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TO: LeRoy Brown, Director, Denver Office of Community Planning and Development, 8AD

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: A Hotline Complaint Against Colorado Coalition for the Homeless, Denver, CO, Regarding Weaknesses in Its Controls Over the Homelessness Prevention and Rapid Re-Housing Program Could Not Be Supported

HIGHLIGHTS

What We Audited and Why

We audited allegations made against the Colorado Coalition for the Homeless in a hotline complaint received by the Office of Inspector General (OIG) hotline. The complaint contained allegations regarding control weaknesses, resulting in noncompliance with Homelessness Prevention and Rapid Re-Housing Program (HPRP) requirements. The objective of our review was to determine whether the allegations of weaknesses in the Coalition's controls over its HPRP funds, resulting in noncompliance with HPRP requirements, could be substantiated.

What We Found

We did not find evidence to support the allegations made against the Coalition regarding its controls over its HPRP functions. In general, we did not find evidence to support that the Coalition

- Management was not serious about controls,

- Had no hardcopy or electronic accounting reference material and did not provide adequate training,
- Did not complete accounting reconciliations properly or in a timely manner,
- Had insufficient controls to keep a manager from causing reports to be late and regulatory due dates to be missed repeatedly,
- Did not make disbursements accurately or in a timely manner and a manager separated and scattered disbursement documentation,
- Had to make duplicate general ledger corrections because a manager did not follow the account reclassification procedures,
- Had inadequate internal controls because it had unqualified personnel developing its policies,
- Used HPRP funds for other grants and did not track the funds, and
- Had inadequate segregation for cash-related tasks, giving managers the opportunity to convert returned checks for their own use.

What We Recommend

This report contains no formal recommendations, and no further action is necessary.

Auditee's Response

We provided the draft report to the Coalition on March 03, 2012. The Coalition chose not to provide formal written comments or have an exit conference.

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BACKGROUND AND OBJECTIVE

The Colorado Coalition for the Homeless is a 501(c)(3) nonprofit organization established in 1984. The Coalition’s mission is to work collaboratively toward the prevention of homelessness and the creation of lasting solutions for homeless and at-risk families, children, and individuals throughout Colorado. The Coalition is governed by a 16-member board of directors.

The American Recovery and Reinvestment Act of 2009 established the Homelessness Prevention and Rapid Re-Housing Program (HPRP). The program is designed to aid communities in providing financial assistance and services to either prevent individuals and families from becoming homeless or help those experiencing homelessness to be quickly re-housed.

The U.S. Department of Housing and Urban Development (HUD) used a formula to distribute the HPRP funds to States and communities. The State of Colorado and the City and County of Denver received HPRP grants. The Coalition signed two HPRP-funded agreements with the State of Colorado and one with the City and County of Denver.

Agreement with	Agreement scope	Agreement amount
State of Colorado	Balance of State	\$2,182,665
State of Colorado	Metro Denver Homeless Initiative	\$5,037,663
City and County of Denver	Metro Denver	\$3,400,796
Total		\$10,621,124

This review of the Coalition originated with a hotline complaint containing allegations regarding control weaknesses, resulting in noncompliance with HPRP requirements. The significant allegations included that the Coalition

- Management was not serious about controls,
- Had no hardcopy or electronic accounting reference material and did not provide adequate training,
- Did not complete accounting reconciliations properly or in a timely manner,
- Had insufficient controls to keep a manager from causing reports to be late and regulatory due dates to be missed repeatedly,
- Did not make disbursements accurately or in a timely manner and a manager separated and scattered disbursement documentation,
- Had to make duplicate general ledger corrections because a manager did not follow the account reclassification procedures,
- Had inadequate internal controls because it had unqualified personnel developing its policies,
- Used HPRP funds for other grants and did not track the funds, and
- Had inadequate segregation for cash-related tasks, giving managers the opportunity to convert returned checks for their own use.

Our objective was to determine whether the allegation of weaknesses in the Coalition's controls over its HPRP funds, resulting in noncompliance with HPRP requirements, could be substantiated.

RESULTS OF AUDIT

Allegations of Weaknesses in Controls Over HPRP Funds Could Not Be Supported

We reviewed the allegations contained in a hotline complaint of the Coalition regarding control weaknesses, resulting in noncompliance with HPRP requirements. We found no evidence to substantiate the allegations. The significant allegations made in the complaint and the results of our review of those allegations are detailed below as follows:

- The complaint alleged that management was not serious about controls, as evidenced by its reliance on unqualified staff for internal control evaluations, failure to enforce key controls, and noncompliance with some controls. We found no evidence to support this allegation. We reviewed all pertinent written policies and procedures and interviewed pertinent staff members to obtain an understanding of the policies they had and the procedures they followed. Management had developed and implemented comprehensive policies and procedures, including HPRP-specific policies and procedures. Pertinent staff members were following the policies and procedures in performing HPRP functions. The written policies contained oversight controls performed by different levels of management. We reviewed the applicable policies and procedures and found that they complied with HUD requirements. We interviewed pertinent staff members, who said they were following the procedures. They had copies of the policies, which contained handwritten notes and other evidence of use. The documentation reviewed complied with HUD requirements and contained evidence of management review and approval. We found no evidence that management was not serious about controls.
- The complaint alleged that there was no hardcopy or electronic accounting reference material and that management relied on on-the-job training instead of providing staff with classroom training. We found no evidence to support this allegation. We reviewed all of the Coalition's accounting policies and procedures and obtained training information during interviews with pertinent staff. The accounting department had detailed general and HPRP written policies and procedures. In addition to the policies and procedures developed by the Coalition, it had a detailed manual for the accounting computer system. The Coalition provided classroom training to staff during the implementation of HPRP.
- The complaint alleged that various reconciliations were not completed properly or in a timely manner. We found no evidence to support this allegation. We obtained and reviewed all of the general ledgers and supporting accounting reports for the period September 2009 through October 2011 and interviewed pertinent staff members. The accounting staff had documentation showing that the accounting records were regularly reconciled and the books of account balanced.
- The complaint alleged that controls were insufficient to keep one of the accounting management officials from causing reports to be late and regulatory due dates to be

missed repeatedly. We found no evidence to support this allegation. We reviewed all of the required HPRP reports for the period August 1, 2009, through September 30, 2011, and interviewed pertinent staff members. The accounting staff did not prepare and submit the required HPRP reports. They provided the accounting information to the operations staff responsible for completing and submitting the reports to the State of Colorado and the City and County of Denver, which, in turn, submitted the required grant reports to the Federal system. The Federal reporting system reports and available State of Colorado and the City and County of Denver monitoring review information contained no indication of late submissions.

- The complaint alleged that one of the accounting management officials separated disbursement check copies from supporting documentation and scattered documentation and that disbursements were not made accurately or in a timely manner. The complainant stated that after weeks or months of accumulation, stacks of the disbursement documents were given to the complainant and another accounting staff member to organize and file. We found no evidence to support this allegation. We reviewed a sample of 20 vendor files containing 555 payment requests and found that disbursement documents were properly maintained and well organized. For the sample of vendor files reviewed, the checks were accurately prepared and issued in a timely manner. The accounting management official identified in the complaint approved the payment request before the check was processed but was not actively involved with the processing and filing of the disbursement checks and documents.
- The complaint alleged that one of the accounting management officials entered reclassifications without following the procedure of marking the entries on the face of the checks, which led to duplicate general ledger corrections. We found no evidence to support this allegation. We reviewed a sample of 555 payment requests and all the general ledgers for the period September 2009 through October 2011. The payment requests showed the classifications and any changes to the classifications and approvals. The general ledgers were organized by classification and showed any reclassifications. The payment requests were initialed by the person who entered the information into the accounting system, and we did not see the official's initials on the requests reviewed. During interviews with pertinent staff members, they explained that operations staff determined the classification while processing and approving a payment request and accounting staff ensured that the classification was correct. If a classification error was later identified, an accounting supervisor worked with accounting staff, operations staff, and the subrecipient, as needed, to determine the correct classification, and the supervisor made the correction in the accounting system. Accounting management approved the reclassification request but did not enter the information into the system.
- The complaint alleged that internal controls were inadequate because one of the accounting management officials and other "unqualified personnel" were developing the policies. The complaint did not contain evidence to support that the staff members were unqualified. The complaint repeatedly stated that the staff developed policies without considering the risk but did not show evidence of how the policies were inadequate or increased the risk level. We found no evidence to support this allegation. We reviewed

all applicable policies and procedures and interviewed pertinent staff. The Coalition had comprehensive, well-developed policies and procedures for the accounting and operations functions of its HPRP. There were well-developed general accounting policies and procedures and policies and procedures specific to HPRP. We reviewed the policies and procedures and did not identify instances in which the policies and procedures did not meet Federal requirements.

- The complaint alleged that HPRP funds were used for other grants and that the funds were not tracked. We found no evidence to support this allegation. We reviewed a sample of 20 vendor files containing 555 payment requests totaling more than \$2 million and did not identify HPRP funds used for other programs. We reviewed all of the general ledgers for the period September 2009 through October 2011 and all of the budget schedules maintained for each subrecipient and found that the Coalition was tracking HPRP funds by subrecipient and HPRP expense categories to ensure that funds were properly used and budgets were not exceeded.
- The complaint alleged inadequate segregation for cash-related tasks, specifically that the two top-level accounting managers opened all of the mail for the accounting department, which included returned checks that they could convert for their own use. We found no evidence to support this allegation. We reviewed the applicable policies and procedures and interviewed pertinent staff. The Coalition had effective segregation of cash functions. The mail was opened and logged by non-accounting staff. Payment requests went to operations staff for approval and then to accounting staff for approval and processing by at least four staff members. Returned checks were logged and then sent to an accounting supervisor, who, with the operations director, determined why the check was returned. If the check was correct but the mailing address wrong, they corrected the address and reissued the check. If the check was incorrect, the check was canceled, and an adjusting entry was prepared and approved by one of the accounting management officials before the supervisor made the entry into the system. During our review of disbursements and accounting records, we found no evidence of returned checks being improperly cashed.

Recommendations

This report contains no recommendations, and no further action is necessary.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the auditee's administrative office at 2111 Champa Street, Denver, CO, between October and December 2011. The audit generally covered the period August 1, 2009, through September 30, 2011.

To accomplish our objective, we interviewed pertinent Coalition staff and reviewed

- Applicable Federal regulations and HUD requirements, including the Recovery Act and the revised HPRP notice, issued March 19, 2009;
- The Coalition's policies and procedures relating to HPRP functions;
- The HPRP agreements between the Coalition and the State of Colorado and City and County of Denver;
- The HPRP agreements between the Coalition and its subrecipients;
- The Coalition's accounting records, general ledgers, and disbursements records;
- The Coalition's HPRP monitoring records; and
- The Coalition's client files.

We selected and reviewed a sample of HPRP expenses incurred by subrecipients. We selected a total of 20 vendor files, which contained 555 payment requests totaling more than \$2 million or 19.4 percent of the more than \$10 million of the Coalition's HPRP funds. We obtained the HPRP general ledgers for the period September 2009 through October 2011. The general ledgers were organized by the Coalition's three HPRP grants and individual accounting codes for each of the 18 subrecipients. We reviewed all of the subrecipients' accounts detail and randomly selected at least one vendor for each subrecipient. Some vendors provided services for more than one subrecipient. We randomly selected a cross section of vendors for a single subrecipient and for multiple subrecipients. Some vendors were companies and others individuals; we also randomly selected a cross section of company and individual names. The HPRP requirements state that funds cannot be used for construction or rehabilitation work. We noticed only one vendor that was a construction company, so we selected that vendor and ensured that the funds were properly used.

The Coalition retained a small amount of the HPRP funds and directly serviced 303 client households. We randomly selected and reviewed a sample of six of these client files. One of the households selected originally applied for HPRP but then transferred to another program. Therefore, we decided to select one more client. We randomly selected one household from the five households that were not among subcategories of grants, household compositions, and HPRP options (prevention and rapid re-housing) that were represented in the original sample.

We did not rely on computer-processed data for our audit purposes. We traced or verified each allegation to supporting documentation to draw our conclusions.

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 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:

- Controls over the accounting records for HPRP funds.
- Controls over disbursements of HPRP funds.
- Controls over reporting HPRP activities.
- Controls over segregation of cash-related functions.

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

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