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September 27, 2000 **00-FW-251-1806**

MEMORANDUM FOR: Katie Worsham
Director
Office of Community Planning and Development, 6AD

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Houston Regional HIV/AIDS Resource Group, Inc.
Supportive Housing Grant TX21B96-0617
Houston, Texas

As part of a nationwide review of HUD's Continuum of Care Program, we audited the 1996 Supportive Housing Grant awarded to the Houston Regional HIV/AIDS Resource Group, Inc. (Resource Group). The Resource Group implemented its grant activities through four subgrantees.[1] During the audit period, Odyssey House did not perform any activities under the grant. During January 2000, the Resource Group requested and received HUD approval to replace two grantees.[2]

To complete our audit, we performed audit work at the Resource Group and three subgrantees: Trinity Life; Covenant House; and DePelchin. The majority of the findings related to one subgrantee, Trinity Life. Based upon its own review, the Resource Group terminated its agreement with Trinity Life in August 1999. Nonetheless, HUD's agreement was with the Resource Group and therefore, we recommend HUD take actions against the Resource Group.

Our objectives included determining whether the Resource Group:

- Implemented the grant in accordance with its application;
- Expended funds for eligible activities under federal regulations and applicable cost principles;
- Maintained evidence of measurable results;

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[1] The original subgrantees included Odyssey House Texas, Inc.; Covenant House Texas; DePelchin Children's Center; and Trinity Life Center (Trinity Life).
[2] Odyssey House and Trinity Life.

- Adequately leveraged HUD funds;
- Expended funds timely;
- Expended funds for leasing in compliance with federal regulations;
- Met the federal requirements for supportive service costs; and
- Met the federal requirements for operating costs.

To accomplish our objectives, we interviewed HUD, the Resource Group, and subgrantees' officials; visited transitional housing locations; and reviewed the Resource Group's policies and procedures manual, grant application, grant agreement, technical submission, and annual progress reports. We also reviewed applicable criteria including Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations" (Circular A-122). We analyzed the financial records and participant files of three subgrantees.

The audit concluded that the Resource Group generally implemented its activities consistent with its application. The Resource Group provided technical assistance to its subgrantees. It also reviewed its subgrantees' single audit reports, monthly expense reports, and quarterly and annual progress reports.

However, the Resource Group paid for ineligible participants and did not document homelessness as required by HUD. Two subgrantees did not maintain sufficient documentation to support the eligibility of its participants. Further, the Resource Group did not maintain sufficient documentation to determine whether it met the purpose of its grant. The Resource Group reported the results to HUD in its Annual Progress Reports. We attribute the problems to staff not knowing HUD requirements related to documenting homelessness despite the training and technical assistance provided by HUD and the Resource Group. Also, the subgrantees did not obtain the needed information to report its goals.

Further, it inappropriately charged its grant the following amounts:

Description of Expenditure	**Ineligible Amount**	**Unsupported Amount**
Supportive Services Paid for Ineligible Participants		$100,259
Payroll Costs	$49,031	5,589
Leasing Costs	13,308	
Operating Costs	6,479	1,978
Supportive Services	4,266	1,488
Totals	**$73,084**	**$109,314**

Trinity Life incurred all the ineligible and unsupported costs. The Resource Group performed reviews of Trinity Life and noted problems. After its reviews revealed problems, the Resource Group terminated its grant with Trinity Life on August 1, 1999. Nevertheless, according to its grant agreement with HUD, the Resource Group agreed "to comply with all requirements of this Grant Agreement and to accept responsibility for such compliance by any entities to which it makes grant funds available."

Trinity Life submitted ineligible and unsupported costs to the Resource Group, which it paid. In addition, Trinity Life staff did not allocate salaries based upon the employees' actual activities. The Resource Group mistakenly relied upon Trinity Life's billing and the Resource Group's monitoring did not detect the incorrect billings. As a result, the Resource Group did not comply with its grant agreement and Circular A-122.

We recommend that the Resource Group ensure that its subgrantees obtain and verify the necessary information to determine participant eligibility and that it tracks goals achieved. The Resource Group may want to develop a database to collect, analyze, and report the progress of its participants. We also recommend that the Resource Group analyze its current operations and create measurable criteria to accurately report grant results. The Resource Group should discuss any revised measurement procedures with and obtain HUD approval.

The Resource Group should revise its monitoring policies and procedures for programmatic and financial site visits to include all grants. In addition, it should improve monitoring of the subgrantees by documenting follow-up activities to resolve findings resulting from programmatic visits.

The Resource Group should reimburse its grant for ineligible and unsupported expenses totaling $182,398. Additionally, the Resource Group should revise its monitoring procedures to prevent the future allocation of ineligible expenses to the grant. Specifically, require subgrantees to submit all documentation for operating costs.

On September 12, 2000, we sent the Resource Group's Deputy Director a draft of this memorandum to be forwarded to the Executive Director. The Executive Director responded to the draft on September 20, 2000. We summarized his response and amended the draft as needed.

Within 60 days please give us, for each recommendation made in this memorandum report, a status report on: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directive issued because of this audit.

If you have any questions, please call William Nixon, Assistant District Inspector General for Audit, at (817) 978-9309.

Background.

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program. The Program is designed to promote the development of supportive housing and services. The Program encourages the use of innovative approaches to assist homeless persons and provides supportive housing to enable them to live as independently as possible. Eligible activities include:

- transitional housing;
- permanent housing for homeless persons with disabilities;
- innovative housing that meets the immediate and long-term needs of homeless persons; and
- supportive services for homeless persons not provided in conjunction with supportive housing.

The Resource Group is a Texas nonprofit corporation. The Resource Group is the primary administrative agency for distributing government funding for HIV/AIDS programs in the Houston area.

We audited the Resource Group's 1996 $1,332,281 supportive housing grant (SHP-96). HUD awarded the grant in May 1997. HUD also awarded the Resource Group supportive housing program grants of $669,551 for 1995 and $1,321,469 for 1998. We issued an audit memorandum on the Resource Group's 1994 Housing Opportunities for People With Aids and 1995 Supportive Housing Grant.[3]

Requirements of the Grant.

The grant agreement incorporated the Resource Group's application. The Resource Group's subgrantees performed most of the grant activities while the Resource Group acted as a pass-through entity performing administrative duties. According to its application, the Resource Group's subgrantees agreed to provide transitional housing and supportive services to homeless adolescents and young adults. The original grant lasted 3 years. However, in January 2000, HUD extended the grant 1 year for a total of 4 years. HUD did not award any additional funds.

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[3] Audit Memorandum number 00-FW-251-1805, issued on September 5, 2000.

SUMMARY OF GRANT FUNDS AWARDED AND TYPE OF SERVICES

Agency	Type of Services	Number of Participants Served[4]	Total Grant Funds Awarded[5]
Trinity Life	Transitional housing and case management.	137	$ 588,663
DePelchin	Case management, child care, and transportation.	29	328,387
Covenant House	GED classes[6], life skills, and transportation.	753	271,519
Odyssey House	Substance abuse assessment, education, and treatment.	0	105,647
The Resource Group	Administration.	0	38,065
Totals		**919**	**$1,332,281**

Trinity Life reported it served 213 participants during the first 2 years. The Resource Group relied on Trinity Life's report when preparing the second annual progress report for the year ended July 31, 1999. Following the Resource Group's comprehensive review of Trinity Life participant files, it determined that only 137 out of the 213 participants were eligible participants. Thus, it erroneously reported 213 participants to HUD.

The Resource Group proposed that subgrantees would provide a 2- to 6-week assessment of homeless youths' housing and service needs at Arbor House. Arbor House was the primary point of entry into the Houston Youth Network (HYN). Trinity Life operated Arbor House. Trinity Life would arrange for the youths to stay in transitional housing and to receive supportive services as needed until they could safely enter stable housing.

HUD's definition of homelessness included "…an individual or family who lacks a fixed, regular, and adequate nighttime residence..." HUD required the Resource Group to document homelessness to ensure that participants were "part of the specific population targeted in the approved grant application." At a start-up conference for grantees, HUD staff discussed the documentation requirements for homelessness. Representatives from the Resource Group and all four subgrantees attended the conference. Additionally, HUD provided grantees with brochures explaining the documentation requirements according to the type of homeless participants served.

Under the grant agreement[7], the Resource Group agreed to meet the following performance measures:

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[4] For the period of May 1997 through April 1999.
[5] For the entire grant period of May 1997 through April 2001.
[6] General Educational Development.
[7] The grant agreement required adherence to Circular A-122, which specifies cost principles for nonprofit organizations to be used when disbursing grant funds.

- 25% of homeless youth entering Arbor House will proceed directly into permanent housing;
- 50% will continue in transitional housing in one of the longer-term facilities and will retain their own residence for 6 months upon completing the Program;
- 75% of the participants will increase skills in independent living, further their education, and obtain employment;
- 100% of the participants entering the transitional housing program will be involved in developing their own service contract;
- 10% will voluntarily enter substance abuse treatment; and
- 80% will demonstrate greater self-sufficiency as determined by other outcome measures.

The Resource Group paid $100,259 for ineligible participants and did not have documentation of homelessness as required by HUD.

Trinity Life and Covenant House, two subgrantees, did not have adequate documentation to support that a sample of program participants met HUD's homeless requirements. According to a detail review by the Resource Group, Trinity Life served 48 ineligible participants and did not have files for another 28 participants. By the results of the Resource Group's review, HUD incorrectly paid the Resource Group $100,259 for these 76 ineligible participants. It did not appear that Trinity Life knew what documentation HUD required it to review and maintain.

Neither Trinity Life nor Covenant House documented homelessness as required by HUD for 17 out of 17 participant files reviewed.[8] Of those 17 participants, 2 did not meet HUD's definition of homelessness. One person participated in Trinity Life's HOME Program; therefore, was ineligible to participate under the SHP-96 grant. Another participant cited leaving home because he "lacked freedom." In four instances, the files contained contradictory information on whether the participant was homeless. For instance, one file contained a standard form stating that the person was "literally homeless and residing in a place not meant for human habitation." However, other information in the file indicated that the person lived with friends.

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[8] The sample included 24 out of 919 total files. (See the chart in the Background Section.) We reviewed seven participant files of DePelchin's that met HUD's requirements for homelessness.

SUMMARY OF REVIEW OF PARTICIPANT FILES FOR ELIGIBILITY

Description	Trinity Life	Covenant House	DePelchin	Totals
Participant files reviewed.	7	10	7	24
Files contained HUD required documents.	0	0	7	7
Files did not contain HUD required documents.	7	10	0	17
Participants clearly did not meet HUD's definition of homelessness.	1	1	0	2
Files did not contain sufficient information to determine eligibility. Four files contained conflicting information.	6	0	0	6
Files did not have documents required by HUD. However, files contained other information indicating homelessness.	0	9	0	9

Resource Group's Own Review Revealed Problems with Trinity Life.

As a result of Trinity Life's insufficient file documentation, the Resource Group cannot conclude that it served the intended population. By April 2000, the Resource Group's Housing Director had completed his onsite inspection of Trinity Life's participant files located at Arbor House. His comprehensive review confirmed our sample results. The Housing Director found that Trinity Life did not document participant homelessness as required by HUD. Of the 213 participants reported, 137 (64.32%) appeared to be homeless based on notes and other information in their files and 76 (35.68%) were obviously ineligible. Based upon its own comprehensive review, the Resource Group used $100,259[9] of the grant funds to pay for ineligible participants.

The Resource Group and all of its subgrantees received HUD training on program requirements including participant eligibility and documentation of eligibility. Further, the Resource Group notified its subgrantees of documentation requirements. Without such documentation, the Resource Group and HUD have no tangible evidence that the subgrantees served the intended population.

The Resource Group did not reliably measure its Grant accomplishments.

The Resource Group could not support the progress reported to HUD in its annual progress reports. HUD requires grantees to submit annual progress reports on the goals listed in its application. HUD can use this information to evaluate the successfulness of a grantee's program. However, Trinity Life did not maintain support for its accomplishments that it reported to the Resource Group and subsequently to HUD. Furthermore, neither Trinity Life nor Covenant House obtained information from participants once they left transitional housing. Therefore, neither agency could report on performance measures relating to participant tracking. The Resource Group's monitoring did not ensure that

[9] The Resource Group reimbursed Trinity Life $341,368 for supportive services.

subgrantees kept accurate records for measuring performance. As a result, HUD could not rely on the Resource Group's progress reports when determining the program's success.[10]

Trinity Life's files inconsistent and unreliable.

Trinity Life did not maintain its participant files to facilitate reconfirmation of its reports. In some cases, Arbor House files contained information that directly contradicted Trinity Life's record of goals met. For instance, Trinity Life reported that a participant enrolled in GED classes. However, the file contained a letter from the GED academy stating that the participant had not enrolled. The file contained no other documentation supporting that the participant enrolled in GED classes or attended such classes while at Arbor House.

Trinity Life's former Program Administrator stated that Trinity Life did not keep a list of participants meeting its goals. Staff did not track participant progress anywhere besides the participant files and a notebook detailing a partial list of participants meeting two of six goals. To report its accomplishments to the Resource Group, Trinity Life staff manually went through the participant files and counted the number of participants meeting program goals.

According to one goal, Trinity Life intended to help each participant establish an individual plan that outlined what the participant hoped to accomplish. Out of nine files reviewed, none supported that the participants met their plan, even though Trinity Life reported six of the nine participants as obtaining jobs, attending GED classes, or obtaining their GED diplomas.

Trinity Life's method of calculating and documenting its goals is woefully inadequate. The Resource Group relied upon Trinity Life's representations when it reported its results to HUD.

Subgrantees did not track participants after leaving Program.

Trinity Life and Covenant House[11] did not formally follow up on participants once they left the program as required by two of its goals. One of the goals required that 25% of homeless youth entering Arbor House would proceed directly into permanent housing. The Resource Group reported that it met that goal. However, Trinity Life did not measure this goal. Due to the targeted population, the goal appears to be unrealistic.

The other goal required that 50% of participants "will continue in transitional housing in one of the longer-term facilities of the HYN, and upon completing the program, retain their own residence for 6 months." The Resource Group reported that it did not meet that goal. The Resource Group stated that it was difficult to get information from participants once they left the program.

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[10] The Resource Group resubmitted an annual progress report as a result of its monitoring of Trinity Life.

[11] Over a 2-year period, Covenant House had 753 participants as opposed to DePelchin's 29 participants. Many of Covenant House's participants received services for a few days as opposed to DePelchin's participants who stayed for several months.

The Resource Group's progress reports to HUD support that it did not follow up with participants once they left the program. In its second Annual Progress Report, the Resource Group stated that 229 out of 309 (74%) of its participants moved into permanent housing and 442 out of 627 (70%) left without permanent housing and had an "unknown living situation." Neither Trinity Life nor Covenant House followed up with participants to determine whether it met either of these goals. As a result, the Resource Group did not know how many participants obtained and remained in permanent housing and could not accurately report whether the program was a success or not.

In an apparent contradiction, the Resource Group's subgrantees accepted into the Program individuals who cited themselves homeless when living with family and friends.[12] The Resource Group then reported participants obtained permanent housing when they moved in with family and friends. The Resource Group reported that 513 out of 975 (53%) program participants previously resided with family and friends. Out of the 309 participants that moved into permanent housing, 266 (86%) moved in with family and friends. The Resource Group did not have any clear guidelines of when it considered living with family and friends homelessness or permanent housing.

The program's success depended upon the participants meeting the goals set during the initial assessment at Arbor House. The Resource Group and its subgrantees proposed to help participants increase their living skills, such as attending life skills training, obtaining substance abuse treatment, attending GED classes, and obtaining jobs. Without documentation on the participants, the Resource Group does not know how effective its program is.

The Resource Group should ensure subgrantees keep accurate records for following up with participants and measuring performance. The Resource Group should analyze its current operations and create measurable criteria to accurately measure grant activities. The Resource Group should discuss the revised measurement procedures with and obtain approval from HUD. Furthermore, the Resource Group should consider centralizing participant data files.

The Resource Group reimbursed Trinity Life for ineligible and unsupported payroll, leasing, operating, and supportive service costs.

The Resource Group paid Trinity Life $82,139 for ineligible and unsupported payroll, leasing, operating, and supportive service costs. Trinity Life submitted inaccurate reports to the Resource Group, which based its grant draw downs on those reports. As a result, HUD spent funds on costs that did not benefit homeless youths.

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[12] HUD has strict requirements when the individual lived with family and friends. As stated elsewhere in the report, the Resource Group did not adhere to HUD's requirements.

Description of Expenditure	Ineligible Amount	Unsupported Amount
Payroll Costs	$49,031	$5,589
Leasing Costs	13,308	
Operating Costs	6,479	1,978
Supportive Service Costs	4,266	1,488
Totals	**$73,084**	**$9,055**

The Resource Group paid Trinity Life $49,031 for ineligible payroll costs.[13]

Of the 23 employees reviewed, Trinity Life inappropriately paid $49,031 to 12 employees with grant funds.[14] The ineligible costs included payments of $35,742 for nine employees for time spent working on unrelated programs; $11,230 for two administrative employees inappropriately charged to the supportive service line item; $1,369 paid to a GED Rebound Program Manager while working for the GED preparation program not funded by the grant, and $690 for two employees for a week prior to them beginning work at the organization.

Circular A-122 required the Resource Group to charge grants only for "documented payrolls" and include only those costs "…incurred specifically for the award…" It also prohibited the Resource Group from charging costs to the grant that did not benefit the grant. Furthermore, Circular A-122 required Trinity Life to keep activity reports that "represent a reasonable estimate of the actual work performed by the employee." Either the employee or a responsible supervisory official who has a "first hand knowledge of the activities performed by the employee" must sign the activity reports.

Trinity Life Paid $35,742 for employees who did not work on the grant.

The Resource Group used $35,742 in grant funds to reimburse Trinity Life for nine employees' salaries for time they spent working on unrelated programs. The employees involved and amounts included:

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[13] This includes 15% ($6,395) fringe benefits.
[14] Two employees are included in two different categories of ineligibility. The amounts do not overlap.

EMPLOYEE TITLE/DATES	EMPLOYEE'S DESCRIPTION OF ACTIVITY REPORTED ON TIME SHEET	TOTALS
Maintenance Program Manager **1998 8/16 - 9/15; 10/16 – 12/31** **1999 1/1 – 1/15**	*Maintenance; Trinity Life Emergency Shelter*	$15,237
Street Wise Case Manager **1998 2/1 - 4/30; 6/1 – 6/15; 7/1 – 7/15**	*Street Wise*	8,050
GED Rebound Program Manager **1999 1/1 – 1/15; 2/1 – 2/15; 3/1 – 3/15; 4/1 – 4/15; 5/16 – 5/31**	*Street Wise*	4,140
Sand Dollar Emergency Shelter Case Manager **1998 4/16 - 7/31; 8/16 - 10/15**	*Sand Dollar*	4,047
Youth Worker **1998 6/1 – 6/15; 7/16 – 7/31; 11/1 – 11/15**	*HOME*	1,474
Street Wise Youth Worker **1998 5/1 - 6/15**	*Street Wise*	1,014
Arbor House Outreach Worker **1998 5/16 – 5/31**	*HOME*	958
Arbor House Youth Worker **1998 4/16 – 4/30; 5/16 –5/31**	*The Ranch; Sand Dollar*	483
Director of Finance ***Executive Director's daughter*** **1998 7/16 – 7/31; 9/16 - 9/30**	*Trinity Life Shelter, Rosenberg*	339
Total		**$35,742**

Trinity Life's corporate staff, which had no first-hand knowledge of the actual employees' activities, erroneously allocated the employees' time on their time cards. They made those allocations after the employees and their immediate supervisors signed the time cards. The employees reported working on other programs.[15] Also, the employees' titles suggest Trinity Life inappropriately allocated their salaries.

For instance, Trinity Life paid the Street Wise Case Manager from SHP-96 funds. Ryan White grant funds paid for Street Wise, a day program for homeless persons.[16] The SHP-96 grant did not include Street Wise. According to the Case Manager, he only serviced Street Wise participants during those periods listed. Similarly, Trinity Life inappropriately used grant funds to pay the Sand Dollar Emergency Shelter Case Manager. The Texas Youth Commission and Child Protective Services paid for Sand Dollar. Trinity Life should not have paid either of these salaries from SHP-96 funds.

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15 The employees reported either the facility or the program in the upper right-hand corners of their time cards. We also interviewed employees to determine exactly what program they assisted.

16 The Department of Health and Human Services administers Ryan White grants.

The Arbor House Outreach Worker worked for the HOME Program. The HOME Program included a 1995 SHP grant and a 1994 Housing Opportunities for People With Aids grant.[17] During the time period that Trinity Life used grant funds to pay the Outreach Worker, three programs operated out of Arbor House.

Other ineligible salary costs.

Trinity Life inappropriately charged $11,230 for two administrative employees under supportive services. Trinity Life and ultimately the Resource Group should have included these salaries as an administrative cost. Trinity Life charged its grant $9,329 for the corporate office's secretary. Further, Trinity Life allocated to its grant $1,901 for the salary of another employee who performed general administrative duties for all of Trinity Life's grants and programs.

Trinity Life charged its grant $9,125 for a GED Rebound Program Manager (Manager). According to Trinity Life staff, the Manager prepared youths for the GED class. Trinity Life conducted the program at Street Wise. Trinity Life did not include either the Rebound Program or Street Wise in the SHP-96 grant. Trinity Life did not limit the Rebound Program to only Arbor House participants. If Trinity Life wanted to pay any of the Manager's salary with grant funds, it should have allocated the costs to various programs served. Additionally, the Manager stated that she spent approximately 85% of her time on Arbor House activities in the capacity of a youth worker. At a minimum, the Resource Group should reimburse HUD for 15% of the Manager's salary or $1,369.[18]

Also, Trinity Life paid two employees $690 for a week prior to them beginning employment at the organization.[19]

The Resource Group paid $5,589 for unsupported payroll costs for three employees.[20]

Trinity Life inappropriately charged the grant $4,025 for the Maintenance Program Manager's salary.[21] The grant application between the Resource Group and HUD authorized Trinity Life to hire one Project Coordinator, two Case Managers, one Unit Manager, three Center Workers, and one Youth Worker. It did not authorize a "Maintenance Program Manager." Trinity Life claimed the employee worked at Arbor House in the capacity of Program Administrator. The employee's file indicated that his title changed to Program Administrator 2 months after Trinity Life began charging his salary to the grant. Further, the employee's salary of $3,500 per month appears to be unreasonably high compared to $2,000 per month paid to Project Coordinators immediately preceding and following his tenure.

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17 HUD funded both of these grants.

18 This amount does not include the amounts we noted where the Manager worked at Street Wise.

19 Both of these employees were related to Trinity Life's Chief Administrator.

20 This includes 15% ($729) fringe benefits.

21 This employee was the son of the Executive Director.

Two employees charged to the SHP-96 grant did not report where they worked on their time sheets. On other time sheets, they reported that they worked at either Street Wise or Sand Dollar. The employees' files confirm that Trinity Life did not hire them to work at Arbor House on SHP-96 grant activities.[22] The Resource Group should either provide documentation as to how these employees benefited the grant or reimburse its grant for the $1,564 expended for their salaries.

Resource Group aware of problems.

The Resource Group noted problems with Trinity Life's allocation of salaries during its desk monitoring of monthly expense reports. The Resource Group determined that Trinity Life did not allocate the time sheets by grant. Trinity Life's Finance Director assured the Resource Group that it would correct the problem. However, Trinity Life did not correct the problem, and the Resource Group continued to reimburse it based upon incorrect time sheets.

The Resource Group should reimburse its grant $49,031 and $5,589 for the ineligible and unsupported salary costs charged to the grant.

The Resource Group paid $13,308 for ineligible leasing costs.

Contrary to its grant application, Trinity Life utilized three bedrooms, instead of five, for its participants. The application required Trinity Life, the Resource Group's subgrantees, to use no less than five bedrooms for its participants. According to the application, each participant (up to ten participants) would have a private bedroom. However, another part of the application reported that ten beds would be in five bedrooms. Despite these contradictions, HUD approved the grant application.

Trinity Life did not seek or obtain either the Resource Group's or HUD's approval for the decrease in bedrooms. As a result, each youth shared bedroom facilities with as many as three other people instead of having a private bedroom or sharing with a roommate. The Resource Group did not become aware that Trinity Life decreased the number of bedrooms until just prior to terminating its subgrant. Management contends the youth and program benefited from its decision. Nonetheless, Trinity Life should not charge HUD for five bedrooms when it utilized only three. Additionally, the Resource Group did not submit information to HUD to support that Arbor House's rent was reasonable when compared to similar houses in the same area. HUD required this information prior to approving programs for grant funds. Based upon our calculations, the Resource Group should reimburse its grant $13,308 for additional rooms not utilized.[23]

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[22] The files listed their titles as Street Wise Youth Worker and Sand Dollar Case Manager.

[23] 40% of total paid leasing costs of $33,271.

The Resource Group paid Trinity Life $6,479 and $1,978 for ineligible and unsupported operating costs.

Trinity Life incorrectly included ineligible and unsupported expenses in its computation of operating costs. HUD authorized grant funds to pay for a portion of Arbor House's operating costs. Operating costs included utilities and supplies in connection with Arbor House. During the first 2 years of the grant, HUD agreed to pay 75% of the grant's operating costs. During the remaining term of the grant, HUD agreed to pay 50% of the operating costs. According to the HUD-approved operating budget, HUD agreed to pay for electricity, water, garbage, telephone, and supplies. HUD did not agree to pay for other costs, including maintenance, staff, insurance, furnishings, and food. Trinity Life agreed to match the operating costs with $15,000 for household furnishings and $5,000 for food.

Circular A-122 allowed the Resource Group to allocate costs to the grant "in reasonable proportion to the relative benefits received." Specifically, the costs should: be "incurred specifically for the award;" benefit "the award and other work and can be distributed in reasonable proportion to the benefits received;" or "is necessary to the overall operation of the organization." Also, Circular A-122 required the Resource Group to adequately document costs.

Trinity Life repeatedly included ineligible and unsupported costs in its computation of total operating costs. The audit noted $9,140 of ineligible and $2,790 of unsupported costs included in Trinity Life's computation.

For instance, Trinity Life charged $2,067 for the purchase of a truck. Trinity Life contended that it used the truck to deliver supplies and food to Arbor House. Nonetheless, HUD did not approve the truck in the grant budget. The remaining ineligible operating costs included supplies shipped to other locations besides Arbor House, the electricity bill for another project, and ineligible telephone calls. These costs did not benefit program participants as required by Circular A-122.

More than half of the unsupported costs consisted of food ($1,165) and contract labor ($700). Trinity Life sometimes wrote checks for flat amounts so that its staff could purchase food and put the change in petty cash for future use. Trinity Life did not have receipts for funds spent in excess of actual food purchases. Trinity Life could not provide contracts or invoices for $650 paid to a relative of Trinity Life's Chief Administrator and $50 paid to another individual.

For the term of its subgrant, Trinity Life submitted to the Resource Group a monthly claim for HUD's portion of operating costs. The Resource Group did not require Trinity Life to submit support for its portion of the operating costs. The Resource Group did not comply with Circular A-122.

The Resource Group should reimburse the grant $6,479 for ineligible costs and either provide supporting documentation or reimburse the grant $1,978 for unsupported costs.[24] Further, the

[24] The Resource Group's matching amount should be factored in the calculation.

Resource Group should revise its monitoring to improve its detection of ineligible and unsupported costs submitted by its subgrantees.

The Resource Group paid Trinity Life $4,266 and $1,488 for ineligible and unsupported supportive service costs.

In its monthly expense reports, Trinity Life incorrectly requested reimbursement of $4,266 ineligible and $1,488 unsupported costs. The ineligible costs included: copier maintenance beyond the term of the grant ($1,665); supplies sent to facilities not funded by the grant ($1,428); mileage and miscellaneous charges not approved by HUD ($614); and copier rental and supplies not approved by HUD ($559). The unsupported costs included: supplies ($809); metro bus tokens ($296); contract labor ($250); office supplies ($127); and mileage for staff not working on the grant ($6).

Trinity Life contended that supplies sent to other locations were actually used for grant participants. Management stated that it saved on shipping costs for the supplier to deliver the entire order to one place. However, the vendors did not charge shipping costs on the ineligible invoices. This resulted in HUD overpaying $5,754 for supportive service costs.

The Resource Group should reimburse the grant $4,266 for ineligible costs and either provide supporting documentation or reimburse the grant $1,488 for unsupported costs.

The Resource Group monitored Trinity Life.

The Resource Group's reviews noted similar conditions. Due to the problems it noted, the Resource Group terminated its agreements with Trinity Life. Unfortunately, the Resource Group signed a grant agreement with HUD taking responsibility for the actions of its subgrantees.

Resource Group's Response and OIG Evaluation.

The Executive Director believed that the Memorandum unfairly punishes the Resource Group even though the Resource Group monitored Trinity Life and terminated its relationship with Trinity Life when it discovered problems. Further, the Executive Director did not believe HUD should hold the Resource Group accountable, especially since it obtained supporting documentation from Trinity Life and relied on that documentation when submitting reimbursement requests to HUD.

We agree that the Resource Group took appropriate action when terminating its funding to Trinity Life. However, the Resource Group accepted responsibility for compliance with all grant requirements when it signed the grant agreement. Specifically, the grant agreement stated "The Recipient agrees to comply with all requirements of this Grant Agreement and to accept responsibility for such compliance by any entities to which it makes grant funds available." As a result, it is accountable for its subgrantee's actions.

Recommendations:

We recommend that HUD require the Resource Group to:

1A. Ensure that its subgrantees obtain and verify the necessary information to determine participant eligibility and that it tracks goals achieved.

1B. Analyze its current operations and create measurable criteria to accurately report grant results.

1C. Revise its monitoring policies and procedures for programmatic and financial site visits to include all grants.

1D. Improve monitoring of the subgrantees by documenting follow-up actions resulting from programmatic visits' findings.

1E. Reimburse its grant for $73,084 ineligible costs paid from grant funds.

1F. Provide supporting documentation or reimburse its grant for $109,314 unsupported costs paid from grant funds documentation.

1G. Revise its monitoring procedures to prevent the future allocation of ineligible costs to the grant.

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