated that OIG received a complaint alleging Veterans First prepared false accounting documents. However, it did not state that Veterans First prepared false accounting documents.
- Comment 5 In general, the role of management in an organization is to oversee and supervise its activities and employees. This responsibility includes ensuring that staff follows policies and procedures in line with the organization's mission or in the case of Veterans First, to meet Federal requirements for grant funding. According to the Committee of Sponsoring Organizations model, one component of internal controls is the control environment, which refers to the attitude of the company, management, and staff regarding internal controls. Another element of internal controls is control activities, which are policies and procedures that help ensure that management directives are carried out. A third component of internal controls is monitoring, which is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Therefore, we stand by our initial assertion that Veterans First lacked controls and procedures to ensure that its staff met HUD requirements.
- Comment 6 In addition to the supportive services budget line item, there are salary expenses that are also embedded in the other budget line items that Veterans First failed to account for. For instance, the operating budget shows that \$20,800, or one full-time employee (FTE), was allocated for a building security salary at the Josephine property. In another instance, the homeless management information system

(HMIS)⁸ budget allocated \$22,080, or one FTE, for HMIS personnel, also at the Josephine property. Our derived \$457,357 in questioned salary cost was an estimate for calendar year 2013. Because Veterans First lacked a payroll allocation methodology that was correctly and consistently applied, we could not determine the exact payroll amount during our fieldwork and had to estimate that amount based on the payroll average of \$80,000 per month. Veterans First may clarify the actual payroll with HUD and address the other recommendations as part of the audit resolution process.

Comment 7 HUD’s Office of Inspector General (OIG) is a separate and independent department from the HUD program office, and no documentation has been provided to substantiate this statement; therefore, we cannot speak to any HUD review of Veterans First’s timesheets.

Veterans First seemed to be aware of the correct methodology in documenting its employees’ time. According to its January 2012 Financial Policy & Procedures manual, it stated, “...all employees are required to provide timesheets that are coded to identify the prorated allocation of their time. All employees that work under more than one funding source will code their timesheets according to the time spent on each program. Payroll allocation to the general ledger will be recorded in accordance to coded timesheets (i.e. if an employee works 50 percent of their time for HUD and 50 percent to another program, the timesheet needs to reflect the breakdown of their time).”

However, as stated in finding 1, we determined that the timesheets were insufficient to reflect how each employee’s time was allocated to the HUD and VA grants.

Comment 8 Veterans First should have an allocation plan in place that consistently ties each of its staff members’ use of time to the proper house. We found that neither of Veterans First’s allocation plans was accurate and explained the salary split on the employee timesheets. One of the allocation plans was based on the number of beds in each grant. We saw instances in which time was split 20 percent across all categories, while others had either a 50-50 split between grants or 100 percent charged to one grant. There was no consistency in how the time was allocated. Further, in January 2015, we provided Veterans First with schedules, showing the names of employees, expense type, amount, pay period end, and house for the questioned amounts. We provided an updated schedule in March 2015. Between January and March of 2015, Veterans First failed to request additional

⁸ An HMIS is a computerized data collection application designed to capture client-level information over time. Eligible HMIS costs include staffing associating with operating the HMIS.

clarification on the questioned cost. However, we will forward additional documentation so it can address the questioned amounts with HUD.

- Comment 9 Veterans First did not maintain all of its R&S Maintenance Services invoices. It provided only 12 R&S Maintenance Services invoices for the period reviewed. As an alternative, the former controller provided copies of the Quickbooks-generated invoices.
- Comment 10 We can report only on the information we were given. The former controller told us that he reallocated expenditures in Quickbooks based on the president's direction and often without supporting documentation. While we cannot determine whether the controller was truthful, we do know that Veterans First's general ledger and accounting records were not auditable. In its written response to our draft audit report, Veterans First agreed with our assertion and attributed its poor books and records to unqualified staff. However, management is responsible for supervising its staff and ensuring that the information in its general ledger and books is accurate and supported.
- Comment 11 We also discussed those employees during the exit conference. We will provide Veterans First with additional information.
- Comment 12 We spoke with Veterans First's former certified public accountant personnel. They stated that they had ended their engagement with Veterans First for its 2011 and 2012 financial statements and single audit reports required by HUD. They also stated that they met with Veterans First's president-chief executive officer and told her of the allegations at Veterans First as well as other issues they encountered while they were auditing the books. Specifically, they stated that the payroll allocations kept changing. They also stated that Veterans First provided them with one set of numbers in which expenses exceeded revenues but later provided another set of numbers, which showed that revenues exceeded expenses.
- Comment 13 We changed the word "admitted" to "stated."
- Comment 14 Any confusion with grant funding requirements may be discussed with HUD staff. Veterans First's lack of familiarity with the activities allocated in the general ledger is of great concern. Without adequate books and records, it would be difficult for Veterans First to support which employees performed which activities.
- Comment 15 It is management's responsibility to ensure that its staff follows its policies and procedures. When the staff failed to follow policies and procedures, management should have taken steps to correct those errors.
- Comment 16 We spoke to the former chief financial officer, who stated that he worked at Veterans First as a consultant for just under a year (between July 2012 and August 2013). He also stated that he had no nonprofit and accounting experience, although he had an extensive background in business.

- Comment 17 We are reporting the information that we were given by Veterans First staff members. Even if the president-chief executive officer did not direct the bookkeeper to make changes in the system without documentation, this information showed that miscommunication and the lack of internal controls led to Veterans First's unauditible accounting system.
- Comment 18 Veterans First will have the opportunity to address and resolve the recommendations with HUD as part of the audit resolution process.
- Comment 19 Based on the documents we reviewed, Veterans First continued charging a 19 percent program fee to its SHP clients living in its Josephine House, a permanent housing HUD home, after July 31, 2012, when the HEARTH Act ended program fees.
- Comment 20 The details on the HEARTH Act and the five requirements for charging program fees can be found online, where management can easily access and apply them.
- Comment 21 We revised the sentence: "Our review of 22 client files found that Veterans First continued to use outdated rent calculation forms that included the 19 percent fees as recently as 2014." We meant that the outdated rent calculation forms had not been revised when we reviewed them in 2014 and not that the rent calculation forms still showed the 19 percent in 2014. Veterans First will have the opportunity to address the recommendations with HUD as part of the audit resolution process.
- Comment 22 These documents were not maintained in the applicable files when they were reviewed during our onsite fieldwork and were not provided to OIG afterward. However, Veterans First may provide the missing income documents and rental agreements to HUD as part of the audit resolution process.
- Comment 23 After further review, we reduced the number of rental payments not posted to the general ledger from three clients to two clients.

Appendix C

Criteria

The following are sections of 2 CFR Part 230, appendixes A and B:

2 CFR Part 230, Appendix A, General Principles

A. Basic Considerations

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria
 - g. Be adequately documented.

2 CFR Part 230, Appendix B, Section 8. Compensation for Personal Services, m. Support of salaries and wages

- (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:
 - (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
 - (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
 - (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 - (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

- (3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2), must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516). For this purpose, the term “nonprofessional employee” shall have the same meaning as “nonexempt employee,” under FLSA.

24 CFR Part 230, Appendix B, Section 45. Selling and Marketing

45. Selling and marketing. Costs of selling and marketing any products or services of the non-profit organization are unallowable (unless allowed under paragraph 1. of this appendix as allowable public relations cost).

24 CFR 84.21, Standards for financial management systems

- (b) Recipients’ financial management systems shall provide for the following:
 - (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in §84.52. If a recipient maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for their reports on the basis of an analysis of the documentation on hand.
 - (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
 - (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
 - (4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.
 - (7) Accounting records including cost accounting records that are supported by source documentation.

24 CFR 583.120, Grants for supportive services costs

(b) Supportive services costs. Costs associated with providing supportive services include salaries paid to providers of supportive services and any other costs directly associated with providing such services. For a transitional housing project, supportive services costs also include the costs of services provided to former residents of transitional housing to assist their adjustment to independent living. Such services may be provided for up to six months after they leave the transitional housing facility.

Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009
The HEARTH Act amended and reauthorized the McKinney-Vento Homeless Assistance Act.

The amended HEARTH Act states that SHP may no longer charge program fees. This amendment-interim rule went into effect on July 31, 2012. Specifically, it states, “The interim rule establishes that projects for leasing may require that program participants pay an occupancy charge (or in the case of a sublease, rent) of no more than 30 percent of their income. Income must be calculated in accordance with HUD’s regulations in 24 CFR 5.609 and 24 CFR 5.611

(a) However, the interim rule clarifies that projects may not charge program fees.”

24 CFR 578.87, Continuum of Care program, Subpart F, Program Requirements, Limitation on use of funds.

(d) *Program fees.* Recipients and subrecipients may not charge program participants program fees.

24 CFR 578.105, Grants and project changes, b. For Continuums having more than one recipient.

- (1) The recipients or subrecipients may not make any significant changes to a project without prior HUD approval, evidenced by a grant amendment signed by HUD and the recipient. Significant changes include a change of recipient, a change of project site, additions or deletions in the types of eligible activities approved for a project, a shift of more than 10 percent from one approved eligible activity to another, a reduction in the number of units, and a change in the subpopulation served.

SHP Toolkit – Tool 5 Calculating Resident Rent

A regular review of income (at least annually) must be conducted for all residents being charged rent so appropriate adjustments may be made. If there is a change in family composition, or a decrease in resident income, the resident may request an interim review of income and the rent may be adjusted accordingly.

Appendix D

Summary of Ineligible and Unsupported Costs Tables

Table 1

Grant	House	Ineligible amount
CA0564L9D021205	Anaheim	\$220
CA0565L9D021205	Benton	\$2,631
CA1122B9D021100	Susan	\$252
CA0810L9D021204	Josephine	\$142
Grand total		\$3,245

Table 2

House	Unsupported (allocation)	Unsupported (no documentation)	Total unsupported
Anaheim	\$156	\$10,691	\$ 10,847
Benton	\$578	\$5,505	\$6,083
Josephine	\$12,461	\$19,857	\$32,318
Susan	\$1,402	\$9,926	\$11,328
Subtotal	\$14,597	\$45,979	\$60,576
R&S			
Maintenance	\$12,875		\$12,875
Payroll	\$457,357		\$457,357
Grand total	\$484,829	\$45,979	\$530,808

Appendix E

Program Fees Table

Clients Overcharged 19 Percent Program Fees

Client*	Amount overpaid in program fees	Period overpaid
1	2012 - \$2,809 2013 - \$553	2012 – 10 months 2013 – 2 months
2	2012 - \$2,010 2013 - \$316	2012 – 10 months 2013 – 2 months
3	2012 - \$2,050 2013 - \$232	2012 – 10 months 2013 – 2 months
4	2012 - \$313 2013 - \$626	2012 – 1 month 2013 – 2 months
5	2012 - \$1,120 2013 - \$296	2012 – 5 months 2013 – 2 months
6	2012 - \$2,013 2013 - \$322	2012 – 9 months 2013 – 2 months
7	2012 - \$2,352 2013 - \$324	2102 – 12 months 2013 – 2 months
8	2013 - \$99	2013 - 1 month
Total	\$15,435	

* A list with client names was provided separately to Veterans First.

Appendix F

Missing Client File Documents Table

Client number *	House	Missing income document	Missing rental agreement	Changes in rent amount charged without an explanation	Minimum rent charged without explanation	General ledger does not match what client paid	Rental payment(s) not posted on the general ledger	Overstated income used to calculate monthly rent payments
1	Susan	X					X	
2	Susan							X
3	Susan						X	
4	Susan							X
5	Anaheim		X					
6	Anaheim		X					
7	Anaheim	X	X					
8	Anaheim		X					
9	Anaheim	X	X					
10	Anaheim		X					
11	Anaheim		X					
12	Anaheim	X						
13	Anaheim	X						
14	Anaheim	X						
15	Anaheim		X					
16	Josephine					X		
17	Josephine	X		X	X	X		
18	Josephine	X		X		X		
19	Josephine	X						
20	Josephine				X			
21	Josephine	X			X			
22	Josephine				X			
23	Josephine				X			
24	Josephine			X				
25	Josephine	X						
26	Josephine	X						
27	Josephine	X						
28	Josephine	X						
29	Josephine	X						
30	Josephine	X		X				
31	Josephine			X				
32	Josephine	X						
33	Josephine	X						
34	Benton	X						
35	Benton	X						
36	Benton	X						
37	Benton	X						
38	Benton	X						
39	Benton	X						
40	Benton	X						
Total		25	8	5	5	3	2	2

* A list with client names was provided separately to Veterans First.