



Issue Date December 21, 2010

Audit Report Number 2011-LA-1005

TO: Maria Cremer, Acting Director, Office of Community Planning and Development, San Francisco, Region IX, 9AD

//signed//

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The City and County of San Francisco, CA, Did Not Always Ensure That Homelessness Prevention and Rapid Re-Housing Funds Were Used as Required

HIGHLIGHTS

What We Audited and Why

We audited the City and County of San Francisco (City) because its grant of more than \$8.7 million was one of the largest Homelessness Prevention and Rapid Re-Housing Program (HPRP) grants in the State of California. Our objective was to determine whether the City disbursed HPRP funding in accordance with program requirements.

What We Found

The City paid for HPRP services for ineligible participants and participants whose eligibility was not supported. It also paid for ineligible activities. We reviewed 31 case files and found that 4 participants were ineligible and 10 did not have adequate documentation to support eligibility. We also identified 17 additional participants that the City had reviewed during monitoring whose eligibility was not adequately supported. Thus, we questioned the City's use of more than \$63,000 in HPRP funds.

What We Recommend

We recommend that the Acting Director of the San Francisco Office of Community Planning and Development require the City to (1) reimburse the program \$8,820 from non-Federal funds for the ineligible participants and activities and determine and reimburse any amounts that have been spent since our review for these participants; (2) provide supporting documentation for participants' eligibility or reimburse its program accounts \$31,172 for participants reviewed who lacked adequate documentation and determine and reimburse any amounts that have been spent since our review for these participants; (3) provide supporting documentation for participants' eligibility or reimburse its program accounts \$23,016 based on the City's monitoring review and determine and reimburse any amounts that have been spent since our review for these participants; (4) develop and implement procedures to ensure that its subgrantees verify and document participant eligibility in accordance with HPRP requirements; and (5) develop and implement effective monitoring procedures to ensure, at a minimum, that reviews are timely, deficiencies and corrections are clearly documented, and any reimbursements for ineligible participants or participants whose eligibility cannot be determined are repaid to the program.

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

Auditee's Response

We provided the Authority a draft report on November 24, 2010, and held an exit conference with the Department's officials on December 3, 2010. The Authority provided written comments on December 8, 2010. It generally disagreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Homelessness Prevention and Rapid Re-Housing Program.

The Homelessness Prevention and Rapid Re-Housing Program (HPRP) is a new program under the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development. It was funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) on February 17, 2009. Congress has designated \$1.5 billion for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly re-housed and stabilized. HPRP funding was distributed based on the formula used for the Emergency Shelter Grant program.

The City and County of San Francisco, CA.

HUD allocated program funds for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly re-housed and stabilized. HUD used its Emergency Shelter Grant formula to allocate program funds to metropolitan cities, urban counties, and States. On July 31, 2009, HUD entered into a grant agreement with the City and County of San Francisco (City) for more than \$8.7 million in program funds. The agreement was pursuant to the provisions under the Homelessness Prevention Fund, Division A, Title XII, of the Recovery Act. The City is responsible for ensuring that each entity that administers all or a portion of its program funds or receives all or a portion of its program funds to carry out activities fully complies with the program requirements. On October 1, 2009, the City entered into subgrant agreements with six nonprofit entities to carry out the program. The six nonprofit subgrantees were Catholic Charities CYO, Holy Family Day Home, Tenderloin Housing Clinic, Hamilton Family Center, Larkin Street Youth Center, and Eviction Defense Collaborative.

Mayor's Office of Housing and Human Services Agency.

Two departments within the City, the Mayor's Office of Housing and the Human Services Agency entered into a memorandum of understanding to oversee and administer the program funds awarded to the City. According to this memorandum of understanding, the Mayor's Office of Housing is the primary point of contact between the City and HUD for submitting required reports and drawing down program funds. The Human Services Agency is responsible for the day-to-day program administration, which includes coordination and monitoring of subgrantees, ensuring the eligibility of program participants and program expenditures, and quarterly reporting of participant data to HUD.

Our objective was to determine whether the City disbursed HPRP funds in accordance with program requirements.

RESULTS OF AUDIT

Finding: The City Paid for Ineligible and Unsupported HPRP Services

The City paid for HPRP services for ineligible participants, ineligible activities, and participants whose eligibility was not supported. This condition occurred because the City did not review eligibility documentation when approving payments to the subgrantees or establish effective monitoring procedures to ensure that the documentation was in the subgrantees' files. Consequently, it spent more than \$63,000 on services for ineligible participants and participants for whom eligibility was not supported.

HPRP Funds Were Used for Ineligible Participants and Ineligible Activities

We reviewed 31 case files out of 130 for the period selected and found that the City paid \$8,320 for HPRP services for 4 ineligible participants. The ineligible participants are discussed below.

Two participants were documented by the subgrantees as undocumented immigrants. In one case, the participant had provided and the subgrantee included in the case file a notice to appear in removal proceedings because he was "an alien present in the United States who was not admitted or paroled."¹ In the other case, the subgrantee wrote in the participant's case notes that the two adults in the household "are monolingual Spanish speaking undocumented immigrants." In accordance with Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, no entity that receives funds under HPRP may knowingly provide HPRP assistance to an alien who is not a qualified alien.

One participant was not eligible for assistance because he was not at imminent risk of becoming homeless. When he applied and was approved for assistance, he was not behind in his rent and was not threatened with eviction, but the subgrantee approved the payment of rental subsidies for 4 months.

One participant did not meet the City's income requirement because his income exceeded 30 percent of area median income (\$23,750). The subgrantee did not correctly annualize the participant's gross annual income. It miscalculated the participant's gross annual income by taking income of \$950 for a 2-week period, multiplying it by 2 to arrive at a monthly income of \$1,900, and then multiplying by 12 for an annual total of \$22,800.

¹ The subgrantee made the assistance payment for this ineligible participant (client C3 in appendix D). However, it had not submitted an invoice to the City requesting reimbursement for this payment as of October 6, 2010. Therefore, the \$8,320 in ineligible costs does not include the assistance payment made for this participant.

The correct calculation is \$950 multiplied by 26 2-week pay periods annually, which equals \$24,700. The income was understated by \$1,900; therefore, the City made ineligible payments for this participant. The subgrantee also failed to show that this participant was at imminent risk of becoming homeless. In three other cases, annual income was incorrectly calculated, but the participants met requirements when income was calculated correctly.

We also found two payments totaling \$1,033 for ineligible activities, although they assisted eligible participants. In one case, the subgrantee did not obtain adequate confirmation from the landlord of the back rent owed and, consequently, overpaid by \$500. In the other case, the subgrantee provided \$533 in assistance for a partial month's rent, although the participant's file showed that the City also provided rental assistance for the same period through another program.² HPRP requirements do not allow rental assistance payments to be made for the same period and for the same cost types when assistance is provided through another housing subsidy program (see appendix D for a listing of funds spent per case).

The Subgrantees Did Not Always Adequately Support Participants' Eligibility

The City paid for HPRP services totaling \$31,172 for 10 participants whose eligibility was not supported. Each of the four subgrantees visited provided assistance without adequate documentation of participant eligibility. For example, 7 of the 31 files reviewed did not include documentation or verification that the participant was imminently at risk of becoming homeless.

Case files did not contain adequate documentation of income verification and/or financial documentation. Subgrantees did not always ask all adult household members whether they had income. When subgrantees calculated annual income based on only one part-time pay stub, the files did not show an attempt to determine whether it was representative of the usual hours worked.

Although pay stubs or Social Security letters showed direct deposit to bank accounts, case workers often failed to ask for bank statements and wrote in the file that the participants had "no bank account." When files did include bank statements, it did not appear that case workers considered the information they contained. In one case, the recent bank statement showed deposits exceeding the income shown on the pay stubs the participant provided. If the deposits to the bank account were an indication of true income, the participant exceeded the City's income eligibility requirement (see appendix

² The subgrantee made the assistance payment on behalf of the participant for this ineligible activity. However, it had not submitted an invoice to the City requesting reimbursement for this payment as of October 6, 2010. Therefore, the assistance payment of \$533 was not included as part of the ineligible costs computation.

C for a full listing of cases of noncompliance and appendix D for a listing of funds spent per case).

All Assistance Payments Made by One Subgrantee Were Unsupported

We selected 4 of 6 subgrantees to visit. While we were doing fieldwork, the City issued its monitoring report for one subgrantee that we did not select for our case file reviews and disclosed significant deficiencies in eligibility documentation. The City had reviewed files for all 17 of the subgrantee's participants assisted as of July, 2010. The City suspended this subgrantee from accepting new participants and instructed the subgrantee's supervisory staff to review all case files and correct all deficiencies in documentation of eligibility, income, and financial assistance. Monitoring findings included, "Insufficient documentation of why the assistance that was provided was needed, or explanation of how the level of assistance was calculated; inconsistent compliance with documentation of the 'but for' rule to determine eligibility - that the client would be homeless but for receiving HPRP assistance; missing or inconsistent income verification for the primary client; missing or inconsistent documentation of income for each household member; multiple forms in one file with information that was contradictory, including the need for assistance, amount of assistance provided, intake and discharge dates, and family composition and ethnicity; and no evidence of habitability inspections being conducted prior to occupancy when assistance was used to move clients into a new unit."

The City did not document or maintain specific records showing the deficiencies found for individual case files during monitoring reviews. A City official told us that the City reviewed the files for corrective action and found that the subgrantee had improved its file documentation. For closed cases, it was not possible to obtain better documentation, but for the ongoing cases, the City was able to add to the files. The City could not support the eligibility of the assistance to the subgrantee's 17 participants; therefore, we questioned the \$23,016 in services paid for these participants.

The City Needs To Improve Subgrantee Monitoring

The subgrantees began assisting participants in October 2009; however, the City performed its first onsite monitoring reviews in July 2010. When the City reviewed participant case files during monitoring, it did not detect significant deficiencies relating to eligibility for five of its six subgrantees, nor could the City provide documentation showing which files were reviewed or the results for each file. Based on the results of our case file reviews, the City needs to improve procedures to ensure that HPRP funds are only used to assist participants for whom eligibility is documented.

Conclusion

The City did not always ensure that HPRP funds were used as required. We attribute the deficiencies to the City's failure to develop procedures to ensure that subgrantees determined and documented participant eligibility in accordance with program requirements and inadequate monitoring. Although the City identified significant deficiencies in the eligibility documentation for one subgrantee during monitoring, it did not find significant eligibility problems when it monitored the other five subgrantees. We found that all subgrantees needed better oversight.

Eligibility criteria and documentation requirements were published in Federal Register Notice FR-5307-N-01 and HUD provided guidance on how to meet the requirements on its website. (see appendix E)

Recommendations

We recommend that the Acting Director of the HUD San Francisco Office of Community Planning and Development

- 1A. Require that the City reimburse the program \$8,820 from non-Federal funds for the ineligible participants and activities and determine and reimburse any amounts that have been spent since our review for these participants.
- 1B. Require that the City either provide supporting documentation for participants' eligibility or reimburse its program accounts \$31,172 for participants reviewed who lacked adequate documentation and determine and reimburse any amounts that have been spent since our review for these participants.
- 1C. Require that the City either provide supporting documentation for participants' eligibility or reimburse its program accounts \$23,016, based on the City's monitoring review, and determine and reimburse any amounts that have been spent since our review for these participants.
- 1D. Require the City to develop and implement procedures to ensure that its subgrantees verify and document participant eligibility in accordance with HPRP requirements.
- 1E. Require the City to develop and implement effective monitoring procedures to ensure, at a minimum, that reviews are timely, deficiencies and corrections are clearly documented, and any reimbursements for ineligible participants or participants whose eligibility cannot be determined are repaid to the program.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the City's office and selected subgrantee offices in San Francisco, CA, between July and September 2010. The audit generally covered the period September 1, 2009, through June 30, 2010. We expanded our audit period as necessary.

To accomplish our objective, we interviewed HUD staff, grantee staff, and subgrantee staff responsible for program execution. We also reviewed

- Applicable HUD requirements, including the Recovery Act; the Revised HPRP Notice, Redline with Corrections, issued June 8, 2009; and program guidance issued by HUD;
- The City's substantial amendment to the consolidated plan/2008 action plan for HPRP;
- The HPRP grant agreement between HUD and the City;
- The memorandum of understanding between the Mayor's Office of Housing and the Human Services Agency;
- The subgrant agreements between the City and its six nonprofit subgrantees;
- The City's accounting policies and procedures for subgrantee reimbursement requests and program funds drawdowns;
- The City's policies and procedures for subgrantee program monitoring and fiscal monitoring;
- The City's and subgrantees' disbursement records; and
- Subgrantee participant case files.

Between January 1 and June 30, 2010, the City disbursed nearly \$1.5 million in HPRP funds. During our survey, we reviewed \$120,714 in program expenditures (8 percent of total HPRP funds disbursed), which included financial assistance provided to participants by three subgrantees, data collection expenses, and administrative expense. For each of these 3 subgrantees, we selected 4 participant files for review for a total of 12 participant files. Although inconsistencies and errors were found in these participant case files, the City and subgrantees contended that issues were found only because these files were from the early days of the program before HUD provided guidance. The City and subgrantees insisted that procedures and documentation had improved in more recent participant case files.

By August 31, 2010, the City had disbursed more than \$1.8 million in HPRP funds. In the audit phase, we revisited the three subgrantees and added a fourth subgrantee. The fourth subgrantee was added because it was the only subgrantee that provided rapid re-housing assistance. We reviewed an additional \$42,952 in financial assistance provided to 19 more participants whose program entry dates were from 2 recent months between May and July 2010. For each of the four subgrantees, we selected the greatest of 20 percent of new participant entries for the 2-month period or four participants to review. With the additional 19 participant files selected, we reviewed a total of 31 case files.

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 objective.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

We determined that the following internal control was relevant to our audit objective:

- Controls to ensure that subgrantees follow applicable laws and regulations with respect to the eligibility of HPRP participants and activities.

We assessed the relevant control 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:

- The City did not have adequate controls in place to ensure that its subgrantees followed Federal requirements for the eligibility of HPRP participants (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$8,820	
1B		\$31,172
1C		\$23,016

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. These costs consist of HPRP funds used to assist ineligible participants and activities.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of 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. These costs consist of HPRP funds used to assist participants whose eligibility was not supported by appropriate documentation.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

December 8, 2010

Tanya Schulze
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region IX
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Dear Ms. Schulze:

Enclosed are our comments to the audit of the City and County of San Francisco Homeless Prevention and Rapid Re-Housing Program (HPRP). For the majority of findings, the City disagrees with the auditor's findings and we have provided additional detail and information in the enclosed document.

If you have any questions on the materials provided, please contact Cindy Ward, Program Manager, at 415-557-6447, or Gloria Woo, Director of Compliance & Data Analysis, at 415-701-5586.

Sincerely,

Douglas Shoemaker
Director

Enclosure

cc: Cindy Ward, Manager, Family Programs, Housing and Homeless Division,
City and County of San Francisco Human Services Agency

Maria Cremer, Acting Director, Community Planning and Development,
U.S. Department of Housing and Urban Development, Region IX

Rafael Cedillos, Senior CPD Representative
U.S. Department of Housing and Urban Development, Region IX

City & County of San Francisco
Mayor's Office of Housing (MOH) and Human Services Agency (HSA)
Response to HUD OIG Audit
Homeless Prevention and Rapid Rehousing Program (HPRP)

During the period audited by OIG (October 2009 – June 2010), San Francisco's Homeless Prevention and Rapid Rehousing Program (HPRP) served a total of 1,900 individuals in 1,164 households. The program helped these at-risk San Francisco residents to maintain their housing and avoid homelessness by paying back rent, utilities, providing a security deposit, or providing short-term rental subsidies to help them weather a temporary economic crisis, as well as providing medium term subsidies to help the homeless quickly regain housing and stability in their lives.

Since HPRP's inception, the City has targeted those "at most need for assistance" by using either 30% Area Median Income (AMI) or 35% AMI, as opposed to 50% AMI, as an eligibility criterion. Given that rent levels and the cost of living in San Francisco are among the highest in the country, we consider that in most cases households that fall into the very low or extremely low income categories are already at risk of homelessness should they lose their housing.

Since San Francisco had an existing prevention and rental assistance system in place, we were able to contract with subgrantee agencies that already had a long history of providing HPRP-type services to homeless and at-risk populations. While there was a competitive RFP process, all six subgrantees chosen have contracted with the Human Services Agency and/or the Mayor's Office of Housing for many years, and we remain confident that staff is well-trained and experienced in the appropriate distribution of HPRP funds. We also used the existing community knowledge of these programs and services to draw in people in need, which allowed the HPRP funds to begin flowing quickly to those most in need as was intended by the spirit of the legislation that created HPRP.

It should be noted that these grants were rolled out to communities very quickly. Initial guidance left a significant amount of room for local interpretation of need, eligibility, and necessary documentation. The initial HUD Notice for HPRP guidance in March 2009 stated:

- HUD allows grantees significant discretion in program design and operation while targeting those who are most in need of temporary homelessness prevention and rapid re-housing assistance. When establishing local programs, grantees should consider how their programs will identify eligible program participants.
- The household must be either homeless or at risk of losing its housing and meet both of the following circumstances: (1) no appropriate subsequent housing options have been identified; AND (2) the household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

A full year later in March 2010, six months after San Francisco's HPRP programs were implemented, HUD provided updated guidance stating:

In addition to assessing and documenting income and the current housing situation of applicant households, grantees and subgrantees must also assess whether the household

Comment 1

Comment 1 & 2

- would be homeless but for HPRP assistance. This is a critical piece of determining eligibility for HPRP and can be the most subjective.
- This includes looking at other housing options (i.e., could they stay with a family member until they are able to move into a new unit or get their first paycheck?), support networks, and other financial resources to obtain immediate housing or remain in current housing.

Note that HUD recognizes the initial assessment for the so-called “but for” rule remains subjective. It must also be recognized that of the 27 case files contained in the audit report (14 that were reviewed by OIG, 13 that were not under Recommendation 1C), 16 (59%) were from the period of October 2009 – March 2010, prior to the major release of additional guidance. We believe that for the majority of the early HPRP cases we and the subgrantees were exercising due diligence in assessing and approving assistance, based on HUD guidance that was available at the time.

Audit Recommendations

We agree that \$18,179 of the questioned costs should be repaid to the HPRP program based on client eligibility and documentation issues. We will do so in collaboration with our local HUD CPD office.

We disagree with \$44,829 of the questioned costs. The below table summarizes the amounts we disagree with by recommendation category.

Summary Table

Recommendation	Agree	Disagree	TOTAL
1A	\$4,100	\$4,720	\$8,820
1B	\$1,333	\$29,839	\$31,172
1C	\$12,746	\$10,270	\$23,016
TOTAL	\$18,179	\$44,829	\$63,008

Comment 3

We now briefly explain why we disagree with some of the questioned costs.

1A. Require that the City reimburse the program \$8,820 from non-Federal funds for the ineligible participants and activities and determine and reimburse any amounts that have been spent since our review for these participants.

We accept \$4,100 of the audit findings for Clients B9 and B11 (Catholic Charities CYO).

Questioned Costs:

1. Holy Family Day Home – Client A4 November 2009 \$1,520.00

We agree that there were initial errors in calculating the income, but we do not agree that this client was ineligible for assistance. The unemployment benefits put the client over 30%AMI by \$1,655 annually; however, the 30%AMI level is a local requirement, and the City is allowed to

Comment 4

We do not agree that documents contained in the case file do not support eligibility. This family is currently enrolled in medium term subsidy, and to date has received six months of back rent assistance and a rental subsidy since June 2010. It appears that OIG deemed all of these expenditures unsupported because the program manager missed a notation at the bottom of the client's work study paystubs indicating direct deposit. The client's primary language is not English, and when asked if she had a bank account she responded "no" because she didn't understand the question. In addition, a portion of the client's income is CalWORKs (TANF), a program which conducts thorough asset checks and discontinues assistance if assets exceed \$2000. This family was deemed eligible for CalWORKs, thus attesting her lack of assets. The client also signed a self declaration of income and client contract declaring that she has no other assets available. The program subsequently obtained the previous six months of bank statements that show minimal balances maintained, but we cannot include this information in the response as it was not in the case file at the time of the OIG review.

Breakdown of costs:

a) December 2009 \$2,538.00

The program paid three months back rent on behalf of the family. There is a 3-day eviction notice on file for the back rent owed. At application the client was receiving \$561 in CalWORKs, \$343 in Food Stamps, and completing a work study program at City College as part of her back to work plan receiving \$800 gross/month, putting her well under 30% AMI.

b) January 2010 \$846.00

Client came back for another month of assistance due to an unexpected utility bill during the cold winter months that caused her to fall behind on her rent. She also had a sudden traumatic event in the death of her mother. There is a 3-day eviction notice on file and the case notes verify that the landlord confirmed they would move quickly on the eviction.

c) June 2010 \$2,982.40 (two months back rent and June subsidy)

July 2010 \$645.20 (July subsidy)

The family had a sudden medical expense due to a health condition that was case noted but the medical reports were shredded due to HIPPA. In the client's third application the program paid two additional months of back rent and decided the family clearly exhibited the need for ongoing assistance. The family was enrolled in a short-term subsidy for June, July, and August. There is another 3-day eviction notice on file documenting imminent risk of homelessness.

3. Catholic Charities CYO – Client B8 July 2010 \$2,226.00

We do not agree that documents contained in the case file do not support eligibility. The program provided six months of back rent assistance to this family. The client suffered from extreme substance abuse issues which caused her to fall behind on her rent. Due to the substance abuse the client lost her job and the family was living on unemployment benefits totaling \$17,055.96 annually, below 35% AMI. The client has since completed a treatment program and is trying to stabilize. The client lives with her two children, including her eldest son who is 21 and in school, and does not have an income. Also on file is a Section 8 rent computation sheet from the household's last annual recertification, indicating that the son has no income and the family has no assets. Section 8 checks employment records for all adults in Section 8 housing, and flags families for fraud if they fail to report a change in income. This is a third-party documentation of income that is allowable under HUD guidance. The family has no bank account and signed a self attestation of no assets.

Comment 8

Comment 9

4. Catholic Charities CYO – Client B10 December 2009 \$590.00

focused on the needs of these youth and young adults. It was because of Larkin's expertise in dealing with youth that they were chosen as an HPRP subgrantee. It was crucial to have youth-specific HPRP programming to meet this population's unique needs. The needs of homeless and at-risk youth are great in San Francisco, and we are confident that HPRP funding has assisted many of these young adults in preventing their homelessness.

In July of 2010 as part of the annual HPRP monitoring, the City conducted a program and fiscal monitoring of Larkin Street's program. During that visit, City staff reviewed all participant files. It was clear from the visit that working with this targeted population was very challenging – due primarily to less stable employment histories, housing situations that often changed, and in many cases a history of trauma – all normal characteristics of homeless and at-risk youth. In order to reconsider whether this program model, given the increasingly stringent requirements of HPRP funds, was effectively serving this population, a decision was made to temporarily halt new intakes. The program would continue working with existing clients, and explore a shift to rapid rehousing. The monitoring did not determine the ineligibility of all clients; rather that additional technical assistance was needed for the subgrantee to improve their service delivery and documentation. The City has continued to provide Larkin Street with technical assistance, and work with them on program documentation for existing clients. The City has determined that the documentation for 8 of the 13 clients served during the period of the OIG audit have met HPRP requirements. We have also approved an alteration of the agency's program model from homeless prevention to rapid rehousing effective 11/1/10, in the belief that these services will most effectively meet the needs of the youth population in our community, and reduced their contract amount by half.

Comment 15

In the following eight Larkin Street cases totaling \$10,270.00, it is our determination that the subgrantee met HPRP documentation requirements establishing eligibility, income, and need for assistance. We do not dispute the other \$12,746.00 in findings on the remaining five cases.

1. **KN**

Received \$2,310 in rental assistance beginning January 2010. The client is a mother with two children and a victim of domestic violence. She was at risk of losing housing because she owed back rent resulting from a reduction of work hours as an employee of the State of California, and also from a recent car accident which depleted her savings. The family income is below 30% AMI, and the family was in danger of losing housing due to a 3-day eviction notice issued by the landlord. HPRP assistance allowed the family to remain in housing and avoid homelessness.

2. **MP**

Received \$657 in rental assistance in January 2010. The client's sole source of income was from unemployment insurance from a recent lay-off, and was below 30% AMI. An eviction notice was issued by the landlord for past due rent and the rental assistance was provided to allow the client to remain in housing and avoid homelessness.

3. **AR**

Received \$2,005 in rental assistance in February 2010. The client's sole source of income was from wages while working at the California Conservation Corps, and was below 30% AMI. The client also had prior credit problems, no other financial resources, and was couch surfing, which

put him at risk of becoming homeless. Rental assistance provided a security deposit that enabled the client to secure permanent housing and avoid homelessness.

4. CA

Received \$2,160 in rental assistance beginning March 2010. The client's sole source of income was from CalWORKs (TANF) which was below 30% AMI and she had no other financial resources. A domestic violence victim, she was also at risk of homelessness due to a 3-day eviction notice issued by her landlord because of back rent owed. HPRP assistance enabled this client to remain in housing and avoid homelessness.

5. LL

Received \$578.48 in utility assistance beginning April 2010. The client is a resident of local public housing, with unemployment insurance as her sole source of income which was below 30% AMI. Utility payment assistance was provided to satisfy overdue utility charges and avoid a documented shut-off notice. This would have resulted in a violation of her public housing lease agreement, which stipulated that utilities must be maintained in the unit and payments must be current or the tenant is at risk of eviction.

Comment 15

6. JP

Received \$1,665.67 in rental assistance in May 2010. The client's sole source of income was local General Assistance (county welfare) payments, which are well below 30% AMI. No other financial resources were available. A letter from the client's leaseholder was on file and indicated eviction if rent was not paid. Rental assistance allowed the client to remain housed and avoid homelessness.

7. GC

Received \$409 in rental assistance in May 2010. The client was employed but was terminated from that employment and had no other financial resources; therefore client's income did not exceed 30% AMI. A 3-day eviction notice from the landlord was issued for back rent, and HPRP assistance was provided to partially pay the back rent enabling the client to remain housed and avoid homelessness.

8. RM

Received \$485.20 in rental assistance in May 2010. The client was receiving unemployment benefits after a recent lay-off, which was below 30% AMI and no other financial resources were available. Rental assistance was provided to pay back rent after she received a 3-day eviction notice from her landlord allowing her to remain in subsidized housing and avoid homelessness.

Comment 16

1D. Require the City to develop and implement procedures to ensure that its subgrantees verify and document participant eligibility in accordance with HPRP requirements.

The City believes these procedures have been in place since the HPRP program was implemented, and have been expanded and improved upon on an ongoing basis as new and clarifying guidance is issued. For example:

Comment 16

- The HPRP Operations Manual and Background Information guidebooks were created and distributed to all subgrantees, and were provided to OIG.
- Prior to implementation of the program on October 1, 2009, weekly meetings were held with subgrantees to develop local policies and ensure maximum opportunity for discussion and clarification of HUD guidance.
- Monthly meetings have been held with subgrantees since implementation, including a half-day retreat in May 2010, in which all new guidance, webinars, information from HUD, and local policies and procedures are discussed (agendas available).
- Program managers have sent scores of emails to subgrantees with information and instruction over the course of the grant, including new and updated FAQ's from the HUD HRE website.
- Subgrantees were chosen because they have many years of experience providing HPRP-like services to the same population, and have city-funded contracts for such that have consistently met or exceeded service and outcome objectives.
- Subgrantees have developed their own internal policies and procedures manuals, which cover all HPRP requirements as well as each program's process for approval of HPRP assistance.
- Subgrantees have been and will continue to be monitored according to HUD guidance and City procedures to ensure contract compliance.

1E. Require the City to develop and implement effective monitoring procedures to ensure, at minimum, that reviews are timely, deficiencies and corrections are clearly documented, and any reimbursement for ineligible participants or participants whose eligibility cannot be determined are repaid to the program.

Comment 17

City staff utilized HPRP monitoring procedures taken directly from HUD guidance in the CPD Monitoring Handbook under Chapter 8, Economic Recovery Programs. The format used by City staff for HPRP monitoring – the Guide for Review of HPRP Subgrantee Management – was adapted directly from Exhibit 8-5 of the CPD Handbook and completed on all subgrantee monitoring visits. Staff also used guidance from the “Managing and Monitoring Subgrantees” webinar on how to effectively monitor the subgrantees, including establishing a monitoring schedule, using common tools, reviewing important documents, and holding entrance and exit conferences with key subgrantee staff.

Additionally, we followed monitoring protocols designed for city funded contracts, including annual monitoring visits, review of case files through selection and sampling, a monitoring letter to subgrantees with findings, recommendations, and required actions, a requirement for written response from the subgrantee within 30 days, and follow-up monitoring as needed .

OIG was provided with all monitoring documents.

Any costs finally determined to be unallowable through this audit or through our own subsequent monitoring will be repaid to the HPRP program.

Exhibits made available upon request

OIG Evaluation of Auditee Comments

Comment 1 The 2009 and 2010 guidance for assessing the risk of homelessness (as quoted by the City in its response to this audit) are essentially the same.³ In both of the quotes cited by the City, the key is determining if the applicant has other housing options or has financial resources or support networks to obtain immediate housing or remain in current housing. Both the March 2010 citation the City quoted above, and the revised HPRP notice from June, 2009, state that the assistance is specifically for " individuals and families who are homeless or would be homeless but for this assistance." Regarding the requirement to assess and document an applicant's risk of homelessness, the 2009 HPRP Notice also stated:

"Grantees are responsible for verifying and documenting the individuals' risk of homelessness that qualifies them for receiving rental assistance."

Comment 2 During the audit, OIG reviewed 31 case files (see appendix D). In addition, recommendation 1C refers to 17 files that the City reviewed during its monitoring of Larkin Street Youth Services.

Comment 3 We evaluated the reasons the City gave for disagreeing with questioned costs and did not find that the additional information provided warranted any changes to the amounts questioned. Additional documentation obtained after audit field work was complete can be provided during the audit clearance process. The City's case by case comments and OIG's evaluation are below.

Comment 4 Holy Family Day Home - Client A4: It was the City's decision to set an annual income requirement that was lower than the one established by HUD. Once a limit was established, it should have been applied equally to all applicants. In this case, the file showed a miscalculation of income, not a decision to make an exception.

Comment 5 Tenderloin Housing Clinic - Client D3: As noted above, the requirement to verify and document the risk of homelessness existed from program inception. The file did not contain such documentation and the individual was current on his rent. The case file showed that the client initially applied for HPRP assistance in November 2009 when he asked for assistance paying his December rent. The other subgrantee said it could not help and referred him to Tenderloin Housing clinic. When he applied for help from Tenderloin in December, his December rent was paid without HPRP assistance, providing an indication he may have had other resources

Comment 6 Catholic Charities CYO - Client B6: OIG found three deficiencies in this case file. First, there was nothing in the file that actually documented the niece's residence in the aunt's former apartment, or her imminent risk of becoming

³ The HPRP Notice was revised and reissued on June 8, 2009, in advance of the City's October, 2009, start of HPRP program assistance.

homeless. The niece's name was not on the arson report. Second, both the aunt and the niece had bank accounts, evidenced by the income documentation obtained by the caseworker, who did not obtain or review the bank statements to determine if the participants had financial resources to pay the security deposit. The caseworker wrote "No bank account" in the file. Therefore, eligibility was not supported. Finally, although there was no direct effect on income eligibility, the subgrantee incorrectly calculated annual income. The subgrantee did not rely on the Section 8 calculation worksheet; it relied on only one pay stub which was for a one-week pay period. The subgrantee took the \$269.23 earned by the niece in 1 week and multiplied it by 2, incorrectly arriving at \$538.46 monthly earned income and \$6,461.52 annual income. The correct calculation would have been \$269.23 per week multiplied by 52 weeks = \$13,999.96. Added to the aunt's \$929 monthly SSI the correct annual income was \$25,147.96.

Comment 7 Catholic Charities CYO - Client B7: Documentation of bank accounts can be provided to HUD during the process of clearing the findings. We do not agree that the grantee can rely on an assumption that assets should have been verified by another agency that also provided assistance. We also noted that case notes said this client was spending \$50 per month on internet and sending \$50 to assist a relative in another country.

Comment 8 Catholic Charities CYO - Client B8: The City's argument that the Section 8 rent computation sheet from the household's last annual recertification shows the son has no income is not acceptable. We do not agree that the grantee can rely on an assumption that income should have been verified by another agency that also provided assistance. Further, the Section 8 recertification in the HPRP case file was dated 14 months before participants' HPRP intake month. There is no indication in the client file to show the caseworker asked if the 21-year-old had any income at intake.

Comment 9 Catholic Charities CYO - Client B10: We questioned the \$590 back rent payment in December, 2009, because the file, including case notes, did not show any indication the amount of back rent owed was verified. The only documentation in the file was two letters from a prospective landlord the first stating that back rent owed to a prior landlord was \$248, the second stating the amount was \$590. Through our own research, we found the judgment was for \$248. We also found that the applicant did not move into the apartment that she had applied for, although she was approved for move-in. She was still "couch surfing" when she returned for additional assistance in May 2010. In addition, the file did not show that employment income was verified in December 2009. Shredding prior documentation when new documentation is obtained months later would not be an acceptable practice and it is not a practice we saw in any other files we reviewed or in the subgrantees procedures. Documentation can be provided to HUD during the clearance process.

We did not question the provision of a security deposit in May 2010.

Comment 10 Holy Family Day Home - Client A1: We reviewed the copy of the stipulated agreement and, as a result decreased the count of cases where risk of homelessness was not documented. However, this case is still unsupported because annual income was inadequately verified. The participant had two part-time jobs and provided pay stub covering a six-week period. Pay stubs were provided from 1 job for the first 2 weeks, 2 jobs for the second 2 weeks and 1 job for the third 2 weeks. There was no explanation in the file regarding the periods with documentation from only one job. Further, the recent bank statement in the file showed deposits for the month that significantly exceeded the documented income. If the bank deposits were a true indication of income, this participant would not be eligible for HPRP assistance.

Comment 11 Holy Family Day Home - Client A2: Participants were ongoing Section 8 tenants. The file did not indicate why they had to move or that they were at risk of homelessness. There were no case notes in the file. Under the 2009 HPRP Notice, grantees (or subgrantees) were responsible for verifying and documenting the individuals' risk of homelessness.

Comment 12 Holy Family Day Home - Client A3: We agree that this participant was low income; however, we did not see verification or documentation of risk of homelessness in the file. We did not see the landlord letter referred to in the City's response to the audit. The file also showed that the participant was approved in April 2009 for rental subsidy from the City through another program but had never received it. The case worker explained that the participant had not received the subsidy because he failed to come in for required case management/counseling sessions. As a result, at the end of October 2009, he was four months behind on his rent.

Comment 13 Holy Family Day Home - Client A5: Without looking at the bank statements, the grantee can only guess that the applicant does not have undisclosed income or assets. Verification and documentation is required.

Comment 14 Tenderloin Housing Clinic - Client D4: The letter from the employer was hand-carried by the participant and there is no way of knowing who filled it out and signed it. Nothing in the case notes or the file indicated that the caseworker contacted the employer directly. Therefore, income was inadequately verified. Regarding the letter in Spanish, the auditor translated it and agrees that the landlord wrote that she would evict if she did not receive the back rent.

Comment 15 Regarding Larkin Street Youth Services, City officials told us that they had reviewed 17 files during monitoring in July 2010, although only 13 of the cases had been submitted to the City for reimbursement. Regarding the eight cases the City said it has determined met eligibility and documentation requirements, support may be provided to HUD during the process of clearing the findings.

Comment 16 We do not dispute any of the City's comments about its HPRP monitoring procedures; however, the results of the audit show that subgrantees did not ensure that participants and assistance payments were eligible and supported.

Comment 17 HUD provided guidance and tools for monitoring, but not comprehensive procedures, which are the grantee's responsibility. The City's monitoring did not result in any findings of unsupported or ineligible payments for the four subgrantees we visited and reviewed, and the City had no record of specific unsupported payments made by Larkin Street, although it deemed deficiencies to be significant and suspended intake of new clients. Therefore, we concluded that detailed procedures are needed to ensure that results of each individual case file review, including deficiencies, are documented and appropriate action is taken for ineligible or unsupported payments.

Appendix C

SCHEDULE OF NONCOMPLIANT CASES PER SUBGRANTEE

		Number of case files per subgrantee				Total
		A	B	C	D	
	Deficiencies					
1	Assistance provided to undocumented immigrants		1	1		2
2	Did not show imminent risk of becoming homeless	3	3			6
3	Participant was not at imminent risk of becoming homeless				1	1
4	Participant exceeded the City's income limit	1				1
5	Errors in calculating annual income	2	2			4
6	Lack of income verification for primary participant	1	1	1	1	4
7	Lack of income verification for other adult(s) in household	1	2			3
8	No verification of bank accounts for participants who had bank accounts	1	4			5
9	Amount of back rent not verified by landlord		1			1
10	No housing inspection		1			1
11	Housing inspection was 9 months before move-in			1		1
12	Did not show risk of utility shutoff		1			1
13	Overpayment to landlord		1			1
14	HPRP rental subsidy given for the same period that rental subsidy was provided by the City through another program			1		1

KEY: A – Holy Family Day Home; B – Catholic Charities CYO; C – Hamilton Family Center; D – Tenderloin Housing Clinic

Appendix D

SUMMARY OF EXPENDITURES FOR FILES REVIEWED

Subgrantee	Client	Amount invoiced	Paid by the City	Amounts paid by the City as of 10/6/10		
				Eligible	Ineligible	Unsupported
Subgrantee A	A1	2,440.40	Yes	-	-	2,440.40
	A2	1,641.00	Yes	-	-	1,641.00
	A3	1,807.56	Yes	-	-	1,807.56
	A4	1,520.00	Yes	-	1,520.00	-
	A5	9,300.00	Yes	-	-	9,300.00
	A6	196.00	Yes	196.00	-	-
	A7	2,748.00	Yes	2,748.00	-	-
	A8	221.00	Yes	221.00	-	-
	Total for subgrantee A		19,873.96	19,873.96	3,165.00	1,520.00
Subgrantee B	B1	1,813.00	Yes	1,813.00	-	-
	B2	2,107.25	Yes	2,107.25	-	-
	B3	1,526.00	Yes	1,526.00	-	-
	B4	1,332.90	Yes	-	-	1,332.90
	B5	6,521.31	Yes	6,521.31	-	-
	B6	1,823.00	Yes	-	-	1,823.00
	B7	7,011.60	Yes	-	-	7,011.60
	B8	2,226.00	Yes	-	-	2,226.00
	B9	3,600.00	Yes	-	3,600.00	-
	B10	1,790.00	Yes	1,200.00	-	590.00
	B11	4,495.31	Yes	3,995.31	500.00	-
Total for subgrantee B		34,246.37	34,246.37	17,162.87	4,100.00	12,983.50
Subgrantee C	C1	2,700.00	Partial	1,350.00	-	-
	C2	2,133.00	No	-	-	-
	C3	1,780.00	No	-	-	-
	C4	2,501.73	No	-	-	-
Total for subgrantee C		9,114.73	1,350.00	1,350.00	-	-
Subgrantee D	D1	1,880.00	Yes	1,880.00	-	-
	D2	778.00	Yes	778.00	-	-
	D3	3,200.00	Yes	-	3,200.00	-
	D4	3,000.00	Yes	-	-	3,000.00
	D5	2,956.98	No	-	-	-
	D6	586.41	Yes	586.41	-	-
	D7	1,083.00	Yes	1,083.00	-	-
	D8	-	No	-	-	-
Total for subgrantee D		13,484.39	10,527.41	4,327.41	3,200.00	3,000.00
Total dollars reviewed for the four subgrantees		76,719.45	65,997.74	26,005.28	8,820.00	31,172.46

Appendix E

CRITERIA

- A. The Recovery Act became Public Law 111-5 on February 17, 2009. The Recovery Act establishes the Homelessness Prevention Fund. The homelessness prevention portion of the Recovery Act falls under Title XII – Transportation and Housing and Urban Development, and Related Agencies.
- B. HUD Federal Register Notice FR-5307-N-01 advised the public of the allocation formula and allocation amounts, the list of grantees, and requirements for the Homelessness Prevention Fund, hereafter referred to as the “Homelessness Prevention and Rapid Re-Housing Program (HPRP),” under Title XII of the Recovery Act.

The notice included the following:

- Grantees are responsible for verifying and documenting the individuals’ risk of homelessness that qualifies them for receiving rental assistance. HUD requires grantees and/or subgrantees to evaluate and certify the eligibility of program participants at least once every 3 months for all persons receiving medium-term rental assistance.
- Grantees and subgrantees should carefully assess a household’s need and appropriateness for HPRP. If the household needs more intensive supportive services or long-term assistance or if a household is not at risk of homelessness, grantees and subgrantees should work to link them to other appropriate available resources.
- In order to receive financial assistance or services funded by HPRP, individuals and families must at least meet the following minimum criteria:

Have at least an initial consultation with a case manager or other authorized representative who can determine the appropriate type of assistance to meet their needs. HUD encourages communities to have a process in place to refer persons ineligible for HPRP to the appropriate resources or service provider that can assist them.

Be at or below 50 percent of area median income.

Be either homeless or at risk of losing their housing and meet both of the following circumstances: (1) no appropriate subsequent housing options have been identified and (2) the household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

- Grantees are responsible for ensuring that HPRP amounts are administered in accordance with the requirements of this notice and other applicable laws. Each grantee is responsible for ensuring that its subgrantees carry out the HPRP eligible activities in compliance with all applicable requirements.
- Each grantee and subgrantee must keep any records and make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require within the timeframe required.
- Grantees are responsible for monitoring all HPRP activities, including activities that are carried out by a subgrantee, to ensure that the program requirements established by this notice and any subsequent guidance are met.
- Organizations providing rental assistance with HPRP funds will be required to conduct initial and any appropriate follow-up inspections of housing units into which a program participant will be moving.

C. HUD's Web site (HUDHRE.info) provided guidance for HPRP grantees. Regarding assistance to undocumented immigrants, HUD wrote: "Can HPRP funds be used to assist illegal immigrants?" HUD then provided the following answer:

"In accordance with Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, an alien (a person who is not a U.S. citizen or national) may be eligible for assistance under HPRP only if he or she is a 'qualified alien' (defined in 8 U.S.C. [United States Code] 1641). This means that no entity that receives funds under HPRP may knowingly provide HPRP assistance to an alien who is not a qualified alien.

"The law requires all state and local governments that directly administer HPRP assistance to first verify that an alien is a qualified alien before using HPRP funds to assist him or her. Nonprofit organizations that administer HPRP assistance are not required, but may, verify that an alien is a qualified alien in order to provide him or her with HPRP assistance."