



Home Energy Assistance Program Flaws with the RFP Process

SDC has a long-track record of success with the Wisconsin Home Energy Assistance Program (WHEAP), outperforming all other current providers in Milwaukee County. Despite that success, SDC was not selected to provide service in *any* of the six zones for the first time in 37 years. This was the result of an RFP process that has been flawed from the start, preventing taxpayers from receiving the maximum benefit from their investment.

- The RFP itself called for changes to the program – particularly regarding hours of operation – that **did not comply with the State of Wisconsin’s mandates** that apply to energy assistance programs.
 - WHEAP requires “flexible office hours to accommodate applicants who cannot apply during normal business hours” yet the RFP proposed an appointment-only system limited to weekdays from 9 AM – 4 PM, severely restricting access and effectiveness of the program.
- The RFP shifted funding from areas of greater poverty in the County – namely the north side of Milwaukee – to areas of lesser poverty on Milwaukee’s south side.
- The RFP review process **did not adequately assess the budgets** provided by applicants:
 - It did not account for the fact that other applicants’ budgets did not fund staff, or provided inadequate staff, for certain required program deliverables, including call center staff to handle extremely high volume of calls, Crisis case management, and necessary support staff to meet fair hearing and other program administrative requirements.
 - As a result, it accepted budget estimates from other applicants that were unrealistically low and significantly out-of-line with the applicant’s past performance with the program.
 - In addition, after Milwaukee County changed the budget allocation available for each zone, the winning applicant failed to change its staffing allocation or performance levels to reflect the change, yet still received higher marks for their budget.
 - In short, SDC was penalized for providing realistic budget and performance numbers based on the actual levels of eligibility within the zones and the necessary staff to meet state legal requirements.
- The RFP process **accepted unrealistically high performance levels** from competing applicants that were significantly out of line with the applicants’ prior work and the historic performance of the program.
- The RFP process provided **favorable treatment to some applicants** over others. For example:
 - Despite RFP provisions to the contrary, it permitted one applicant to submit required information that it had failed to include in the application more than one week after the deadline.
 - After the County changed the instructions in the RFP three different times, it failed to respond to SDC’s reasonable request for clarification on the modified instructions.
 - In many categories, SDC was scored lower despite having responses or performance in that category that were objectively equal to or better than competing applicants.
- Despite being provided an opportunity to submit additional information after the deadline, one applicant failed to disclose, as required in the RFP, that it was the subject of an audit report by the Office of Inspector General of the U.S. Department of Housing and Urban Development that found it had not properly administered \$1.7 million in federal grants. For this omission the proposal should have been deemed incomplete and non-responsive and been rejected. It put other applicants, which did properly disclose, at a disadvantage.

ATTACHMENT I

ADDITIONAL DISCLOSURES

ITEM # 20

1. Has your organization or any representative, owner, partner or officer ever failed to perform work awarded or had a contract terminated for failure to perform or for providing unsatisfactory service?

Yes No If yes, on a separate page please provide a detailed explanation.

2. Within the past five (5) years, has your organization or any representative, owner, partner or officer (collectively "your Company") ever been a party to any court or administrative proceedings or disciplinary action, where the violation of any local, state or federal statute, ordinance, rules, regulation, or serious violation of company work rules by your Company was alleged?

Yes No If yes, on a separate page, please provide a detailed explanation outlining the following:

- Date of citation or violation
- Description of violation
- Parties involved
- Current status of citation

3. Within the past 5 years has your organization had any reported findings on an annual independent audit?

Yes No If yes, on a separate page please provide a detailed explanation.

4. Within the past 5 years, has your organization been required to submit a corrective action plan by virtue of review or audit by independent auditor, or any governmental agency or purchaser of services?

Yes No If yes, on a separate page please provide a detailed explanation including if the corrective action has been accepted by the purchasing agency and completely implemented? If not, please explain remaining action required by purchasing agency.

5. Have you, any principals, owners, partners, shareholders, directors, members or officers of your business entity ever been convicted of, or pleaded guilty, or no contest to, a felony, serious or gross misdemeanor, or any crime or municipal violation, involving dishonesty, assault, sexual misconduct or abuse, or abuse of controlled substances or alcohol, or are charges pending against you or any of the above persons for any such crimes by information, indictment or otherwise?

Yes No If yes, on a separate page, please provide a detailed explanation.

Authorized Signature: Andrea Mallmann-Elliott Date: March 20th, 2015

Printed Name: Andrea Mallmann-Elliott Title: Chief Executive Officer

Agency: Community Advocates, Inc.

ATTACHMENT II

RE: 1. *Has your organization or any representative, owner, partner or officer ever failed to perform work awarded or had a contract terminated for failure to perform or for providing unsatisfactory service?*

Milwaukee County DHHS Behavioral Health Division terminated Community Advocates' Crisis Resource Center contract for non-compliance and adherence to DHS 24 requirements and failure to comply with the corrective action plan submitted to BHD.

RE: 3. *Within the past 5 years has your organization had any reported findings on an annual independent audit?*

The following condition was identified in the 2011 Community Advocates, Inc. Consolidated Financial Statements.

Section II: Financial Statement Findings
SIGNIFICANT ADJUSTMENTS (2011-01)

Condition:

Wipfli LLP proposed a number of adjusting journal entries as a result of the year-end audit, which we deem to be significant to the financial statements. It was noted that several significant accounts were not being reconciled or monitored on a regular basis. The lack of effective control over and accountability for funds, property, and other assets indicates a significant deficiency in internal controls.

Effect:

A lack of proper internal controls over critical accounting areas could result in significantly misstated financial statements. As a result of this condition, there is a significant deficiency in internal control.

Recommendation:

Significant account balances should be reconciled and monitored regularly during the year and at year end.

Management's Response:

On October 1, 2011 Community Advocates moved its accounting function from an outside vendor and began recording accounting activity using our own general ledger system and staff. This transition was more difficult than we expected and caused some issues relating to timeliness of reconciliation of accounts.

Once we recognized that all significant accounts are now being reconciled in a timely manner, an outside accounting firm was hired to monitor the reconciliation process. Monthly reconciliations of significant balance sheet accounts are now being completed and reviewed on a time basis.

RE: 4. *Within the past 5 years, has your organization been required to submit a corrective action plan by virtue of review or audit by independent auditor, or any governmental agency or purchaser of services?*

Community Advocates was required to submit a corrective action plan' to Milwaukee County DHHS Behavioral Health Division for the Crisis Resource Center (CRC). The CRC contract was terminated failure to comply with the corrective action plan submitted to BHD.



**Community Advocates
Milwaukee, WI**

**Supportive Housing Program and Homelessness
Prevention and Rapid Re-Housing Program**

ATTACHMENT III



Issue Date: September 17, 2013

Audit Report Number: 2013-CH-1008

TO: Sernorma L. Mitchell, Director of Community Planning and Development, 5ID

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: Community Advocates, Milwaukee, WI, Did Not Properly Administer Its Program and Recovery Act Grant Funds

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Community Advocates' Supportive Housing Program and Homelessness Prevention and Rapid Re-Housing Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.



September 17, 2013

Community Advocates, Milwaukee, WI, Did Not Properly Administer Its Program and Recovery Act Grant Funds

Highlights

Audit Report 2013-CH-1008

What We Audited and Why

We audited Community Advocates' Supportive Housing Program and American Recovery and Reinvestment Act Homelessness Prevention and Rapid Re-Housing Program grants.¹ We selected Community Advocates based on a hotline complaint alleging misuse of Program grant funds. Our objective was to determine whether Community Advocates properly administered its Program and Recovery Act grants in accordance with U.S. Department of Housing and Urban Development (HUD), Recovery Act, and its own requirements.

What We Recommend

We recommend that HUD require Community Advocates to provide (1) supporting documentation or reimburse HUD more than \$632,000 from non-Federal funds and (2) supporting documentation or reimburse HUD nearly \$1.1 million for transmission to the U.S. Treasury. We further recommend that HUD ensure that Community Advocates implements adequate procedures and controls to address the issues identified.

What We Found

Community Advocates did not properly administer its Program and Recovery Act grant funds. Specifically, it did not (1) ensure that Program funds were used for eligible activities and (2) maintain documentation to support required match contributions. It also (1) failed to maintain a financial management system that separately tracked the source and application of Recovery Act funds and (2) lacked sufficient documentation to support the allocation of operating costs. As a result, HUD and Community Advocates lacked assurance that more than \$1.7 million in funds for Community Advocates' Program and Recovery Act grants were used in accordance with Federal requirements.

¹ The Cities of Milwaukee and West Allis were the grantees for the Recovery Act grant funds received by Community Advocates.

TABLE OF CONTENTS

Background and Objective	3
Results of Audit	
Finding: Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds	5
Scope and Methodology	13
Internal Controls	15
Appendixes	
A. Schedule of Questioned Costs	17
B. Auditee Comments and OIG's Evaluation	18
C. Federal Regulations and Community Advocates' Policies	28

BACKGROUND AND OBJECTIVES

Supportive Housing Program. Authorized under Title IV of the McKinney-Vento Homeless Assistance Act of 1987, as amended, the Supportive Housing Program is funded for the purpose of promoting the development of transitional and permanent supportive housing and supportive services for homeless households. Funds are available for (1) new construction, acquisition, rehabilitation, and leasing of buildings to provide transitional and permanent supportive housing for homeless households; (2) supportive services for homeless persons; (3) operating costs; and (4) technical assistance.

Homelessness Prevention and Rapid Re-Housing Program. Authorized under Title XII of the American Recovery and Reinvestment Act of 2009, the Homelessness Prevention and Rapid Re-Housing Program authorized the use of \$1.5 billion for homelessness prevention by providing financial assistance and services to prevent individuals and families from becoming homeless and to help those experiencing homelessness to be quickly rehoused and stabilized. Funds are available for the provision of short-term or medium-term rental assistance; housing relocation and stabilization services, including housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, rental assistance for a final month at a location, moving cost assistance, and case management; or other appropriate activities for homelessness prevention and rapid rehousing of persons who have become homeless.

Community Advocates. Incorporated under chapter 181 of the Wisconsin Statutes, Community Advocates is a nonprofit organization, the mission of which is to provide individuals and families with advocacy and services that meet their basic needs so they may live in dignity. Community Advocates is managed by an 18-member board of directors, and its records are located at 728 North James Lovell Street, Milwaukee, WI.

From October 1, 2009, through September 30, 2012, Community Advocates administered 16 Program grants. The U.S. Department of Housing and Urban Development's (HUD) Line of Credit Control System Program report for the 16 Program grants showed that Community Advocates was authorized to use nearly \$13.7 million and had drawn nearly \$12.6 million in Program funds for its Project Bridge, Autumn West Permanent Housing, Autumn West Safe Haven, Protective Payment, and Milwaukee Women's Center projects as of January 11, 2013.

The Cities of Milwaukee and West Allis, WI, allocated more than \$3.1 million and nearly \$560,000 in Recovery Act funds to Community Advocates, respectively. According to HUD's Integrated Disbursement and Information System, Community Advocates was awarded and had drawn down all its Recovery Act funds for its 11 administrative, operating, and service-related activities.

HUD's Milwaukee field office performed an onsite monitoring review of Community Advocates' permanent supportive housing project, grant number WI39B601001, from May 12 through May 14, 2009. HUD provided the financial monitoring review report to Community Advocates on July 9, 2009. According to the report, the areas reviewed included audit, match, cash management, budget controls, accounting records and source documentation, procurement,

cost allowability, and internal controls. The monitoring resulted in 10 findings and no concerns. On December 7, 2009, Community Advocates submitted a letter to HUD in response to HUD's financial monitoring review. According to the letter, a copy of the new accounting manual for Community Advocates was enclosed. The manual was provided to address the findings, which HUD closed on February 11, 2010. Further, to close the monitoring review finding related to unsupported and ineligible expenses, HUD reduced Community Advocates' grant by the questioned amount of \$4,202.

Our objective was to determine whether Community Advocates properly administered its Program and Recovery Act grants in accordance with HUD, Recovery Act, and its own requirements. Specifically, we wanted to determine whether Community Advocates (1) used Program and Recovery Act grant funds for eligible expenses, (2) complied with HUD's Program match requirements, and (3) met the Recovery Act expenditure deadline.

RESULTS OF AUDIT

Finding: Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds

Community Advocates did not properly administer its Program and Recovery Act grant funds. Specifically, it did not (1) ensure that Program funds were used for eligible activities and (2) maintain documentation to support required match contributions. It also (1) failed to maintain a financial management system that separately tracked the source and application of Recovery Act funds and (2) lacked sufficient documentation to support the allocation of operating costs. These weaknesses occurred because Community Advocates failed to implement adequate financial accounting procedures and controls to ensure compliance with Federal requirements. As a result, HUD and Community Advocates lacked assurance that more than \$1.7 million in funds for its Program and Recovery Act grants were used in accordance with Federal requirements.

A Complaint Alleged Misuse of Program Funds

We received an anonymous complaint alleging that Community Advocates misused Program funds and expressing concern about similar misuse of its Recovery Act grant funds. The complainant provided documentation as examples to support the allegations. We reviewed the documentation and determined that the complaint was substantiated.

Ineligible and Unsupported Program Expenditures

Community Advocates did not adequately support Program expenses totaling more than \$39,000 or use nearly \$450 for eligible expenses in accordance with Office of Management and Budget's (OMB) guidance at 2 CFR 230, appendix A, or comply with the provisions of appendix B for salaries and wages, fringe benefits, donations, entertainment, interest, and lobbying.

We reviewed 43 transactions totaling \$106,171 in Program funds that Community Advocates used from January 2011 through September 2012. Of the 43 transactions, Community Advocates lacked sufficient documentation to support that it used \$39,694 for 34 eligible expenses, and it used \$449 for four ineligible Program expenses. The following table shows the cost category, period during which Program funds were paid, and amount of Program funds paid for the unsupported and ineligible expenses.

Cost category	Period of disbursement	Number of transactions	Unsupported expenses	Ineligible expenses
Appraisal fees	June 2011	1	\$438	
Audit fees	April 2011	1	364	
Consulting	November 2011 through September 2012	9	645	
Donations	April 2012	1		\$23
Entertainment	December 2011	2		392
Food and beverage	November 2011	1	18	
Interest	December 2011	1	78	
Lobbying	September 2012	1		34
Meetings and conferences	April 2012	1	682	
Miscellaneous	May 2012	1	203	
Mortgage interest	September 2011	1	905	
Salaries and wages	March 2011 through September 2012	14	35,583	
Taxes	April through September 2011	2	221	
Telephone	December 2011	1	105	
Utilities	August 2011	1	452	
	Total	38	\$39,694	\$449

On August 16, 2013, Community Advocates wrote out a check payable to HUD for the ineligible expenses of \$449 cited above. As of September 4, 2013, HUD was working on properly processing the check received from Community Advocates.

Community Advocates Lacked Documentation To Support Match Requirements

Community Advocates could not provide sufficient documentation to support whether it complied with HUD's match requirements for 10 Program grants totaling nearly \$3.7 million that started and ended during our audit period. Community Advocates drew down more than \$2.2 million in Program funds from HUD's Line of Credit Control System for operating and supportive service costs. It was required to provide match funds for 33.3 and 25 percent of the Program funds it drew down for operating and supportive services costs, respectively.² Therefore, it was required to provide nearly \$593,000 in match funds for its Program grants.

² Program grantees may request no more than 80 percent of the total cost for the provision of supportive services and Program funds may be used to pay up to 75 percent of the operating costs. Therefore, Program grantees must provide match funds for 33.3 and 25 percent of the Program funds drawn down for operating and supportive services costs, respectively (see Scope and Methodology section).

The following table shows Community Advocates' drawdowns, operating expenses, supportive services, and contributions.

Program grant number	Program funds drawn	Required contributions			Reported contributions
		Operating	Supportive services	Total	
WI0036B5I010800	\$456,522	\$12,577	\$34,933	\$47,510	\$30,737
WI0038B5I010802	387,092	58,562	26,955	85,517	90,691
WI0038B5I011003	403,631	58,562	29,605	88,167	88,173
WI0054B5I010801	82,496	0	19,429	19,429	19,429
WI0054B5I010802	101,389	0	24,141	24,141	24,141
WI0054B5I011003	95,058	0	22,633	22,633	22,633
WI0061B5I010802	362,187	0	85,831	85,831	85,831
WI0061B5I011003	396,486	0	94,401	94,401	94,401
WI0107B5I010901	693,053	14,903	47,454	62,357	63,367
WI0107B5I011002	693,053	17,314	45,646	62,960	62,962
Totals	\$3,670,967	\$161,918	\$431,028	\$592,946	\$582,365

Community Advocates reported more than \$582,000 in match contributions in its annual performance reports to HUD. However, it reported that 3 of its 10 grants lacked more than \$22,600 (\$16,774 + \$2,822 + \$3,027 = \$22,623) in required contributions. Specifically, Community Advocates' annual performance reports show that it provided \$2,822 less than the required operating contributions for grant number WI0038B5I010802, and provided \$16,774 and \$3,027 less than the required supportive services contributions for grant numbers WI0036B5I010800 and WI0107B5I010901, respectively.

According to Community Advocates' chief operating officer, from October 1, 2009, through September 30, 2010, Community Advocates used a single checking account as its primary operating account. All checks, including payroll disbursements, were written from this account. Beginning on October 1, 2010, it moved its primary operating account to another bank and eventually created a separate checking account for payroll. However, it continued to use a single account for nonpayroll disbursements related to its Program operations.

Funds required to cover the operating expenses, including sources used to meet HUD's contribution requirements, were commingled in the primary checking account. Therefore, the commingled funds could not be tracked. Further, during our audit period, the general ledger included only 18 disbursements from Community Advocates' two operating bank accounts that were charged to its Program grants totaling approximately \$4,500. These disbursements included health, dental, and 401K service allocations totaling nearly \$4,400 and miscellaneous transactions and fees totaling \$135. Therefore, we could not determine the source of funds used from the primary checking accounts.

Community Advocates also could not provide sufficient documentation to substantiate whether income posted to its general ledger revenue accounts was eligible as match contributions. According to Community Advocates' chief operating officer, match contributions for its Program consisted of United Way

grants, client rent, and unrestricted donations. Community Advocates posted more than \$297,000 in non-Program revenue to its general ledger revenue accounts for the 10 Program grants selected for review. The sources of revenue included United Way receipts, Project Bridge and Autumn West rent receipts, back-to-school fair revenue, and accrued revenue. However, Community Advocates could not provide sufficient documentation to substantiate whether the revenue was eligible as match contributions. No documentation was provided to support the receipt of the income or its required use. Therefore, we could not confirm the receipts posted to the general ledger or determine whether the posted revenue was eligible as match contributions.

Community Advocates' costs did not always meet the total amount of funds it was required to use for the projects. According to Community Advocates' chief executive officer, each of its Program projects ran a deficit, which was covered by its unrestricted fund balance, resulting in sufficient contributions to meet HUD's requirements. Community Advocates' financial management system identified expenses associated with its Program grants; however, its net expenditures did not meet its total required expenditures for 6 of its 10 grants. Therefore, according to Community Advocates' financial management system, it failed to meet HUD's match requirements for 6 of its 10 Program grants as required by HUD's notices of funding availability. The following table shows the total Program funds disbursed, required match, required expenditures, and total actual expenditures throughout the grant term for its 10 Program grants selected for review.

Grant number	Grant term	Term end	Funds disbursed	Required match	Required expenditures	Actual expenditures
WI0036B51010800	4/1/10	3/31/12	456,522	47,510	504,032	526,587
WI0038B51010802	5/1/10	4/30/11	387,092	85,517	472,609	439,484
WI0038B51011003	5/1/11	4/30/12	403,631	88,167	491,798	278,572
WI0054B51010801	10/1/09	9/30/10	82,496	19,429	101,925	118,951
WI0054B51010802	10/1/10	9/30/11	101,389	24,140	125,529	146,090
WI0054B51011003	10/1/11	9/30/12	95,058	22,633	117,691	97,139
WI0061B51010802	4/1/10	3/31/11	362,187	85,831	448,018	309,032
WI0061B51011003	4/1/11	3/31/12	396,486	94,401	490,887	367,604
WI0107B51010901	9/1/10	8/31/11	693,053	62,358	755,411	801,810
WI0107B51011002	9/1/11	8/31/12	693,053	62,960	756,013	748,813
Totals			\$3,670,967	\$592,946	\$4,263,913	\$3,834,082

Community Advocates Did Not Separately Track Recovery Act Funds

Community Advocates' did not separately track and report its Recovery Act funds in accordance with OMB's guidance at 2 CFR 215.21.³ Instead, it reported Recovery Act funding in its general ledger under housing department code 200,

³ OMB's guidance at 2 CFR (Code of Federal Regulations) Part 215 was formerly located at OMB Circular A-110.

which contained nine different funding sources. The commingled funds were used to pay expenses related to its Recovery Act grants as well as non-Recovery Act-related expenses. The following table shows the funding source, awarding agency, program name, and number of grants reported in department 200 of the general ledger.

Funding source	Awarding agency	Program	Number of grants
HUD	City of Milwaukee	Emergency Solutions	2
HUD	City of Milwaukee	Homelessness Prevention and Rapid Re-Housing Program	2
HUD	City of Milwaukee	Community Development Block Grant	3
County tax levy	Milwaukee County Department of Health & Human Services	Division of Housing - Emergency Shelter Care	1
Federal & State	State of Wisconsin	Emergency Solutions & Homelessness Prevention Program	1
	Total		9

Community Advocates' general ledger contained 12 expense accounts that were specifically used for the Recovery Act grants to identify expenses paid on behalf of clients as direct aid.⁴ Using these expense accounts, we determined that Community Advocates expended all of the more than \$2.6 million in Recovery Act grant funds drawn down for direct aid. However, we were unable to trace the nearly \$1.1 million in grant funds drawn for operating costs using the ledger expense accounts. This occurred because transactions posted to general operating expense accounts for items such as travel and salaries are allocated by department code and the ledger did not provide for a method of identifying costs associated with specific grants or awards within a department that contained multiple funding sources, such as department 200.

Community Advocates Used Budget Estimates To Support Expenses

The Recovery Act grant cost reports⁵ also do not support how nearly \$1.1 million in grant funds was used. In reviewing the reports, we determined that Community Advocates used estimated amounts to support operating expenses paid with Recovery Act grant funds. For instance, employees' salaries, fringe benefits, and direct costs for travel were charged to the Recovery Act grants based on estimated percentages rather than actual cost incurred. Community Advocates did not maintain sufficient documentation to support the allocable portion of mileage

⁴ Recovery Act funds used for expenses such as rental payments, storage and moving expenses, utilities, security deposits, and hotel rooms

⁵ Cost reports are reports submitted by Community Advocates along with supporting documentation for reimbursement of expenses incurred for its Recovery Act grant. These reports are then reviewed by the grantee and compared to HUD's quarterly reports to ensure that the costs are in line with the approved budget.

expenses incurred or an after-the-fact determination of the actual work activity performed by each employee that were related to the grants. According to paragraph 8 of OMB's guidance at 2 CFR 230, appendix B, budget estimates (estimates determined before the services are performed) do not qualify as support for charges to awards.⁶ Further, section A(2) of OMB's guidance at 2 CFR 230, appendix A, requires cost to be reasonable for the performance of the award, allocable, and adequately documented to be allowable under an award.

Community Advocates also did not maintain sufficient documentation to support the actual expenses for indirect costs charged to the Recovery Act grants. It allocated indirect expenses to the grants using a rate of 22 percent of the total expenses charged for direct costs including salaries, fringe benefits, and travel during a particular period. However, it was unable to provide documentation to support the actual costs and whether they were allowable in accordance with Federal requirements. Further, the 22 percent was applied to the estimated percentage of cost allocated to the Recovery Act grants rather than to actual costs incurred.

Community Advocates Lacked Adequate Procedures and Controls

The weaknesses discussed above occurred because Community Advocates lacked adequate procedures and controls to ensure that it appropriately followed Federal requirements. Specifically, it lacked adequate procedures and controls to ensure that its

- Financial management system adequately identified the source and application of funds for federally sponsored activities.
- Operating costs were reasonable for and allocable to the Recovery Act grant and adequately documented.
- Expenses charged to its Program and Recovery Act grants were reasonable and allocable to the programs and adequately documented and complied with the provisions for select items of cost in accordance with Federal requirements.

Community Advocates hired an accounting firm in January 2005 to manage its financial operations. The firm developed its accounting and financial policies and procedures manual in response to HUD's 2009 onsite financial monitoring review (see Background and Objective section). Although the manual included sections for evaluating the reasonableness, allocability, and allowability of costs; separately accounting for Federal awards; and adequately documenting salaries and wages and match contributions, Community Advocates had not formally approved the manual and the manual was not fully implemented by its staff.

⁶ OMB's guidance at 2 CFR Part 230 was formerly located at OMB Circular A-122.

According to Community Advocates, although the manual had not been formally approved, it expected the accounting firm to fully implement the procedures outlined in the manual. In addition, Community Advocates considered it the responsibility of the accounting firm to bring the manual before Community Advocates' board for approval because the accounting firm was the administrator of its accounting function and author of the manual.

The treasurer of the board of directors said that the entire accounting and financial function was outsourced to the accounting firm. In addition, the board was generally not involved with the day-to-day operations of the entity, and it did not realize that it was required to approve the policies and procedural manual. Therefore, the board did not establish policies or ensure that the agency's fiscal resources were properly managed in accordance with the by-laws.

Community Advocates Initiated Corrective Actions

On September 30, 2011, Community Advocates had terminated its contract with the accounting firm, and decided to bring the accounting function in-house. In January 2013, Community Advocates hired a new chief financial officer, who was responsible for revising and implementing the manual. According to Community Advocates' chief financial officer, in addition to drafting a new accounting and financial policies and procedures manual, Community Advocates had developed new indirect costs allocation methods and a new general ledger department code to separate costs unrelated to or unallowable for Federal awards and was reclassifying all costs starting January 1, 2013, in accordance with its revised policies. On June 19, 2013, the final version of the accounting and financial policies and procedures manual was formally approved by the board of directors.

Conclusion

Community Advocates failed to implement adequate financial accounting procedures and controls to ensure compliance with Federal requirements. As a result, HUD and Community Advocates lacked assurance that more than \$1.7 million in funds for its Program and Recovery Act grants was used in accordance with Federal requirements. Further, these weaknesses prevented us from determining whether Community Advocates met the Recovery Act grant expenditure deadline.

Since Community Advocates' Homelessness Prevention and Rapid Re-Housing Program (Recovery Act) grant funds have been fully disbursed, we do not make a recommendation for establishing and implementing adequate procedures and controls to ensure that it separately tracks and reports Recovery Act funds as required and funds are used for eligible activities and in a timely manner.

Recommendations

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

- 1A. Provide sufficient supporting documentation or reimburse HUD from non-Federal funds, as appropriate, for the \$39,694 in Program funds used for unsupported expenses.
- 1B. Provide sufficient documentation for \$592,946 in required contributions for its Program grants or reimburse HUD from non-Federal funds for the unsupported contributions.
- 1C. Implement adequate procedures and controls to ensure that its matching contributions are verifiable and comply with Federal requirements.
- 1D. Provide sufficient documentation to the Cities of West Allis and Milwaukee to support the eligibility of \$1,077,928 in operating costs allocated to its Recovery Act grants or reimburse HUD from non-Federal funds for transmission to the U.S. Treasury.

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

- 1E. Ensure that Community Advocates implements adequate procedures and controls regarding its financial management system, including but not limited to developing supportable methods for evaluating whether indirect and operating costs charged to Federal grants are reasonable, allocable, and adequately documented.

SCOPE AND METHODOLOGY

We performed our onsite audit work from November 2012 through June 2013 at Community Advocates' office located at 728 North James Lovell Street, Milwaukee, WI, and HUD's Milwaukee field office located at 310 West Wisconsin Avenue, Suite 1380, Milwaukee, WI. The audit covered the period of October 1, 2009, through September 30, 2012 and was expanded when necessary.

To accomplish our objectives, we reviewed the following:

- Applicable laws; HUD's Homelessness Prevention and Rapid Re-Housing Program (Recovery Act) notice, dated March 19, 2009; OMB's guidance at 2 CFR 215 and 230; HUD's regulations at 24 CFR Parts 85 and 583; OMB Memorandum 09-15; HUD's Supportive Housing Program and Recovery Act grant agreements; and HUD's 2009 financial monitoring review.
- Community Advocates' audited financial statements for 2009, 2010, and 2011; annual reports for 2009, 2010, and 2011; general ledger reports from October 2009 through September 2012; Recovery Act cost reports; financial records; checklists; client files; board meeting minutes; policies and procedures; organizational charts; and job descriptions.

In addition, we interviewed Community Advocates' employees and board members and HUD's staff.

We evaluated expenses posted to Community Advocates' general ledger reports. From January 1, 2011, through September 30, 2012, Community Advocates posted 17,802 debit transactions totaling more than \$10.2 million to the expense accounts for its administration, clerical, housing (consisted of Federal, State, and local funding sources, including the Recovery Act), and Program departments. We randomly selected for review 126 transactions posted to the general ledgers from January 1, 2011, through September 30, 2012, totaling \$289,311. Of the 126 transactions, we reviewed 43 transactions that were related to Community Advocates' Program. The remaining 83 transactions were related to its administration, clerical, and housing departments.

For HUD's systems, including the Integrated Disbursement and Information System⁷ and Line of Credit Control System,⁸ although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes. Our assessment of the reliability of the data in Community Advocates' systems was limited to the data sampled, which were reconciled to the Community Advocates' records. We

⁷ The Integrated Disbursement and Information System is a nationwide database used as the draw down and reporting system for HUD's four Community Planning and Development formula grant programs. Grantees also use the system for Recovery Act programs including the Homelessness Prevention and Rapid Re-housing program.

⁸ The Line of Credit Control System is used to disburse and track the payment of grant funds to grantees.

compared canceled checks and invoices to the payee, item description, date, amount, and department in Community Advocates' general ledger reports.

HUD's requirements state that Program funds may be used to pay up to 75 percent of the operating costs in each grant term. Further, Program grantees may request no more than 80 percent of the total cost for the provision of supportive services and grantees must match the remaining 20 percent of the total costs with funds from other eligible sources. Therefore, Community Advocates was required to provide 25 and 20 percent cash match for total operating and supportive services costs, respectively.

We calculated the total required match based upon the amount of Program funds drawn down from HUD for operating and supportive services costs, rather than the total cost, to ensure that HUD provided no more than 75 and 80 percent of the total costs for operating and supportive service costs, respectively. Using this calculation method, Community Advocates was required to match 33.3 percent of Program funds drawn down for operating costs and 25 percent of the Program funds drawn down for supportive services costs.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – 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 applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- Community Advocates lacked adequate procedures and controls to ensure that it complied with Federal requirements regarding the administration of its Program and Recovery Act grants (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$39,694
1B	592,946
1D	<u>1,077,928</u>
Totals	<u>\$1,710,568</u>

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments⁹

COMMUNITY ADVOCATES
Where Meeting Basic Needs Inspires Hope

August 19, 2013

Kelly Anderson
Regional Inspector General for Audit
Region 5

Dear Ms. Anderson:

Thank you for the opportunity to comment on the draft audit report entitled "Community Advocates Supporting Housing and Homelessness Prevention and Rapid Re-Housing Program.

First, let me compliment the politeness and professionalism of the OIG staff assigned to this audit. OIG staff always comported themselves in a professional manner.

Community Advocates is a local nonprofit which works with the most vulnerable in our society, those persons living on the streets with mental illness, women and children escaping family violence, and other populations existing at the margins.

Comment 1

It is our understanding that the reason for this audit originated with an anonymous complaint to the OIG hotline alleging misuse of the \$16.2 million in HUD funds that Community Advocates received from 2009-2012 and were the scope of this audit. Thus, it is very important to point out that the OIG found only \$449 in "misused funds" which were the result of two coding errors and which has been remitted to HUD. Clearly the complaint of misuse of HUD funds was not substantiated.

Comment 2

We would also like to note that there are no program findings contained in this audit. Indeed it is our understanding that Community Advocates correctly administered both the HPRP and SHP programs according to HUD guidelines as it relates to program procedure and eligibility.

From October 2009 through September 2012, Community Advocates administered just over \$16.2 million to serve the homeless and mentally ill through the Supportive Housing Program (SHP) and the American Recovery and Reinvestment Act's Homeless Prevention and Rapid Re-housing Program (HPRP).

Comment 3

Community Advocates received just over \$12.6 million in SHP funding to assist homeless individuals with mental illness to move off the streets, be accepting of treatment for their mental illness, and become stable while residing in permanent housing. These SHP programs currently support 300 formerly homeless persons with mental illness in their own apartments by providing rent assistance and case management services.

⁹ This excludes the sample time card, City of Milwaukee's Comptroller's letter, and Harvard study, which were not necessary for understanding Community Advocates' comments.

Ref to OIG Evaluation

Auditee Comments

Kelly Anderson
Regional Inspector General for Audit
Region 5

Comment 4

Community Advocates used more than \$3.6 million of the HPRP funds to help approximately 4,000 qualifying individuals to pay back rent and avoid eviction. During the same period of time, nearly 3,000 people were denied assistance because Community Advocates uses a rigorous review process to ensure that the right people were receiving funds.

From November 2012 through June 2013, the Office of the Inspector General (OIG) sent two auditors to review Community Advocates use of the SHP and HPRP funding. Community Advocates cooperated fully with the process.

Comments 5, 6, and 7

We do understand that at the time of the audit there was approximately \$1.7 million in costs charged to HUD programs for which the OIG said they could not determine eligibility of costs charged to the program at the time of the audit. The vast majority of those costs had to do with employee time card documentation relating to HPRP (\$1.1 million) and the use of agency retained earnings as match for SHP (\$570,000). In the case of both of these issues we respectfully believe that we have met the regulatory requirements of both the HPRP and SHP program while acknowledging that the OIG has offered advice as to how we can improve our documentation process going forward to meet the OIG standards.

Comment 8

Comments 9 and 6

In terms of the time card and documentation of employee effort on the HPRP grant Community Advocates believes that 1) Per OMB 122 Attachment B #8 a(1) our contracting agency, the City of Milwaukee, has approved in writing a system of reporting for HPRP expenses and 2) that as the majority of employees working in the HPRP program were allocated 100% to that program our internal process meets the requirements of OMB122.

Comments 5, 6, and 10

For the HPRP grant it is very important to note that Community Advocates was a sub grantee to the City of Milwaukee. As such Community Advocates had to comply with the strict procedures used by the City of Milwaukee Block Grant Office and the City of Milwaukee Comptroller's Office. A part of those requirements Community Advocates identified at the beginning of the program those staff by name allocated to the program, the percent of their effort, and exact salary and fringe benefits. Any subsequent staff changes had to be similarity detailed and approve in advance or costs for those staff would be disallowed. In essence the City of Milwaukee approved the entirety of the transactions in the HPRP program and audited same.

Comment 10

In implementing the HPRP grant the City of Milwaukee Community Development Grants Administration (COM CDGA) provided Community Advocates with eight contracts covering the following activities: HPRP Administration, HPRP Data Collection & Evaluation, HPRP Housing Relocation & Stabilization Services Mediation, HPRP Housing Relocation & Stabilization Services Rapid Rehousing – Families, HPRP Housing Relocation & Stabilization Services Rapid Rehousing – Singles, HPRP Mediation Financial Assistance, HPRP Rapid Rehousing – Families Financial Assistance and HPRP Rapid Rehousing – Singles Financial Assistance. The COM CDGA has standard policies and procedures for grant contracting which are described below.

- COM CDGA issues grant award letters and require a budget submission including Budget Justification and Budget Forecast and Project Activity submission including Project Activity Reports detailing number of clients to be served.
- Contractor (Community Advocates, Inc.) submits Budget forms and Project Activity Forms to COM CDGA.
- COM CDGA executes a contract with Contractor that includes approved budget forms and project activity forms.

Ref to OIG Evaluation

Auditee Comments

- Contractor submits cost reports and project activity reports consistent with approved contract and/or approved budget amendment.
- COM CDGA reviews and approves project activity reports. City of Milwaukee Comptroller's offices reviews and approves cost reports.
- CA receives reimbursement from City of Milwaukee along with Disbursements for Single Audit Purposes indicating the disbursement amount, Cost Category Budget Amounts, Previous Month Cost Paid to Date, Current Month Paid Cost, Cost Paid to Date and Budget Balance. Disallowed costs are identified along with reason for disallowance.
- HPRP was a multi-year program therefore Budget Amendments were required at the end of each calendar year.
- Budget Amendments detailed the amount spent for the calendar year ending, a budget for the upcoming calendar year and budget amounts for the remaining grant term.
- Additional budget amendments were prepared during the calendar based on program and client needs.
- Budget Amendment forms required by the COM CDGA include a Budget Amendment Request form indicating the reason for the amendment, a revised budget justification and a revised budget forecast.
- COM CDGA reviewed and approved budget amendment requests and issued a letter acknowledging budget amendment approval.
- Contract amendments also occurred during the HPRP grant term. Contract amendments were required when the terms of the contract changed and/or if the amount of the contract increased or decreased. In the case of a grant amount change revised budget documents were included in the contract amendment.

It is important to note that the Budget Justification form submitted and approved both at initial contract issuance as well as with each budget amendment requires detailed information on how grant funds will be spent and personnel allocated. The Personnel form, which must be included at contract issuance and with all subsequent budget modifications, must identify the position title, employee name, employee home address, total salary and percentage of salary covered by the grant. All other cost categories such as Fringe Benefits, Direct Costs i.e. local mileage and Indirect Costs are linked to the employee percentages identified on the Personnel form.

**Comments 5
and 6
Comment 11**

Community Advocates believes that this stringent City of Milwaukee process insured the proper use of HPRP funds and clearly constituted an approved City of Milwaukee system. Most important is that the Office of the Comptroller of the City of Milwaukee recently audited the compliance of Community Advocates HPRP program for the entire three year grant and concluded that all expenses charges to the grant were eligible. (Comptroller letter attached)

The majority of staff assigned to work in the HPRP program were allocated 100% to that program. Each pay period they filled out a time sheet representing the hours worked, then signed and dated it. In our allocation system and payroll system their 100% allocation to the grant was clear. In addition, for each employee, there was a detailed job description on file detailing the job requirements and duties. Each employee working in the HPRP program had a supervisor who supervised the employees assigned to HPRP, had control over employee overtime, approval of correct hours, approval of correct coding, approval of correct employees assigned to the grant. The supervisor also had firsthand knowledge of

Ref to OIG Evaluation

Auditee Comments

Comment 6

the activities performed by the employee and that supervisor signed each employee time card certifying that the distribution of activity of that employee represented a reasonable estimate of the actual work performed by the employee during the time period covered by the time card. Community Advocates believes that we have adequate support for salaries and wages charged to the HPRP program in that we have met the test described in OMB122 Attachment B #8m a(1)(c) which states " the reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the report."

Comment 6

Finally in regards to HPRP during the three year grant term Community Advocates possessed 7,000 HPRP cases and distributed nearly \$2.5 million in direct aid. These 7,000 files exist; the OIG has examined the file room and has individually reviewed many of those files. There are no programmatic findings contained in the OIG audit. Yet the OIG is listing as unsupported the entire \$1.1 million used to support the staff activity which disbursed that direct aid and the staff activity which created those 7,000 files housed in our file room. Contained within those files is a clear audit trail of staff activity which can be tied back to Community Advocates payroll records.

Comment 7

In regard to the SHP match Community Advocates used the following process.

1. In the technical submission process at the start of each grant year we provided to the local HUD field office a statement that we were pledging the agency fund balance as match. The local field office has historically accepted this pledge.
2. At the end of each month Community Advocates accounting staff would provide to our COO the actual expenses by HUD approved budget category.
3. The COO would draw down from the LOCCS system ONLY 80% or 75% depending on the match requirement for the budget category.
4. This would obviously create a budget deficit each year for each program which would have to be made up by either private donations or retained earnings.
5. Match for the SHP permanent housing program comes from client rent which is allowable and for which we have adequate documentation in the form of rent logs for each month with those funds being coded to the separate permanent housing program department in the accounting system.

Comment 12

As we understand it the OIG objects to us using retained earnings (fund balance) from previous years as match because it is unknown where those funds have come from. Community Advocates asserts that funds that make up the audited unrestricted fund balance by definition are agency "owned" funds and thus can be used for whatever purpose the agency deems necessary including match for HUD SHP programs.

During the past two years, with the oversight of its Board of Directors, Community Advocates has totally reorganized its accounting system. From 2005 to late 2011 Community Advocates relied on an outside vendor to provide accounting services. Beginning in early 2011 the Board of Directors determined that the accounting vendor was no longer able to meet our needs and directed staff to plan to bring the accounting function "in house". In October of 2011 Community Advocates began to directly operate our accounting functions. It is our sense that the OIG believes our current accounting system is a vast improvement over what was being provided by the outside contract firm. This change to an in house accounting function required considerable investment of funds by the Board of Directors especially in light of the administration allowance of 2.5% for HPRP and 5% for SHP.

As stated earlier Community Advocates believes that it has complied with the regulations for HPRP regarding staff effort documentation and SHP match requirement as evidenced by multiyear clean audits by our external auditor

Ref to OIG Evaluation

Auditee Comments

Comment 13

WIPFLI and the City of Milwaukee Comptroller's office. That said we agree with the OIG advice that we should improve the way we account for staff effort and SHP match documentation. Please see the attachment which represents a sample time card staff will be using to document their time spent on program. This revised time card incorporates personal activity documentation directly into the form. In addition we are working with our local HUD field office to better refine the way we track matching funds for SHP.

Comment 14

Community Advocates would like to take note of the numerous times OIG staff mentioned to us how cooperative we were in terms of providing requested documentation on a timely basis and in general cooperating with the audit process. They mentioned that this is not always the case. Community Advocates is a nonprofit organization with dedicated staff overseen by a Board of dedicated volunteers which tries to do the best it can to literally save the lives of many of the people we serve. We will continue to do that and look forward to working with our local officials at HUD, City of Milwaukee, and City of West Allis to resolve the remaining audit issues in the near future.

Finally, I would like to thank the Community Advocates staff who went far beyond the call of duty and really stepped up to make both the SHP and HPRP program of Community Advocates successful. It is with much pride that we are able to attach to this audit response a Harvard study of our HPRP prevention program which concluded that even at the depths of the great recession the Community Advocates HPRP program reduced the number of evictions in Milwaukee County.

Comment 15

We look forward to working with our local city and HUD officials to resolve any outstanding audit issues.

Sincerely,

Joseph L. Volk
Chief Executive Officer

Attachments

Sample time card
City of Milwaukee Comptroller letter
Harvard Study

OIG Evaluation of Auditee Comments

Comment 1 We agree the audit of Community Advocates' Supportive Housing Program and Recovery Act grant funds was initiated based on an anonymous complaint. Therefore, we reviewed documentation received from the complainant as examples to support the allegations and determined that the complaint was substantiated.

Although we only cited \$449 in ineligible Program costs in the report, of the 43 Program related transactions selected for review totaling \$106,171, Community Advocates lacked sufficient documentation to support that it used \$39,694 for 34 expenses (37 percent of total funds reviewed).

According to Federal requirements, a recipient's financial systems must provide for records that adequately identify the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.¹⁰ Further, to be allowable under an award, costs must be reasonable for the performance of the award, allocable, and adequately documented.¹¹

Based on the check payment totaling \$449 from Community Advocates to HUD on August 16, 2013, for the ineligible expenses cited in this report, we removed Recommendation 1B of the discussion draft audit report, in which we recommended that HUD require Community Advocates to reimburse HUD \$449 from non-Federal funds for Program funds used for improper expenses.

Comment 2 While there are no program findings cited in this report, we have not concluded that Community Advocates correctly administered both the Supportive Housing Program and Homelessness Prevention and Rapid Re-housing Program in accordance with HUD requirements as related to program procedure and eligibility.

Our findings and conclusions are based upon audit evidence gathered within and limited to the scope of our specific audit objectives, which were to determine whether Community Advocates (1) used Program and Recovery Act grant funds for eligible expenses, (2) complied with HUD's Program match requirements, and (3) met the Recovery Act expenditure deadline.

During our survey, we developed an understanding of Community Advocates' internal controls, which included reviewing client application, intake, and approval procedures; interviewing staff; and selecting a limited number of Program and Recovery Act grant client files for review to determine whether the participants selected for review met eligibility requirements. Although we did not

¹⁰ OMB's guidance at 2 CFR 215.21(b)(2)

¹¹ OMB's guidance at 2 CFR 230, appendix A, Section A(2)(a) and (g)

identify any instances of noncompliance, the evaluation was designed to establish a level of risk for noncompliance with eligibility requirements rather than draw conclusions about whether Community Advocates complied with HUD requirements.

- Comment 3** Community Advocates drew nearly \$12.6 million in Program funds for its Project Bridge, Autumn West Permanent Housing, Autumn West Safe Haven, Protective Payment, and Milwaukee Women’s Center projects as of January 11, 2013. These funds were used in part to assist homeless individuals with mental illness but also used to assist victims of domestic violence.
- Comment 4** Community Advocates received nearly \$3.7 million in Recovery Act grant funds from the Cities of Milwaukee and West Allis, WI. The funds were used in part for short term rental assistance such as payments for back rent in order to help individuals avoid eviction. However, funds were also used for medium-term rental assistance, security and utility deposits, utility payments, and hotel and motel vouchers.
- Comment 5** Community Advocates’ financial management system was required to provide for records that adequately identify the source and application of funds for federally-sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.¹² Additionally, allowable costs were required to be reasonable for the performance of the award, allocable, and adequately documented.¹³

However, contrary to Federal requirements, Community Advocates’ financial management system did not separately track its Recovery Act grant funds. Further, it used estimated amounts to support operating expenses paid with Recovery Act grant funds. Employees’ salaries, fringe benefits, and direct costs for travel were charged to the Recovery Act grants based on estimated percentages rather than actual cost incurred, and indirect expenses were charged to the grants using a rate of 22 percent of the total expenses charged for direct costs during a particular period.

- Comment 6** Contrary to Federal requirements, Community Advocates did not maintain activity reports for its staff that charged time to the Program and Recovery Act grants that reflect an after-the-fact determination of actual activity of each employee. Instead, it maintained time sheets identifying the number of hours worked but not the specific activities. As a result, we could not determine the portion of salaries and fringe benefits that were allocable to the grants.

Paragraph 8(m) of OMB’s guidance at 2 CFR 230, appendix B, states that “(1) The distribution of salaries and wages to awards must be supported by personnel

¹² OMB’s guidance at 2 CFR 215.21(b)(2)

¹³ OMB’s guidance at 2 CFR 230, appendix A, Section A(2)(a) and (g)

activity reports, as prescribed in subparagraph 8(m)(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency, and (2) reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (a) the reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.”

Paragraph 8(g) of OMB’s guidance at 2 CFR 230, appendix B, states that “(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each, (2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see subparagraph h), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities.”

Comment 7 Community Advocates was required to provide nearly \$593,000 in match funds for its Program grants. However, Community Advocates could not provide sufficient documentation to support whether it complied with HUD’s match requirements. We could not track Program expenditures from Community Advocates’ primary checking account because funds were commingled and its financial management system did not adequately identify the source of funds used for disbursements from the account. In addition, Community Advocates:

- Reported to HUD that 3 of its 10 Program grants lacked necessary contributions of more than \$22,500,
- Could not provide sufficient documentation to support whether nearly \$300,000 in revenue posted to its general ledger was eligible match, and
- Did not meet its total required expenditures for 6 of its 10 Program grants.

OMB’s guidance at 2 CFR 215.21 (b) states that a recipient’s financial management systems must provide for (2) records that adequately identify the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

OMB's guidance at 2 CFR 215.23(a) states that all contributions, including cash and third party in-kind, must be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria: (1) are verifiable from the recipient's records; (2) are not included as contributions for any other federally assisted project or program; (3) are necessary and reasonable for proper and efficient accomplishment of project or program objectives; (4) are allowable under the applicable cost principles; (5) are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching; (6) are provided for in the approved budget when required by the Federal awarding agency; and (7) conform to other provisions of this part, as applicable.

Section A(2) of OMB's guidance at 2 CFR 230, appendix A, states that to be allowable under an award, costs must meet the following general criteria: "(a) Be reasonable for the performance of the award and be allocable thereto under these principles" and "(g) Be adequately documented."

HUD's 2008 Supportive Housing Program Desk Guide states that project sponsors are required to maintain detailed fiscal records during each year of the project to ensure adequate documentation of all expenditures related to the grant, including those paid through the use of cash match sources.

Comment 8 We did not offer advice as to how Community Advocates can improve their documentation process to meet OIG's standards. However during the audit, we discussed (1) Federal requirements regarding the administration of Community Advocates' Program and Recovery Act grants and (2) our audit findings and related recommendations.

Comment 9 Office of Management and Budget guidance requires written approval from the cognizant agency for Community Advocates to use a substitute system to support the distribution of salaries and wages. The City of Milwaukee is not Community Advocates' cognizant agency.

Paragraph 8(m) of OMB's guidance at 2 CFR 230, appendix B, states that "(1) The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8(m)(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Appendix A to this part.)"

Section E(2)(a) of OMB's guidance at 2 CFR 230, appendix A, states that "Unless different arrangements are agreed to by the different agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of indirect cost rates, and where necessary, other rates such as fringe benefit and computer charge-out rates."

- Comment 10** The procedures outlined in Community Advocates' response to our audit report regarding grant contracting through the City of Milwaukee's Community Development Grants Administration contribute to internal controls for proper use of funds; however, the procedures did not ensure Community Advocates complied with OMB's guidance regarding personnel activity reports.
- Comment 11** Community Advocates did not provide sufficient documentation to support the extent of the City of Milwaukee's Office of the Comptroller review. According to a letter dated July 31, 2013 from the Office of the Comptroller to Community Advocates, the Comptroller's Office reviewed records of Community Advocates' Recovery Act grants for the months of January 2010 through December 2012. The purpose of the review was to test costs incurred for compliance with the provisions' of the applicable contracts. However, there was no evidence that the review tested compliance with Federal requirements in regards to maintaining documentation to support the source and application of funds as required.
- Comment 12** We do not object to Community Advocates using retained earnings (fund balance) from previous years to meet its match contribution requirements. However, Community Advocates did not maintain sufficient documentation to support its match as required. Community Advocates stated that it only drew down 80 or 75 percent of actual Program expenses depending on the match requirement for the related budget and concluded that this method would cause a budget deficit, which would have been made up by private donations or retained earnings. However, Community Advocates lacked adequate documentation to support that private donations or retained earnings were used for the Program or that the private donations and retained earnings complied with HUD's match requirements.
- Comment 13** Community Advocates' corrective action in maintaining personnel activity reports that reflect an after-the-fact determination of actual activity of each employee, if fully and appropriately implemented in accordance with OMB's guidance, should improve its procedures and controls.
- Comment 14** Community Advocates' commitment to working with the local HUD field office should assist Community Advocates in adequately documenting Program match contributions.
- Comment 15** We acknowledge Community Advocates' intent to work with its local city and HUD officials to resolve any outstanding audit issues.

Appendix C

FEDERAL REGULATIONS AND COMMUNITY ADVOCATES' POLICIES

Sections 3(b), 4(s), 4(u), and 4(u) of HUD's 2006, 2008, 2009, and 2010 notices of funding availability for continuum of care homeless assistance programs, respectively, state that since the Supportive Housing Program by statute can pay no more than 75 percent of the total operating budget for supportive housing, agencies 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, applicants must provide a 20 percent cash match. This means that of the total supportive services budget line item, no more than 80 percent may be from Program grants.

Section III(D) of HUD's 2011 notice of funding availability for continuum of care homeless assistance programs states that for the Supportive Housing Program, match requirements must be met by funds used to cover costs associated with eligible activities. The only exceptions to the Program match requirement are leasing and administrative costs. Project applicants for Program projects may request no more than 80 percent of the total supportive services costs in a project in their application for funding. Project applicants must match the remaining 20 percent of the total costs with cash match from other eligible sources. All matching funds must be used for eligible service costs identified on the supportive services budget in the application or the technical submission. HUD may pay no more than 75 percent of the total budget for operating a supportive housing project. Agencies must provide at least a 25 percent cash match of the total annual operating costs. In addition, for all program funding for homeless management information systems, applicants must provide a 20 percent cash match. All matching funds must be used for eligible costs identified in the project application budget, the grant agreement, and the technical submission.

HUD's Supportive Housing Program grant agreements with Community Advocates (grant agreement numbers WI0107B5I010901, WI0107B5I011002, WI0036B5I010800, WI0038B5I010802, WI0038B5I011003, WI0061B5I010802, WI0061B5I011003, WI0054B5I010801, WI0054B5I010802, and WI0054B5I011003) state that the Program grant agreements are governed by the McKinney-Vento Homeless Assistance Act, 24 CFR Part 583, and applicable notices of funding availability.

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

OMB's guidance at 2 CFR 215.21 (b) states that a recipient's financial management systems must provide for (2) records that adequately identify the source and application of funds for

federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

OMB's guidance at 2 CFR 215.23(a) states that all contributions, including cash and third party in-kind, must be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria: (1) are verifiable from the recipient's records; (2) are not included as contributions for any other federally assisted project or program; (3) are necessary and reasonable for proper and efficient accomplishment of project or program objectives; (4) are allowable under the applicable cost principles; (5) are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching; (6) are provided for in the approved budget when required by the Federal awarding agency; and (7) conform to other provisions of this part, as applicable.

Section A(2) of OMB's guidance at 2 CFR 230, appendix A, states that to be allowable under an award, costs must meet the following general criteria: "(a) Be reasonable for the performance of the award and be allocable thereto under these principles" and "(g) Be adequately documented." Section A(3) states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration should be given to: "(a) whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award." Section A(4) states that "(a) a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) is incurred specifically for the award; (2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or (3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. (b) 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."

Paragraph 8(g) of OMB's guidance at 2 CFR 230, appendix B, states that "(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each, (2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see subparagraph h), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities."

Paragraph 8(m) of OMB's guidance at 2 CFR 230, appendix B, states that "(1) charges to awards for salaries and wages, whether treated as direct costs or in-direct costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8(m)(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency, and (2) reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (a) the reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards."

Paragraph 12 of OMB's guidance at 2 CFR 230, appendix B, states that "(a) contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable."

Paragraph 14 of OMB's guidance at 2 CFR 230, appendix B, states that the cost of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Paragraph 23 of OMB's guidance at 2 CFR 230, appendix B, states that "(a) costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-profit organization's own funds, however represented, are unallowable. However, interest on debt incurred after September 29, 1995, to acquire or replace capital assets (including renovations, alterations, equipment, land, and capital assets acquired through capital leases), acquired after September 29, 1995, and used in support of Federal awards is allowable."

Paragraph 25 of OMB's guidance at 2 CFR 230, appendix B, states that "(a) notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable: (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity; (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections; (3) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation; (4) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State

legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund-raising drive, lobbying campaign or letter writing or telephone campaign; or (5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.”

OMB Memorandum 09-15, dated April 3, 2009, paragraph 1.4, states that the provisions of this guidance apply to all Federal departments and agencies involved in or impacted by the Recovery Act or which otherwise perform services for agencies that receive such appropriations.

HUD’s 2008 Supportive Housing Program Desk Guide states that project sponsors are required to maintain detailed fiscal records during each year of the project to ensure adequate documentation of all expenditures related to the grant, including those paid through the use of cash match sources.

Section 7 of Community Advocates’ Accounting and Financial Policies and Procedures Manual provides written procedures for determining the 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. Additionally, it states the following:

- “Salaries and wages charged to Federal grants will be supported as follows: (2) every staff member whose compensation is charged, in whole or in part, directly or indirectly to Federal awards, will complete activity reports that account for the total activity for which the employee is compensated, and (3) the reports will reflect an after-the-fact determination of the actual activity of each employee. Budget estimates will not be used as support for charges to awards.
- After an award had been made, create new general ledger account numbers (or segments). New accounts shall be established for the receipt and expenditure categories in line with the grant or contract budget.
- Community Advocates must claim contributions as meeting a cost sharing or matching requirement of a Federal award only if all of them are verifiable from Community Advocates’ records.”

Article V, paragraph 5.1 of Community Advocates’ by-laws states that the Board of Directors must be responsible for overseeing the affairs of Community Advocates. It is the responsibility of the Board to establish policies necessary to accomplish the agency’s mission; to evaluate progress toward achievement of agency goals and objectives; to select, periodically evaluate and if necessary replace the executive director; and to assure that the agency’s fiscal, staff, and voluntary resources are properly organized and managed.