



Issue Date February 8, 2011

Audit Report Number 2011-LA-1007

TO: Maria Cremer, Acting Director, Office of Community Planning and Development, San Francisco, Region IX, 9AD

Tanya E. Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Allegations of Lutheran Social Services of Northern California's Misuse of Homelessness Prevention and Rapid Re-Housing Program Funds Were Unsubstantiated

HIGHLIGHTS

What We Audited and Why

We audited Lutheran Social Services of Northern California (auditee) in response to a hotline complaint. The complaint alleged that the auditee misused Homelessness Prevention and Rapid Re-Housing Program (HPRP) funds. The specific allegations included (1) ineligible purchases using employee credit cards, (2) unreasonable rental of storage units, (3) caseworkers qualifying family and friends for HPRP who were not eligible, (4) diversion of HPRP funds, and (5) forged documents for check disbursements from the auditee's Sacramento office. Our objective was to determine whether these allegations could be substantiated.

What We Found

The audit results showed that the allegations of misuse of HPRP funds were unsubstantiated.

We provided the auditee a discussion draft report on January 28, 2011, and held an exit conference with appropriate officials on February 3, 2011. The auditee provided written comments on February 4, 2011, in which it agreed with the report. The complete text of the auditee's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The Homelessness Prevention and Rapid Re-Housing Program

The Homelessness Prevention and Rapid Re-Housing Program (HPRP) is a new program under the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development. It was funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) on February 17, 2009. Congress designated \$1.5 billion for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly rehoused and stabilized. HPRP funding was distributed based on the formula used for the Emergency Shelter Grant program.

The City and the County of Sacramento, CA, and Sacramento Housing and Redevelopment Agency

HUD allocated program funds for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly rehoused and stabilized. HUD used its Emergency Shelter Grant formula to allocate program funds to metropolitan cities, urban counties, and States. On August 4, 2009, HUD entered into a grant agreement with the Sacramento Housing and Redevelopment Agency (Agency), on behalf of the City and the County of Sacramento (City/County), for more than \$2.3 million in program funds for each of the jurisdictions. The agreements were pursuant to the provisions under the Homelessness Prevention Fund, Division A, Title XII, of the Recovery Act. The Agency is responsible for ensuring that each entity that administers or receives all or a portion of the program funds or to carry out activities, fully complies with the program requirements. On October 1, 2009, the Agency entered into a subgrant agreement with Lutheran Social Services of Northern California (auditee) to carry out the program. This subgrant agreement, which totaled more than \$2.4 million, is funded by a combination of Federal, State, and local sources. Under this subgrant agreement, the Agency is to provide the auditee more than \$718,000 from the City HPRP and more than \$725,000 from the County HPRP. By the end of October 2010, the Agency had drawn down more than \$341,000 via the City HPRP grant and nearly \$165,000 via the County HPRP grant for the auditee.

Lutheran Social Services of Northern California

The auditee is a public benefit corporation and a 501(c)(3) charitable organization. It is funded by donations, government contracts, and grants and through the support of Lutheran churches and congregations. The auditee is governed by a 14-member board of directors. It has three office locations: Concord, Sacramento, and San Francisco. Its Sacramento office provides HPRP services to homeless individuals and families and those in jeopardy of losing their current housing. This program focuses on rapid rehousing for those who are homeless and stabilization for those who are housed but in need of short-term assistance.

Our objective was to determine whether the allegations of misuse of HPRP funds could be substantiated.

RESULTS OF AUDIT

Allegations of Misuse of HPRP Funds Were Unsubstantiated

The hotline complaint's allegations of misuse of HPRP funds were unsubstantiated. Our review did not identify the alleged ineligible employee credit card purchases, rented storage unit expenses, diversion of HPRP funds, or forged documents.

HPRP Funds Were Not Used for the Alleged Ineligible Purchases or Unreasonable Rental Storage Units

The complainant alleged that HPRP funds were used to pay for employee credit card purchases of ineligible items such as aquarium supplies; meals; iPods; Wii, Xbox, and PSP games; camcorders; digital cameras; stereo systems; LCD TVs; trips; makeup; candy; jewelry; telephone minutes; and toys. Our review of a random sample of two monthly credit card statements for three employees (a total of six monthly statements) showed that most purchases, including rental of storage units, were not paid with HPRP funds. The few purchases that were paid for using HPRP funds were allowable expenses and did not include any of the alleged ineligible items.

Caseworkers Qualifying Ineligible Family and Friends for HPRP Was Not Substantiated

The allegation made was based on an employee's comment that appeared to have been taken out of context. No specifics were available to show who might have violated program rules by qualifying family and friends for HPRP who were ineligible for the program. There was no indication that any caseworker qualified ineligible family and friends for HPRP.

No Diversion of HPRP Funds Was Found

The complainant alleged that the auditee used HPRP funds for other programs. We did not identify any diversions of HPRP funds. In addition to the Agency's advances, the auditee advanced funds from its general operating account for direct financial assistance payments during the beginning months of HPRP. In April 2010, it began withdrawing

funds from the direct financial assistance account to pay back the advances to its general operating account. As of the end of October 2010, the auditee had not withdrawn more than it had previously advanced to HPRP.

No Forged Documents Were Found

The complainant alleged that documents were forged for check disbursements from the auditee's Sacramento office. We examined accounting records, the general ledger, bank statements, credit card statements, and receipts within our audit scope but did not identify any documents that appeared to be altered or forged.

Conclusion

Our review disclosed that the allegations of misuse of HPRP funds were unsubstantiated.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the auditee's offices in Sacramento and Concord, CA, between November and December 2010. The audit generally covered the period October 1, 2009, through October 31, 2010.

To accomplish our objective, we interviewed HUD staff and the auditee's staff, certified public accountant, attorney, and board members. We also reviewed

- Applicable HUD requirements, including the Recovery Act and the revised HPRP notice, redline with corrections, issued June 8, 2009;
- The City and County's substantial amendments to the 2008-2012 consolidated plan and the 2009 action plan for HPRP;
- The HPRP grant agreements between HUD and the City and County;
- The subcontract between the Agency and the auditee;
- The auditee's policies and procedures for accounting and financial transactions; and
- The auditee's accounting records, general ledger, bank statements, and credit card statements with supporting documents for the charges.

We selected and reviewed expenses charged against HPRP. We identified, from the general ledger, the expense categories that could have contained the alleged ineligible purchases. Random samples of three transactions were selected from each of these expense categories: cell phone/pager expense (from 89 transactions¹), Sacramento – travel and mileage expense (from 33 transactions²), office supplies expense (from 37 transactions³), and travel and mileage expense (from 53 transactions⁴).

We also selected and reviewed random samples of two monthly credit card statements (from an 11-month period) from each of the three employees who could have made purchases for the program.⁵

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

¹ \$300 tested from a total of \$7,169

² \$323 tested from a total of \$4,689

³ \$1,557 tested from a total of \$16,798

⁴ \$291 tested from a total of \$8,177

⁵ \$9,619 tested from a total of \$41,054

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:

- Policies and procedures to ensure that funds advanced from the Agency pay only for direct financial assistance and
- Policies and procedures to ensure that expenditures charged against HPRP are allowable.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the auditee in a separate memorandum.

APPENDIX

Appendix A

AUDITEE COMMENTS

Auditee Comments



**Lutheran
Social Services**
OF NORTHERN
CALIFORNIA

BOARD OF DIRECTORS

Nick Arnett
Robert Bastien
Patricia Blair
Rev. John Herrmann
Donetta Jefferson
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Lois Peacock
Allan Shaffer
Rev. John Sullivan
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Paul Walker, Chair
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February 4, 2011

Ms. Helen Sparks, Assistant Regional Inspector General for Audit
Ms. Amy Lee, Senior Auditor
Office of Inspector General, Region IX
UNITED STATES DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
600 Harrison Street, 3rd floor
San Francisco, CA 94107-1300

Re: Audit Report for Lutheran Social Services of Northern California, Inc.

Dear Ms. Sparks and Ms. Lee:

This letter follows up on our exit interview yesterday morning regarding the preliminary audit conducted by your office regarding HUD's Homeless Prevention and Rapid Re-Housing Program contract. Having carefully reviewed the draft report prepared by your office, we will offer no response to the report and are completely satisfied with the conclusions and recommendations made therein.

I have been asked by the Board of Directors and staff of Lutheran Social Services of Northern California, Inc. to extend to the both of you their sincerest gratitude and appreciation for the thoroughness and professionalism with which you conducted this preliminary audit. I also join in expressing my appreciation. I was very impressed with the level of professionalism and focus on your part during this process. While the prospect of an oversight audit is always a bit daunting for an agency, this particular process was handled with a level of thoroughness, sensitivity, and sobriety that instilled considerable confidence in the competence and fairness of the overall process. On behalf of our agency, I thank you for your efforts in making this possible.

That said, we are very pleased with the outcome of the preliminary audit and likewise grateful for the very helpful management memorandum that has been provided to us. In every social service agency, there is always room to improve the level of service delivery in order to provide the very best care for the persons being served. The Board of Directors and staff have reviewed the recommendations made in the memorandum and are taking appropriate action to ensure that Lutheran Social Services of Northern California continues to serve

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Ms. Helen Sparks, Assistant Regional Inspector General for Audit
Ms. Amy Lee, Senior Auditor
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February 4, 2011
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needy communities with a high degree of professionalism, effectiveness, compassion, and skill.

Should you or your agency require any further information or assistance, I invite you to contact me at your convenience.

Sincerely,



Sue Laliberte
Acting Executive Director

cc: Rev. Ron Zielske, Chairman of the Board LSSNC
Ms. Tanya E. Schulze, Regional Inspector General, Region IX, HUD