Issue Date October 24, 2008	
Audit Report Number 2009-CH-1001	

TO: Ray E. Willis, Director of Community Planning and Development, 5AD
Henry S. Czauski, Acting Director of Departmental Enforcement Center, CV

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: New Phoenix Assistance Center, Chicago, Illinois, Substantially Failed to Manage Its Supportive Housing Program Grants

HIGHLIGHTS

What We Audited and Why

We audited the New Phoenix Assistance Center's (Center) Supportive Housing Program (Program) grants. The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the Center based upon the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development being a priority audit area for our office and a request from HUD's Chicago Office of Community Planning and Development. Our audit objectives were to determine whether the Center effectively administered its Program grants, appropriately used Program funds and provided matching contributions (contributions) for its Program grants, and followed HUD's requirements.

What We Found

The Center materially failed to manage its Program grants. It lacked sufficient documentation to support that it used Program funds for appropriate Program expenses, inappropriately used Program funds, and lacked adequate documentation to support that it followed HUD's requirements in providing contributions for its Program grants.

The Center did not comply with federal requirements regarding its use of Program funds. It was unable to sufficiently support its use of more than $574,000 in Program funds for appropriate lease payments and more than $72,000 in Program funds for eligible nonlease expenses and used nearly $16,000 in Program funds for improper nonlease expenses. It also lacked sufficient documentation to support whether its transfers of $25,000 in Program funds among its Program grants were allowable.

In addition, the Center lacked sufficient documentation to support that it followed HUD's requirements in providing contributions for its Program grants. As a result, HUD lacked assurance that the Center provided $333,347 in eligible contributions for its Program grants.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Community Planning and Development terminate the Center's three current authorized Program grants, reallocate the nearly $92,000 in remaining Program funds, deny the Center's three applications for nearly $838,000 in future Program funds, require the Center to provide sufficient supporting documentation or reimburse HUD from nonfederal funds for the unsupported payments and contributions, and reimburse HUD from nonfederal funds for the improper use of Program funds. We also recommend that HUD's Acting Director of the Departmental Enforcement Center pursue the appropriate administrative sanctions against the Center's officers for their failure to adequately manage the Center's Program grants.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report and supporting schedules to the Center's chief executive officer/president and HUD's staff during the audit. We held an exit conference with the Center's chief executive officer/president on October 2, 2008.

We asked the Center's chief executive officer/president to provide comments on our discussion draft audit report by October 10, 2008. The Center's executive director provided written comments, dated October 9, 2008. The executive director did not agree with the findings. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Program. Authorized under Title IV of the McKinney-Vento Homeless Assistance Act of 1987 (Act), as amended, the Supportive Housing Program (Program) is funded for the purpose of promoting the development of transitional and permanent supportive housing and supportive services for homeless households. Program funds are available to state or local governmental entities, private nonprofit organizations, and public nonprofit community mental health associations for new construction, acquisition, rehabilitation, and leasing of buildings to provide transitional and permanent supportive housing for homeless households; supportive services for homeless persons; operating costs; and technical assistance. Homeless households may receive transitional supportive housing assistance for up to 24-months and must qualify as disabled to be eligible for permanent supportive housing.

The Center. Incorporated in October 1993 as a nonprofit corporation under the laws of the State of Illinois, New Phoenix Assistance Center (Center) is governed by a 10-member board of directors, including the Center's chief executive officer/president. The Center's overall mission is to provide quality scattered-site supportive housing and supportive services to homeless individuals in underserved communities to promote a high quality of family life, self-determination, and independence. The Center's Program records are located at its administrative office at 7624 South Phillips Avenue, Chicago, Illinois, and its case management office at 2531 East 73rd Street, Chicago, Illinois.

The following table shows the amount of Program funds the U.S. Department of Housing and Urban Development (HUD) awarded the Center for the period October 2004 through September 2008.

Program grant number	Program grant period	Type of Program	Program funds
IL01B310075	October 2004 through September 2006	Temporary	$543,018
IL01B410097	July 2005 through June 2006	Permanent	325,780
IL01B410094	September 2005 through August 2006	Temporary	240,500
IL01B510087	July 2006 through June 2007	Permanent	325,780
IL01B510095	September 2006 through August 2007	Temporary	240,500
IL01B510086	October 2006 through September 2007	Temporary	271,509
IL01B610083	July 2007 through June 2008	Permanent	325,780
IL01B610110	September 2007 through August 2008	Temporary	240,500
IL01B610094	October 2007 through September 2008	Temporary	271,509
	Total		**$2,784,876**

HUD's monitoring review. HUD's Chicago Office of Community Planning and Development assessed the Center's performance under Program grant number IL01B310075 through an April 2007 monitoring review. The monitoring review focused on the Center's Program grant records and files, financial management, and supportive housing facilities. HUD identified six findings and three concerns. HUD requested that our office conduct an audit of the Center's Program grants based on the results of its monitoring review and the Center's inability to adequately resolve the issues identified in the monitoring review.

Our audit objectives were to determine whether the Center effectively administered its Program grants, appropriately used Program funds and provided matching contributions (contributions) for its Program grants, and followed HUD's requirements.

RESULTS OF AUDIT

Finding 1: The Center Did Not Operate Its Program Grants in Accordance with Federal Requirements

The Center substantially failed to manage its Program grants. It lacked sufficient documentation to support that it used Program funds for appropriate Program costs, inappropriately used Program funds, and lacked adequate documentation to support that it followed HUD's requirements in providing contributions for its Program grants because it failed to implement adequate procedures and controls to ensure that its Program grants were managed according to federal requirements. As a result, HUD lacked assurance that Program funds were used efficiently and effectively and for eligible expenses.

The Center Lacked Controls over Its Use of Program Funds

The Center did not comply with federal requirements regarding its use of Program funds. It lacked sufficient documentation to support that it used Program funds for eligible Program costs and used Program funds for inappropriate expenses because it lacked adequate procedures and controls to ensure that federal requirements were appropriately followed. As a result, it was unable to sufficiently support its use of more than $574,000 in Program funds for eligible lease payments and more than $72,000 in Program funds for eligible nonlease expenses, and used nearly $16,000 in Program funds for improper nonlease expenses. It also could not provide sufficient documentation to support whether it appropriately transferred $25,000 in Program funds among its Program grants.

HUD's April 2007 monitoring review determined that the Center lacked sufficient documentation to support that it used all of its Program funds for eligible Program costs, used Program funds for inappropriate expenses, and did not have a method to allocate its costs to all funding sources. HUD had not substantially resolved these issues as of September 2008.

The Center Could Not Provide Sufficient Documentation to Support Its Program Contributions

The Center lacked sufficient documentation to support that it followed HUD's requirements in providing contributions for its Program grants. The weaknesses occurred because the Center lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, HUD lacked assurance that the Center provided eligible contributions for more than $1.1 million in Program funds.

HUD's April 2007 monitoring review determined that the Center did not have sufficient documentation to support the contributions for its Program grants. HUD had not resolved this issue as of September 2008.

The Center Had Nearly $92,000 in Program Funds Remaining in Its Current Grants

As of August 28, 2008, the Center had $91,730 in Program funds remaining for its three current authorized Program grants (IL01B610083, IL01B610110, and IL01B610094). In addition, it submitted three applications for $837,789 in future Program funds. As of August 2008, the Center had not been awarded additional funding based upon its applications. Given the Center's substantial failure to manage its current authorized Program grants, HUD should deny the Center's three applications so the Program funds can be awarded to an organization that will comply with the applicable federal requirements to ensure that eligible households receive the full benefits of the Program funds. This would be an avoidance of unnecessary Program expenditures for future Program grants.

Conclusion

The previously mentioned deficiencies occurred because the Center lacked adequate procedures and controls to ensure that it properly managed its Program grants and appropriately followed federal requirements. It did not ensure that it fully implemented federal requirements. The deficiencies with the Center's Program grants are significant and demonstrate a substantial lack of effective Program management. As a result, HUD lacked assurance that Program funds were used efficiently and effectively and for eligible expenses.

Recommendations

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

1A. Terminate the Center's three current authorized Program grants, deobligate the remaining $91,730 in Program funds, and reaward the Program funds in accordance with HUD's requirements.

1B. Disapprove the Center's three applications for $837,789 in future Program funds so they can be awarded to an organization that will comply with the applicable federal requirements to ensure that eligible households receive the full benefits of the Program funds.

We also recommend that the Acting Director of HUD's Departmental Enforcement Center

1C. Pursue the appropriate administrative sanctions against the Center's officers for their failure to adequately manage the Center's Program grants.

Finding 2: The Center Lacked Controls over Its Use of Program Funds

The Center did not comply with federal requirements (see appendix C of this report) regarding its use of Program funds. It lacked sufficient documentation to support that it used Program funds for appropriate Program expenses and improperly used Program funds for inappropriate expenses because it lacked adequate procedures and controls to ensure that federal requirements were appropriately followed. As a result, it was unable to sufficiently support its use of more than $574,000 in Program funds for appropriate lease payments and more than $72,000 in Program funds for eligible nonlease expenses and used nearly $16,000 in Program funds for improper nonlease expenses. The Center also could not provide sufficient documentation to support whether its transfers of $25,000 in Program funds among its Program grants were allowable.

The Center Lacked Documentation to Support Its Use of More Than $574,000 in Program Funds for Lease Payments

We reviewed $645,172 in Program funds the Center used for lease payments from October 2004 through August 2007. The $645,172 included $537,987 for supportive housing lease payments and $107,185 for office lease payments. The Center could not provide sufficient documentation to support that any of the $537,987 in Program funds it used for supportive housing lease payments were for eligible households. In addition, it could not provide leases for $284,820 in Program funds used for supportive housing lease payments. The Center lacked sufficient documentation to support whether households qualified as homeless or homeless and disabled, which units the households were renting, and/or whether households were being served under transitional or permanent supportive housing.

Further, the Center provided the following incomplete and/or conflicting documentation as to the households receiving supportive housing lease payment assistance through its Program:

- The Center provided eviction notices for two households to support that they qualified as homeless. However, the landlord whose signature was on the eviction notices stated that the signature on the eviction notices were her signature but that she did not create or issue the eviction notices for the two households. The landlord also stated that the notices must have been altered by someone else.

- The Center provided lab reports for two households to support that they qualified as disabled. However, the lab reports for the two households were identical, except for the names on the reports. Further, the lab report for one of the households was for a male, but the lab report stated that the household member was female.

- The Center provided a maintenance request binder for its supportive housing leased units for the period October 2004 through August 2007. The binder contained maintenance requests, dated June 8 and August 16, 2007, from two households in supportive housing leased units for which the Center lacked documentation to support whether the households qualified as homeless or homeless and disabled. Further, the binder contained three maintenance requests, dated from August 9, 2007, through March 11, 2008, from a household in a supportive housing leased unit that did not match the supportive housing leased unit in the lease agreement for the household. The lease agreement was for the period August 2007 through August 2008.

The Center also could not provide documentation to support $36,030 in Program funds it used for office lease payments. It paid a landlord $105,615 from March 2005 through August 2007 for office leases when it could only provide office lease agreements with the landlord from October 2004 through September 2007 totaling $69,585.

The Center Could Not Support Its Use of More Than $72,000 in Program Funds for Nonlease Expenses

We reviewed $721,445 in Program funds the Center used for nonlease expenses from January 2006 through July 2007. The Center lacked sufficient documentation to support that it used $72,235 in Program funds from January 2006 through July 2007 for appropriate Program expenses. The following table shows the cost category, period during which Program funds were paid, and amounts of Program funds paid for the unsupported expenses.

Cost category	Period of disbursement	Program funds
Household assistance	January 2006 through July 2007	**$19,160**
Unidentified expenses	January 2006 through June 2007	**10,109**
Salaries	June 2006	**9,119**
Office supplies	January 2006 through June 2007	**7,005**
Transportation	January 2006 through June 2007	**7,094**
Contracting	February 2006 through August 2006	**4,565**
Office equipment	February 2006 through June 2007	**4,168**
Appliances and electronics	April 2006 through October 2006	**3,312**
Furnishings	August 2006 through December 2006	**2,318**
Miscellaneous	January 2006 through March 2007	**1,832**
Internet service	February 2006 through June 2007	**1,529**
Utilities	January 2006 through December 2006	**1,082**
Software programs	March 2006 through September 2006	**810**
Fees	January 2007	**84**
Entertainment	April 2006 through September 2006	**48**
	Total	**$72,235**

The Center used $19,160 in Program funds from January 2006 through July 2007 to pay for unsupported household assistance. The following items are examples of the household assistance expenses listed in the table: grocery store gift cards, food, cleaning and laundry supplies, health and beauty supplies, and paper and plastic goods.

The Center used $10,109 in Program funds from January 2006 through June 2007 to pay for expenses that were not identified. The expenses were unidentifiable due to the Center's inability to provide receipts and/or vouchers, legible receipts and/or vouchers, and/or receipts and/or vouchers that adequately identified the expenses.

The Center used $9,119 of Program funds in June 2006 to pay unsupported salary expenses for its director of case management. The amount was in excess of the director's normal salary payments, and the Center did not provide an explanation for the additional salary payment.

In addition, the Center used $431,014 in Program funds to pay its employees' salaries. However, it could not support from which Program grants the employees were paid. It transferred the Program funds from its Program grant bank accounts to its payroll bank account each pay period. It then paid its employees' salaries from the payroll bank account. Neither the transfers nor the salary payments identified from which Program grants the employees' salaries were paid. Further, the Center could not provide personnel activity reports or other equivalent documentation for the time its employees spent working on activities funded by the Program grants and other funds.

The Center Inappropriately Used Nearly $16,000 in Program Funds for Nonlease Expenses

The Center used an additional $15,724 in Program funds for improper nonlease expenses. The following table shows the cost category, period during which Program funds were used, and amount of Program funds disbursed for the improper nonlease expenses.

Cost category	*Period of disbursement*	*Program funds*
Entertainment	January 2006 through June 2007	$8,623
Automobile maintenance	January 2006 through May 2007	2,840
Excessive cellular phones	January 2006 through June 2007	649
Miscellaneous	January 2006 through June 2007	641
Attorney registration fees	March 2006 through October 2006	639
Furnishings	May 2007	573
Equipment	February 2006 through May 2006	541
Software programs	April 2006 through March 2007	525
Fines and penalties	January 2006 through June 2007	306
Travel items	April 2006 through July 2006	194
Appliances and electronics	September 2006 through October 2006	193
	Total	**$15,724**

The Center used $8,623 in Program funds from January 2006 through June 2007 to pay for improper entertainment expenses. The following items are examples of improper entertainment costs listed in the table: digital video discs (DVD), video game console and components, video games, portable digital audio/video/media players, frequency modulation (FM) transmitters, audio systems, digital and nondigital cameras, audio noise cancelling headphones, party supplies, toys, and audio books.

The Center used $2,840 in Program funds from January 2006 through May 2007 to pay for inappropriate automobile maintenance on its executive director's personal vehicle. The following items are examples of maintenance costs listed in the table: a 10,000-mile maintenance checkup; the replacement of lower ball joints, an inner tie rod, air and fuel filters, rear door glass, and transmission fluid; suspension and wheel alignments; tire mounting; and electrical work.

On July 24, 2007, the Director of HUD's Chicago Office of Community Planning and Development sent a letter to the Center's chief executive officer/president requesting clarification of expenses for which the Center previously submitted vouchers. One of the questioned expenses was $420 to an automobile dealership on May 9, 2007. The Center's executive director responded to the request, dated July 30, 2007, stating that he found HUD's inquiry regarding the expenses troublesome and HUD was trying to micromanage how the Center carried out its Program grants. Further, the executive director stated that the automobile dealership expense was for automobile maintenance on one of the Center's vehicles used for the transportation of small furniture and donations. During our audit, the Center did not provide any receipts for automobile maintenance on May 9, 2007, for any of its vehicles. However, it did provide a May 9, 2007, receipt from the previously mentioned automobile dealership for $420 in automobile maintenance on the executive director's personal vehicle.

The Center Could Not Support Whether Its Transfers of $25,000 in Program Funds Were Allowable

The Center could not provide adequate documentation to support whether its transfers of $25,000 in Program funds among its Program grants were allowable. Specifically, it transferred $10,000 on February 2, 2006, from its bank account for Program grant number IL01B310075 to its bank account for Program grant number IL01B410094. It also transferred $15,000 on May 3, 2006, from its bank account for Program grant number IL01B410097 to its bank account for Program grant number IL01B410094. However, the Center could not provide sufficient documentation showing the expenses for which the transferred Program funds were used.

The Center Lacked Adequate Procedures and Controls

The weaknesses regarding the Center's lack of sufficient documentation to support that it used Program funds for eligible Program costs and use of Program funds for inappropriate expenses occurred because it lacked adequate procedures and controls to ensure that it appropriately followed federal requirements. It did not ensure that it fully implemented federal requirements.

The Center's executive director said that the Center did not have written cost allocation plans for its costs because it would be too cumbersome to develop and implement the cost allocation plans. He said that the Center usually paid for expenses directly related to a Program grant with the appropriate Program funds and tried to divide other expenses equally among the Program grants.

Conclusion

The Center did not comply with federal requirements regarding its use of Program funds. As previously mentioned, it was unable to sufficiently support its use of more than $574,000 in Program funds for eligible lease payments and more than $72,000 in Program funds for eligible nonlease expenses and used nearly $16,000 in Program funds for improper nonlease expenses. It also could not provide sufficient documentation to support whether its transfers of $25,000 in Program funds among its Program grants were allowable.

Recommendations

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the Center to

2A. Provide sufficient supporting documentation or reimburse HUD from nonfederal funds, as appropriate, for the $671,252 in Program funds ($537,987 for supportive housing lease payments, $36,030 for office lease payments, $72,235 for nonlease expenses, and $25,000 for transferred Program funds) used for unsupported expenses cited in this finding.

2B. Reimburse HUD from nonfederal funds for the $15,724 in Program funds it used for improper expenses.

Finding 3: The Center Could Not Provide Sufficient Documentation to Support Its Program Contributions

The Center lacked sufficient documentation to support that it followed HUD's requirements (see appendix C of this report) in providing contributions for its Program grants. The weaknesses occurred because the Center lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, HUD lacked assurance that the Center provided $333,347 in eligible contributions for its Program grants.

The Center Lacked Controls over Program Contributions

The Center could not provide sufficient documentation to support whether it complied with HUD's requirements in providing contributions for its six Program grants for the period October 2004 through September 2007. It drew down more than $1.9 million in Program funds from HUD's Line of Credit Control System (System) during the period. It was required to provide contributions for 33.3 and 25 percent of the Program funds it drew down for operating and supportive services costs, respectively. Therefore, it was required to provide more than $333,000 in contributions for its Program grants. The Center reported more than $408,000 of contributions in its annual performance reviews (reviews) to HUD for its Program grants. The following table shows the Program funds it drew down; operating, supportive services, and total contributions that it was required to provide; and contributions it reported in its reviews to HUD for its six Program grants.

Program grant number	Program funds drawn	Required contributions			Reported contributions
		Operating	Supportive services	Total	
IL01B310075	$538,018	$66,333	$26,500	$92,833	$141,750
IL01B410097	325,780	24,981	32,625	57,606	70,000
IL01B410094	240,500	22,311	16,715	39,026	39,709
IL01B510087	325,780	24,981	32,625	57,606	70,000
IL01B510095	235,684	22,311	16,715	39,026	39,709
IL01B510086	267,518	34,000	13,250	47,250	47,250
Totals	**$1,933,280**	**$194,917**	**$138,430**	**$333,347**	**$408,418**

The Center provided commitment and award letters from other organizations and partial grant agreements with other organizations totaling more than $2.3 million as support for its contributions. The period of the commitments was from July 2003 through February 2008. The Center also provided bank statements and accounting documentation showing that it received more than $810,000 from the organizations from October 2004 through September 2007. However, all but $16,874 of the receipts were commingled with other commitments or Program funds. Further, the Center did not provide receipts to support that it used the commitments for eligible Program expenses and/or could not provide grant agreements or other documentation to support the eligible uses of the commitments. Therefore, it was unable to support that it provided contributions for more than $1.1 million in Program funds for the six grants.

The Center's Procedures and Controls Had Weaknesses

The weaknesses regarding the Center's lack of sufficient documentation to support its Program contributions occurred because the Center lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements. It did not ensure that it fully implemented HUD's requirements.

The Center lacked adequate knowledge of Program contribution requirements to ensure that it maintained sufficient documentation to support that its contributions were used for eligible Program expenses. The Center's chief executive officer/president said that the commitment and award letters from other organizations and partial grant agreements with other organizations were sufficient to support its contributions. She said that she did not know how the Center could support that Program contributions were used for eligible Program expense.

Conclusion

The Center lacked sufficient documentation to support that it followed HUD's requirements in providing contributions reported in its reviews to HUD for its Program grants. As previously mentioned, HUD lacked assurance that the Center provided eligible contributions for more than $1.1 million in Program funds.

Recommendation

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the Center to

3A. Provide sufficient supporting documentation for at least $333,347 in contributions for its Program grants. If the Center cannot provide sufficient supporting documentation, it should reimburse HUD from nonfederal funds for the more than $333,000 in unsupported Program contributions.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws, HUD's regulations at 24 CFR [*Code of Federal Regulations*] Part 583, Office of Management and Budget Circulars A-110 and A-122, and HUD's Homeless Assistance Programs Program Desk Guide.

- The Center's accounting records, annual audited financial statements for 2005 and 2006, Program grant agreements and technical submissions, data from HUD's System, Program files, computerized databases, policies and procedures, organizational chart, and reviews for its Program grants.

- HUD's files for the Center.

We also interviewed the Center's employees, landlords, management agents, the City of Chicago's Department of Human Services employees, Program participants, and HUD's staff.

Finding 2

We reviewed the more than $645,000 in Program funds the Center used for lease payments from October 2004 through August 2007. We also reviewed more than $721,000 of the nearly $877,000 in Program funds the Center used for expenses from January 2006 through July 2007. The expenses were selected to determine whether the Center effectively administered its Program grants, appropriately used Program funds, and followed HUD's requirements.

Finding 3

We reviewed more than $408,000 in contributions the Center reported in its reviews to HUD for its Program grants for the period October 2004 through September 2007. The Program contributions were selected to determine whether the Center effectively administered its Program grants, appropriately provided contributions for its Program grants, and followed HUD's requirements.

We performed our on-site audit work from September 2007 through January 2008. We conducted our audit at the Center's offices located at 2531 and 2537 East 73rd Street, Chicago, Illinois, and HUD's Chicago Regional Office. The audit covered the period January 2006 through July 2007 and was expanded as determined necessary.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our review, we believe the following item is a significant weakness:

- The Center lacked adequate procedures and controls to ensure that it complied with federal requirements regarding the management of Program grants, its use of Program funds for eligible Program expenses, and providing contributions for its Program grants (see findings 1, 2, and 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			$91,730
1B			837,789
2A		$671,252	
2B	$15,724		
3A		333,347	
Totals	$15,724	$1,004,599	$929,519

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In these instances, if HUD implements our recommendations, it will cease providing Program funds to an entity that does not adequately manage its Program grants. This includes a deobligation of Program funds from current authorized Program grants and an avoidance of unnecessary Program expenditures for future Program grants.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Oct 10 08 11:45a New Phoenix Assist. Cen. (773) 978-6056 p.2

New Phoenix Assistance Center

Providing a Life of Dignity for Women and Children with HIV

U.S. Department of Housing & Urban Development
Office of Inspector General for Audit, Region V
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

October 9, 2008

Dear Mr. McManigal,

Comment 1

New Phoenix categorically disagrees with every audit finding. In order to resolve the audit findings as quickly as possible, New Phoenix prefers to have the Office of the Inspector General issue its final audit report so as New Phoenix can work with the regional HUD office to resolve the audit findings.

If New Phoenix can provide any more information in order to expedite the final audit, please feel free to contact us.

Sincerely,

Christopher Mastin, Executive Director
New Phoenix Assistance Center

7624 SO. Phillips Ave., Suite 1A, Chicago, IL 60649 773-978-6322 773-978-6056 fax

OIG Evaluation of Auditee Comments

Comment 1 The Center did not provide a basis for or documentation to support its disagreement with the findings.

Appendix C

FEDERAL REQUIREMENTS

Finding 1

HUD's Program grant agreements with the Center (Program grant numbers IL01B310075, IL01B410097, IL01B410094, IL01B510087, IL01B510095, and IL01B510086) state that a default of the Program grant agreements shall consist of any use of Program funds for a purpose other than as authorized by the Program grant agreements, failure to provide supportive housing for the minimum term in accordance with the provisions of 24 CFR Part 583, noncompliance with the provisions of the Act or 24 CFR Part 583, and any other material breach of the grant agreements. Upon due notice to the Center of the occurrence of any such default and the reasonable opportunity to respond, HUD may take one or more of the following actions: reduce or recapture the Program funds, direct the Center to reimburse its Program grants for costs inappropriately charged to the Program grants, continue the Program grants with substitute recipient(s) of HUD's choosing, or other appropriate action including but not limited to any remedial action legally available.

Federal regulations at 2 CFR 2424.10 state that HUD adopted, as HUD's policies, procedures, and requirements for nonprocurement debarment and suspension, the federal regulations at 2 CFR Part 180.

HUD's regulations at 24 CFR 24.1 state that the policies, procedures, and requirements at 2 CFR Part 2424 permit HUD to take administrative sanctions against employees of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation and are authorized by 2 CFR 180.800, 2 CFR 180.700, or 2 CFR 2424.1110, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);

- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program, such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment); or

- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment).

HUD's regulations at 24 CFR 583.400(a) state that the duty to provide supportive housing or supportive services in accordance with the requirements of 24 CFR Part 583 will be incorporated into a Program grant agreement between HUD and a recipient. Section 583.400(b) states that HUD will enforce the obligations in the grant agreement through such action as may be appropriate, including reimbursement of Program funds that have already been disbursed to the recipient.

HUD's regulations at 24 CFR 583.410(c)(3) state that a Program grant agreement may set forth circumstances under which Program funds may be deobligated and other sanctions may be imposed. Section 583.410(c)(4) states that HUD may readvertise the availability of Program funds that have been deobligated through a notice of funding availability in accordance with 24 CFR 583.200 or award deobligated funds to applications previously submitted in response to the most recently published notice of funding availability in accordance with 24 CFR Part 583.

Finding 2

According to 42 *United States Code* (U.S.C.) 423(d)(1), the term disability means: an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months; or in the case of an individual who has attained the age of 55 and is blind, an inability by reason of such blindness to engage in substantial gainful activity requiring skills or abilities comparable to those of any gainful activity in which the person has previously engaged with some regularity and over a substantial period of time.

According to 42 U.S.C. 11382(2), the term disability means: a disability as defined in 42 U.S.C. 423; to be determined to have, pursuant to regulations issued by HUD, a physical, mental, or emotional impairment which is expected to be of long-continued and indefinite duration, substantially impedes an person's ability to live independently, and of such a nature that such ability could be improved by more suitable housing conditions; a developmental disability as defined in 42 U.S.C. 15002; or the disease of acquired immunodeficiency syndrome or any conditions arising from the etiologic agency for acquired immunodeficiency syndrome.

According to 42 U.S.C. 11302(a), the term homeless or homeless person includes: a person who lacks a fixed, regular, and adequate nighttime residence; and a person who has a primary nighttime residence that is a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill), an institution that provides a temporary residence for persons intended to be institutionalized; or a public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings.

According to 42 U.S.C. 15002(8), the term developmental disability means a severe, chronic disability of an individual that: is attributable to a mental or physical impairment or a combination of mental and physical impairments; is manifested before a person attains the age of 22 years old; is likely to continue indefinitely; results in substantial functional limitations in three or more areas of major life activity; and reflects the person's need for a combination and sequence of special, interdisciplinary, or generic services, individualized supports, or other forms of assistance that are of lifelong or extended duration and are individually planned and coordinated. Areas of major life activity include the following: self care, receptive and expressive language, learning, mobility, self direction, capacity for independent living, and economic self-sufficiency.

HUD's Program grant agreements with the Center (Program grant numbers IL01B310075, IL01B410097, IL01B410094, IL01B510087, IL01B510095, and IL01B510086) state that the Program grant agreements are governed by the Act, 24 CFR Part 583, and applicable notices of funding availability. The applications, which include the original and renewal application submissions on which HUD approved the Program grants, are incorporated as part of the Program grant agreements.

HUD's regulations at 24 CFR 583.1(b) state that Program funds may be used for: transitional housing to facilitate the movement of homeless persons and households to permanent housing; permanent housing that provides long-term housing for homeless persons with disabilities; housing that is, or is part of, a particularly innovative project for, or the alternative methods of, meeting the immediate and long-term needs of homeless persons; or supportive services for homeless persons not provided in conjunction with supportive housing.

HUD's regulations at 24 CFR 583.5 state that a disability is defined in section 422(2) of the Act [42 U.S.C. 11382(2)] and homeless person means a person or household that is described in section 103 of the Act [42 U.S.C. 11302].

HUD's regulations at 24 CFR 583.300(g) state that each recipient of assistance under 24 CFR Part 583 must keep any records and make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require within the timeframe required.

HUD's regulations at 24 CFR 583.330(c) state that the policies, guidelines, and requirements of Office of Management and Budget Circulars A-110 and A-122 apply to the acceptance and use of assistance by nonprofit organizations, except when inconsistent with the provisions of the Act, other federal statues, or 24 CFR Part 583.

According to paragraph 21(b) of Office of Management and Budget Circular A-110, recipients' financial management systems shall provide for the following: records that identify adequately the source and application of funds for federally sponsored activities; that assets are used solely for authorized purchases; written procedures for determining reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award; accounting records, including cost accounting records that are supported by source documentation. Paragraph 45 states that some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Paragraph 53(b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained by a recipient for a period of three years from the date of submission of its final expenditure report. Paragraph 53(e) states that the federal awarding agency and its Inspector General have the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards in order to make audits, examinations, excerpts, transcripts, and copies of such documents.

According to attachment A, paragraph A(2), of Office of Management and Budget Circular A-122, to be allowable under an award, costs must be reasonable for the performance of the award and adequately documented. Paragraph A(4)(b) states that any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

According to attachment B, paragraph 8(m), of Office and Management and Budget Circular A-122, the distribution of salaries and awards to awards must be supported by personnel activity reports, except when a substitute system has been approved in writing by the cognizant agency. Paragraph 14 states that costs of entertainment, including amusement, diversion, and social activities, and any cost directly associated with such costs (such as tickets to shows or support events, meals, lodging, rentals, transportation, and gratuities) are unallowable. Paragraph 15(b)(1) states that capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except when approved in advance by the awarding agency. General purpose equipment includes office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproducing and printing equipment, and motor vehicles. Paragraph 16 states that costs of fines and penalties resulting from violations of, or a failure of an organization to comply with federal, state, or local laws and regulations, are unallowable. Paragraph 19 states that costs of goods or services for personal use of an organization’s employees are unallowable regardless of whether the costs are reported as taxable income to the employees.

Finding 3

According to 42 U.S.C. 11383(a)(4), HUD may provide any project with annual payments for operating costs of housing assisted under the Program, not to exceed 75 percent of the annual operating costs of such housing.

HUD’s Program grant agreements with the Center (Program grant numbers IL01B310075, IL01B410097, IL01B410094, IL01B510087, IL01B510095, and IL01B510086) state that the Program grant agreements are governed by the Act, 24 CFR Part 583, and applicable notices of funding availability. The applications, which include the original and renewal application submissions on which HUD approved the Program grants, are incorporated as part of the Program grant agreements.

The original and/or renewal Program grant application submissions for Program grant numbers IL01B310075, IL01B410097, IL01B410094, IL01B510087, IL01B510095, and IL01B510086 state that by law, Program funds can be no more than 80 percent of the total supportive services budgets and 75 percent of the total operating budgets.

HUD's regulations at 24 CFR 583.125(c) state that assistance for operating costs will be available for up to 75 percent of the total cost in each year of a grant term. The recipient must pay the percentage of actual operating costs not funded by HUD. At the end of each operating year, the recipient must demonstrate that it has met its match requirement of the cost for that year.

HUD's regulations at 24 CFR 583.330(c) state that the policies, guidelines, and requirements of Office of Management and Budget Circular A-110 apply to the acceptance and use of assistance by nonprofit organizations, except when inconsistent with the provisions of the Act, other federal statutes, or 24 CFR Part 583.

HUD issued notices of funding availability for the Program in the *Federal Register*, dated April 25, 2003, May 14, 2004, and March 21, 2005. Section IV(C) of the notice in the *Federal Register*, dated April 25, 2003, and section III(B) of the notices in the *Federal Register*, dated May 14, 2004 and March 21, 2005, state that since the Program by statute can pay no more than 75 percent of the total operating budget for supportive housing, a recipient must provide at least a 25 percent cash match of the total annual operating costs. In addition, for all Program funding for supportive services and homeless management information systems, a recipient must provide a 25 percent cash match. This means that of the total supportive services budget line item, no more than 80 percent may be from Program grant funds.

According to paragraph 23(a) of Office of Management and Budget Circular A-110, all contributions, including cash and third party in-kind, shall be accepted as part of a recipient's cost sharing or matching when the contributions meet all of the following: are verifiable from the recipient's records; are not included as contributions for any other federally assisted project or program; are necessary and reasonable for proper and efficient accomplishment of project or program objectives; are allowable under the applicable cost principles; are not paid by the federal government under another award, except when authorized by federal statute to be used for cost sharing or matching; are provided in the approved budget when required by the federal awarding agency; and conform to other provisions of Office of Management and Budget Circular A-110. Paragraph 53(b) states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained by a recipient for a period of three years from the date of submission of its final expenditure report. Paragraph 53(e) states that the federal awarding agency and its Inspector General have the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards in order to make audits, examinations, excerpts, transcripts, and copies of such documents.