CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Audit Report

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

October 1, 2009, through September 30, 2010

JOHN CHIANG
California State Controller

June 2011

JOHN CHIANG
California State Controller

June 30, 2011

Cathy Creswell
Acting Director
California Department of Housing
and Community Development
1800 Third Street
Sacramento, CA 95811-6942

Dear Ms. Creswell:

The State Controller's Office (SCO) audited the American Recovery and Reinvestment Act expenditures reported by the California Department of Housing and Community Development (HCD) for the period of October 1, 2009, through September 30, 2010.

The HCD was awarded $55.2 million for administering both the Homelessness Prevention and the Rapid Re-Housing Program, and Community Development Block Grant-Recovery Program. As of September 30, 2010, the HCD had disbursed $16.8 million to the sub-recipients. As the administering state agency, the HCD is responsible for determining whether reported expenditures are in compliance with program guidelines.

We selected for audit eight sub-recipients receiving Homelessness Prevention and Rapid Re-Housing funds, representing total expenditures of $4,887,863 for the period. We tested $574,752, and questioned $368,048 because salary and benefit costs were not in compliance with federal cost principles, documentation of program participant eligibility was incomplete, and costs were unallowable.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB:wm

Attachment

cc: Elliott Mandell, Chief Deputy Director
California Department of Housing and Community Development
Richard Haseltine, Audits Chief
California Department of Housing and Community Development
Chris Westlake Deputy Director, Division of Financial Assistance
California Department of Housing and Community Development
Kitty Lopez, Executive Director, Samaritan House
Jolie Bou, Finance Director, Samaritan House
Robert Ekstrom, Executive Director, Yolo Family Resource Center
Ana Soltero, Accounting Supervisor, Yolo Family Resource Center
Josie Enriquez, Case Management Supervisor, Yolo Family Resource Center
Patti Cunningham, Deputy Director of Administration
Amador-Tuolumne Community Action Agency
Shelly Hance, Executive Director
Amador-Tuolumne Community Action Agency
Beetle Barbour, Amador-Tuolumne Community Action Agency
Val Martinez, Executive Director, Redwood Community Action Agency
Simone Taylor, Director of Family Services, Redwood Community Action Agency
Lesa Shealor, Fiscal Specialist, Redwood Community Action Agency
Becky Cromer, Fiscal Officer, Monterey County Department of Social Services
Christine Johnson-Lyons, Executive Director
Community Action Board of Santa Cruz County, Inc.
Tom Helman, Assistant Director
Community Action Board of Santa Cruz County, Inc.
Bryan Dickey, Chief Financial Officer
Community Action Board of Santa Cruz County, Inc.
Lynda Gregory, Chief Executive Officer, KidsFirst
Barbara Meade, Director of Finance, KidsFirst
Denise Gibbs, Executive Director, Stanislaus Community Assistance Project
Kathy Lee, Director of Finance, Stanislaus Community Assistance Project
Caryl Prunty, Director of Housing, Stanislaus Community Assistance Project
William Gibbs, Director of Development, Stanislaus Community Assistance Project
Tanya Schulze, Director of Audit, Regional Inspector General for Audit, Region IX
U.S. Department of Housing and Urban Development
Maria Cremer, Acting Director, 9AD
U.S. Department of Housing and Urban Development
Angelo Tom, Program Support Director, 9ADS
U.S. Department of Housing and Urban Development

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Audit Report

Summary

The State Controller's Office (SCO) audited the American Recovery and Reinvestment Act of 2009 expenditures reported by the California Department of Housing and Community Development (HCD) through September 30, 2010.

In total, the HCD was awarded $55.2 million for administering both the Homelessness Prevention and Rapid Re-Housing Program (HPRP), and Community Development Block Grant-Recovery (CDBG-R) program. As of September 30, 2010, the HCD had disbursed $16.8 million to the sub-recipients—$13.9 million for the HPRP (Schedule 1) and $2.9 million for the CDGB-R program (Schedule 2).

We selected for audit eight sub-recipients receiving HPRP funds. As of September 30, 2010, those eight sub-recipients had reported total expenditures of $4,887,863 (Schedule 3). We tested $574,752, and questioned $368,048 because salary and benefit costs were not in compliance with federal cost principles, as described in Finding 2; documentation of program participant eligibility was incomplete, as described in Finding 3; and costs were unallowable, as described in Finding 4.

As the administering state agency, the HCD is responsible for determining whether reported expenditures are in compliance with program guidelines. For each of the sub-recipients selected for audit, we have prepared a separate report. These reports are included in this report as an Appendix.

Background

On February 13, 2009, the federal government enacted the American Recovery and Reinvestment Act of 2009 (ARRA) to help fight the negative effects of the United States' economic recession. ARRA's purpose is to preserve and create jobs; promote economic recovery; assist those most affected by the recession; invest in transportation, environmental protections, and other infrastructure; and stabilize state and local government budgets. To achieve these results, the ARRA required federal agencies to initiate expenditures and activities as quickly and prudently possible.

The federal government intends to provide $787 billion to recipients under the ARRA. A large portion of these funds will be dispersed to states, local governments, territories, and tribes, which in turn will distribute funds to beneficiaries through grants, contracts, subsidies, and loan programs.

The HCD was awarded $55.2 million of ARRA funds—$44.5 million for the Homelessness Prevention and Rapid Re-Housing Program and $10.7 million for the Community Development Block Grant-Recovery program.

Homelessness Prevention and Rapid Re-Housing Program (HPRP)

The ARRA created the Homelessness Prevention and Rapid Re-Housing Program (HPRP) to assist households that would otherwise become homeless and to rapidly re-house persons who are homeless. In total, the U.S. Department of Housing and Urban Development (HUD) was awarded $1.5 billion, of which California was awarded $189.1 million. Of that amount, HUD awarded $144.6 million directly to California cities and counties and the remaining $44.5 million was awarded to the HCD to administer the State's portion of the program to cover costs related to the following four areas:

- Financial assistance, which is limited to short-term and medium-term rental assistance, security deposits, utility deposits and payments, moving cost assistance, and motel and hotel vouchers.

- Housing relocation and stabilization services, which are limited to case management, outreach and engagement, housing search and placement, legal services, and credit repair.

- Data collection and evaluation, which includes the purchase of computer software and use licenses; leasing or purchasing computer equipment; costs associated with data collection, entry, and analysis; computer staffing and training; and costs for participating in HUD research and evaluation of the program.

- Administrative costs, which includes pre-award administrative costs; the costs involved in accounting for the use of the grant funds, preparing reports for submission to the HCD, obtaining program audits, and similar costs related to administering the grant after the award; and the salaries of staff associated with the administration of the HPRP funds.

The ARRA allows sub-recipients to use up to 5% of their grant award for administrative costs. The HCD intends to keep $1.8 million (4%) of the total grant amount to cover its own administrative costs and provide the remaining $42.7 million (96%) to the sub-recipients.

Community Development Block Grant-Recovery (CDBG-R) Program

The ARRA awarded an additional $1 billion in Community Development Block Grant (CDBG) funds to state and local governments to carry out, on an expedited basis, eligible activities under the CDBG program. This program is commonly referred to as the CDBG-Recovery (CDBG-R) program.

California was awarded $123 million in CDBG-R funds, of which $10.65 million was made available to the HCD through the allocation formula process to stimulate the economy through measures that modernize infrastructure, improve energy efficiency, and/or expand educational opportunities and access to health care.

The HCD intends to keep $750,000 of the total grant amount to cover its own administrative costs and provide the remaining $9.9 million to the sub-recipients.

Audit Authority

Section 7 of Article 16 of the State Constitution and Government Code section 12410 provide the SCO authority to audit and approve each request by a state agency for expenditure of state and federal funds. This authority extends to field audits of state agencies to investigate suspicion of fraud, waste, and abuse. In addition, Government Code section 12418 provides the SCO with authority to recover misspent funds.

Objectives, Scope and Methodology

We conducted the audit to assess the HCD's controls over the implementation and administration of ARRA funds to ensure that the funds were accounted for and spent in accordance with the applicable federal requirements for the following two awards:

Homelessness Prevention and Rapid Re-Housing
Funding Agency: Department of Housing and Urban Development
Award #: S09-DY-06-0001
CFDA #14.257
Total Award: $44,466,877

Community Development Block Grant–Recovery
Funding Agency: Department of Housing and Urban Development
Award #: B-09-DY-06-0001
CFDA #14.255
Total Award: $10,652,033

This audit consisted of two phases: Phase I was an internal control survey conducted at the HCD in December 2010. The following procedures were performed:

- Reviewed the preparedness assessment audit performed by the Bureau of State Audits.
- Interviewed the HCD program manager to understand the policies and procedures governing the handling of ARRA funds. Determined if the processes are corroborated with documentation and if expectations are communicated effectively to staff and sub-recipients.
- Reviewed and evaluated the HCD's system of internal controls over ARRA funds.
- Judgmentally sampled project files to verify whether the HCD complies with the applicable federal program guidelines and its own policies and procedures. Within this sample, we reviewed expenditure information and determined the reasonableness of the transactions and compliance with grant agreements.

Based on the results of Phase I, we performed Phase II, which was expenditure testing of the HPRP sub-recipients. We did not perform any expenditure testing of the CDBG-R sub-recipients because the expenditure amounts were small and the HCD had already performed site visits at two of the twelve sub-recipients.

The HCD has contracts with 31 sub-recipients for HPRP funding. We selected eight agencies (26%) to audit, of which six are non-profits and two are local government entities (one county and one joint powers agency (JPA)):

Amador-Tuolumne Community Action Agency (JPA)
Stanislaus Community Assistance Project
Monterey County
Redwood Community Action Agency
Community Action Board of Santa Cruz County
Samaritan House
Yolo Family Resource Center
KidsFirst

Our audit scope included, but was not limited to, planning and performing procedures to obtain reasonable assurance that:

- Salary and benefit costs were properly calculated and supported.
- Program participants receiving assistance were eligible.
- Case files contained the required documentation.
- Grant activities were allowable.

Accordingly, we examined transactions on a test basis.

We conducted the audit in accordance with generally accepted government auditing standards. In addition, we considered the following compliance requirements identified in Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the HPRP program:

- Activities Allowed or Unallowed—HPRP funds can be used only for specific eligible activities, as identified in HUD's Notice of Requirements for the HPRP Program under ARRA.
- Allowable Costs/Cost Principles—OMB cost principle circulars prescribe the cost accounting policies associated with the administration of federal awards. Non-profit organizations are subject to OMB Circular A-122 requirements and local governments are subject to OMB Circular A-87 requirements.
- Cash Management—When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. In addition, interest earned on advanced funds must be submitted promptly to the federal agency. Also, HPRP requires that funds are not to be issued directly to program participants.
- Earmarking—Not more than 5% of the total grant may be used for administrative costs.
- Period of Availability of Federal Funds—Recipients of HPRP funds must expend at least 60% of such funds within two years (by September 30, 2011) and at least 100% of the funds within three years (by September 30, 2012).

- Program Income—Sub-recipients may not charge fees to HPRP program participants.
- Reporting—Recipients should use the standard financial reporting forms authorized by OMB.
- Sub-recipient Monitoring—The HCD is responsible for award identification, during-the-award monitoring, sub-recipient audits, and pass-through entity impact.
- Special Tests and Provisions—The requirements for special tests and provisions are unique to each Federal program. We selected a sample of case files to ensure that they were in compliance with HUD's requirements for the HPRP program.

Generally accepted government auditing standards and OMB Circular A-133 require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit disclosed instances of noncompliance with federal regulations. These instances are described in the accompanying Schedule of Expenditures of Federal Awards for the HPRP (Schedule 3) and in the Findings and Recommendations section of this report, and highlighted below.

- Activities Allowed or Unallowed—We noted no instances of non-compliance.
- Allowable Costs/Cost Principles—We noted several instances of noncompliance, as described in Finding 2 and Finding 4.
- Cash Management—We noted no instances of noncompliance.
- Earmarking—We noted no instances of noncompliance.
- Period of Availability of Federal Funds—The compliance requirement is not applicable because our audit period ends on September 30, 2010.
- Program Income—We noted no instances of noncompliance.
- Reporting—We noted no instances of noncompliance.
- Sub-Recipient Monitoring—We noted several instances of noncompliance, as described in Finding 1.
- Special tests and provisions—We noted several instances of noncompliance, as described in Finding 3.

Views of Responsible Official

We issued a draft audit report on June 14, 2011. Cathy Creswell, Acting Director, responded by letter dated June 27, 2011 (Attachment B), agreeing with the audit results. This final audit report includes the HCD's response.

Restricted Use

This report is solely for the information and use of the California Department of Housing and Community Development, the U.S. Department of Housing and Urban Development, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 30, 2011

Schedule 1—
Schedule of Funds Awarded and Advanced to Sub-Recipients
Homelessness Prevention and Rapid Re-Housing Program
Award #S09-DY-06-0001
October 1, 2009, through September 30, 2010

Contract Number	Subrecipient	Amount Awarded	Amount Advanced	Percentage Advanced	Remaining Award Balance
09-HPRP-6121	Amador-Tuolumne Community Action Agency	$ 1,600,000	$ 1,068,613	66.79%	$ 531,387
09-HPRP-6131	Community Resource Center	1,599,992	472,494	29.53%	1,127,498
09-HPRP-6132	Roman Catholic Bishop of Santa Rosa	1,195,000	400,000	33.47%	795,000
09-HPRP-6133	Plumas Crisis Intervention and Resource Center	1,150,000	550,000	47.83%	600,000
09-HPRP-6134	Livermore, City of	900,000	69,250	7.69%	830,750
09-HPRP-6135	Santa Barbara, City of	1,200,000	300,000	25.00%	900,000
09-HPRP-6136	Glenn County Human Resource Agency	1,600,000	375,000	23.44%	1,225,000
09-HPRP-6137	Union City, City of	500,000	50,000	10.00%	450,000
09-HPRP-6138	Sacred Heart Community Service	1,599,998	349,999	21.87%	1,249,999
09-HPRP-6139	Community Assistance Network	1,599,730	413,264	25.83%	1,186,466
09-HPRP-6140	Stanislaus Community Assistance Project	1,500,000	600,000	40.00%	900,000
09-HPRP-6141	Cornerstone Community Development Corporation	1,500,000	467,269	31.15%	1,032,731
09-HPRP-6142	Womanhaven Inc.	1,500,000	354,452	23.63%	1,145,548
09-HPRP-6143	Santa Cruz County - Health Services Agency	1,200,000	150,000	12.50%	1,050,000
09-HPRP-6144	Families in Transition of Santa Cruz County	1,600,000	460,635	28.79%	1,139,365
09-HPRP-6145	Mendocino County Adult & Older Adult System of Care	1,600,000	267,221	16.70%	1,332,779
09-HPRP-6146	Kings United Way	1,200,000	376,280	31.36%	823,720
09-HPRP-6147	Napa, County of	1,600,000	500,000	31.25%	1,100,000
09-HPRP-6148	Western Territorial of the Salvation Army	1,600,000	559,949	35.00%	1,040,051
09-HPRP-6149	People Assisting the Homeless	1,200,000	410,027	34.17%	789,973
09-HPRP-6150	People Assisting the Homeless	1,500,000	341,593	22.77%	1,158,407
09-HPRP-6151	People Assisting the Homelesss	900,000	234,623	26.07%	665,377
09-HPRP-6152	Monterey, County of	1,600,000	395,000	24.69%	1,205,000
09-HPRP-6153	South Bay Community Services	900,000	280,782	31.20%	619,218
09-HPRP-6154	Redwood Community Action Agency	1,600,000	969,656	60.60%	630,344
09-HPRP-6155	Community Action Board of Santa Cruz County	1,200,000	602,627	50.22%	597,373
09-HPRP-6156	United Way of Tulare County	1,600,000	680,000	42.50%	920,000
09-HPRP-6157	Samaritan House	1,600,000	674,658	42.17%	925,342
09-HPRP-6158	Shelter Inc. of Contra Costa County	1,500,000	147,726	9.85%	1,352,274
09-HPRP-6159	Yolo Family Resource Center	1,600,000	731,565	45.72%	868,435
09-HPRP-6195	KidsFirst	1,243,482	612,695	49.27%	630,787
	Totals	$42,688,202 [1]	$13,865,378	32.48%	$ 28,822,824

[1] Amount awarded excludes $1.8 million retained by the HCD to cover administrative costs.

Schedule 2—
Schedule of Funds Awarded and Disbursed to Sub-Recipients Community Development Block Grant–Recovery Program Award #B-09-DY-06-0001 October 1, 2009, through September 30, 2010

Contract Number[1]	Subrecipient	Amount Awarded	Amount Disbursed	Percentage Disbursed	Remaining Award Balance
09-EDAR-6471	Mendocino, County of	$ 2,017,917	$ 1,870,272	92.68%	$ 147,645
09-EDAR-6472	Oroville, City of, Inc.	1,115,000	248,550	22.29%	866,450
09-STAR-6380	City of Tulelake	284,132	17,524	6.17%	266,608
09-STAR-6381	City of Etna	219,555	213,412	97.20%	6,143
09-STAR-6382	City of Anderson	370,548	-	0.00%	370,548
09-STAR-6383	Mammoth Lakes, Town of	1,000,000	506,579	50.66%	493,421
09-STAR-6384	City of Fort Bragg	813,917	16,823	2.07%	797,094
09-STAR-6385	Glenn County Planning and Public Works Agency	916,659	-	0.00%	916,659
09-STAR-6386	Calipatria, City of	863,695	5,592	0.65%	858,103
09-STAR-6387	Tulare, County of	862,942	-	0.00%	862,942
09-STAR-6388	Parlier, City of	967,541	11,905	1.23%	955,636
09-STAR-6389	City of Firebaugh	470,696	3,873	0.82%	466,823
	Totals	$ 9,902,602 [2]	$ 2,894,530	29.23%	$ 7,008,072

[1] EDAR refers to economic development ARRA funds and STAR refers to non-economic development ARRA funds.

[2] Amount awarded excludes $750,000 retained by the HCD to cover its administrative costs.

Schedule 3—
Schedule of Expenditures of Federal Awards
Homelessness Prevention and Rapid Re-Housing Program
Award #S09-DY-06-0001, CFDA #14.257
October 1, 2009, through September 30, 2010

Subrecipient	Reported Expenditures	Federal Expenditures Tested	Amount Questioned	Reference [1]
Amador-Tuolumne Community Action Agency:				
Salaries and benefits	$ 265,963	$ 18,129	$ 10,103	Finding 2
Financial assistance	713,799	69,368	69,368	Finding 3
Other costs	819	819	-	
Total expenditures	$ 980,581	$ 88,316	$ 79,471	
Stanislaus Community Assistance Project:				
Salaries and benefits	$ 299,572	$ 48,602	$ 48,602	Finding 2
Financial assistance	215,599	34,538	29,312	Finding 3
Other costs	2,020	1,689	-	
Total expenditures	$ 517,191	$ 84,829	$ 77,914	
Monterey County:				
Salaries and benefits	$ 106,197	$ 8,298	$ -	Finding 2
Financial assistance	293,786	36,082	36,082	Finding 3
Total expenditures	$ 399,983	$ 44,380	$ 36,082	
Redwood Community Action Agency:				
Salaries and benefits	$ 121,652	$ 3,549	$ 1,308	Finding 2
Financial assistance	642,841	59,818	59,818	Finding 3
Other costs	9,940	9,940	-	
Total expenditures	$ 774,433	$ 73,307	$ 61,126	
Community Action Board of Santa Cruz County:				
Salaries and benefits	$ 234,008	$ 22,052	$ 17,453	Finding 2
Financial assistance	227,530	31,583	-	Finding 3
Other costs	15,000	15,000	-	
Total expenditures	$ 476,538	$ 68,635	$ 17,453	
Samaritan House:				
Salaries and benefits	$ 201,032	$ 35,086	$ 2,959	Finding 2
Financial assistance	508,540	48,455	5,000	Finding 3
Other costs	8,000	8,000	-	
Total expenditures	$ 717,572	$ 91,541	$ 7,959	

Schedule 3 (continued)

Subrecipient	Reported Expenditures	Federal Expenditures Tested	Amount Questioned	Reference [1]
Yolo Family Resource Center:				
Salaries and benefits	$ 248,046	$ 26,004	$ 16,123	Finding 2
Financial assistance	341,510	31,058	31,058	Finding 3
Other costs	8,246	1,641	-	
Total expenditures	$ 597,802	$ 58,703	$ 47,181	
KidsFirst:				
Salaries and benefits	$ 190,312	$ 27,737	$ 21,011	Finding 2
Financial assistance	222,091	25,944	14,302	Finding 3
Other costs	11,360	11,360	5,549	Finding 4
Total expenditures	$ 423,763	$ 65,041	$ 40,862	
Recap, All Sub-recipients:				
Salaries and benefits	$ 1,666,782	$ 189,457	$ 117,559	Finding 2
Financial assistance	3,165,696	336,846	244,940	Finding 3
Other costs	55,385	48,449	5,549	Finding 4
Total expenditures, all sub-recipients	$ 4,887,863	$ 574,752	$ 368,048	

[1] See Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Inadequate sub-recipient monitoring

As the primary recipient of American Recovery and Reinvestment Act of 2009 (ARRA) funds, the California Department of Housing and Community Development (HCD) is responsible for: (1) award identification, (2) during-the-award monitoring, (3) sub-recipient audits, and (4) pass-through entity impact. As the HCD is still in the process of distributing the award, the focus of our audit is on the requirements of award identification and during-the-award monitoring. The HCD was effective in monitoring sub-recipients awards (award identification) and ineffective in monitoring sub-recipients use of federal funds (during-the-award monitoring).

During-the-award monitoring relates to the HCD's monitoring of sub-recipients' use of federal awards through reporting, site visits, and regular contact. For the Homelessness Prevention and Rapid Re-Housing Program (HPRP), the HCD's staff members did not perform site visits it committed to, performed minimal cost verifications, and did not verify the total HPRP expenditures. For the Community Development Block Grant-Recovery (CDBG-R) program, the HCD's staff members relied on single audits in lieu of site visits and did not ensure that expenditure milestones established in the standard agreement between the HCD and sub-recipients are met.

No HPRP Site Visits

When we began this audit in December 2010, the HCD had not performed any site visits of the HPRP sub-recipients. However, the HCD provided us with a copy of its monitoring schedule showing that it would begin desk reviews for 14 sub-recipients in December 2010, and site visits for 17 sub-recipients in January 2011.

The HCD's monitoring schedule is not in compliance with its substantial amendment to the Consolidated Plan 2008 Action Plan for the HPRP, dated May 18, 2009, which states, "Site monitor visits shall start after the first cash draw down to ensure fiscal controls are in place. . . . Site monitoring will be conducted throughout the contract period on those sub-grantees that may be determined by the Department as 'high risk.' " The first cash draw down was made in November 2009, which is more than one year before the HCD committed to performing site visits.

In addition, during the Bureau of State Audits' preparedness assessment in February 2010, the HCD stated that it would perform site visits or desk audits for all 31 sub-recipients between April 2010 and March 2011. This meant the HCD should have completed about two-thirds of its initial site visits or desk reviews by the time we began our audit in December 2010.

Site visits are critical to ensuring that HPRP funds are spent in accordance with applicable federal guidelines. It is even more critical for the HPRP because it is a new program created by ARRA. Site visits would confirm that case managers have a good understanding of the program, case files include all the required documentation, and program participants are eligible to receive assistance. As noted in Findings 2, 3, and 4, we identified several areas of noncompliance with the HUD requirements and federal cost principles that could have been mitgated had the HCD performed site visits as scheduled.

In order to ensure legality and propriety of expenditures it administers, the HCD should perform adequate site visits to validate and substantiate actual costs incurred and compliance with grant agreements.

Reliance on CDBG-R Single Audits In Lieu of Site Visits for STAR Sub-Recipients

For the CDBG-R program, the HCD does not intend to perform any site visits of the STAR sub-recipients until closeout, which could be three years following the first CDBG-R expenditure. While we recognize that the CDBG program has existed for a long time and that the HCD has been overseeing this program for numerous years, relying on the single audit to identify audit issues is not adequate oversight of grant fund performance. First, the independent auditors might not test CDBG-R expenditures because it may not be a major program. Second, if they do test CDBG-R expenditures, only a few transactions might be selected. Third, the independent auditors are not specifically attuned to the unique requirements for the CDBG-R program and might not uncover errors the HCD program staff should identify.

In order to ensure legality and propriety of expenditures administered by the HCD, the HCD should perform adequate site visits to validate and substantiate actual costs incurred in compliance with grant agreements.

Minimal HPRP Quarterly Cost Verification Process

In lieu of site visits, HPRP program staff has been performing quarterly cost verifications. Each quarter, the 31 sub-recipients submit to the HCD a Detailed Expenditure Report (DER) that itemizes the HPRP expenditures for which they are requesting reimbursement. The DER is divided into the following six categories:

1. Homeless Prevention–Financial Assistance
2. Homeless Prevention–Housing Relocation and Stabilization
3. Homeless Assistance Rapid Re-Housing–Financial Assistance
4. Homeless Assistance Rapid Re-Housing–Housing Relocation and Stabilization
5. Data Collection
6. Grant Administration

Each quarter, the HCD selects one transaction from each of the six categories and requests that the sub-recipient provide the supporting documentation, such as an invoice, timesheet, or case file. As of September 30, 2010, the sub-recipients have submitted four quarterly DERs, so the HCD has selected and reviewed a total of 24 transactions for each sub-recipient. The amount tested represents only 4.68% of the total expenditures for the sub-recipients we selected for audit.

The following table provides the percentage of expenditures the HCD tested for each sub-recipient we selected for audit.

	Reported Expenditures	Costs Verified (24 transactions)	Percent Verified
Amador-Tuolumne Community Action Agency (ATCAA)	$ 980,581	$ 12,879	1.31%
Stanislaus Community Assistance Project (SCAP)	517,191	34,343	6.64%
Monterey County	399,983	16,450	4.11%
Redwood Community Action Agency (RCAA)	774,433	17,571	2.27%
Community Action Board of Santa Cruz (CAB)	476,538	23,062	4.84%
Samaritan House	717,572	49,325	6.87%
Yolo Family Resource Center (YFRC)	597,802	36,249	6.06%
KidsFirst	423,763	39,007	9.20%
Total	$ 4,887,863	$ 228,886	4.68%

The HCD approved the costs even though the supporting documentation submitted by sub-recipients during the cost verification process was insufficient. For example, at the RCAA, we determined that the case files were incomplete and lacked several of the required documents (as noted in Findings 3). When we asked why the required documentation was missing, the RCAA responded that it was not aware of the error because the HCD had requested the case files during the cost verification process and had approved the related cost.

In addition, at the YFRC, we questioned the salary and benefit charge of $1,563 incurred by an employee at one of the partner agencies because a timesheet was not provided to support the invoice billing. However, when the HCD selected this transaction during the quarterly cost verification process, it approved the amount on the invoice without seeing either a timesheet (to verify the HPRP hours charged) or a payroll register (to verify the hourly rate charged).

The HCD's cost verification process is not a substitute for site visits.

HPRP DERs Do Not Reconcile with the Sub-Recipient Expenditure Ledger

Merely selecting transactions from the DER is not sufficient testing because the expenditures on the DERs submitted to the HCD are not complete. For instance, six of the eight sub-recipients' expenditure ledgers did not reconcile with the DERs submitted to the HCD. We performed reconciliations and determined that the differences varied drastically by agency and could not be generalized. For example, at the CAB, the DER was overstated by $8,766. Following audit fieldwork, the sub-recipient performed a reconciliation of accounts and noted that more than 99% of the differences are timing issues that resulted because the DER is prepared on a cash basis of accounting and its general ledger is prepared on an accrual basis.

The same is true at Monterey County, where the DER was understated by $1,355. Monterey County believes that the difference is due to timing differences from cash versus accrual accounting.

However, at the RCAA, the DER was overstated by $1,651. During audit fieldwork, the sub-recipient's finance director performed a reconciliation and noted that the difference occurred because a security deposit check was voided and the corresponding adjustment was not made on the DER.

At the YFRC, the DER was understated by $4,250. We performed a reconciliation and determined that the difference occurred because (1) HPRP salaries and benefits were missing from the DER, (2) there were timing differences between cash and accrual basis, (3) unallowable mileage expense was deleted on the DER but not on the expenditure ledger, and (4) data entry errors occurred.

At the SCAP, the DER was overstated by $2,293. We attempted to perform a reconciliation between the DER and the sub-recipient's QuickBooks Profit and Loss (P&L) report, but were unable to identify all of the differences. Some of the differences noted were (1) eligible costs were not reported on the DER, (2) a security deposit refund was not adjusted on the DER, and (3) a salary expense was duplicated on the DER.

At KidsFirst, the DER was understated by $11,672. Again, we attempted to perform a reconciliation between the DER and KidsFirst's General Ledger, but were unable to identify all of the differences. Some of the differences noted were (1) advances to partner agencies were reported as an expense on the general ledger but not identified on the DER, (2) audit expenses were included on the DER but not in the general ledger, and (3) workers' compensation was omitted from the DER.

Reconciliations are an important part of keeping accurate track of HPRP expenditures and are critical to ensuring that the financial statements are accurate and complete.

CDBG-R Expenditure Milestones Not Met for Six of the Ten STAR Sub-Recipients

The HCD is not following the requirements established in its standard agreements with the sub-recipients. For the CDBG-R program, the HCD has a standard agreement with twelve sub-recipients (ten STAR sub-recipients and two EDAR sub-recipients). The standard agreement for the ten STAR sub-recipients has an expenditure milestone requirement that was not met by six of the ten sub-recipients.

According to the standard agreement, the CDBG-R sub-recipients must expend at least 25% of the grant funds by September 30, 2010, and if the expenditure milestones are not met, the HCD may disencumber the difference between the milestones and what was expended for the program activity 60 days after the date of the milestones.

The following table shows the six STAR sub-recipients that did not meet the 25% expenditure requirement:

	CDBG-R Grant Award	Expenditures as of 09/30/2010	25% Expenditures Milestone	Was Milestone Met?
City of Anderson	$ 370,548	$ 2,390	$ 92,637	No
City of Calipatria	863,695	20,184	215,924	No
City of Firebaugh	470,696	10,558	117,674	No
City of Fort Bragg	813,917	328,102	203,479	Yes
Glenn County	916,659	1,890	229,165	No
City of Mammoth Lakes	1,000,000	522,279	250,000	Yes
City of Parlier	967,541	11,905	241,885	No
Tulare County	862,942	540,134	215,736	Yes
City of Tulare	284,132	17,524	71,033	No
City of Etna	219,555	213,412	54,889	Unknown[1]
Totals	$ 6,769,685	$ 1,668,378	$ 1,692,422	

[1] The City of Etna did not provide a certified summary of expenditures, but was advanced $213,412 (97.20%) based on an e-mail request. Therefore, we are unable to determine if the City of Etna truly expended the entire $213,412 and met its expenditure milestone requirement.

Even though the HCD has the ability to disencumber the difference between the milestones and what was expended for the program activity, there was no documentation in the program files that indicates the difference was unencumbered. Furthermore, conversations with CDBG-R staff indicate that they were not aware that the expenditure milestones were not met for these six sub-recipients.

While we recognize that special conditions must be considered prior to expending the CDBG-R funds, such as environmental compliance with the National Environmental Protection Agency, the HCD's staff members should still ensure that milestones are met. If the milestones are not met, at a minimum, the HCD's staff members should note why the expenditure milestones would not be met and develop an action plan to ensure that the remaining milestones are met.

Recommendation

We recommend that the HCD perform site visits for both the HPRP and CDBG-R program, and document any instances of noncompliance noted. If instances of noncompliance are noted, follow-up visits should be performed to ensure that corrective action was taken.

For the HPRP program, we recommend that the HCD verify that the HPRP expenditures reported on the DER are reconciled to sub-recipients' expenditure balances.

For the CDBG-R program, we recommend that the HCD develop corrective action plans for those sub-recipients that do not meet the expenditure milestone requirements.

HCD's Response

The HCD agreed with the recommendation.

FINDING 2—Inadequate documentation supporting salary and benefit costs

We tested $189,457 in salary and benefit costs and questioned $117,559 because the reported expenditures do not comply with the Office of Management and Budget (OMB) Circular A-122 for non-profit organizations, and OMB Circular A-87 for state, local, and Indian tribal governments. We performed testing at six non-profits and two local government entities; we noted no issues with the salary and benefit costs at the county local government entity.

Salaries and Wages

For non-profit organizations, OMB Circular A-122 requires that amounts charged to awards for salaries and wages must be based on documented payrolls approved by a responsible official and supported by a personnel activity report. A personnel activity report (timesheet) must be maintained for each employee (both professional and non-professional) whose compensation is charged, in whole or in part, directly to awards. These reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support. Each report must account for the total activity for which employees are compensated and must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee (Attachment B, Selected Items of Cost (7)(m)).

For local governments, OMB Circular A-87 requires employees who work solely on a singular federal award to provide a semi-annual certification to support salaries and wages. A personnel activity report (timesheet) must maintained for employees who work on multiple activities. These reports must reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates or distribution percentages determined before the services are performed do not qualify as support. Each report must account for the total activity for which employees are compensated and must be signed by the employee (Attachment B, Selected Items of Cost (8)(h)).

We noted the following 13 areas of noncompliance:

1. Total employee activity was not maintained on the timesheets:
   - SCAP: For 12 of 14 payroll transactions tested.
   - RCAA: For 1 of 8 payroll transactions tested.
   - KidsFirst: For 7 of 18 payroll transactions tested.

2. Estimated hours or budgeted hours were used for billing:
   - ATCAA: For 2 of 14 payroll transactions tested.
   - KidsFirst: For 7 of 18 payroll transactions tested.
   - CAB: For 3 of 15 payroll transactions tested.
   - RCAA: For 1 of 8 payroll transactions tested.

3. Timesheets were not signed by either the employee or supervisor:
   - SCAP: For 12 of 14 payroll transactions tested.
   - YFRC: For 4 of 21 payroll transactions tested.
   - KidsFirst: For 11 of 18 payroll transactions tested.

4. Total time was charged to HPRP even though timesheets supported time spent on another program:
   - RCAA: For 1 of 8 payroll transactions tested.
   - KidsFirst: For 1 of 18 payroll transactions tested.

5. Timesheets or certifications were not provided:
   - ATCAA: For 4 of 14 payroll transactions tested.
   - YFRC: For 3 of 21 payroll transactions tested.

6. Incorrect hourly rate used to report HPRP expenditures:
   - SCAP: For 10 of 14 payroll transactions tested.
   - CAB: For 7 of 15 payroll transactions tested.

7. Amount billed on DER was incorrectly calculated:
   - RCAA: For 1 of 8 payroll transactions tested.

8. Invoices submitted for reimbursement from partner agencies did not reconcile to the partner agencies' timesheets:
   - YFRC: For 4 of 21 payroll transactions tested.

9. Duplicate charges on DER:
   - SCAP: For 2 of 14 payroll transactions tested.

10. Unallowable expenses:
    - KidsFirst: For 1 of 18 payroll transactions tested.
    - SCAP: For 1 of 14 payroll transactions tested.

11. Payroll registers not provided:
    - ATCAA: For 5 of 14 payroll transactions tested.
    - YFRC: For 3 of 21 payroll transactions tested.

12. Hours reported on the DER do not agree to the hours reported on the timesheet:
    - CAB: For 3 of 15 payroll transactions tested.

13. Unallowable cash match for AmeriCorps living allowance:
    - ATCAA: For 2 of 2 transactions tested.

Benefits

OMB Circular A-122 requires that benefits charged must be in proportion to the relative amount of time or effort actually devoted to the program (Attachment B, Selected Items of Cost (7)(f)). OMB Circular A-87 requires that benefit costs are equitably allocated to all related activities (Attachment B, Selected Items of Cost (8)(d)). We noted the following four instances of noncompliance:

1. Neither SCAP nor the Samaritan House has procedures in place to ensure that the benefit rates billed on the DER are directly proportional to the HPRP hours worked.

2. Benefit rates were not directly proportional to the HPRP hours worked:
   - KidsFirst: For 8 of 18 payroll transactions tested.

3. Health insurance benefits not allocated appropriately across the entire month:
   - CAB: For 8 of 15 payroll transactions tested.

4. Supporting documentation for benefit rates was not provided:
   - ATCAA: For 6 of 14 payroll transactions tested.
   - YFRC: For 6 of 21 payroll transactions tested.

Recommendation

We recommend that sub-recipients prepare salaries and benefits in accordance with OMB Circular A-122 for non-profit organizations and OMB Circular A-87 for state, local, and Indian Tribal governments.

HCD’s Response

The HCD agreed with the recommendation.

FINDING 3— Incomplete documentation of program participant eligibility

We tested $336,846 in assistance costs (rental assistance, utility assistance, moving assistance) and questioned $244,940 because the case files did not fully comply with the eligibility guidelines established by the HUD in the following areas:

1. Initial consultation to determine eligibility
2. Annual income verification
3. Eligible living (housing) status
4. Staff certification
5. Lease and utility payments
6. Rent "reasonableness" test
7. Lead-based paint requirements
8. Habitability inspection
9. Homeless Management Information System (HMIS)

If the tested case file did not include all nine of these required elements, we questioned the entire assistance paid. We will address the audit exceptions in the order identified above.

1. <u>Initial Consultation to Determine Eligibility</u>

   The applicant must receive an initial consultation and eligibility assessment with a case manager or other authorized representative who can determine eligibility and the appropriate type of assistance needed (HUD's HPRP Income: Eligibility Determination and Documentation Requirements).

   All eight of the sub-recipients we audited had a qualified HPRP worker perform an initial consultation with the applicant to assess eligibility.

2. <u>Annual Income Verification</u>

   The HUD requires HPRP sub-recipients to determine the annual income for each applicant. To be eligible for assistance, the applicant's gross annual income must be at or below 50% of the Area Median Income (AMI), as determined by the state and by the local jurisdiction in which a household resides; the AMI varies based on the household size. When verifying income, the applicant's income must be current (within the last 30 days) and include all components (e.g., wages, pensions, disability, unemployment, alimony, child care, public assistance, etc.). If the applicant is not able to provide sufficient income support, he or she may sign and date a self-declaration of income; however, in order for the self-declaration to qualify, the HPRP worker must document an attempt to obtain third-party verification. In addition, the HPRP worker must re-certify the eligibility of program participants at least once every three months for all households receiving HPRP medium-term rental assistance (HUD's HPRP Income: Eligibility Determination and Documentation Requirements).

Of the eight sub-recipients we audited, four did not include the required documentation in the case files. The audit issues we observed are as follows:

a. Income was not annualized:

- RCAA: For 9 of 15 case files tested.

b. Self-declarations of income did not include an attempt to obtain third-party verification:

- RCAA: For 4 of 15 case files tested.

c. Self-declaration of income was not signed:

- ATCAA: For 1 of 9 case files tested.

d. Income documentation was not dated within 30-days of assistance:

- RCAA: For 1 of the 15 case files tested.

e. Income verification not documented in the case file:

- YFRC: For 1 of 16 case files tested.
- KidsFirst: For 1 of 13 case files tested.
- ATCAA: For 2 of 9 case files tested.

f. Re-certification of eligibility not promptly completed every three months:

- ATCAA: For 7 of 9 case files tested.

3. Eligible Living (Housing) Status

In order to receive HPRP assistance, a household must be either homeless or at risk of losing its housing. In addition, both of the following circumstances must be met:

- No appropriate subsequent housing options have been identified.
- The household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

To document program eligibility for a homeless person, the HPRP worker must document either an HMIS record of shelter stay, a homeless certification, an emergency shelter provider letter, a letter from a hospital or institution, or a transitional housing provider letter. If the HPRP worker cannot obtain the required documentation, he or she can rely on a self-declaration of homelessness, but the HPRP worker must document an attempt to obtain written third-party verification and sign the applicant's self-declaration form.

To document program eligibility for a person at risk of losing his or her home, the HPRP worker must document an eviction notice, a court order, a foreclosure notice, a utility shut-off notice, or a written statement from a hospital or institution. If the HPRP worker cannot obtain the required documentation, he or she can rely on a self-declaration of housing status, but the HPRP worker must document an attempt to obtain third-party documentation and sign the applicant's self-declaration form. (HUD's HPRP Housing Status: Eligibility Determination and Documentation Requirements).

Of the eight sub-recipients we audited, four did not properly verify the housing status of the program participant. The audit issues we observed are as follows:

a. Housing status was not documented in the case file:

- KidsFirst: 2 of 13 case files tested.
- RCAA: 5 of 15 case files tested.
- ATCAA: 1 of 9 case files tested.

b. Self-declarations of housing status did not include an attempt to obtain third-party verification:

- RCAA: 7 of 15 case files tested.
- Samaritan House: For 1 of 10 case files tested.

4. Staff Certification

Upon determination of a program participant's eligibility for HPRP assistance, the HPRP worker must sign and date a Staff Certification, which must be kept in the case file. The Staff Certification documents that the program participant meets all of the eligibility criteria, that the eligibility criteria is based on true and complete information, that none of the HPRP workers are related to the program participant, nor will the HPRP workers receive any financial benefit from making the eligibility determination. On May 1, 2010, HUD changed the form from a Staff Affidavit to a Staff Certification and required that the new Staff Certification, with the HUD-specific logo, be used instead of the original Staff Affidavit (HUD's HPRP Staff Certification of Eligibility for HPRP Assistance).

Of the eight sub-recipients we audited, three did not properly document the Staff Certification form. The audit issues we observed are as follows:

a. Staff Certifications were missing the supervisor's signature:

- RCAA: For 15 of 15 case files tested.

b. HUD-specific Staff Certifications were not used after May 1, 2010:

- KidsFirst: For 4 of 13 case files tested.

c. Staff affidavits were not signed by the supervisor in a timely manner:

- SCAP: For 4 of 12 case files tested.

5. Lease and Utility Payments

   In order to use HPRP funds for rents or security deposits, a lease must be in place and the program participant's name must be on the lease. In addition, the rental assistance paid cannot exceed the amount on the lease. A copy of the lease must be kept in the case file. HPRP funds may be used for utility payments only if the program participant or a member of his or her household has an account in his/her name with the utility company or proof of responsibility to make utility payments (HCD's HPRP Grant Eligible Expenses, HUD's FAQ August 14, 2009 and HUD's March 19, 2009 Notice).

   Of the eight sub-recpients we audited, four did not properly document the lease payments. The audit issues observed are as follows:

   a. Copies of leases were not maintained in the case files:
      - RCAA: For 6 of 15 case files tested.
      - YFRC: For 11 of 16 case files tested.
      - ATCAA: For 1 of 9 case files tested.

   b. Leases expired with no documentation to support renewal:
      - KidsFirst: For 1 of 13 case files tested.

6. "Rent Reasonableness" Test

   Rental assistance paid cannot exceed the actual rental cost, which must comply with HUD's standard of "rent reasonableness." "Rent reasonableness" means that the total rent charged for a unit must be reasonable in relation to the rents being charged during the same time period for comparable units in the private unassisted market and must not be in excess of rents charged by the owner during the same time period for comparable non-luxury unassisted units. To make this determination, the sub-recipient should consider the following (HUD Notice, Docket No. FR-5307-N-01, Section IV (A)(1)(a) and HUD FAQ 7/21/10):

   - The location, quality, size, type, and age of the unit; and
   - Any amenities, housing services, maintenance and utilities provided by the owner.

   Of the eight sub-recipients we audited, five did not properly document the "rent reasonableness" test. The audit issues observed are as follows:

   a. "Rent Reasonableness" test was not performed:
      - RCAA: For 15 of 15 case files tested.
      - YFRC: For 16 of 16 case files tested.
      - Monterey County: For 4 of 4 case files tested.
      - KidsFirst: For 6 of 13 case files tested (all occurring at the partner agencies).

   b. "Rent Reasonableness" does not show area comparables:
      - ATCAA: For 9 of 9 case files tested.

7. Lead-Based Paint Requirements

The lead-based paint requirements exist to protect vulnerable families from potential health hazards. To help prevent lead poisoning in young children, HPRP recipients must comply with the Lead-Based Paint Poisoning Prevention Act of 1973. Under HPRP, a lead-based paint visual assessment must be completed for all units that meet the following conditions:

- The unit was constructed prior to 1978; and
- A child under the age of six is or will be living in the unit.

These lead requirements apply regardless of whether a household is remaining in an existing unit or moving into a new unit. In addition, the visual assessment must be completed before HPRP assistance is provided, and annually thereafter (HUD Notice, Docket No. FR-5307-N-01, Section VII (F) and Understanding the Lead-Based Paint Requirements: Guidance for HPRP Grantees).

Of the eight sub-recipients we audited, four did not comply with the lead-based paint requirement as follows:

a. Did not comply with the lead-based paint requirements:

   - Monterey County, RCAA, ATCAA, and YFRC did not document whether the lead-based paint requirements were applicable; many of the program participants' dwelling units had children under the age of six living in them.

8. Habitability Inspection

Organizations providing rental assistance with HPRP funds are required to conduct initial and appropriate follow-up inspections of housing units into which a program participant will be moving. As opposed to the housing quality standards used for other HUD programs, the habitability standards do not require a certified inspector. As such, HPRP program staff could conduct the inspection using HUD's form to document compliance (HPRP Housing Habitability Standards Inspection Checklist).

Of the eight sub-recipients we audited, four did not properly document the necessary habitability inspections when program participants moved into a new unit. The audit issues we observed are as follows:

a. Habitability inspection was not performed:

   - ATCAA: For 2 of 3 case files tested.
   - KidsFirst: For 1 of 2 case files tested.
   - YFRC: For 1 of 1 case file tested.
   - RCAA: For 1 of 5 case files tested.

b. Habitability inspection was incomplete because it lacked the evaluator's signature:

   - RCAA: For 2 of 5 case files tested.

9. Homeless Management Information System (HMIS)

   The HMIS is a computerized data collection tool specifically designed to knit together homeless assistance providers within a community to create a more coordinated and effective housing service system. The HUD uses the HMIS data to obtain better information about the extent and nature of homelessness over time; thus, implementation of a HMIS is a requirement for receipt of HUD McKinney-Vento funding.

   HPRP sub-recipients are required to input the following information into an HMIS system (HPRP HMIS Data Collection Template Instructions):

   - Intake form
   - Income form
   - HPRP financial assistance provided
   - HPRP housing relocation and stabilization services provided
   - Exit form

   Of the eight sub-recipients we audited, two did not properly document the program participants' information into the HMIS. The audit issues we observed are as follows:

   a. HMIS failed to capture all of the required elements:

      - SCAP: For 9 of 12 case files tested.
      - YFRC: For 16 of 16 case files tested.

   b. HPRP program participants were not entered into HMIS:

      - SCAP: For 1 of 12 case files tested.

Recommendation

We recommend that the sub-recipients properly perform and document all of the required elements to ensure program participant eligibility in accordance with HUD requirements.

HCD's Response

The HCD agreed with the recommendation.

FINDING 4—
Unallowable costs

We tested $48,449 in "other" miscellaneous costs and questioned $5,549 because the reported expenditures did not comply with OMB Circular A-122 for Non-Profit Organizations.

OMB Circular A-122 states that for a cost to be allocable to a particular cost objective, such as a grant or a contract, it must be incurred specifically for the award (Attachment A, General Principles (A)(4)). KidsFirst reported $5,549 for audit expenses that had yet to be paid because the audit had yet to be performed. While audit expenses are an allowable cost, pre-expensing the audit cost prior to incurring the cost is not allowable.

Recommendation

We recommend that KidsFirst report expenditures only when incurred.

HCD's Response

The HCD agreed with the recommendation.

Appendix—
Audit Results by Sub-Recipient Agency

Sub-Recipient:

Sub-Recipient: Amador-Tuolumne Community Action Agency (ATCAA)
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

HCD Contract Number:	09-HPRP-6121
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$980,581
Amount Tested:	$88,316
Amount Questioned:	$79,471

Findings and Questioned Costs

We tested transactions as reported on the fourth-quarter approved Detailed Expenditure Report (DER) submitted to the California Department of Housing and Community Development (HCD). We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 14 payroll transactions and two living allowance transactions (AmeriCorps) totaling $18,129 (6.82% of the reported salary and benefit costs). We questioned $10,103 due to the following instances of noncompliance with federal cost principles noted during salary and benefit testing:

- Supporting documentation was not provided for 6 of 14 transactions tested to determine if benefit payments were directly proportional to amount of time charged to the program.
- Supporting documentation was not provided for 5 of 14 transactions tested to reconcile time charged to payroll registers.
- Timesheets were not provided for 4 of 14 transactions tested to determine if the expenses were reimbursable activity costs to the program.
- Administrative salary and benefit costs were allocated based on budget estimates in 2 of 14 transactions tested.
- In both living allowance transactions tested, the agency used HPRP funds for the cash match contribution to AmeriCorps members' living allowances without proper authorization. By contract, the cash match contribution cannot be made from another federal grant unless authorized by statute and/or written approval by authorized federal agency department staff, the Corporation for National and Community Service, and Prevent Child Abuse California.

Participant Eligibility

We reviewed 9 of 326 case files, totaling $69,368 (9.71% of the total reported financial assistance cost). We questioned all of the costs tested due to the following instances of noncompliance with HUD requirements:

- Rent reasonableness comparative analysis was not performed for each of the nine case files tested.
- HPRP Lead Screening Worksheet was not located in each of the nine case files tested.

- Re-certification eligibility was not completed at least every three months for seven of the nine case files tested.
- Of the nine case files tested, three cases relate to rapid re-housing assistance which requires a habitability inspection. For two of three cases tested, a habitability inspection document was not located in the case file.
- For one of nine case files tested, the current rental agreement was not located in the file.
- For two of nine case files tested, the income verification document was not located in the file or was incomplete.
- For one of nine case files tested, the self-declaration of income was not signed.
- For one of nine case files tested, the Housing Status document was not located in the file.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $819. No audit issues were noted during this testing.

General Ledger

We reviewed the ATCAA's Profit and Loss (P&L) and compared it with the fourth-quarter approved DER submitted to the HCD. Two receivables were posted to HPRP account in error: one for $21,285 and another for $7,295. Additionally, a receivable amounting to $2,548 was journaled out of the HPRP account. These errors caused a net overstatement of HPRP revenue amounting to $26,032. The agency has since corrected these errors and the reports now reconcile.

<u>Conclusion</u>

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. Various issues noted extend to the partner agency level, showing a lack of oversight by the ATCAA. Furthermore, we noted several differences between the ATCAA's P&L and the fourth-quarter approved DER submitted to the HCD.

<u>Recommendation</u>

We recommend that the ATCAA take steps to ensure that it, as well as its partner agencies, is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that the ATCAA perform a reconciliation each quarter between the DER and its P&L to ensure proper reporting of HPRP expenditures.

<u>Sub-Recipient's Response</u>

The sub-recipient acknowledged the issues noted in the audit results. For some of the issues, the sub-recipient provided information on the corrective actions taken. For the two issues, the sub-recipient disagrees with the audit results. Refer to the Attachment for the sub-recipient's complete response.

<u>SCO's Rebuttal</u>

For one of nine cases tested, the self-declaration of income was not signed.

In this particular case, the file contained income verification and a self-declaration of income. The income verification performed by the sub-recipient staff included public assistance that was based on bank statements. The bank statements indicate two account holders. Although the bank statements may have provided corroborative evidence, the sub-recipient did not document the most recent public assistance payment statement or benefit notice. In addition, the self-declaration of income document in the file was incomplete. In either situation, we believe that the information provided in the course of field work does not adequately support the eligibility of the client.

Errors identified during the review of ATCAA's Profit and Loss and fourth-quarter DER submitted to HCD.

When we conducted fieldwork, the sub-recipient was in the process of making these entries. Our primary concern is that the sub-recipient should reconcile its financial records with the DER submitted to the HCD in a timely manner. The basis for the reconciliation is for the sub-recipient to be aware of the differences between its records and information as submitted to the HCD, to mitigate over-/underreporting of expenditures.

Sub-Recipient: Stanislaus Community Assistance Project (SCAP)
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

HCD Contract Number:	09-HPRP-6140
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,500,000
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$517,191
Amount Tested:	$84,829
Amount Questioned:	$77,914

Findings and Questioned Costs

We tested transactions as reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 14 payroll transactions totaling $48,602 (16.22% of the reported salary and benefit costs). We questioned $48,602 due to the following instances of noncompliance with federal cost principles noted during salary and benefit testing:

- SCAP billed HPRP for duplicate salary expenses for 2 of 14 payroll transactions tested.
- SCAP claimed a computer, pizza, and office supplies as an HPRP salary expense for 1 of 14 payroll transactions tested.
- Timesheets were not signed by employees or supervisors for 12 of 14 payroll transactions tested, two of which occurred at partner agencies.
- Total employee activity was not maintained on timesheets for 12 of 14 payroll transactions tested, three of which occurred at partner agencies.
- No support for hourly wage was given, or the incorrect hourly wage was used, for 10 of 14 payroll transactions tested, one of which occurred at a partner agency.
- SCAP's procedure for calculating benefit payments fails to calculate benefits in a way that is directly proportional to the amount of time each employee spent on the HPRP program. Furthermore, sufficient support was not provided to verify that benefits are directly proportional to time spent on the program at two of the partner agencies tested.

Participant Eligibility

We reviewed 12 of 144 case files, totaling $34,538 (which is 16.02% of the total reported financial assistance cost). We questioned $29,312 due to the following instances of noncompliance with HUD requirements:

- Staff affidavits were signed by the supervisor five months after the original case manager signature for 4 of 12 case files tested.

- SCAP's HMIS data system is not in compliance with HUD requirements. One of twelve client profiles tested was not present in the HMIS system. Nine of twelve clients' HMIS profiles were missing either their intake, income, financial assistance provided, housing services provided, or exit (when applicable) data.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $1,689. No audit issues were noted during this testing.

General Ledger

We reviewed the SCAP's QuickBooks P&L and compared it with the fourth-quarter approved DER submitted to the HCD. The fourth-quarter DER total is $2,293 greater than SCAP's P&L total. We tried to reconcile the two and determined that some of the differences are as follows:

- $2,708 in eligible costs was omitted from the DER.
- A $500 security deposit refund was not recorded on the DER.
- $6,860 in salary expenses claimed on the DER appeared to be duplicated costs (noted above in the "Salaries and Benefits" section).
- The trial balance provided included a $2,896 asset account, although the expense for this asset was also included as part of an HPRP expense account.
- A $690 security deposit was included on the DER, but it was not accounted for on the P&L.
- $370 in unallowable SCAP utilities expenses was included on the P&L.

However, even after these adjustments were made, we were still unable to fully reconcile the fourth-quarter DER to the SCAP's P&L.

<u>Conclusion</u>

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. Various issues noted extend to the partner agency level, showing a lack of oversight by the SCAP. Furthermore, we noted several inconsistencies between the SCAP's P&L and the fourth-quarter approved DER submitted to the HCD.

<u>Recommendation</u>

We recommend that the SCAP take steps to ensure that it, as well as its partner agencies, is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that the SCAP perform a reconciliation each quarter between the DER and its P&L to ensure proper reporting of HPRP funds.

<u>Sub-Recipient's Response</u>

The sub-recipient agreed with the audit issues and has identified correction actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Monterey County

Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

Contract Number:	09-HPRP-6152
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009 through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009 through September 30, 2010
Reported Expenditures:	$399,983
Amount Tested:	$44,380
Amount Questioned:	$36,082

Findings and Questioned Costs

We tested transactions reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested nine payroll transactions totaling $8,298 (7.81% of the reported salary and benefit costs). We noted no instances of noncompliance with federal cost principles.

Participant Eligibility

We reviewed 4 of 113 case files, totaling $36,082 (12.28% of the total reported financial assistance cost). We questioned the entire $36,082 because the partner agency did not perform a "rent reasonableness" test nor did it determine whether the lead-based paint requirements were met.

General Ledger

The DER was understated by $1,355; this understatement is attributed to the timing differences between the DER, which is reported on a cash basis, and the county's expenditure ledger, which is reported on an accrual basis.

Conclusion

We noted two areas of noncompliance with HPRP grant requirements at Monterey County. Furthermore, we noted differences between Monterey County's expenditure ledger and the fourth-quarter approved DER submitted to the HCD.

Recommendation

We recommend that Monterey County take steps to ensure that it is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that Monterey County perform a reconciliation each quarter between the DER and its ledger to ensure proper reporting of HPRP expenditures.

Sub-Recipient's Response

The sub-recipient agreed with the audit issues and has identified corrections actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Redwood Community Action Agency (RCAA)
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

HCD Contract Number:	09-HPRP-6154
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009 through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009 through September 30, 2010
Reported Expenditures:	$774,433
Amount Tested:	$73,307
Amount Questioned:	$61,126

Findings and Questioned Costs

We tested transactions as reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested eight payroll transactions totaling $3,549 (2.92% of the reported salary and benefit expenditures). We questioned $1,308 due to the following instances of noncompliance with federal cost principles noted during salary and benefit testing:

- One timesheet did not reflect the total hours in the pay period. In addition, the HPRP hours charged were based on pre-determined budgeted rates.
- One timesheet showed that RCAA billed 100% of an employees' time to HPRP even though the employee worked on another federal project.
- One timesheet was not properly calculated. The total billed on the DER differed significantly from the hours reported on the timesheet when multiplied by the employee's pay rate.

Participant Eligibility

We reviewed 15 of 434 case files, totaling $59,818 (which is 9.31% of the total reported financial assistance cost). We questioned the entire amount tested due to the following areas of noncompliance with HUD requirements:

- None of the case files tested contained evidence that the HUD's "rent reasonableness" standards were met.
- None of the tested case files contained determinations as to whether the lead-based paint requirements were met.
- All of the tested case files lacked the supervisors' signature on the Staff Certification.
- All of the income documentation tested was incomplete:
  - In 4 of 15 case files, the agency relied on a self-declaration of income; none of the files contained an attempt for third-party verification.
  - In 11 of 15 case files the agency relied on actual income documentation. We noted the following:
    - In 9 case files, the income amounts were not annualized.
    - In one case file, the income was not dated within 30 days of assistance.

- In 12 of 15 case files the housing-status documentation was incomplete:
  - In seven of the case files, the agency relied on a self-declaration of housing status; none of the seven case files contained an attempt to obtain third-party verification.
  - Of the remaining eight case files, five had no housing-status documentation (neither a self-declaration nor an eviction notice).
- In 5 of 15 case files tested, a habitability inspection was required; three of the case files were incomplete:
  - Habitability inspection not performed for one of the five case files.
  - Habitability inspection was incomplete for two of the five case files because the evaluator's signature was not included on the form.
- A rental agreement was missing from 6 of 15 case files; thus, we were not able to confirm that the assistance paid was equal to or less than the amount of the rent.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $9,940. No audit issues were noted during this testing.

General Ledger

The DER was overstated by $1,651. During audit fieldwork, the RCAA finance director performed a reconciliation and noted that the difference occurred primarily because a security deposit check was voided and the corresponding adjustment was not made on the DER.

Conclusion

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. Furthermore, we noted differences between the RCAA's expenditures ledger and the fourth-quarter approved DER submitted to the HCD.

Recommendation

We recommend that the RCAA take steps to ensure that it is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that the RCAA perform a reconciliation each quarter between the DER and its ledger to ensure proper reporting of HPRP expenditures.

Sub-Recipient's Response

The sub-recipient acknowledged the issues noted in the audit results. The reference to additional documentation provided on June 6, 2011, relates to corrective actions taken by the sub-recipient in response to the issues noted. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Community Action Board of Santa Cruz County, Inc. (CAB)
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

HCD Contract Number:	09-HPRP-6155
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,200,000
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$476,538
Amount Tested:	$68,635
Amount Questioned:	$17,453

Findings and Questioned Costs

We tested transactions as reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 15 payroll transactions totaling $22,052 (9.42% of the reported salary and benefit expenditures). We questioned $17,453 due to the following instances of noncompliance with federal cost principles:

- The hourly rate for 7 of 15 payroll transactions was incorrect. For salaried employees, the CAB adjusts the total pay period hours to 81.25 hours, regardless of the total hours worked in the pay period. Thus, the hourly rate used to report HPRP expenditures was either slightly overstated or slightly understated.
- The hours charged to HPRP for 3 of 15 payroll transactions were based on budgeted amounts and not actual time.
- The health insurance costs for 8 of 15 payroll transactions were not allocated properly across the month. The CAB allocates the health insurance amounts to the first pay period of the month instead of evenly among both pay periods in the month. Therefore, the hourly rate for the first pay period of the month is significantly greater than the hourly rate for the second pay period of the month.
- The HPRP hours reported on the timesheet for 3 of 15 payroll transactions did not agree to the hours reported on the DER.

Participant Eligibility

We reviewed 5 of 62 case files, totaling $31,583 (13.88% of the total reported financial assistance cost). No audit issues were identified during this testing.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $15,000. No audit issues were identified during this testing.

General Ledger

The DER was overstated by $8,766. Following audit fieldwork, the CAB performed a reconciliation of accounts and noted that more than 99% of the differences are timing issues because the DER is prepared on a cash basis and its general ledger is prepared on an accrual basis.

Conclusion

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. Furthermore, we noted differences between the CAB's expenditure ledger and the fourth-quarter approved DER submitted to the HCD.

Recommendation

We recommend that the CAB take steps to ensure that it is in compliance with all applicable federal cost principles. In addition, we recommend that the CAB perform a reconciliation each quarter between the DER and its ledger to ensure proper reporting of HPRP expenditures.

Sub-Recipient's Response

The sub-recipient agreed with the audit issues and has identified corrective actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Samaritan House
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

<u>Background</u>

HCD Contract Number:	09-HPRP-6157
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$717,572
Amount Tested:	$91,541
Amount Questioned:	$7,959

<u>Findings and Questioned Costs</u>

We tested transactions reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 13 payroll transactions totaling $35,086 (17.45% of the reported salary and benefit costs). We questioned $2,959 because the benefit rates (vision, paid-time-off accrual, and health and life insurance) were not proportionate to the amount of time spent on state HPRP.

Participant Eligibility

We reviewed 10 of 286 case files, totaling $48,455 (9.53% of the total reported financial assistance cost). We questioned $5,000 because one of the ten case files included a self-declaration of housing status and the case worker did not document the required attempt at third-party verification.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $8,000. No audit issues were noted during this testing.

General Ledger

No differences were noted between the general ledger expenditures and the fourth-quarter DER.

<u>Conclusion</u>

We noted two instances of noncompliance with HPRP grant requirements and federal cost principles.

<u>Recommendation</u>

We recommend that the Samaritan House take steps to ensure that it is in compliance with the HPRP grant requirements and all applicable federal cost principles.

<u>Sub-Recipient's Response</u>

The sub-recipient acknowledges the issues noted and has either justified its basis for the issue noted (benefits) or identified corrective actions taken as a result (participant eligibility). Refer to the Attachment for the sub-recipient's complete response.

Sub-Recipient: Yolo Family Resource Center (YFRC)
Homelessness Prevention and Rapid Re-housing Program (HPRP)

<u>Background</u>

HCD Contract Number:	09-HPRP-6159
CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$597,802
Amount Tested:	$58,703
Amount Questioned:	$47,181

<u>Findings and Questioned Costs</u>

We tested transactions as reported on the fourth-quarter approved DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 21 payroll transactions totaling $26,004 (10.48% of the reported salary and benefit costs). We questioned $16,123 due to the following instances of noncompliance with federal cost principles noted during salary and benefit testing:

- Supporting documentation was not provided for 6 of 21 transactions tested to determine if benefit payments were directly proportional to the amount of time charged to the program.
- Supporting documentation was not provided for 3 of 21 transactions tested to reconcile time charged to payroll registers.
- Recorded hours on timesheets for 4 of 21 transactions tested did not reconcile to the invoice submitted for reimbursement.
- Timesheets were not provided for 3 of 21 transactions tested to determine if the expenses were reimbursable activity costs to the program.
- Timesheets were not signed by either the supervisor or employee for 4 of 21 transactions tested.

Participant Eligibility

We reviewed 16 of 292 case files, totaling $31,058 (9.09% of the total reported financial assistance cost). We questioned all of the costs tested due to the following instances of noncompliance with the HUD requirements:

- "Rent reasonableness" analysis was not maintained in any of the case files tested.
- HPRP Lead Screening Worksheet was not maintained in any of the case files tested.
- Rental or lease agreements were not included in 11 of the 16 case files tested.
- Of the 16 case files tested, one was related to rapid re-housing assistance which requires a habitability inspection. For this one case file tested, the habitability inspection was not located in the case file.

- For 1 of 16 client files tested, the income verification was not completed for one of the tenants identified on the three-day notice.
- YFRC's HMIS data system was not in compliance with the HUD requirements because the system was not capturing the financial assistance service provided to the client.

Other Miscellaneous Expenses

We tested additional expenses totaling $1,641. No audit issues were noted during this testing.

General Ledger

We reviewed YFRC's QuickBooks P&L and compared it with the fourth-quarter approved DER submitted to HCD. The expenditures reported on its fourth-quarter DER were $4,250 less than the YFRC's P&L records. We attempted to reconcile the balances and determined that some of the differences occurred because (1) HPRP salaries and benefits were missing on the DER, (2) there were timing differences between cash and accrual, (3) unallowable mileage was deleted on the DER but not on the expenditure ledger, (4) rental assistance was overstated on the DER by $96, and (5) there were miscellaneous data entry errors.

However, even after these adjustments were made, we were still unable to fully reconcile the fourth-quarter DER to the YFRC's P&L.

Conclusion

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. The issues noted extend to the partner agency level, showing a lack of oversight by the YFRC. Furthermore, we noted several inconsistencies in the reconciliation of expenditures between the YFRC's general ledger and its fourth-quarter DER submitted to the HCD.

Recommendation

We recommend that the YFRC take steps to ensure that it, as well as its partner agencies, is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that the YFRC perform a reconciliation each quarter between the DER and its P&L to ensure proper reporting of HPRP expenditures.

Sub-Recipient's Response

The sub-recipient acknowledged the audit issues noted and has identified corrective actions taken as a result. Refer to the Attachment for the sub-recipient for the sub-recipient's complete response.

Sub-Recipient: KidsFirst
Homelessness Prevention and Rapid Re-Housing Program (HPRP)

Background

HCD Contract Number:	09-HPRP-6195
CFD Number:	14.257
Grant Award:	S09-DY-06-0001
Contract Period:	October 1, 2009, through September 30, 2012
Amount Awarded:	$1,243,482
Audit Period:	October 1, 2009, through September 30, 2010
Reported Expenditures:	$423,763
Amount Tested:	$65,041
Amount Questioned:	$40,862

Findings and Questioned Costs

We tested transactions as reported on the fourth-quarter DER submitted to the HCD. We deemed costs as questionable for the entire transaction amount if one or more instances of noncompliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 18 payroll transactions totaling $27,737 (14.57% of the reported salary and benefit costs). We questioned $21,011 due to the following instances of noncompliance with federal cost principles noted during salary and benefit testing:

- An unallowable paid-time-off (PTO) payout was charged 100% to HPRP for 1 of 18 payroll transactions tested.
- Time spent on another program was charged to HPRP for 1 of 18 payroll transactions tested.
- Employee timesheets were either not signed by employees and supervisors or not present for 11 of 18 payroll transactions tested, nine of which were at partner agencies.
- Estimated hours were used for billing for 7 of 18 payroll transactions tested, all of which were at partner agencies.
- Total employee activity was not maintained on timesheets for 7 of 18 payroll transactions tested, all of which were at partner agencies.
- Benefit payments were not supported or not directly proportional to the time spent on the HPRP program for 8 of 18 payroll transactions tested, five of which were at partner agencies.

Participant Eligibility

We reviewed 13 of 196 case files, totaling $25,944 (11.68% of the total reported financial assistance cost). We questioned $14,302 due to the following instances of noncompliance with HUD requirements:

- Income documentation was not present, as per the requirements, for 1 of 13 case files tested.
- Housing status was not verified and/or documented for 2 of 13 case files tested, one of which was at a partner agency.
- KidsFirst does not maintain Staff Certifications (post-May 1, 2010) for all case files tested. Instead KidsFirst continued to use the Staff Affidavit throughout the audit period. HUD-required Staff Certifications were not signed and maintained in client files for 4 of 13 clients tested.

- The lease had expired prior to the first financial assistance payment for 1 of 13 case files tested, which was at a partner agency. This lease had no provision for continuance after the contract period and was therefore deemed invalid.
- "Rent reasonableness" certifications were not completed or maintained in case files for 6 of 13 clients tested, all of which were at partner agencies.
- Of the 13 case files tested, two cases relate to rapid re-housing assistance which requires a habitability inspection. For one of the two case files tested, the habitability inspection was not located in the case file.

Other Miscellaneous Expenses

We tested additional expenses totaling $11,360. We questioned $5,549 because KidsFirst inappropriately expensed its audit costs prior to actually incurring the costs; it did so quarterly. Furthermore, KidsFirst did not provide the methodology it used to allocate the share of the OMB Circular A-133 audit cost to HPRP as it was not readily apparent.

General Ledger

We reviewed the KidsFirst expenditure ledger and compared it with the fourth-quarter approved DER submitted to the HCD. The fourth-quarter DER was $11,672 less than KidsFirst's expenditure ledger. We tried to reconcile the two and determined that the differences include: (1) advances to partner agencies, (2) pre-expensing OMB A-133 audit expenses, and (3) the omittance of workers' compensation expenses from the DER. As such, we narrowed the difference to $447; we suspect this difference is due to minor clerical errors.

<u>Conclusion</u>

We noted several areas of noncompliance with HPRP grant requirements and federal cost principles. Furthermore, various issues extend to the partner agency level, showing a lack of oversight by KidsFirst. In addition, we noted differences between the KidsFirst's expenditure ledger and the fourth-quarter approved DER submitted to the HCD.

<u>Recommendation</u>

We recommend that KidsFirst take steps to ensure that it, as well as its partner agencies, is in compliance with the HPRP grant requirements and all applicable federal cost principles. In addition, we recommend that KidsFirst perform a reconciliation each quarter between the DER and its ledger to ensure proper reporting of HPRP expenditures.

<u>Sub-Recipient's Response</u>

The sub-recipient acknowledged the issues noted in the audit and has identified corrective actions taken as a result. Refer to the Attachment for the sub-recipient's complete response.

Attachment A—
Sub-Recipient Agencies' Responses to Audit Results

AMADOR-TUOLUMNE
COMMUNITY ACTION AGENCY
"Helping People, Changing Lives"
FOOD BANK • ENERGY & HOUSING RESOURCES • HEAD START • LIFELINE • YOUTH & FAMILY RESOURCES • REFERRALS: www.infonettc.org
AMADOR SERVICE CENTER
935 S. Highway 49, Jackson, CA 95642
Phone: (209) 223-1485 / Fax: (209) 223-4178
www.atcaa.org
TUOLUMNE SERVICE CENTER
427 N. Highway 49, Suite 305, Sonora, CA 95370
Phone: (209) 533-1397 / Fax: (209) 533-1034

June 10, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Homelessness Prevention and Rapid Re-housing Program
October 1, 2009, through September 30, 2010

Background

CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
HCD Contract Number:	09-HPRP-6121
Contract Period:	October 1, 2009 through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009 through September 30, 2010
Reported Expenditures:	$980,581
Amount Tested:	$88,316
Amount Questioned:	$79,471

Dear Mr. Spano,

We have reviewed the report submitted to California Department of Housing and Community Development pertaining to the SCO audit of our HPRP grant award. Our response and corrective action is inserted into the report format below.

Findings and Questioned Costs

We tested transactions as reported on the 4th quarter approved Detailed Expenditure Report (DER) submitted to HCD. We deemed costs as questionable for the entire transactional amount if one or more instances of non-compliance were noted during the testing of that transaction.

Salary and Benefit Costs

We tested 14 payroll and 2 AmeriCorps living allowance transactions totaling $18,129 (which is 6.82% of the reported salary and benefit costs). We question $10,103 due to the following issues of non-compliance with federal cost principles noted during salary and benefit testing:

ATCAA Response:
5 of the 14 items tested were ATCAA payroll expenses. None of these 5 contained questioned costs.

- Supporting documentation was not provided for 6 of 14 transactions tested to determine if benefit payments were directly proportional to amount of time charged to the program.

ATCAA Response:
The above transactions relate to a single partner agency. ATCAA is obtaining supporting documentation from this partner for the items tested and will confirm that costs claimed are supported. If not, HPRP reports will be adjusted accordingly and any amount paid to the partner agency will be deducted from future payments due.
ATCAA will conduct further testing on past documentation from this particular partner agency and will take appropriate action based on the results of the testing.

- Supporting documentation was not provided for 5 of 14 transactions tested to reconcile time charged to payroll registers.

ATCAA Response:
These transactions relate to the partner agency referenced in the above response. ATCAA is obtaining supporting documentation from this partner for the items tested and will confirm that costs claimed are supported. If not, HPRP reports will be adjusted accordingly and any amount paid to the partner agency will be deducted from future payments due.
ATCAA will conduct further testing on past documentation from this particular partner agency and will take appropriate action based on the results of the testing.

- Timesheets were not provided for 4 of 14 transactions tested to determine if the expenses were reimbursable activity costs to the program.

ATCAA Response:
These transactions relate to the partner agency referenced in the above responses. ATCAA is obtaining supporting documentation from this partner for the items tested and will confirm that costs claimed are supported. If not, HPRP reports will be adjusted accordingly and any amount paid to the partner agency will be deducted from future payments due.
ATCAA will conduct further testing on past documentation from this particular partner agency and will take appropriate action based on the results of the testing.

Corrective Action: ATCAA has implemented a procedure to obtain backup documentation from partner agencies for payroll costs claimed on each monthly or quarterly report. The backup documentation will be reviewed by ATCAA fiscal staff prior to issuing authorization *for payment. Claimed costs with insufficient supporting documentation will not be paid to the partner agency nor will they be included in HPRP expenses reported.*

- Administrative salary and benefit costs were allocated based on budget estimates in 2 of 14 transactions tested.

  ATCAA Response:
  These costs relate to one partner agency. Their costs are based on actual expense not estimated expenses. This partner agency allocates its actual administrative expenses to HPRP up to a maximum of budgeted costs. Since actual costs exceeded the budgeted costs, only the maximum was allocated to HPRP.

  Corrective Action:
  As part of our new procedure to obtain backup documentation from partner agencies for payroll costs claimed on their monthly or quarterly reports, ATCAA will confirm that actual costs for this partner equal or exceed the amount charged to HPRP.

- In 2 of 2 living allowance transactions tested, the agency used HPRP funds for the cash match contribution to AmeriCorps members' living allowances without proper authorization. By contract, the cash match contribution cannot be made from another federal grant unless authorized by statute and/or written approval by authorized federal agency department staff, the Corporation for National and Community Service, and Prevent Child Abuse California.

  ATCAA Response:
  ATCAA had obtained prior email approval to use HPRP funds from Prevent Child Abuse California (PCAC) staff who we believe sought approval from the Corporation for National and Community Service as a cash match contribution for AmeriCorps members living allowance.

  Corrective Action:
  ATCAA is seeking more formal authorization per the agreement with PCAC.

Participant Eligibility

We reviewed 9 of 326 case files, totaling $69,368 (which is 9.71% of the total reported financial assistance cost). We question $69,368 of the costs tested due to the following issues of non-compliance with HUD requirements:

- Rent reasonableness comparative analysis was not performed for each of the 9 client files tested.

  ATCAA Response:
  In the spring of 2010, HCD provided its sub-recipients with a rent reasonableness guideline. ATCAA Housing staff and HPRP partners immediately updated their process for determining rent reasonableness, but by that time we had already served over 100 households using fair market rent as comparison. All of the 9 cases flagged by SCO for comparative analysis were part of those households served prior to our receipt of the guidelines provided by HCD. We

have subsequently reviewed those 9 cases and have found that all of the 9 rentals were still eligible.

Corrective Action:
ATCAA and its HPRP partners are currently using the guidelines provided by HCD in the training for determining rent reasonableness.

- HPRP Lead Screening Worksheet was not located in each of the 9 client files tested.

ATCAA Response:
We were not aware that Lead Screening Worksheets were required in homes where clients were already residing. It was our understanding that, along with the Habitability inspections, lead screening was only required for new residences (Rapid Re-Housing clients). This was based on an HCD memo dated 3/22/10 which states: "Organizations providing rental assistance with HPRP funds will be required to conduct initial and any appropriate follow-up inspections of housing units into which a program participant will be moving."

Closer reading of the HUD guidelines would have revealed the need for all units to have lead screening. The guidelines state ***"F. Lead-Based Paint Requirements*** *The Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4801 et seq.), as amended by the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851 et seq.) and implementing regulations at 24 CFR part 35, subparts A, B, M, and R shall apply to housing occupied by families receiving assistance through HPRP."*

While we acknowledge that it was our responsibility to find and read the full Lead-Based Paint Poisoning Prevention Act, we were rolling out a new and very demanding program which was so well-publicized nationally that we were already receiving hundreds of calls for assistance prior to contract start-up.

Of the 9 cases flagged by SCO for lack of Lead Screening Worksheet, only 1 was built prior to 1978 and it did not house a pregnant woman or any children. As part our ongoing oversight, we selected another 16 files randomly from our partner agencies (2 for each agency), and found that none of the rental homes were built prior to 1978.

Corrective Action:
If a client's home will house a pregnant woman or children, the age of the home is determined. If necessary, staff contacts County House Numbering for confirmation. If the home was built pre-1978, it is screened for lead based paint and a Lead Screening Worksheet is completed. All files will contain a HUD Lead Screening Worksheet.

- Recertification eligibility was not completed at least every three months for 7 of the 9 client files tested.

ATCAA Response:
Recertification documents that were present in the 7 flagged cases were updated versions of the income verification documents used for intake. A certification page originally existed as

a quarterly table on the CSHS Client Eligibility and Expenditure Tracking form so that it could be signed off by both the Case Manager and the Case Manager's Supervisor.

Corrective Action:
A Recertification Form is now a separate form attached to income verification documents. To assure that all necessary actions are conducted and that client files contain all necessary documents, ATCAA has implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

- Of the 9 case files tested, 3 cases relate to rapid re-housing assistance which requires a habitability inspection. For 2 of 3 cases tested, a habitability checklist was not located in the client file.

ATCAA Response:
The Habitability Checklist is a tool developed by ATCAA and its partner agencies and approved by HCD in the HPRP application. It is used to document site inspections for Rapid Re-housing clients. We have confirmed that site inspections were conducted before approving ALL Rapid Re-housing client homes. The checklist is now present in all Rapid Re-housing files tested by SCO and in ALL past Rapid Re-housing files.

Corrective Action:
To assure that all necessary actions are conducted and that client files contain all necessary documents, ATCAA has implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

- For 1 of 9 cases tested, the current rental agreement was not located in the client file.

ATCAA Response:
Our review of this partner file found that the rental agreement was completed but had been misfiled. The agreement has been located and re-filed correctly.

Corrective Action:
To assure that all necessary actions are conducted and that client files contain all necessary documents, ATCAA has implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

- For 2 of 9 cases tested, the income verification was not located in the client file or was incomplete.

ATCAA Response:
ATCAA and its partners have reviewed the income verification guidelines since the monitoring and have confirmed that recent files are complete.

Corrective Action:
ATCAA and its HPRP partners have developed a more comprehensive checklist for income verification so that all necessary paperwork is collected from clients. ATCAA has trained its

partners on the use of the revised checklist. ATCAA has also implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

- For 1 of 9 cases tested, the self-declaration of income was not signed.

  ATCAA Response:
  ATCAA fiscal staff has reviewed this case file and found income documents including SSI and Social Security verification. No self-declaration of income was required for this file.

  Corrective Action:
  ATCAA has added this requirement to its updated checklist and will assure that all files include the necessary income documentation or a signed self-declaration of income. ATCAA has also implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

- For 1 of 9 cases tested, the Housing Status document was not located in the client file.

  ATCAA Response:
  The partner agency has updated the file to include Housing Status. The omission did not affect eligibility.

  Corrective Action:
  ATCAA and its partners use a Housing Status form that is signed by the Head of Household in each case of financial assistance. ATCAA has added this requirement to its updated checklist and will assure that all files include the necessary documents. ATCAA has also implemented a Quality Assurance review of client files by a second party using a newly developed client file checklist.

Additionally, in the sample items tested we noted that the following tasks were performed in accordance with HUD requirements:

- ATCAA ensures that clients are not receiving other forms of financial assistance for the same activity and month as HPRP assistance.
- ATCAA maintains the appropriate Staff Certification of Eligibility in each participant's file.
- ATCAA's only makes payments for financial assistance to appropriate third-parties.

  ATCAA Response:
  ATCAA appreciates SCO acknowledgement of the strengths of ATCAA and its HPRP partners.

Other Miscellaneous Expenses

We tested additional uncategorized expenses totaling $819. No audit issues were noted during this testing.

General Ledger

We reviewed ATCAA's Profit and Loss (P&L) and compared it to the fourth-quarter approved DER submitted to HCD. Two receivables were posted to HPRP account in error: one for $21,285 and another for $7,295. Additionally, a receivable amounting to $2,548 was journaled out of the HPRP account. These errors caused a net overstatement of HPRP revenue amounting to $26,032. The agency has since corrected these errors and the reports reconcile.

ATCAA Response:
The receivable amounts posted were not posted in error, but posted consistent with our accounting procedures and as part of our fiscal year ending 06/30/10 closeout procedures. For reference, the $26,032 noted above can be seen on page 18 of our audit for FYE 06/30/10. This entry does not overstate revenue, but converts revenue from amounts received to amounts earned. The journal entry noted above as a "correction" was actually our entry at the beginning of the following fiscal year to return revenue on our P&L to a revenue received status.

The following is from the Introduction to our Accounting Standards and Policies Manual. "ATCAA uses a modified accrual basis for monthly accounting periods. Monthly financial statements and fiscal records include expenditures incurred and revenues received.

ATCAA converts its financial records to an accrual basis prior to preparing financial statements for fiscal year end. Full-year financial statements and fiscal records reflect expenditures incurred and revenue earned. Revenue received but not yet earned as of fiscal year end is accounted for as deferred revenues on fiscal year end financial statements and fiscal records."

Recommendation

ATCAA should take steps to ensure that they, as well as their partner agencies, are in compliance with the HPRP grant requirements and all applicable federal cost principles.

ATCAA Response:
ATCAA has implemented new processes and trained our HPRP partners as stated above.

Sincerely,

Shelly Hance

Shelly Hance
Executive Director

cc: Chris Ryan, SCO Audit Manager
Michele Walton, SCO Auditor-in-Charge
Beetle Barbour, Housing Services Director
Administrative files

scap
www.scap4.org
Stanislaus Community Assistance Project

June 8, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Jim L. Spano,

This letter is in response to issues noted in the audit letter received by SCAP. Addressed are the following areas; Salary and Benefit Costs, Client Files, our General Ledger, and the HMIS System.

Salary and Benefit Costs:

1. The duplicate salary was recognized internally. HCD was called to see if they wanted a check cut or if a refund was to be issued. They asked that we deduct that amount off the subsequent DER. That was done on the 6th Quarter DER.

2. This was the first quarter billing DER. The computer and supplies were HMIS equipment and materials and the pizza was lunch during the all day training sessions. We submitted the request under the Data Collection as HMIS expenses and were told by the staff at HCD at the time that it had to be entered as a staffing cost; which we did. They subsequently declined to reimburse us for any of the costs submitted.

   Given that it was the first billing cycle and we were directed to enter as a staff cost rather than an HMIS equipment and training cost, we entered it as staffing.

3. New timecard format and procedures were implemented immediately following the audit. Time cards now have both the employee and the supervisor's signatures on them.

4. The new timecard also reflects the sum of all hours worked by the employee reflected on the HPRP timesheet. Not just hours worked on HPRP. This change was implemented immediately following the audit.

5. Supporting documentation for each person's hourly wage will be verified prior to submitting a DER. We have notified partner agencies that any wage increases for HPRP staff need to be brought to our attention immediately.

P.O. Box 935
Modesto CA
95353-0935
(209) 572-2437
Fax
(209) 572-1641

6. The benefits paid to employee are now paid based on the number of hours worked in HPRP. It is not longer allocated by percent of time worked in HPRP. This change was implemented immediately following the audit.

Client Files:

The first item notes a 5 month span between case manager signature and director signature on the staff affidavit. This item has been corrected. We have developed a procedure that ensures each file is now reviewed by the director within 24 hours of the assessment by the case manager with the signature of the director following their review.

General Ledger:

We are aware of the general ledger and DER not in balance. Internally, we allocate all cost attributed to a programs even if we are reimbursed for them or not. This process gives us the actual costs to the agency for a program.

Some of the costs on the ledger were not allowed by HCD and others we chose not to bill but they are a cost to SCAP i.e. retirement, (which is a cost to SCAPas a benefit for the employee's but we don't even allocate that cost).

We are aware of the differences and are implementing a reconciling process so that HCD can see what costs on the ledger were not included in the DER.

HMIS System:

Initially, SCAP was utilizing the HMIS through the Continuum of Care like many other agencies offering housing assistance to the homeless. Due to technical issues beyond SCAP's control, our Board approved for us to have an individual HMIS run by our staff.

We are still in the early stages of this new HMIS process, but we are currently inputting individuals into the system. We anticipate completing this input process and generating accurate reports in time for the next QPR.

Thank you for your consideration

William Gibbs
Director of Development
Stanislaus Community Assistance Project

MCDSES MONTEREY COUNTY DEPARTMENT OF SOCIAL & EMPLOYMENT SERVICES

WORKING TOGETHER FOR OUR COMMUNITY

1000 South Main Street, Suite 216
Salinas, California 93901
ph 831 755-8417 *fx* 831 755-8476

Administrative Services
Janet M. Johnson, Branch Director

June 7, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau - Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Homelessness Prevention and Rapid Re-housing Program
September 1, 2009, through September 30, 2010

This letter is in response to the two findings identified in connection with the State Controller's Office (SCO) audit of Monterey County's expenditures for the program and audit period identified above. It is our understanding this response will be included in the final audit report.

Finding: The partner agency did not perform a rent reasonableness test nor determine whether the lead-based paint requirements were triggered on the four case files reviewed. Costs for the four cases were questioned in the amount of $36,082.

County response: Our partnering agencies did not conduct rent reasonableness on any units until the audit in late February 2011 because they were using a different methodology called fair market (HUD) standards to compare units for price and location. Immediately, rent reasonableness tests were completed for all new and current households participating in HPRP and filed within each client case file. In all of these cases, the files met the rent reasonableness standards. Information on the four cases reviewed was emailed to the State on June 3, 2011.

Lead paint screenings were not conducted prior to February 2011. After the audit, our partnering agency began immediately conducting these screenings for all current and new clients. The lead paint screening for three of the four clients reviewed during the audit was emailed to the State on June 3, 2011. One client is no longer on the program and the case manager does not have access to the rental unit.

Corrective Action Plan: Rent reasonableness and lead paint screenings were conducted immediately following the State audit on all current clients. The forms are now being filed within each client case file. Procedures have been put in place to ensure compliance to these requirements prior to any financial assistance issued to new clients. **Status:** Implemented.

Becky Cromer

Becky Cromer, Fiscal Officer
Monterey County Department of Social & Employment Services

Redwood Community Action Agency

Simpson-Vance House 1892

ADMINISTRATION
Information & Referral
(707) 269-2001

AMERICORPS PROGRAMS
AFACTR
(707) 269-2020
STRAIGHT UP AMERICORPS
(707) 269-2024
AMERICORPS VISTA
(707) 269-2052

ENERGY SERVICES
(707) 444-3831
Consumer Education, Ext 201
Weatherization, Ext. 204
Lead Based Paint Hazard
Reduction & Inspection, Ext 201
Home Energy Assistance Program
(HEAP) - (707) 444-3834

FAMILY SERVICES
(707) 269-9590
Family Shelter Program
Ext 209
Multiple Assistance Center
269-9592
Emergency Shelter Office
(707) 269-2075

HOUSING REHABILITATION
LOAN PROGRAM
(707) 269-2034

NATURAL RESOURCES
SERVICES
(707) 269-2070
Landscape Contractor
License #518874

NORTHCOAST MENTOR
PROGRAM
(707) 269-2052

PROPERTY MANAGEMENT
Affordable Rentals (707) 269-2011

YOUTH SERVICE BUREAU
24-Hour Youth & Family Hotline
(707) 444-CARE
YSB Administration
Launch Pad TLP
Our House Emergency Shelter
(707) 443-8322
Raven Street Outreach Program
(707) 443-7099

June 9, 2011

Mr. Jim L. Spano, Chief
Mandated Cost Audit Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Homeless Prevention and Rapid Re-housing Program September 1, 2009, through September 30, 2010. Response to Expenditures Selected for Testing

Dear Mr. Spano:

In connection with the State Controller's Office (SCO) audit of Redwood Community Action Agency's (RCAA) expenditures for the program and audit period identified above we make the following responses to the SCO's program audit:

Salary and Benefit Costs

1. **Test Transaction 10:** Sal & Benefits for - Fiscal Specialist for 6/23/10-7/7/10. Again as in Test # 1, a weekly percentage of time spent of HPRP was calculated from actual hours spent on HPRP duties. As of the pay period ending 2/15/11, all HPRP fiscal specialists used actual time instead of percentage on timesheets and in fiscal management system. Provided additional documentation to the SCO on June 6, 2011.
2. **Test Transaction 4**: Sal & Benefits for - Caseworker 1/07/10-1/21/10. While the physical time sheet indicated the accurate spread for HPRP and non HPRP hours worked, there was a data entry error into the financial management system's salary spread. All time was allocated to HPRP and none to the non HPRP funding source. After the pay period 1/29/10 the entire year was reviewed and found a consistent error totaling 249.5 hours was misallocated even though he accurately noted the correct hours and distribution on his timesheet. The error remained a coding error in our financial management system and as of January 2011 all salary is allocated on an hourly basis and checked monthly for accuracy. This will be corrected on DER # 7 and a total $2886.74 will removed and reallocated to the appropriate funding source. Provided additional documentation to the SCO on June 6, 2011.
3. **Test Transaction 1**: Salary and Benefits for - Program Coordinator for Pay Period 12/5/09-12/21/09 in the amount of $629.00.

While the totals are in sync with financial management system the spreadsheet was estimated. As of January 1, 2011 all hours are documents in real time. Provided additional documentation to the SCO on June 6, 2011.

Documentation of Program Participant Eligibility

We reviewed 15 of 434 case files, totaling $59,818 (which is 9.31% of the total reported financial assistance cost). We question the entire amount tested due to the following areas of non-compliance noted during financial assistance testing:

1. 100% of the case files tested contained no evidence that HUD's rent reasonableness standards were met.

RESPONSE: HPRP Collaborative incorporated the Humboldt County Fair Market Value per bedroom size as our guide for all applications. If rent exceeded this amount, our collaborative agreed that we would investigate further and get approval by HPRP Coordinator for any exceptions. This never happened. As of 1/31/2011 we implemented the HUD form for Rent Reasonableness. Provided additional documentation to the SCO on June 6, 2011.

2. 100% of the tested case files contained no determination of whether the lead-based paint requirements were met.

RESPONSE: Per HUD guidelines, Lb assessments were completed on all new housing for homeless households with pregnant women or children under the age of 5. Lb Assessments were not completed for existing households assisted with Homeless Prevention funds. Retroactively applied to all previous housing assistance and implemented for any current housing assistance requests, NOT JUST NEW MOVE IN. Implemented change 1/31/11. Provided additional documentation to the SCO on June 6, 2011.

3. 100% of the tested case files lacked the supervisors' signature on the Staff Certification.

RESPONSE: HPRP Program Supervisor believed did not apply because of agency conflict of interest policy already in place. All forms were retroactively applied and fully implemented by 1/28/11.

4. 100% of the income documentation tested was incomplete:
   a. 4 of case files relied on a self-declaration of income, and 100% did not contain an attempt for 3rd party verification

RESPONSE: On 1/28/11 HPRP collaborative implemented policy update, use of HUD forms and provided training to HPRP Collaborative. Provided additional documentation to the SCO on June 6, 2011.

   b. 11 of the case files relied on actual income documentation. We noted the following:
      - 9 case files showed that the income amounts were not annualized

RESPONSE: Implemented annual worksheet calculation for annual gross income and provided training to HPRP collaborative on self declaration of income. Provided additional documentation to the SCO on June 6, 2011.

      - 1 case file showed that the income was not dated within 30-days of assistance.

RESPONSE: Implemented annual worksheet calculation for annual gross income and date of verification. Training provided to HPRP collaborative.

5. 12 of the case files showed that the housing-status documentation was incomplete:
   a. 7 of the case files relied on a self-declaration of housing status, and 100% did not contain an attempt for 3rd party verification

RESPONSE: Implemented housing verification worksheet and provided email notice to HPRP collaborative with HUD form for 3rd Party verification. Provided additional documentation to the SCO on June 6, 2011.

   b. Of the remaining 8 case files, 5 provided no housing documentation status at all (neither a self-declaration nor an eviction notice)

RESPONSE: This was fully implemented by June 1, 2010 and additional training has been given to staff members on several occasions. In the case of CHASHKEL client had eviction notice in file that was not indicated on Self Declaration of Housing. For client ALLMJEA client had a 3 day notice in file that was not noted on a self declaration of housing. Provided additional documentation to the SCO on June 6, 2011.

6. 5 of the case files tested required a habitability inspection, of which 3 were incomplete:
   a. Habitability inspection not performed for 1 of the 5 case files.

RESPONSE: Habitability inspection for CLAUTER was not needed because client was participating in the Housing Choice Voucher Program, however the inspection report from the Housing Authority should have been included. Provided additional documentation to the SCO on June 6, 2011.

   b. Habitability inspection was incomplete for 2 of the 5 case files because the evaluator's signature was not included on the form.

RESPONSE: All files must complete a checklist for completeness prior to requesting financial assistance. Second supervisor checklist added April 25, 2011. Provided additional documentation to the SCO on June 6, 2011.

7. A rental agreement was missing from 6 of the case files so we weren't able to confirm that the assistance paid was equal to or less than the amount of the rent.

RESPONSE: Originally verified rental agreements by phone call to landlord. With staff training this was fully implemented by June 1, 2010. This also applied to utility only payments.

Please feel free to contact me if you require any further information.

Yours truly,

Acting Director Simone Tgle for

Valerie D. Martinez

Val Martinez

904 G Street • Eureka, CA 95501-1829 • (707) 445-0881 • FAX: (707) 445-0884

Community Action Board
of Santa Cruz County, Inc.

Community Action Board of Santa Cruz County, Inc.
406 Main Street, Suite 207 · Watsonville, CA 95076
TEL (831) 763-2147 · FAX (831) 724-3447
WEBSITE: http://www.cabinc.org

June 7, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Re. Response to Audit Findings for Homeless Prevention and Rapid Re-housing Program (HPRP), October 1, 2009 – September 30, 2010, conducted by State Controller's Office For Inclusion in the Final Audit Report

Dear Chief Spano:

I am writing to provide a response to the audit findings and questioned costs letter from the State Controller's Office (draft issued 6/1/11). Our response follows the specific issues identified by the SCO as listed in the above referenced letter.

1. **Salary and Benefit Costs**

   1. **Issue:** *The hourly rate for 7 of the 15 payroll transactions is incorrect. For salaried employees, CAB adjusts the total pay period hours to 81.25 hours, regardless of the total hours worked in the pay period. Thus, the hourly rate used to report HPRP expenditures is either slightly over-stated or slightly under-stated.*

      Response

      CAB agrees and has implemented a corrective action by recalculating every affected transaction for all three salaried employees for the whole audit period; and, has made adjustments for every transaction that should have been charged to HPRP. The net difference of gross salary plus benefits including health insurance between the original and the adjusted transactions for the three employees is $1,275 which means that we under- claimed by this amount. A detailed worksheet for this recalculation was provided to SCO and HCD on 6/6/11.

   2. **Issue:** *The hours charged to HPRP for 3 of 15 payroll transactions are based on budgeted amounts and not actual time.*

      Response

      We agree and we have implemented the corrective action by having timesheets reflect actual HPRP hours effective as of the March 16, 2010 pay period.

3. **Issue:** *The health insurance costs for 8 of 15 payroll transactions are not allocated properly across the month. CAB allocates the health insurance amounts to the first pay period of the month instead of evenly amongst both pay periods in the month. Therefore, the hourly rate for the first pay period of the month is significantly greater than the hourly rate for the second pay period of the month.*

   Response

   We agree and we implemented correction action on April 1, 2010 by splitting the health insurance costs to match the two monthly pay periods. We also reviewed every transaction for the full audit period (10/1/09-9/30/10) for each affected employee; we made adjustments for every affected transaction. This resulted in an under-claimed amount for hourly employees of $527. (See Issue #1 for salaried employees). A detailed worksheet for this recalculation was provided to SCO and HCD on 6/6/11.

4. **Issue:** *The HPRP hours reported on the timesheet for 3 of 15 payroll transactions don't tie to the hours reported on the DER.*

   a. *time sheet from 1/16/10 – 1/31/2010 – shows 37.5 reported hours on HPRP, but 40.62 hours was charged to HPRP on the DER?*

   Response

   We agree and we took corrective action. This issue occurred during the very beginning of the contract period and we implemented a corrective action plan on March 16, 2010 by ensuring that this employee and all other HPRP employees coded their time sheets to actual HPRP hours worked.

   b. *Timesheet from 2/16/2011 – 2/28/2011 shows 33.75 reported hours on HPRP, but 24.38 hours were charged to HPRP on the DER. The Controller's Office believes an adjustment was made to convert the total hours worked of 76.5 to 81.25 – resulting in an adjustment of 33.75 hours to 24.38 hours.*

   Response

   We agree and again as of March 16, 2010, we ensured that this employee and all other HPRP employees coded their timesheet with actual HPRP hours worked.

   c. *timesheet from 11/1/09 – 11/30/09 – does not provide a detail of the HPRP hours – and only shows she worked 80 hours in the pay period. The DER shows that 60 hours were charged to HPRP, but the timesheet makes a reference to only 48 hours being for HPRP?*

   Response

   We agree and implemented a corrective action plan effective January 1, 2010. The action plan ensured that both this employee and all other HPRP employees were coding their timesheet with actual HPRP hours worked.

This concludes our response to the SCO's HPRP audit. We have taken seriously their recommendation that have taken steps to ensure that we are in compliance with all applicable federal cost principles. We developed and implemented a plan of action to review and renew our awareness and compliance with such principles including discussing these with our agency's independent auditor. Should you have any questions, please contact me at 831 763-2147, ext. 203.

Sincerely,

Christine Johnson-Lyons
Executive Director

SAMARITAN
HOUSE

June 1, 2011

To: Lisa Kurokawa, Auditor-in-Charge
Chris Ryan, Audit Manager
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

From: Kitty Lopez, Executive Director
Jolie Bou, Director of Finance

Re: HCD Award #: S09-DY-06-0001
Samaritan House standard agreement with HCD # 09-HPRP-6157

This memo is in response to the Findings and Question Costs per site visit on January 10, 2011.

1) Salary and Benefit Costs

We tested 13 payroll transactions totaling $35,086 (which is 17.45% of the reported salary and benefit costs). We question $2,959 because the benefit rates (vision, PTO accrual, health and life insurance) were not proportionate to the amount of time spent on the State HPRP program for 100% of the case files tested.

Samaritan House response: *Due to the complexity of the different HPRP activities and the changing percentage of time spent on the different activities, we made a decision to base the percentage of benefit calculation on the initial budget. We felt that this method was an efficient way to handle the changes with the least amount of administrative time spent. It was known that the employee benefits would only account for less than 2% of the total expenditures and that the final DER will be reconciled with the actual time spent for each category. Each category is projected to equal the budget rate allocation at the end of the grant period.*

Documentation of Program Participant Eligibility

We reviewed 10 of 286 case files, totaling $48,455 (which is 9.53% of the total reported financial assistance cost). We question $5,000 because 1 of the 10 case files included a self-declaration of housing status and the case worker did not document the required 3rd party attempt for verification.

Samaritan House response: *Samaritan House overall requires 3rd Party Verification for each and every financial assistance request that is approved. In addition to the 3rd party verification (such as a 3 Day Pay or Quit, eviction summons or letter of late rent) we have also been using the Self Declaration of Housing in each file (in addition, not in place of 3rd party declaration). With this particular file, there was a letter of late rent from the landlord, however, it was lacking one of the required elements (the date that the client needed to vacate the property for non-payment of rent). We have notified all staff and partner agencies to ensure that the 3rd party verification includes all elements: 1) Identify the HPRP applicant and unit where HPRP applicant is the leaseholder 2) Indicate that applicant must leave their housing; and 3) be signed and dated by owner/landlord or court). Also, if applicable, we will refrain from including a redundant Self Declaration of Housing in the intake process when we have 3rd party verification. When 3rd party verification is not possible, staff will document the status and the attempts to contact the landlord in the Self-Declaration of Housing Form.*

ADMINISTRATIVE OFFICE • 4031 Pacific Boulevard • San Mateo, CA 94403 • (650) 341-4081 • Fax (650) 341-0526
www.SamaritanHouse.com

Yolo
Family
Resource Center

June 6, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Homeless Prevention and Rapid Re-Housing Program

CFDA Number:	14.257
Grant Award:	S09-DY-06-0001
HCD Contract Number:	09-HPRP-6159
Contract Period:	October 1, 2009 through September 30, 2012
Amount Awarded:	$1,600,000
Audit Period:	October 1, 2009 through September 30, 2010
Reported Expenditures:	$597,802
Amount Tested:	$58,703
Amount Questioned:	$47,181

Grantee Response

SALARY AND BENEFIT COSTS:

1. Supporting documentation: Prior to the audit, we did not require partner to submit payroll records to determine if the benefits were proportional to the time claimed. We accepted a ratio of the benefits divided by the FTE proportion of the staff position. We are now requiring partners to submit payroll records, timesheets, and a detailed billing form in order to get reimbursed.

2. Recorded hours on timesheets: Partners have been reminded that they are to bill for actual hours as recorded on timesheets, rather than a proportion of contracted staffing.

3. Timesheets: Partners were reminded to forward timesheets for all program staff. In the past program directors, as exempt positions, have not completed hourly timesheets.

4. Supervisor approval: Time sheets are to be signed by supervisors. In one case the supervisor missed signing the employee's timesheet. In other cases, executive directors of partner agencies signed their own timesheets, but did not sign as approving their own time. Agency Executive Directors will in the future sign and approve their own timesheets.

5. Signed timesheets: Timesheets will not be acceptable with a faxed/ copied signature.

Documentation of Participant Eligibility:

Yolo Family Resource Center
828 Court St.
Woodland, CA 95695

t: 530.406.7221
f: 530.406.7222
yolofrc.org

1. Rent Reasonableness Analysis: Prior to the audit there was no analysis of rent reasonableness in each file. This situation has been corrected. Initially, the Yolo HPRP collaborative conducted a survey of areas' rents to establish what we considered to be reasonable rent; however, this was not an individual analysis of each property. Currently, we have adopted the HUD form and are using it on each property to certify that it meets the test. The audit recognized that for all the files reviewed that the rent levels would have appeared to fall within a reasonable area. This has been one of the criteria that the Yolo team has used to determine if a case should be approved.

2. Lead Screening Worksheet: This was an area that was not in full compliance, but has been corrected. Prior to the audit the Yolo HPRP Collaborative was operating under the belief that Prevention cases, in which the family was in a property under a lease, did not require a Lead Screening. This opinion had previously been reviewed by HCD. Under the Rapid Rehousing program, the program was completing home inspections that included the lead based evaluation; however, the specific screen was not identified in the file. Again, all cases are now being evaluated for lead paint, and are documented in the file, either by inspection, property certification that the unit/ complex was build after 1978 and/ or has been certified as lead paint free.

3. Rental or lease agreements: Prior to the audit, the Yolo HPRP did not require lease agreement on Prevention assistance, when the client/ household was identified on a 3-day eviction notice. In all of these cases, the actual eviction notice was in the file. This situation has been corrected and either a lease agreement is now required, or documentation in the case noted that the property was under a month to month agreement. For all Rapid Rehousing cases, lease agreements have been required prior to approval and are in the files.

4. Habitability Checklist: An attempt was made to identify the specific case to determine the reason for the lack of a checklist. We completed checklist and added to the file. Program supervisors have reinforced with screening staff the requirement.

5. Income Verification: Income verification is and has always been a Yolo HPRP requirement for approval of HPRP financial assistance. Family Member moved out of the household and was no longer in the household at the time the 3-day notice was issued.

6. HMIS data system: The Yolo HPRP acknowledges that this has been an issue since the beginning of the program. The provider is recognized as being one of the primary providers of HMIS systems throughout the US; however, for still unknown reasons had

difficulty in setting up an adequate reporting system for the Yolo program. There have been numerous contacts and hours spent working with the system staff and administrators to resolve these issues. Since from the beginning there were problems, the Yolo HPRP established an in-house tracking system in order to make accurate reports. The system has improved over the past months; however, we continue to maintain our in-house tracking in order to determine the accuracy of the HMIS system. By using this additional system, we have been able to identify cases that are not being counted or have inaccurate data. Currently it is estimated that the HMIS system is approximately 95% accurate. Because we track all financial assistance separately through our accounting system and report payment to HCD, we are confident that we have maintained an accurate account of the financial assistance.

GENERAL LEDGER

Approved 4th Qtr DER does not match QuickBooks because of timing. The 4th Qtr DER does not include the last payroll of the quarter. Because the DER is due by the 5th it does not give sufficient time to input the information into QuickBooks until after submission.

All unallowable expenses (specific mileage for the program, but not directly related to case management) was deleted from the DER. Since the mileage is an actual agency expense it must be recorded on the expenditure ledger.

We could not identify the $96 rental assistance that was overstated on the DER. Recorded rental assistance on the DER is taken directly from the actual payments (checks to providers).

Miscellaneous data entry errors - QuickBooks is reviewed to correct any data entry errors in relationship to approved HPRP expenditures.

Bob, Ekstrom
Yolo Family Resource Center.

Yolo Family Resource Center
828 Court St.
Woodland, CA 95695

t: 530.406.7221
f: 530.406.7222
yolofrc.org

KidsFirst

June 27, 2011

Mr. Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: KidsFirst's Response to State Controller's Office Audit Report Homeless Prevention and Rapid Re-Housing Program (HPRP)

CFD Number:	**14.257**
Grant Award:	**S09-DY-06-0001**
HCD Contract Number:	**09-HPRP-6195**
Contract Period:	**October 1, 2009 through September 30, 2012**
Amount Awarded:	**$1,243,482**
Audit Period:	**October 1, 2009 through September 30, 2010**
Reported Expenditures:	**$423,763**
Amount Tested:	**$65,041**
Amount Questioned:	**$40,862**

Dear Mr. Spano:

This letter is in response to issues noted in the audit letter received by KidsFirst on 6/20/2011. Addressed are the following areas; Salary and Benefit Costs, Participant Eligibility, and Miscellaneous Expenses.

Salary and Benefits Costs:

1. HCD had requested cost verification for PTO pay during relevant quarter DER and had not determined this as an ineligible cost at the time of their review. KidsFirst has set their system up to look at the amount charged per grant over a one year period to ensure the PTO payout is reflected appropriately. A trained payroll employee has since taken over these duties and monitors all PTO payouts to reflect proper allocations.
2. The partner agency who had charged inappropriately has been informed that hours spent on another program other than HPRP cannot be charged to HPRP and will be considered an ineligible expense. This information has also been distributed to all the collaborative partners. KidsFirst now requires all timecards to be submitted as backup documentation with submission of monthly DER's.

3. KidsFirst generates its payroll through an electronic system, ADP. Employees complete their time cards and it is submitted for approval by supervisors. The supervisors must approve all time cards prior to their being submitted to the Director of Finance. Although there are no signatures, printed reports show what the employee entered and include a column for electronic supervisor approval. For the timesheets in question, documentation showed that all timesheets had been approved by supervisors in an electronic signature format through the ADP system. In regards to partner agencies, KidsFirst now requires timesheets to be attached to the monthly DER's to verify that timesheets are signed by employees and approved by supervisors. All partner agencies have been provided with time sheets that provide a space for both employees' and supervisors' signatures. Employees at partner agencies in executive level positions do not have additional employees approve their timesheets, but these executives must attest to the accuracy of their submitted time by virtue of agreement with KidsFirst. In addition, KidsFirst will monitor timesheets to ensure accuracy.
4. All partners have been informed that they must keep records of their ACTUAL time spent on the HPRP grant and cannot estimate the amount of hours. Estimated hours will not be considered eligible expenses. Time sheets must reflect the actual hours that the partners are charging to the HPRP grant.
5. All partner agencies have been provided with a standardized time sheet template to accurately record hours spent on the HPRP grant. A copy of each time sheet was emailed as an attachment to the State Controller's Auditor, Jacob Sooy. All partners that did not have acceptable time sheets according to the State Controller audit were instructed to utilize the new standardized time sheets created by KidsFirst and approved by the auditor. Prior to the audit, KidsFirst had not requested timesheets be included with monthly DER submissions. As a corrective measure, KidsFirst is now requiring our partners to submit timesheet with monthly DER submissions.
6. In regards to KidFirst, the benefits tested by the State Controller's Office were actually less than the proportionate charge for benefits based on time spent on the HPRP program. This was due to human errors in calculations within the excel spreadsheet used to calculate benefits at KidsFirst. All HPRP staff that calculated benefits are instructed to check calculations for each pay period to ensure all appropriate benefits charges are included and completely accurate. All partners have been instructed to use a proportionate cost for benefits which matches the actual time spent on the HPRP grant for the relevant time period charged. Partners have been informed that if the benefits percentage (cost) exceeds the actual time spent on the HPRP grant, the additional amount will be determined an ineligible expense and the partner agency will be required to re-submit a corrected invoice. KidsFirst requires timesheets from partners be submitted with the monthly DERs to ensure benefits are proportionally charged to the HPRP grant as reflected by the actual time spent on the grant.

Participant Eligibility:

1. For the case in question, documentation was reviewed to ensure eligibility but copies of income were not included in the official client file. The HPRP Screening Questionnaire was completed and showed income was below 50% AMI. In November 2010, HPRP HMIS Coordinator reviewed all required documentation with all KidsFirst case managers and all partner case managers have been given a check off list to use when completing an HPRP intake to ensure all required documents are present. The HMIS Coordinator will not approve the eligibility any files in which required documentation is not present. Cases will remain pending until all documents are present to determine eligibility.

2. For KidsFirst case in question, housing status was discussed and HPRP Screening Questionnaire was completed to show eligibility but the Self Declaration of Housing Status nor Homeless Certification were completed. All HPRP staff have been given the Eligibility Determination and Documentation Guidance by U.S. Department of Housing and Urban Development, revised on March 17, 2010 to ensure that appropriate housing verification is obtained before determining client eligibility. All staff has been advised to use the tables on pages 10-19 to verify the required documentation needed based on the type of housing status that is presented at HPRP intake. The HMIS Coordinator will review all cases prior to approval to ensure all required documentation is present. For partner agencies, HMIS Coordinator conducted site visits with each agency, as a process improvement independent of the audit, to review all required documentation and to ensure partners were utilizing the Eligibility Determination and Documentation Guidance tables.

3. Due to turnover of key KidsFirst staff in 2010, the Staff Affidavit was not replaced by the Staff Certification form immediately after being released by HUD. Upon hiring an experienced HPRP HMIS Coordinator, KidsFirst's staff and staff at partner agencies were provided with the new Staff Certifications both via email and hard copies. All HPRP staff were instructed to discard the Staff Affidavit and replace it with the Staff Certification. These changes were made as a process improvement independent of the audit, and all future cases being presented for approval are reviewed to ensure Staff Certification is being used.
4. After speaking with the partner agency regarding the case in question, the partner agency had spoken to the property owner prior to releasing the check to verify information was correct but did not document this discussion with the landlord in the file. As a process improvement, independent of the audit, all partners have been advised to check each lease presented for all homelessness prevention applicants to ensure the lease is in the appropriate contract period; all partners have been advised to inform HPRP applicants that they need to provide an updated lease if the current lease is outdated; and site visits and lease requirements were reviewed with all partners.
5. For the cases in question, partner agencies have been informed to complete Rent Reasonableness checklists. None of the assistance provided would be considered ineligible based on the checklists completed. At the initial stages of the HPRP program implementation, partner agencies were under the impression that Fair Market Rent would satisfy the Rent Reasonableness requirement due to Fair Market Rent standard being used for previous federal and state homelessness and other grants. All partners have received the Rent Reasonableness Checklist and Certification form and have been instructed that the form must be completed for all households receiving rental assistance and/or security deposits prior to receiving the financial assistance. All partners have been informed that Fair Market Rent cannot be used as a proxy for the Rent Reasonableness standard.
6. In the course of making process improvements in the HPRP program, the HMIS Coordinator hired on 11/02/2010 conducted site visits with all partner agencies and reviewed all requirements that must occur prior to financial assistance being provided. For the case in question, the partner agency had been instructed to go back and complete a habitability inspection. KidsFirst was notified that the habitability inspection did not change the eligibility of the client. All partners have been provided with the HPRP Housing Habitability Standards Inspection Checklist and been informed that habitability inspections must be conducted on all units into which an HPRP client is planned to move. The partners have all been instructed to perform the inspections prior to allowing the client to move in and if the unit does not pass the inspection, financial assistance cannot be provided towards that unit unless all corrections are made and a re-inspection is conducted.

<u>Other Miscellaneous Expenses:</u>

1. Since the State Controllers Audit, no additional costs have been expensed prior to KidsFirst incurring the cost.
2. After submitting the second quarter DER, KidsFirst had correspondence with HCD regarding the line item under the Grant Administrative budget activity in terms of cost verification. In addition, correspondence with HCD occurred subsequent to submission of the third quarter DER. During these conversations both prior to and after submission of the second and third quarter DERs, KidsFirst was told that documenting this expenditure prior to KidsFirst's A-133 audit actually occurring were accepted by HCD. Documentation of these discussions for approval of the expense and the way in which it was submitted were provided to the auditor for the State Controller's Office. With the assistance of the State Controller's auditor, KidsFirst developed a spreadsheet to calculate the percentage of HPRP funds which can be allocated towards the A-133 OMB audit for both FY 2009-2010 and FY 2010-2011. This newly developed spreadsheet displays grant award amounts for each federally funded grant received by KidsFirst for each FY and provides a percentage of what can be charged towards the audit per each grant. This spreadsheet was used to determine the percentage of the A-133 audit costs that could be charged to HPRP for FY 2009-2010 and will be similarly used for FY 2010-2011 and subsequent grant years.

Prior to being notified of the audit, KidsFirst HMIS Coordinator conducted site visits to all partner agencies to review all program protocols and to review contract requirements. KidsFirst Administration and HMIS Coordinator (hired 11/02/2010) began making serious review and process improvement immediately upon the HMIS Coordinator's on-boarding at KidsFirst. Cases were selected at random and reviewed with case managers at KidsFirst and all partner agencies to ensure contract compliance and program fidelity. Site reviews will continue on a regular basis at both KidsFirst and all partner agencies. For reconciliation of revenue and expenses along with ensuring budget accuracy, KidsFirst will measure all general ledger expenditures against DER expenditures to accurately account for partner advances and reimbursements.

I hope this supplemental response to your latest correspondence is helpful and demonstrates that prior to KidsFirst knowledge of the impending California State Controller's Audit, KidsFirst new administrative team and HPRP managerial team had taken measures to implement standard and more accurate business practices for the HPRP program which were consistent with HCD and HUD instructions.

Should you have any further inquiries, please contact Barbara Meade, Director Finance, KidsFirst at 530.887.3536 / 530.305.1365 or bmeade@kidsfirstnow.org.

Sincerely,

Lynda Gregory

Lynda Gregory
CEO, KidsFirst
124 Main Street
Roseville CA 95678
916.774.6802

Attachment B—
HCD's Response to Audit Results

STATE OF CALIFORNIA -BUSINESS, TRANSPORTATION, AND HOUSING AGENCY EDMUND G. BROWN JR., Governor
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
OFFICE OF THE DIRECTOR
1800 Third Street, Room 450
Sacramento, CA 95811
www.hcd.ca.gov
(916) 445-4775
Fax (916) 324-5107

June 27, 2011

Mr. Jim L. Spano
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano:

The Department of Housing and Community Development (Department) was pleased to assist the State Controller's Office in its compliance audit of the federal American Recovery and Reinvestment Act (ARRA) expenses from October 1, 2009, through September 30, 2010. The report included findings applicable to the Homelessness Prevention and Rapid Re-Housing Program (HPRP) and the Community Development Block Grant – Recovery Program (CDBG-R). We are pleased that overall HCD had only one finding. This reaffirms our efforts to effectively manage programs. The Department continues its efforts to improve processes that ensure federal ARRA funds are awarded in a timely manner and serves the purposes of those programs. The Department continues to take the necessary corrective actions to improve and ensure compliance.

The State Controller's Office audit consisted of a review of the HPRP and CDBG-R program operations of the Department, as well as, reviews of eight HPRP sub-recipients. One finding was attributed to the Department's program operations, while the remaining three findings were attributed to the HPRP sub-recipients. Following each finding is the State Controller's Office recommendation and the Department's response and correction action plan pertaining to the specific recommendation.

FINDING 1 – Inadequate Sub-Recipient Monitoring

State Controller's Office Recommendation - 1

We recommend that the HCD perform site visits for both the HPRP and CDBG-R program, and document any instances of noncompliance noted. If instances of noncompliance are noted, follow-up visits should be performed to ensure that corrective action was taken.

Department's Response and Corrective Action

We concur with the recommendation. For the HPRP program, HCD developed and applied a risk assessment to determine the feasibility of a site visit or desk audit review. This assessment was used to determine the schedule for a monitoring plan. A monitoring checklist for both site visits and desk reviews was developed to use for monitoring sub-recipient fiscal and program records to ensure compliance with the HUD requirements. Due to funding constraints, site visits cannot be performed on all sub-recipients. The risk assessment determined the high risk sub-recipients operations that will be reviewed by on-site monitoring staff. Some site visits and several desk audits have already been conducted, noncompliance issues have been identified, and corrective action measures have been taken. The monitoring has been limited because of budget constraints and the delay in budget passage in this fiscal year. By December 31, 2011, for the HPRP Program, follow-up site visits on the eight sub-recipients will be conducted. HCD will then perform an additional site visit to validate that the corrective actions have been implemented and are ongoing.

Monitoring has not yet begun for the CDBG-R projects because they are just beginning construction. By September 30, 2011, for the CDBG-R Program, HCD will develop a site visit monitoring plan and a monitoring checklist that reviews sub-recipient fiscal and program operations. Instances of non-compliance will be reviewed with local executive management and technical assistance will be provided to correct identified deficiencies.

State Controller's Office Recommendation – 2

For the HPRP program, we recommend that the HCD verify that the HPRP expenditures reported on the Detailed Expenditure Report (DER) are reconciled to sub-recipients' expenditure balances.

Department's Response and Corrective Action

We concur with the recommendation. By July 31, 2011, HCD will advise the sub-recipients to implement a monthly/quarterly reconciliation process of the DER to their General Ledger. The reconciliation process will include direction to the sub-recipients to provide confirmation that they have reconciled their DER to the General Ledger. The sub-recipient will also be notified that they are responsible for recording any adjustments posted to the General Ledger so that the adjustments appear on the next DER. The direction from HCD to the sub-recipient will be provided through the Administrative Notice process (posted to website) and through email.

State Controller's Office Recommendation - 3

For the CDBG-R program, we recommend that the HCD develop corrective action plans for those sub-recipients that do not meet the expenditure milestone requirements.

Department's Response and Corrective Action

We concur with the recommendation. By August 31, 2011, HCD will work with CDBG-R sub-recipients not meeting milestone requirements, to identify why expenditure milestones have not been met and develop corrective actions that provide increased assurance that they will meet their expenditure requirements. HCD will monitor expenditure reports monthly and provide technical assistance necessary to achieve expenditure milestone requirements.

FINDING 2 – Inadequate Documentation Supporting Salary and Benefit Costs

State Controller's Office Recommendation

We recommend that sub-recipients prepare salaries and benefits in accordance with Office of Management and Budget (OMB) Circular A-122 for non-profit organizations and OMB Circular A-87 for state, local, and Indian Tribal governments.

Department's Response and Corrective Action

We concur with the recommendation. By July 31, 2011, HCD will provide written guidance, with a link to OMB Circular A-87 and OMB Circular A-122, to all sub-recipients to remind them of the Cost Principles For State, Local, and Indian Tribal Governments and For Non-Profit Organizations with added emphasis on reviewing and following Attachment B, Cost Item 8-Compensation For Personal Services, Support of Salaries and Wages.

FINDING 3 – Incomplete Documentation of Program Participant Eligibility

State Controller's Office Recommendation:

We recommend that the sub-recipients properly perform and document all of the required elements to ensure program participant eligibility in accordance with HUD requirements.

Department's Response and Corrective Action

We concur with the recommendation. HCD previously notified all sub-recipients of potential "red flags" concerning participant eligibility requirements. By July 31, 2011, a reminder will be provided and will include the need for the sub-recipient to disseminate the information to the partner agencies.

HCD is proactively listing the common non compliance issues in Administrative Notices that are posted to the HCD website and emailed to the sub-recipients. HCD recognizes the need to notify and remind the sub-recipients to disseminate these common non-compliance issues to all partner agencies.

FINDING 4 – Unallowable Costs

State Controller's Office Recommendation:

We recommend that KidsFirst report expenditures only when incurred.

Department's Response and Corrective Action

We concur with the recommendation. By July 31, 2011, HCD will provide written guidance with a link to OMB Circular A-122, to all sub-recipients to remind them of the Cost Principles for Non-Profit Organizations and that they may not bill for expenditures until they have been incurred.

I appreciate the State Controller's Office efforts to assist the Department provide the highest service level for our customers in an effective and efficient manner. The Management Representation Letter is included as an attachment. If you have any questions, or would like to discuss any of the information in our response, please call me or Elliott Mandell, Chief Deputy Director, at (916) 445-4775.

Sincerely,

Cathy E. Creswell

Cathy E. Creswell
Acting Director

Attachment

cc: Traci Stevens, Acting Secretary, Business, Transportation and Housing Agency

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

S11-ARS-002