



May 2, 2011

TO: Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Housing Solutions for the Southwest, Inc.
(A-07-10-02767)

The attached final report provides the results of our limited scope review at Housing Solutions for the Southwest, Inc. In accordance with the American Recovery and Reinvestment Act of 2009, the Office of Inspector General (OIG) will provide oversight of covered funds to prevent fraud, waste and abuse.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-07-10-02767 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT HOUSING SOLUTIONS
FOR THE SOUTHWEST, INC.**



Daniel R. Levinson
Inspector General

May 2011
A-07-10-02767

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services, administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

In Colorado, the Department of Local Affairs (DOLA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DOLA is responsible for approving the State's grantee Recovery Act grant applications and for monitoring the grantees for compliance with program regulations. In April 2009, DOLA was awarded an additional \$8,684,648 in Recovery Act funds for the State of Colorado's CSBG program.

Housing Solutions for the Southwest, Inc. (HSSW), a private, nonprofit organization, is one of four CAAs in Colorado. HSSW provides a comprehensive variety of services including employment, education, emergency services, and training in the better use of available income. During fiscal year 2009, DOLA awarded HSSW \$148,846 in CSBG grant funds and a Recovery Act grant award totaling \$227,262. For fiscal year 2009, HSSW expended total Federal funds of \$903,911.

OBJECTIVE

Our objective was to assess HSSW's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe HSSW is financially viable and has the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to the financial management system, allowability of costs, safeguarding of Federal funds, composition of the Board of Directors, data quality and reporting, policies and procedures, and the whistleblower process.

RECOMMENDATION

In determining whether HSSW is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing HSSW's ability to operate the CSBG program in accordance with Federal regulations.

GRANTEE COMMENTS

In written comments on our draft report, HSSW did not concur with two of our three findings related to the financial management system; partially concurred with our findings related to allowability of costs and policies and procedures; did not concur with our finding related to safeguarding of Federal funds; and concurred with our findings related to the composition of the Board of Directors, data quality and reporting, and the whistleblower process. HSSW also provided information as to corrective actions it has taken since our review, as well as additional information related to some of our findings.

Our draft report included two additional findings related to allowability of costs: a rental assistance payment that lacked supporting documentation and payments for indirect costs that also lacked supporting documentation. As part of its comments on our draft report, HSSW provided us with supporting documentation for these costs as well as documentation showing that it did not manage the housing development it owned.

HSSW's comments, excluding seven attachments totaling 73 pages, are at the Appendix. We have forwarded the attachments in their entirety to ACF.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing HSSW's comments, we removed the allowability-of-costs findings related to the rental assistance payment and the payment of indirect costs from this final report. We also revised the applicable portion of another allowability-of-costs finding to reflect independent management of the HSSW-owned housing development. Otherwise, nothing in HSSW's comments caused us to change our findings or our recommendation to ACF.

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INTRODUCTION

BACKGROUND

Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No. 105-285 (the CSBG Act), to provide funds to alleviate the causes and conditions of poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services (OCS), administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAA) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received an additional \$1 billion for the CSBG program for States to alleviate the causes and conditions of poverty in communities. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

Colorado Department of Local Affairs

In Colorado, the Department of Local Affairs (DOLA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DOLA is responsible for approving the State's grantee Recovery Act grant applications and for monitoring the grantees for compliance with program regulations. In April 2009, DOLA was awarded an additional \$8,684,648 in Recovery Act funds for the State of Colorado's CSBG program.

Housing Solutions for the Southwest, Inc.

Housing Solutions for the Southwest, Inc. (HSSW), a private, nonprofit organization, is one of four CAAs in Colorado. HSSW provides a comprehensive variety of services including employment, education, emergency services, and training in the better use of available income. During fiscal year 2009, DOLA awarded HSSW \$148,846 in CSBG grant funds and a Recovery Act grant award totaling \$227,262. For fiscal year 2009, HSSW expended total Federal funds of \$903,911.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and to take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27,

the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget Circular (OMB) A-122, *Cost Principles for Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess HSSW's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG program in accordance with Federal regulations.

Scope

We conducted a limited review of HSSW's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of HSSW's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was March 1, 2009, through June 30, 2010.

We performed our fieldwork at HSSW's administrative office in Durango, Colorado, during August 2010.

Methodology

To accomplish our objective, we:

- confirmed that HSSW is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed HSSW's implementation of the grant awards for the Recovery Act funding;
- reviewed the findings related to the most recent State review, as well as the findings of the financial audit reports issued by HSSW's independent auditor;
- reviewed HSSW's policies and procedures related to the CSBG program;
- reviewed HSSW's by-laws, minutes from the Board of Director (Board) meetings, composition of the Board, and organizational chart;
- performed audit steps to assess the adequacy of HSSW's current financial systems; and
- reviewed HSSW's audited financial statements and supporting documentation for the period of May 1, 2006, through April 30, 2009.

We conducted this performance 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 objective.

FINDINGS AND RECOMMENDATION

Based on our assessment, we believe HSSW is financially viable and has the capacity to manage and account for Federal funds and to operate its CSBG program in accordance with Federal regulations. However, we noted weaknesses related to the financial management system, allowability of costs, safeguarding of Federal funds, composition of the Board, data quality and reporting, policies and procedures, and the whistleblower process.

FINANCIAL MANAGEMENT SYSTEM

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

HSSW's financial management systems did not always provide for accurate and complete reporting of grant-related financial data. HSSW's independent auditor identified problems with HSSW's ability to accurately record journal entry transactions in its accounting system. We also found instances in which CSBG expenditures were not accurately recorded and reconciliations not done timely. Specifically:

- HSSW's OMB Circular A-133 audit for the fiscal year ended April 30, 2009, identified, as a material weakness, the fact that HSSW did not properly record and adjust several general ledger accounts on a regular basis and in preparation of the annual audit.¹ The independent audit report also identified, as a significant deficiency, the practice of using general journal entries to manually record cash receipts and invoicing, thereby increasing the occurrence of data entry errors. The independent audit reported that these data entry errors resulted in immaterial misstatements to the financial statements. To correct these misstatements, the independent auditor identified 27 adjusting journal entries totaling over \$231,000, as communicated in a management letter to HSSW from the independent auditor, dated February 18, 2010. Most of these errors occurred due to misclassifications, double recording, and transactions that HSSW had not properly recorded in the accounting system. In addition, 59 percent of the adjusting entry errors were related to accounts receivable. HSSW's independent auditor suggested that HSSW utilize the accounts receivable and cash receipts modules that could be purchased separately and added to HSSW's existing accounting system software package. These add-on modules

¹ OMB Circular A-133 is entitled *Audits of States, Local Governments, and Non-Profit Organizations*. Hereafter we refer to this audit in terms of the review conducted by HSSW's independent auditor.

would simplify the data entry of accounts receivable and cash receipt transactions, enabling clerks to perform these duties properly and thereby enabling HSSW to reduce the number of its coding errors and untimely recording of transactions.

- HSSW received a regular program year 2009 CSBG fund reimbursement of \$4,500 in travel costs that were not recorded as CSBG expenditures in the accounting system.
- HSSW received a CSBG Recovery Act fund reimbursement of \$2,189 for the September 2009 through June 2010 rent expense, but it recorded \$219 of CSBG Recovery Act expenditures in the accounting system for this period.
- HSSW had not performed the bank reconciliation between its operating account and the accounting system in over two months. As of August 20, 2010, the last month for which HSSW had reconciled its operating account was May 2010.

ALLOWABILITY OF COSTS

Pursuant to OMB Circular A-122, Attachment A, Basic Consideration No. 2, allowable costs must be adequately documented, and conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, to be allowable for reimbursement under Federal awards.

We reviewed the direct and indirect costs claimed by HSSW under the CSBG Recovery Act program and the regular CSBG program in program year 2009. Generally, the expenditures that we reviewed were allowable. However, we found instances in which HSSW used CSBG funds for unallowable or questionable costs that included costs with inadequate documentation and costs paid to a related party. Specifically:

- HSSW received reimbursement for salary and fringe benefit costs that were not always adequately supported by timesheets. For example, HSSW received CSBG Recovery Act funds totaling \$6,297 in April and May 2010.² However, the employee timesheets supported \$5,739 in salary and fringe benefit costs for the same two-month period. The difference of \$558 occurred because HSSW claimed more fringe benefits on its April and May 2010 pay requests than could be supported by (1) the percentage of time worked on the program and (2) the accounting records.
- HSSW used CSBG Recovery Act funds to pay a related party. As of the conclusion of our fieldwork, HSSW owned a low-income housing development, Southwest Horizon Ranch, which consists of 61 single-family rental units. HSSW used CSBG Recovery Act funds to pay Southwest Horizon Ranch \$3,742 for the late rental payments of five households.

² As previously discussed, HSSW recorded \$5,657 for these same expenses in the accounting system.

ADEQUATE SAFEGUARDING OF FEDERAL FUNDS

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

We reviewed HSSW's May 2010 bank statements for six bank accounts. HSSW did not exceed the \$250,000 FDIC account limit that month. However, one of HSSW's bank accounts was not covered by FDIC deposit insurance. During May 2010 this account's average daily balance was almost \$50,000. Funds that are not protected by FDIC are subject to an increased risk of loss in the event of a bank failure.

COMPOSITION OF THE BOARD OF DIRECTORS

Section 676B of the CSBG Act requires that all CSBG agencies administer the CSBG program through a tripartite board that fully participates in the development, planning, implementation, and evaluation of the programs to serve low-income communities. The board should be composed of one-third elected public officials, one-third representatives of the beneficiaries in areas served by CSBG, and one-third members of business, industry, labor, religious, law enforcement, education, or other major groups and interests in the community served.

HSSW's Board had vacancies in 5 of its 15 Board positions. The Board lacked three low-income representatives and two community officials or members.

DATA QUALITY AND REPORTING

OMB's December 18, 2009, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* memorandum (M-10-08 memorandum), simplified the manner in which job estimates are calculated and reported. Specifically, the memorandum required recipients to report job estimates on a quarterly, rather than cumulative, basis. As a result, recipients were no longer required to sum various data on hours worked across multiple quarters of data when calculating job estimates. In addition, recipients were no longer required to make a subjective judgment on whether jobs were created or retained as a result of the Recovery Act. Instead, recipients would more easily and objectively report on jobs funded with Recovery Act dollars. Recipients should have implemented the updated methodology to the greatest extent possible for the January 2010 reporting period.

At the time of our review, HSSW had not updated its reporting methodology to reflect these updated Federal guidelines. Specifically, HSSW's reporting methodology did not conform to OMB's requirements to objectively report jobs funded with Recovery Act dollars. HSSW funded two positions with Recovery Act dollars and each month it reported 2 full-time equivalents (FTE) to DOLA for these two positions. Pursuant to OMB's M-10-08 memorandum, HSSW should have calculated the FTE based on the hours worked on a quarterly basis. For example, for the quarter ending June 30, 2010, HSSW reported 2 FTE each month for

a total of 6 FTE for the quarter. We recalculated the FTE based on the total hours of the jobs funded with Recovery Act dollars, in accordance with OMB requirements. We determined that HSSW should have reported .522 FTE in April, .473 FTE in May, and .363 FTE in June for a total of 1.36 FTE for the quarter ending June 30, 2010.

POLICIES AND PROCEDURES

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs.

HSSW lacked written policies and procedures to address a number of aspects of its financial system: monthly expenditure reports, year-end closeout reports, bank and general ledger accounts reconciliations, miscellaneous income, approval of major expenditures, competitive bids, monitoring of sub-recipients, conflicts of interest, and use of consultants.

WHISTLEBLOWER PROCESS

Section 1553(a) of the Recovery Act prohibits reprisals against an employee of an organization awarded Recovery Act funds for disclosing to appropriate authorities any credible evidence of (1) gross mismanagement of an agency contract or grant relating to covered funds; (2) a gross waste of covered funds; (3) a substantial and specific danger to public health or safety related to the implementation or use of covered funds; (4) an abuse of authority related to the implementation or use of covered funds; or (5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant awarded or issued relating to covered funds. Pursuant to section 1553(e) of the Recovery Act, any employer receiving covered funds shall post notice of the rights and remedies provided for the protection of employees under this section.

HSSW did not have a process established to communicate to officers, employees, and others information concerning the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing by HSSW or employees of HSSW.

RECOMMENDATION

In determining whether HSSW is appropriately managing and accounting for the Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing HSSW's ability to operate the CSBG program in accordance with Federal regulations.

GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HSSW did not concur with two of our three findings related to the financial management system; partially concurred with our findings related to allowability of costs and policies and procedures; did not concur with our finding related to

safeguarding of Federal funds; and concurred with our findings related to the composition of the Board, data quality and reporting, and the whistleblower process. HSSW also provided information as to corrective actions it has taken since our review, as well as additional information related to some of our findings.

Our draft report included two additional findings related to allowability of costs: a rental assistance payment that lacked supporting documentation and payments for indirect costs that also lacked supporting documentation. As part of its comments on our draft report, HSSW provided us with supporting documentation for these costs as well as documentation showing that it did not manage the housing development it owned.

After reviewing HSSW's comments, we removed these two allowability-of-costs findings from this final report and revised the applicable portion of another allowability-of-costs finding to reflect independent management of the HSSW-owned housing development. Otherwise, nothing in HSSW's comments caused us to change our findings or our recommendation to ACF.

A summary of HSSW's points of disagreement and our response follows. HSSW's comments, excluding seven attachments totaling 73 pages, are at the Appendix. We have forwarded the attachments in their entirety to ACF.

Financial Management System

Grantee Comments

HSSW did not concur with our finding that it received a regular program year 2009 CSBG fund reimbursement of \$4,500 in travel costs that were not recorded as CSBG expenditures in the accounting system. HSSW provided additional information showing that these travel costs were recorded in the accounting system. HSSW also did not concur with our finding that it received a CSBG Recovery Act fund reimbursement of \$2,189 for the September 2009 through June 2010 rent expense but recorded \$219 of CSBG Recovery Act expenditures in the accounting system for this period.

Office of Inspector General Response

HSSW's comments did not address our finding related to the data entry journal errors that had been identified in HSSW's OMB Circular A-133 audit. Moreover, the additional information that HSSW provided regarding the \$4,500 in travel costs indicated that these costs were recorded under the Residential Weatherization program³ rather than the CSBG program. With respect to the \$2,189 CSBG Recovery Act fund reimbursement, HSSW did not provide any additional documentation to show that the expenses were correctly recorded in the accounting system.

³ The Residential Weatherization program is federally assisted through the U.S. Department of Energy's Weatherization Assistance program.

Allowability of Costs

Grantee Comments

HSSW did not concur with the findings in our draft report that it (1) used CSBG Recovery Act funds to make a \$1,125 rental assistance payment that lacked supporting documentation and (2) paid \$6,693 with CSBG Recovery Act funds for indirect costs that lacked supporting documentation. HSSW provided supporting documentation for both the rental assistance and indirect-cost payments.

HSSW partially concurred with our finding that it received reimbursement for salary and fringe benefit costs that were not always adequately supported by timesheets. HSSW did not agree with the \$558 difference cited in the report and stated that the actual amount was \$444.

HSSW also partially concurred with our finding that it used CSBG Recovery Act funds to pay a related party. Although HSSW owned the Southwest Horizon Ranch housing development, it provided additional documentation to show that the development was managed by an independent management company and that beneficiaries are approved for assistance by a grant committee.

Office of Inspector General Response

Although in its comments on our draft report HSSW provided supporting documentation for the \$1,125 rental assistance payment and for the \$6,693 in indirect costs, HSSW did not provide support for these expenses to us prior to the issuance of our draft audit report. We have removed both of these findings from this final report.

Our calculations of the salary and fringe benefit costs continue to indicate that the \$558 amount stated in our report is accurate. HSSW did not provide documentation to support its assertion that the difference was \$444.

With respect to the management of the Southwest Horizon Ranch housing development, we revised our report to reflect independent management of the HSSW-owned housing development. However, HSSW did not provide enough information for us to determine whether the grant committee was independent.

Adequate Safeguarding of Federal Funds

Grantee Comments

HSSW did not concur with our finding that one of its bank accounts was not covered by FDIC deposit insurance. HSSW stated that while this account is not FDIC-secured, it is covered by bank securities.

Office of Inspector General Response

In its comments, HSSW acknowledged that one of its bank accounts was not covered by FDIC deposit insurance. However, HSSW did not provide documentation that its non-FDIC-insured account was covered by bank securities. If in fact this bank account is securitized, the funds are adequately safeguarded.

Policies and Procedures

HSSW partially concurred with our finding that it lacked written policies and procedures to address the aspects of its financial system discussed earlier in this report. HSSW stated that it is currently updating its policies and that it plans to have a certified public accountant review the updated policies to ensure that they comply with Federal requirements and accounting standards.

HSSW did not state why it did not fully concur with this finding.

APPENDIX

APPENDIX: GRANTEE COMMENTS

HOUSING SOLUTIONS FOR THE SOUTHWEST

295 Girard
DURANGO, COLORADO 81303



PH: (970) 259-1086



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January 29, 2011
Patrick J. Cogley
Department of Health and Human Services
Office of Inspector General
Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

RE: Report # A-07-10-02767

Dear Mr. Cogley,

Enclosed please find the written comments in response to the " Results of Limited Scope Review at Housing Solutions for the Southwest, Inc". Please contact me if you have any questions.

Sincerely,

Kim Welty
Executive Director
Housing Solutions for the Southwest
970-259-1086 ext. 21

**HOUSING SOLUTIONS FOR THE SOUTHWEST RESPONSES TO DEPARTMENT OF HEALTH
AND HUMAN SERVICES REPORT # A-07-10-02767
January 29, 2011**

FINANCIAL MANAGEMENT SYSTEM

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

HSSW's financial management systems did not always provide for accurate and complete reporting of grant-related financial data. HSSW's independent auditor identified problems with HSSW's ability to accurately record journal entry transactions in its accounting system. We also found instances in which CSBG expenditures were not accurately recorded and reconciliations not done timely. Specifically:

- HSSW's OMB Circular A-133 audit for the fiscal year ended April 30, 2009, identified, as a material weakness, the fact that HSSW did not properly record and adjust several general ledger accounts on a regular basis and in preparation of the annual audit. The independent audit report also identified, as a significant deficiency, the practice of using general journal entries to manually record cash receipts and invoicing, thereby increasing the occurrence of data entry errors. The independent audit reported that these data entry errors resulted in immaterial misstatements to the financial statements. To correct these misstatements, the independent auditor identified 27 adjusting journal entries totaling over \$231,000, as communicated in a management letter to HSSW from the independent auditor, dated February 18, 2010. Most of these errors occurred due to misclassifications, double recording, and transactions that HSSW had not properly recorded in the accounting system. In addition, 59 percent of the adjusting entry errors were related to accounts receivable. HSSW's independent auditor suggested that HSSW utilize the accounts receivable and cash receipts modules that could be purchased separately and added to HSSW's existing accounting system software package. These add-on modules would simplify the data entry of accounts receivable and cash receipt transactions, enabling clerks to perform these duties properly and thereby enabling HSSW to reduce the number of its coding errors and untimely recording of transactions.

- HSSW received a regular program year 2009 CSBG fund reimbursement of \$4,500 in travel costs that were not recorded as CSBG expenditures in the accounting system.

Response: Non-Concurrence.

See attachments A-1, A-2 and A-3

- HSSW received a Recovery Act CSBG fund reimbursement of \$2,189 for the September 2009 through June 2010 rent expense, but it recorded \$219 of CSBG Recovery Act expenditures in the accounting system for this period.

Response: Non-Concurrence.

The rent expense referred to above was the result of re-classifying mortgage interest as rent. Having decided this was misleading since HS has a mortgage (doesn't pay rent) I began submitting an invoice for rent with our mortgage amortization schedule attached for backup documentation.

- HSSW had not performed the bank reconciliation between its operating account and the accounting system in over two months. As of August 20, 2010, the last month for which HSSW had reconciled its operating account was May 2010.

Response: Concurrence.

HS purchased the Bank Reconciliation module on 6.28.10

ALLOWABILITY OF COSTS

Pursuant to OMB Circular A-122, Attachment A, Basic Consideration No. 2, allowable costs must be adequately documented, and conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, to be allowable for reimbursement under Federal awards.

We reviewed the direct and indirect costs claimed by HSSW under the Recovery Act CSBG program and the regular CSBG program in program year 2009. Generally, the expenditures that we reviewed were allowable. However, we found instances in which HSSW used CSBG funds for unallowable or questionable costs that included costs with inadequate documentation and costs paid to a related party. Specifically:

- HSSW used Recovery Act CSBG funds to make a \$1,125 rental assistance payment that lacked supporting documentation.

Response: Non – Concurrence.
See Attachment B

- HSSW received reimbursement for salary and fringe benefit costs that were not always adequately supported by timesheets. For example, HSSW received Recovery Act CSBG funds totaling \$6,297 in April and May 2010.² However, the employee timesheets supported \$5,739 in salary and fringe benefit costs for the same two-month period. The difference of \$558 occurred because HSSW claimed more fringe benefits on its April and May 2010 pay requests than could be supported by (1) the percentage of time worked on the program and (2) the accounting records.

Response: Concurrence.
However the difference in claimed fringe amounts to \$444 not \$558 as reported above.

- HSSW used Recovery Act CSBG funds to pay a related party. As of the conclusion of our fieldwork, HSSW owned and managed a low-income housing development, Southwest Horizon Ranch, which consists of 61 single-family rental units. HSSW used Recovery Act CSBG funds to pay Southwest Horizon Ranch \$3,742 for the late rental payments of five households.

Response: Concurrence and Non - Concurrence.

HSSW does own but does not manage Southwest Horizon Ranch (HSSW). Please see attachment C, the Management Agreement with Pillar Property Services. Concerning possible preferential treatment of HSSW households for HSSW financial gain, HS has an Emergency Homeless Prevention Policy (attachment D) addressing the process of approving families for grant funds in emergency situations. Additionally, HS works closely with many managers of rental properties in our community, including all work-force housing rentals. When compared to a similar work-force housing development, HS assisted four households at Pinon Terrace, a 64 unit work-force housing development with CSBG Recovery Act funds.

We also reviewed the supporting documentation, submitted by HSSW's sub-recipients, of both Recovery Act CSBG funds and regular CSBG funds. HSSW paid \$6,693 with CSBG Recovery Act funds for indirect costs, claimed by a sub-recipient over a seven-month period that lacked supporting documentation.

Response: Non - Concurrence.

The Southern Ute Community Action Program (SUCAP) a sub-grantee of HS, requires a 10% indirect cost reimbursement for all grants they receive. Please see attached E, "Part 1V – Special Clauses" document that is used by SUCAP to ensure this indirect cost. The indirect cost was also in the budget section of the proposal approved by the Colorado Department of Local Affairs. Housing Solutions considers the 10% indirect cost to be both reasonable and necessary to properly account for the grant funds.

ADEQUATE SAFEGUARDING OF FEDERAL FUNDS

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

We reviewed HSSW's May 2010 bank statements for six bank accounts. HSSW did not exceed the \$250,000 FDIC account limit that month. However, one of HSSW's bank accounts was not covered by FDIC deposit insurance.

During May 2010 this account's average daily balance was almost \$50,000. Funds that are not protected by FDIC are subject to an increased risk of loss in the event of a bank failure.

Response: Non – Concurrence.

HSSW uses a repurchase (sweep) account in conjunction with the operating account. While this account is not FDIC secured it is covered by bank securities. The purpose of the account is to provide interest earnings on money that would otherwise be sitting in the non-interest bearing operating account. HSSW disperses large amounts of cash on a weekly basis to client services and the sweep account provides a product that reduces the need for constant transfers of cash between the money market account and the operating account for daily operations. Balances are managed according to cash flow projections.

COMPOSITION OF THE BOARD OF DIRECTORS

Section 676B of the CSBG Act requires that all CSBG agencies administer the CSBG program through a tripartite board that fully participates in the development, planning, implementation, and evaluation of the programs to serve low-income communities. The board should be composed of one-third elected public officials, one-third representatives of the beneficiaries in areas served by CSBG, and one-third members of business, industry, labor, religious, law enforcement, education, or other major groups and interests in the community served. HSSW's Board had vacancies in 5 of its 15 Board positions. The Board lacked three low-income representatives and two community officials or members.

Response: Concurrence.

In our small rural communities it is sometimes hard to find people to serve on non-profit boards. HSSW is not the only agency in the region struggling to recruit new board members. Since this review though, we have been successful in recruiting 2 new members representing the beneficiaries served by CSBG. They will be officially voted in at the next board meeting on February 17, 2011. We have several names of potential new members that we are actively vetting for recruitment.

DATA QUALITY AND REPORTING

OMB's December 18, 2009, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* memorandum (M-10-08 memorandum), simplified the manner in which job estimates are calculated and reported. Specifically, the memorandum required recipients to report job estimates on a quarterly, rather than cumulative, basis. As a result, recipients were no longer required to sum various data on hours worked across multiple quarters of data when calculating job estimates. In addition, recipients were no longer required to make a subjective judgment on whether jobs were created or retained as a result of the Recovery Act. Instead, recipients would more easily and objectively report on jobs funded with Recovery Act dollars. Recipients should have implemented the updated methodology to the greatest extent possible for the January 2010 reporting period.

At the time of our review, HSSW had not updated its reporting methodology to reflect these updated Federal guidelines. Specifically, HSSW's reporting methodology did not conform to OMB's requirements to objectively report jobs funded with Recovery Act dollars. HSSW funded two positions with Recovery Act dollars and each month it reported 2 full-time equivalents (FTE) to DOLA for these two positions. Pursuant to OMB's M-10-08 memorandum, HSSW should have calculated the FTE based on the hours worked on a quarterly basis. For example, for the quarter ending June 30, 2010, HSSW reported 2 FTE each month for a total of 6 FTE for the quarter. We recalculated the FTE based on the total hours of the jobs funded with Recovery Act dollars, in accordance with OMB requirements. We determined that HSSW should have reported .522 FTE in April, .473 FTE in May, and .363 FTE in June for a total of 1.36 FTE for the quarter ending June 30, 2010.

Response: Concurrence.

Housing Solutions for the Southwest will now be using the M-10-08 Memorandum for the Heads of Executive Departments and Agencies to calculate FTE's on a quarterly rather than a cumulative basis. During the CSBG / ARRA Grant period Housing Solutions created one FTE position when calculated during the entire grant period. The Southern Ute Community Action Program (SUCAP) retained on FTE position when

calculated during the entire grant period. The staff hours were not equally dispersed during each quarter of the year and subsequently did not necessarily reflect one FTE at both of the agencies during any specific quarter.

POLICIES AND PROCEDURES

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant-related financial data, effective control over grant funds, and allocation of costs to all benefitting programs.

HSSW lacked written policies and procedures to address a number of aspects of its financial system: monthly expenditure reports, year-end closeout reports, bank and general ledger accounts reconciliations, miscellaneous income, approval of major expenditures, competitive bids, monitoring of sub-recipients, conflicts of interest, and use of consultants.

Response: Concurrence and Non – Concurrence.

Housing Solutions has been working on updating all financial system policies including those listed above. We have enclosed those updates here. Within the next 30 days we will be contacting with a CPA firm to do a thorough review of all our policies and procedures to bring them up to date and compliant with current accounting standards and federal requirements.

See Attachment F

WHISTLEBLOWER PROCESS

Section 1553(a) of the Recovery Act prohibits reprisals against an employee of a organization awarded Recovery Act funds for disclosing to appropriate authorities any credible evidence of (1) gross mismanagement of an agency contract or grant relating to covered funds; (2) a gross waste of covered funds; (3) a substantial and specific danger to public health or safety related to the implementation or use of covered funds; (4) an abuse of authority related to the implementation or use of covered funds; or (5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant awarded or issued relating to covered funds.

Pursuant to section 1553(e) of the Recovery Act, any employer receiving covered funds shall post notice of the rights and remedies provided for the protection of employees under this section.

HSSW did not have a process established to communicate to officers, employees, and others information concerning the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing by HSSW or employees of HSSW.

Response: Concurrence.

HSSW did have notice of the Whistleblower Act posted at the facility. It was not easily accessible though by all employees . A policy was written and put into effect July 2010 and included in the Employee Handbook (recently updated January 1, 2011) and the notice was posted in all sections of the work place. Attachment G