



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 24, 2015

**MEMORANDUM NO:
2015-LA-1802**

Memorandum

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

Dane M. Narode
Associate General Counsel for Program Enforcement, CACC

//SIGNED//
FROM: Tanya E. Schulze
Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: Veterans First Did Not Administer or Spend Its Supportive Housing Program
Grants in Accordance With HUD Requirements

INTRODUCTION

Due to concerns identified by the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development (CPD), we completed a limited scope, spinoff audit of Veterans First¹ and reviewed additional grants not covered in our original audit. CPD was concerned that HUD funds for two additional grants not reviewed in the first audit were used to cover shortfalls in Veterans First's U.S. Department of Veterans Affairs (VA)-funded program activities. The purpose of the spinoff audit was to determine whether Veterans First administered and spent its Supportive Housing Program (SHP) grants in accordance with HUD requirements.

HUD Handbook 2000.06, REV-4, provides specific timeframes for management decision on recommended corrective actions. For each recommendation with 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 the Office of Inspector General (OIG) post publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

¹ We previously audited Veterans First (audit report number 2015-LA-1002, Veterans First, Santa Ana, CA, Did Not Administer and Spend Its HUD Funding in Accordance With HUD Requirements, issued April 16, 2015).

METHODOLOGY AND SCOPE

We conducted the audit fieldwork from our Los Angeles, CA, office between March and July 2015. Our audit generally covered the period June 1, 2014, to February 28, 2015, and was expanded as necessary.

Veterans First imposed a scope limitation that significantly impaired our review. It provided incomplete and inaccurate general ledgers that may not have reflected all of its financial activities. Further, it had dismissed its outside bookkeeper, who was tasked with correcting the books and converting data from its old QuickBooks to a new QuickBooks accounting system, so its records remained incomplete and inaccurate. Veterans First also had not issued an audited financial statement since June 30, 2010, and its last independent public accounting firm resigned from its engagement, stating that it was uncomfortable issuing an audited report when Veterans First's accounting figures kept changing. In our April 16, 2015, audit report, we determined that Veterans First's accounting system was unauditible. Although the information in its accounting system was unauditible, we had to partially rely on the information in its general ledgers since it was the only way to identify Veterans First's financial health and track how it used its HUD, VA, donation, and loan funds.

To achieve our audit objective, we conducted interviews or exchanged emails with

- HUD's CPD staff located in its Los Angeles, CA, office,
- Veterans First's president,
- Veterans First's former bookkeeper,
- VA officials, and
- The Susan Street landlord and property manager.

We also reviewed the following documents:

- Federal regulations and HUD requirements (see appendix C of the report);
- Backup documentation of two drawdowns referred by HUD;

Grant number	Voucher number	Amount
CA0565L9D021306	501-093879	\$64,908
CA1122L9D021301	501-074280	\$36,426

- Grant applications, grant agreements, and revised budgets as of March 1, 2015, for Veterans First's current HUD grants;
- General ledgers for its HUD and VA grants and corporate account generated from its old QuickBooks and new QuickBooks accounting software;
- Bank statements for its main account and HUD and VA accounts. We expanded our scope and also reviewed the October 2013 to May 2014 bank statements for its main account; and

- Line of Credit Control System (LOCCS)² drawdown information for its four current HUD grants.

We did not conduct our work in accordance with generally accepted government auditing standards since this was a limited scope review and we had recently performed a more detailed audit (audit report 2015-LA-1002). However, this fact had no effect on the significance of the conditions identified in this memorandum report. We designed the review to focus on determining whether Veterans First used HUD funds for its VA expenses. We believe that the evidence obtained provides a reasonable basis for our findings based on our objective.

BACKGROUND

We performed an audit of Veterans First’s SHP and issued audit report 2015-LA-1002 on April 16, 2015. That audit was based on a referral from CPD, OIG’s Office of Investigation, and a hotline complaint, alleging that Veterans First employees were directed to prepare false accounting documents. We reviewed Veterans First’s SHP grants for 2013 and 2014 (see table 1).

Table 1: Veterans First’s HUD SHP grants for 2013 and 2014

Name	Grant number	Grant period	Amount
Self-Determination Center	CA0564L9D021205	September 1, 2013, to August 31, 2014	\$ 162,745
Veterans Housing Project	CA0565L9D021205	November 1, 2013, to October 31, 2014	\$ 259,661
Veterans Village	CA0810L9D021204	August 1, 2013, to July 31, 2014	\$ 216,696
Veterans Family Housing	CA1122B9D021100	February 1, 2013, to January 31, 2014	\$ 213,187
Grand total			\$ 851,289

In this limited scope audit, we reviewed Veterans First’s four SHP grants for 2014 and 2015, each applicable to a different property, for a total of \$857,244 (see table 2).

² The Line of Credit Control System is HUD’s primary grant disbursement system, handling disbursements for the majority of HUD programs.

Table 2: Veterans First’s HUD SHP grants for 2014 and 2015

Name	Grant number	Grant period	Amount	Address
Self-Determination Center	CA0564L9D021306	September 1, 2014, to August 31, 2015	\$ 162,745	1135 West North Street Anaheim, CA
Veterans Housing Project	CA0565L9D021306	November 1, 2014, to October 31, 2015	\$ 259,661	(1) 13231 Benton Street Garden Grove, CA (2) 1611 North Broadway Santa Ana, CA ³ (3) 2025 North Broadway Santa Ana, CA
Veterans Village	CA0810L9D021305	August 1, 2014, to July 31, 2015	\$ 216,259	12781 Josephine Street Garden Grove, CA
Veterans Family Housing	CA1122B9D021301	June 1, 2014, to May 31, 2015	\$ 218,579	121 Susan Street Santa Ana, CA
Grand total			\$ 857,244	

For the fiscal year ending June 30, 2014, the general ledger showed that Veterans First received \$55,393 from the VA for its service center and \$401,719 for its Broadway-Manor house. The VA suspended Veterans First’s funding on June 20, 2014, pending the outcome of a corrective action review. Veterans First continued providing services and incurring VA-related costs under the assumption that the funding would be reinstated and reimbursed for services rendered. However, in December 2014, the VA terminated the grant without providing the anticipated reimbursement. Veterans First stopped operating its VA component in December 2014. However, according to its general ledger, it incurred about \$306,000⁴ in expenses during those 6 months.

Due to concerns with the VA activity and two recent HUD draws that appeared questionable, CPD referred the draws to OIG and suspended funding in November 2014. Shortly after CPD suspended its funding, Veterans First contacted CPD and asked for permission to draw down HUD funds to cover rents and salaries. It stated that it did not have enough cash to meet its current obligations and as a result, got behind on some of its payments. It assured CPD that once the VA reimbursed it for the expenses incurred, it would be able to operate until the end of December, indicating that the HUD funds would be used for VA expenses. CPD denied the request and stated that HUD funds could be used only for specific HUD-funded project activities, sites, and budgets identified in the grant application. CPD also stated that it could not allow its funds to be used for another project funded from a different agency, nor could it approve “advances” unless there were extenuating circumstances related to the HUD grants.

³ Effective January 1, 2015, CPD allowed Veterans First to change its Veterans Housing Project grant to support the expenses of its former VA property, the Broadway-Manor house, since its Benton property’s lease ended in December of 2014.

⁴ In our first audit (report number 2015-LA-1002), we stated that Veterans First’s accounting system was unauditible and concluded that the data in the accounting system were unreliable. We did not test the VA amounts in the general ledger for accuracy.

At a May 22, 2015, meeting between CPD and Veterans First, CPD suspended its Veterans Family Housing-Susan Street property grant indefinitely because it failed to meet the agreed-upon terms as the lease holder for client housing. Veterans First notified CPD that it had chosen not to reapply for the fiscal year 2015 renewal funding for its four active grants, which would end its relationship with HUD at the expiration of its fiscal year 2014 grants, the last of which would expire on October 31, 2016.

The objective of our review was to determine whether Veterans First administered and spent its SHP grants in accordance with HUD requirements.

RESULTS OF REVIEW

Contrary to 2 CFR (Code of Federal Regulations) Part 225, appendix A (c), Veterans First drew down HUD grant funds in advance and inappropriately diverted those funds, as well as rental revenue specific to each HUD house, to pay off its current VA- and corporate-related expenses. Our review of two LOCCS draws showed that Veterans First did not incur enough expenses to warrant drawing down so much of its HUD funds, nor did it have enough supporting documentation to show that it incurred costs related to those HUD houses. As a result, CPD could not be assured that Veterans First used its HUD grants appropriately. Further, because it did not have sufficient funds for its HUD property obligations, it was unable to make the lease payments for its Veterans Family Housing-Susan Street property and caused the landlord to begin the eviction process. We also recently learned that Veterans First was 1 month late in paying its Self-Determination Center-Anaheim property.

Aggressive Drawdown of Grant Funds

According to 24 CFR 215.22, payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Grantees are encouraged to make LOCCS draws monthly at a minimum of once a month or as funds are spent. Further, CPD does not approve cash advances unless there are extenuating circumstances that relate to the HUD grants. We reviewed Veterans First's drawdown activity for its four direct SHP HUD grants and noted that it drew down funds in advance.

During the period when Veterans First continued VA-related services without reimbursement, it aggressively accessed its SHP grant funds by making several draws per month and drawing more than 1/12th of its total grant. In one instance, it drew down 25 percent of its total grant funds for its Benton grant only 3 days after the program term began, leaving 75 percent to be available for the next 11 months (see Tables 3 and 4 for a more detailed analysis of the \$64,908 Benton draw below). In another instance, it drew down 50 percent of its total grant in 3 months, leaving only 50 percent to cover the 9 months remaining in the program year. In a final instance, it drew down 92 percent of its total grant, with only 8 percent left to cover the 7 months remaining in the program year. We attributed these actions to the organization's need for immediate cash to cover expenditures for its corporate- and VA-related services.

Main Bank Account and General Ledger Balances

When Veterans First drew down HUD funds from LOCCS, they were deposited into a HUD-designated bank account and immediately transferred into Veterans First's main bank account. All revenues and expenses of the organization were pooled and lost their identity since Veterans

First did not keep detailed and accurate general ledger records. The untracked pooling of funds resulted in excess expenses from one source (VA) being paid with excess revenues from another source (HUD). In addition, Veterans First did not use the traditional “due to-due from” line items in its general ledger, showing that one source was borrowing funds from another; therefore, it was not clear what portion of its HUD grant funds was used for non-HUD purposes at any time. Veterans First did not maintain controls over how it used its pooled funds. However, the cumulative balances in the HUD accounts in the general ledgers showed that it had excess revenues over expenses (see the cash surplus or deficit column in table 3), while the VA and corporate general ledgers showed that it had excess expenses over revenues (see the cash surplus or deficit column in table 4).

Table 3: Veterans First’s cash balances for its HUD properties

Date	June 2014 to February 2015 general ledger - Anaheim	June 2014 to February 2015 general ledger - Benton	June 2014 to February 2015 general ledger - Josephine	June 2014 to February 2015 general ledger - Susan	Sum of balance each month
06/30/2014	(19,005)	\$23,956	(\$35,874)	\$30,091	(\$832)
07/31/2014	(22,247)	\$40,998	(\$54,021)	\$18,949	(\$16,321)
08/31/2014	(39,252)	\$27,487	(\$53,758)	\$98,471	\$32,948
09/30/2014	(31,907)	\$9,195	(\$33,458)	\$102,701	\$46,531
10/31/2014	40,290	\$615	\$9,269	\$129,814	\$179,988
11/30/2014	21,062	\$62,915	(\$3,115)	\$114,135	\$194,998
12/31/2014	15,761	\$60,731	(\$18,531)	\$108,560	\$166,521
01/31/2015	8,893	\$48,104	(\$31,149)	\$103,868	\$129,716
02/28/2015	2,952	\$36,846	(\$38,880)	\$99,939	\$100,857

Table 4: Veterans First’s cash balances for its VA and corporate accounts

Date	June to December 2014 general ledger - VA Broadway-Manor	June 2014 to February 2015 general ledger - VA service center	June 2014 to February 2015 general ledger – corporate	Donations & loans to Veterans First	Cash surplus or deficit
06/30/2014	(\$49,960)	(\$627)	(\$33,675)	\$26,436	(\$57,826)
07/31/2014	(\$52,305)	(\$3,453)	(\$56,833)	\$13,685	(\$98,906)
08/31/2014	(\$98,747)	(\$14,995)	(\$79,684)	\$69,724	(\$123,702)
09/30/2014	(\$151,144)	(\$26,824)	(\$103,920)	\$17,717	(\$264,171)
10/31/2014	(\$175,633)	(\$41,028)	(\$125,291)	\$4,481	(\$337,471)
11/30/2014	(\$215,787)	(\$51,040)	(\$143,684)	\$5,786	(\$404,725)
12/31/2014	(\$234,804)	(\$51,935)	(\$172,765)	\$29,664	(\$429,840)
01/31/2015	(\$236,847)	(\$53,286)	(\$176,234)	\$16,281	(\$450,086)
02/28/2015	\$0	\$0	(\$176,427)	\$6,808	(\$619,705)

Risk That Corporate Expenses May Have Been Paid With HUD Funds

In addition to the VA expenses, Veterans First had corporate-type charges that were paid with its main bank account’s commingled revenues, including donations, VA grant funds, personal loans from the president, and HUD grant funds. Although it is not a violation of HUD requirements

for Veterans First to maintain a centralized account, due to its unauthorized practice of drawing HUD funds in advance and its poorly maintained general ledger it created the risk that HUD funds may have paid for corporate costs that were ineligible under the program.

We reviewed Veterans First's main bank statements from October 2013 and May 2014 and identified food (Cowgirls Café, Citrus Café, Chipotle, McDonalds, etc.), cable (DirecTV), membership dues (the Lincoln Club of Orange County), miscellaneous (Enterprise Rent-A-Car, the Wine Club, Edible Arrangements, and Party City), and motel charges for the president's son's stay at the Red Roof Inn. These types of expenses would not be eligible for reimbursement based on HUD requirements since they were not previously approved on the HUD grant budget. According to 2 CFR 215.25, recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions. However, because all expenses were commingled in Veterans First's main bank account and the general ledger was unreliable, there is a risk that HUD funds may have been used to pay for these expenses, although they were not recorded in the HUD accounts in the general ledger. After May 2014, the use of the debit card decreased significantly; however, these types of ineligible charges did not stop. In the June 2014 bank statement, we identified a motel stay charge at Red Roof Inn for the president's son's girlfriend. We also identified DirecTV and Lincoln Club of Orange County membership dues during the period when Veterans First experienced cash shortages⁵.

According to the president, this methodology of transferring revenues to Veterans First's main bank account was instituted by one of Veterans First's former controllers. She stated that Veterans First planned to change the methodology so that expenses would be segregated by grant to prevent this type of commingling of funds.

Questionable LOCCS Draws

We reviewed the two LOCCS draws referred by CPD totaling \$101,334. Overall, we determined that \$49,307 was unsupported and \$8,083 was ineligible.⁶

1. Voucher 501-093879 – Veterans Housing Project-Benton House (\$64,908)

Veterans First inappropriately drew down \$64,908 3 months in advance and provided only \$21,512 in backup documentation to support its expenses, indicating that its Benton property did not incur enough eligible expenses to warrant drawing down the full amount. As a result, \$43,396 was drawn down and transferred to Veterans First's main account and appears to have been used to pay for current non-HUD obligations, which were primarily VA and corporate expenses. We could not be more specific regarding these payments because of the commingled funds.

2. Voucher 501-074280 – Veterans Family Housing-Susan House (\$36,426)

Of the \$36,426 drawn down by Veterans First, a total of \$13,994 was questionable. Veterans First provided only \$35,044 in backup documentation; therefore, the difference of \$1,382 was unsupported (see table 5). In addition, \$4,529 in salaries was unsupported because the timesheets did not show how the employee's time was allocated as required

⁵ Due to the unreliability of the general ledger we have not been able to specifically identify if HUD funds drawn in advance were used to pay for these corporate costs.

⁶ A detailed breakdown of the specific amounts in question was provided separately to Veterans First.

by 2 CFR Part 230 (m). There were also instances in which the employee worked only on VA activities, yet the time was charged to HUD. For example, the former receptionist's time was charged to the HUD grant when her entire salary should have been paid by the VA since the service center was VA funded. Finally, an additional \$8,083 was ineligible since these funds were used on items not approved in the grant budget. For example, Veterans First spent \$1,388 for operations services, such as maintenance, utilities, and insurance; however, operating costs were not approved in the budget. Veterans First did not request a budget revision for this grant to allow operation-type costs to be charged as required by 2 CFR 215.25.

Table 5: Breakdown of questioned costs for \$36,426 draw

Description	Amount
Amount drawn from LOCCS	\$ 36,426
Unsupported due to allocation issue	\$ 4,529
Supported eligible expense	\$ 22,432
Unsupported due to lack of documentation	\$ 1,382
Total ineligible	\$ 8,083

Draws HUD Did Not Review Were Also Questionable

HUD suspended and began manually reviewing Veterans First's drawdown requests as of November 2014. However, due to the problems noted above, there was no assurance that Veterans First's other drawdowns between June and November 2014 were spent only on HUD-eligible expenses. As a result, these additional draws totaling \$340,581 were also questionable (see table 6).

Table 6: Breakdown of unsupported expenses

House	Unsupported draws not reviewed by HUD
Self-Determination Center-Anaheim	\$68,544
Veterans Housing Project-Benton	\$0
Veterans Village-Josephine	\$108,120
Veterans Family Housing-Susan	\$163,917
Total	\$340,581

Inability To Make Lease Payments

Veterans First was unable to make its lease payments for one of its HUD-grant-awarded properties, Veterans Family Housing-Susan Street, during the 4-month period from February to May 2015, resulting in the landlord's beginning the eviction process to get the program participants out of the units. The president of Veterans First attributed this inability to make payments to the organization's lack of funds, although the HUD grant specifically earmarked a portion of the budget to cover the entire leasing costs during the year.

In July 2014, shortly after the VA cut off its funding, Veterans First drew down \$33,594 in advance from its leasing budget line item in LOCCS for the Veterans Family Housing-Susan Street grant. This amount represented the 3 months of lease payments for its Susan property that could have later been used to pay its February to April 2015 rents. However, the president stated that the funds were drawn down, transferred to Veterans First's pooled main bank account, and used for bills and payroll during that time. Veterans First, therefore, used the \$33,594⁷ in HUD program funds, in violation of grant requirements, on expenses including VA or corporate related costs that were recorded in its main bank account.

In June 2015, HUD allowed Veterans First to draw down \$11,198, which would cover 1 month's lease payment. This amount was the last of the leasing funds available under the Veterans Family Housing-Susan Street grant. CPD advised Veterans First to use the funds to pay the past-due leasing cost for the Veterans Family Housing-Susan Street property. Although Veterans First remitted the payment to the landlord, the landlord returned the payment since it had started the eviction process. Those funds should be returned to HUD until the landlord agrees to accept payment.

In addition to the Susan Street property, we learned that Veterans First was 1 month behind on paying its Anaheim property rent and had an additional month remaining on the grant. However, based on LOCCS, it would not have enough funds to make up the 1 month it was behind.

Conclusion

Veterans First used HUD funds to pay for its VA and corporate expenses by commingling revenues and expenses in its main bank account and redirecting any excess and unused HUD funds to its outstanding expenses. These conditions occurred because Veterans First ignored HUD requirements, lacked controls over its pooled funds, and failed to maintain a reliable accounting system that could adequately track the source of its expenses and revenues. Another contributing factor was that Veterans First continued to incur VA and corporate expenses without having funding to pay for those costs. As a result, HUD could not reasonably be assured that the funds drawn down of \$340,581 were used for their intended purpose. Based on the available documentation for the two draws reviewed, Veterans First may have overdrawn \$44,778 from its HUD grants and used it for non-HUD-related expenses. We also determined \$4,529 in salary charges to be unsupported and an additional \$8,083 in expenditures to be ineligible. Because Veterans First used its HUD funds for VA and corporate expenses, it could not meet its HUD obligations at its Susan Street and Anaheim properties and caused the landlord at Susan Street to begin the eviction process. Further, it should return \$11,198 in grant funds that CPD allowed it to draw until the landlord agrees to accept payment.

⁷The unsupported cost of \$33,594 is included in the total questioned costs of draws not reviewed by CPD.

RECOMMENDATIONS

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

- 1A. Support or repay \$49,307 in unsupported costs to the program from non-Federal funds.
- 1B. Repay \$8,083 in ineligible costs to the program from non-Federal funds
- 1C. Support or repay the program for grant funds of \$340,581 that were drawn without being reviewed by HUD.
- 1D. Support or repay the June 2015 drawdown of \$11,198, which Veterans First was advised to use for its Susan Street past-due rent.
- 1E. Require Veterans First to implement additional procedures and controls for its accounting system to ensure that it spends grant funds only on HUD projects.

We also recommend that HUD's Office of Program Enforcement

- 1F. Pursue civil remedies or administrative sanctions against Veterans First and responsible parties for the misuse of HUD funds.

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$49,307
1B	\$8,083	
1C		\$340,581
1D		\$11,198
Totals	\$8,083	\$401,086

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



September 4, 2015

Ms. Tanya E. Schulze
Regional Inspector General for Audit
Office of Community Planning and Development
U.S. Department of Housing & Urban Development
611 W. 6th St. Suite 1160
Los Angeles, CA 90017-3801

Dear Ms. Schulze:

This letter is our response to the August 21, 2015 draft audit report.

Before going into specifics, we wish to make a general statement. This second audit commenced in March 2015 prior to the issuing of the original audit report on April 16, 2015. The second audit was based on what was available on the General Ledger. Yet the first audit according to the statements of the OIG the General Ledger was unauditible. So the question begs, why do another audit prior to giving us the opportunity to correct our books?

On Page 2, second paragraph it states that "Veterans First imposed a scope limitation" we gave the auditors everything that we were asked for and did not impose any limitations to our knowledge. It also states that we dismissed our outside bookkeeper without stating all the facts. The bookkeeper was contracted to review the books and accurately classify all expenditures into the correct grants. Her failure to do this while working with the OIG auditors caused us to dismiss her. We notified the auditors several times that we felt uncomfortable with the pace and work that we were being given by the bookkeeper and we were assured that they were in communication with her and had no problems. Yet when the final General Ledger was sent to the auditors it was incomplete and not acceptable to the auditors.

On Page 3, under Background it states once again about the former audit and the lies that the bookkeeper, [REDACTED] a disbarred alcoholic, at that time told the OIG Hotline that Veterans First employees were directed to prepared false accounting documents. This outrageous lie keeps being repeated. Where are these documents? Where is the proof of these lies? Why must they be repeated in every report? There has never been any proof of these allegations except this man's word over the word of highly respected people who know these are lies yet haven't been interviewed or even asked to vouch for the integrity of the Administration of Veterans First.

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

Providing Services to Veterans Since 1971

Comment 1

Comment 2

Comment 3

Comment 4

* Names redacted for privacy reasons

**Ref to OIG
Evaluation**

Auditee Comments

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Comment 10

Comment 11

Page Two
Tanya E. Schulze

On Page 7, there are several allegations of funds being used for corporate expenses such as Cowgirls Café, McDonalds, Citrus Café, etc. as these are for providing meals to veterans or staff meetings we are confused as to why this is not appropriate? Also payments to Direct TV is for the Josephine House which HUD does not allowed to be paid with HUD funds; the Lincoln Club is a 501 3(6) is for public relations; the Wine Club, Party City, etc. were for fundraising events, why were these questions not asked of us from the auditors? In addition, we use the Red Roof Inn to house homeless families. It also states that the President's son stayed at the Red Roof Inn but attached is an accounting of funds owed to the President and it clearly shows that any stays at the Red Roof Inn were deducted from monies owed to her. In June 2014 it also states that the President's son's girlfriend was identified staying at the Red Roof Inn. In our bank statement there is no mention or in our unreliable (per OIG) General Ledger it states for emergency housing. Where did this accusation come from?

As of July 1, 2015 all accounts have been separated and each grant is being handled as a separate entity.

Questionable LOCCS Draws: Once we knew what the auditors needed we submitted adequate backup documentation of expenses to cover both of these drawdowns. There was some confusion regarding Susan Street case managers but we were able to eventually work out the problem and resubmitted to the auditors last week.

Draws HUD did not review were also questionable: While we understand that the OIG is concerned about how the money was spent it is entirely unfair to accuse Veterans First without first giving us the opportunity to pull together receipts of expenses to prove where the money was spent.

Conclusions: While errors were made, they were neither intentional nor malicious. Being the only homeless program in Orange County for veterans there has been and continues to be a great burden on this agency to do what the government has failed to do...simply to keep their word to help veterans who have sacrificed so much of their lives, mental state and physical well-being on the promise that the government would be there to assist them when they returned. We do the best we can with what little we have and do a great job helping the thousands of veterans who have come through our doors.

Sincerely,

VETERANS FIRST

Deanne Tate /s/

Deanne Tate
Chairperson of the Board

Auditee Comments

Type	Date	Num	Name	Memo	Amount	Verified
28400 - Loans from Officers, Directors						
Deposit	1/12/2009		Deanne G	Missing deposit 1/24	7,825.87	Part of \$ 9,167.87
Deposit	05/26/2010	5812	Deanne G	Loan	5,000.00	ok
Check	05/27/2010	5812	Deanne G	Loan Repayment	(5,000.00)	ok
Check	06/15/2010	6289	Deanne G	Repayment	(500.00)	ok
Deposit	12/20/2010		Deanne G	Deanne Title Loan	8,800.00	Part of \$ 9,240.54
Check	12/22/2010	6752	Deanne G	Reimbursement from loan	(11,900.00)	Check Amt. \$ 11,995.48
Check	07/23/2011	EFT	D. G.	loan repayment	(504.00)	ok
Deposit	07/25/2011		Deanne G	Deposit	500.00	ok
Check	06/15/2012	8128	Deanne G	Check issued to Deanne	(670.00)	ok
Bill	06/20/2012	8184	Deanne G	Loan - Repair	(380.00)	ok
Deposit	11/21/2012	Deposit	Deanne G	Short Term Loan From Deanne Title	9,800.00	ok
Deposit	03/03/2013		Deanne G	Loan From Deanne Title	4,200.00	Part of \$ 8,624.00
Deposit	03/07/2013	9353	Deanne G	Loan Reimbursement	2,000.00	Part of \$ 3,435.06
Bill	02/22/2013		Deanne G	Loan Reimbursement	(100.00)	ok
Bill	02/26/2013		Red Roof Inns	Loan Reimbursement	(256.41)	ok
Bill	04/02/2013		Red Roof Inns	Loan Reimbursement	(256.41)	ok
Bill	04/06/2013		Red Roof Inns	Loan Reimbursement	(256.41)	ok
Check	04/17/2013	9432	Deanne G	Loan Re Pay	(3,000.00)	ok
Deposit	08/13/2013		Deanne G	Loan from DT to Main Account	2,500.00	ok
General Jt	10/28/2013	10483	Deanne G	(4) \$1000 (1) \$500 cashier checks - Loan from Deanne Title	4,500.00	ok
Check	07/17/2014		Deanne G	Repayment toward Advances	(1,000.00)	ok
Deposit	12/08/2014		Deanne G	Loan From Deanne Title CC #813080394	3,500.00	ok
Deposit	12/31/2014		Deanne G	Loan From Deanne Title CC #813275192	2,500.00	ok
Deposit	02/06/2015		Deanne Title	Loan From Deanne Title	1,500.00	ok
Deposit	02/06/2015		Deanne Title	Loan From Deanne Title	1,500.00	ok
Deposit	02/23/2015		Deanne Title	Loan From Deanne Title - Withdrawal receipt	3,500.00	Part of \$ 4,115.25
Total Loan Balance - Deanne Title					33,782.84	
Loan from (Loan Reimbursement)					10,000.00	Part of \$ 12,619.04
Loan From (Loan Reimbursement) CC #809201982					(6,000.00)	ok
Loan From (Loan Reimbursement) CC #809201982					(2,000.00)	ok
Loan From (Loan Reimbursement) CC #809201982					10,000.00	ok
Loan From (Loan Reimbursement) CC #809201982					5,000.00	ok
Total Loan Balance					17,000.00	ok
Outstanding Payroll Checks						
Check	10/21/2013	10113	Deanne G	Payroll Period 10/1/13-10/15/13	2,211.85	Verified never cleared Bank Account
Check	11/21/2013	10146	Deanne G	Payroll Period 11/01/13-11/15/13	2,211.85	Verified never cleared Bank Account
Check	02/20/2014	10250	Deanne G	Payroll Period 2/1/14-2/15/14	2,216.12	Verified never cleared Bank Account
Check	03/05/2014	10253	Deanne G	Payroll Period 2/18/14-2/28/14	2,216.12	Verified never cleared Bank Account
Check	03/20/2014	10277	Deanne G	Payroll Period 3/1/14 - 3/15/14	2,216.12	Verified never cleared Bank Account
Check	03/05/2014	10318	Deanne G	Payroll Period 4/18/14-4/30/14	2,216.12	Verified never cleared Bank Account
Check	06/20/2014	10382	Deanne G	Payroll Period 6/1/14-6/15/14	2,216.12	Verified never cleared Bank Account
Check	07/03/2014	10418	Deanne G	Payroll Period 6/18/14-6/30/14	2,216.12	Verified never cleared Bank Account
Total Unissued Paychecks - Deanne Title					17,739.42	
Grand Total					68,803.06	

* Names redacted for privacy reasons

OIG Evaluation of Auditee Comments

- Comment 1 We performed the second audit due to additional concerns CPD brought to our attention outside the scope of our original review. We did not initiate the second audit until several months after Veterans First had made the latter of the two grant draws in question. Veterans First was also already aware its accounting records were inaccurate at the initiation of the first audit, back in June 2014; however, it has still not corrected its records over a year later. In addition, this second audit was not solely based on Veterans First's general ledgers. We also reviewed additional information as documented in the Methodology and Scope section above, including the backup documentation of two grant draws, bank statements, and LOCCs information.
- Comment 2 The scope limitation refers to the incomplete and inaccurate general ledgers that Veterans First provided.
- Comment 3 We disagree. We did not assure Veterans First that we had no problems with the former bookkeeper. In fact, we informed the president/CEO about not receiving items requested in a timely manner. The president/CEO was copied on emails asking for documentation and was included in a teleconference call regarding the status of documents requested. Due to the delays in receiving the requested information from the bookkeeper, we issued two subpoenas to enforce compliance.
- Comment 4 We included information regarding the former audit for background purposes. It was meant to differentiate the scope of review of both audits. We did identify that some of the complaint allegations had merit in the first audit. Details of those allegations are discussed in audit report number 2015-LA-1002.
- Comment 5 We did not state that corporate expenses such as food, DirecTV, the Lincoln Club, and miscellaneous were paid with HUD funds. We stated that because these expenses were recorded in the main bank account, there is a risk that HUD funds were used to pay for them. According to the HUD Supportive Housing Program desk guide, costs associated with the organization including fundraising efforts are ineligible to be paid under the Supportive Housing Program. We have made adjustments to the applicable section of the report to clarify that this was a risk rather than it having definitely occurred.
- Comment 6 The schedule provided showed an accounting of the funds owed to the president/CEO for loans of her personal funds to Veterans First. We agree that the schedule shows that the stays for the president/CEO's son during the period March 15 - 21, 2013, March 29, 2013 to April 5, 2013, and April 5 - 12, 2013 at Red Roof Inn were deducted from the loans she provided to Veterans First. However, subsequent stays at Red Roof Inn were not deducted from the loans

provided as reflected in the schedule. The president/CEO's son stayed at Red Roof Inn during the period March 17 – 23, 2014 and March 24 - 30, 2014, yet the schedule does not show any deductions from the loan to Veterans First for those stays. Because all payments were made from the main account and all funds are commingled in the main account without accurate accounting records, there is a risk that HUD funds were used to pay for the son's stay at Red Roof Inn in 2014.

- Comment 7 We obtained a copy of the Red Roof Inn invoice made out to the president's son's girlfriend for the period May 28, 2014 to June 4, 2014. The payment was made out of the main account and is reflected in the June 1-30, 2014 bank statement.
- Comment 8 We did not review the general ledgers after Veterans First made changes to its accounts as of July 1, 2015, as it was outside of our scope; therefore, we cannot comment on its accuracy or completeness.
- Comment 9 After receiving our draft finding outline, Veterans First resubmitted source documents for its Susan and Benton grant draws that were altered and therefore, not acceptable. Information on the timesheets was inappropriately whited out and new information was replaced in order to incorrectly show that salaries of employees were allowable under the grant. We brought the altered timesheets for the Susan grant to Veterans First attention during the exit conference. Shortly thereafter, Veterans First sent us an e-mail stating that this had been a mistake.
- Comment 10 Based on our audit results, we cannot reasonably be assured that the funds Veterans First drew down were used for its HUD projects. Therefore, we questioned the amount that HUD did not review and asked that Veterans First provide the support for the receipts to HUD during audit resolution.
- Comment 11 HUD provided Veterans First over \$1.7 million in SHP funds for grant years ending in 2014 and 2015, to provide services to veterans. Since these are taxpayer dollars, the funds must be used in accordance with the grant agreements and HUD's other program requirements. However, Veterans First misused these funds, and as a result we have made recommendations to HUD for appropriate corrective action.

Appendix C

Criteria

Regulations at 24 CFR 215.22, Payment, state that payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

Regulations at 2 CFR 215.25, Revision of Budget and Program Plans, state that the budget plan is the financial expression of the project or program as approved during the award process. It may include either the Federal and non-Federal share or only the Federal share, depending upon Federal awarding agency requirements. It must be related to performance for program evaluation purposes whenever appropriate. The regulations also state that recipients are required to report deviations from budget and program plans and request prior approvals for budget and program plan revisions in accordance with this section.

Regulations at 2 CFR, Part 225, Appendix A, Allocable Costs (c), state that any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Regulations at 2 CFR Part 230, Appendix A, General Principles (A) Basic Considerations 2, state that to be allowable under an award, costs must be adequately documented.

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

Regulations at 24 CFR 583.315(b), Use of rent, state that resident rent may be used in the operation of the project or may be reserved, in whole or in part, to assist residents of transitional housing in moving to permanent housing.