

SHELTER PLUS CARE (SPC) PROGRAM

Audit Report No. SPC0208

Follow - up

May 12, 2008



**MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY**

Internal Audit Report

AUDITOR'S REPORT

**Shelter Plus Care (SPC) Program
Follow - up**

Harris County, Texas

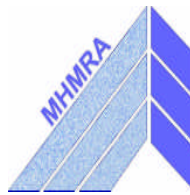
Internal Audit Report

May 12, 2008

Henry E. Webb, CFE

Internal Auditor





MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY

May 12, 2008

Steven B. Schnee, Ph.D.
Executive Director
MHMRA of Harris County
7011 SW Freeway
Houston, TX 77074

Re: Shelter Plus Care (SPC) Program
(Report No. SPC0208) Follow Up Audit

Dear Dr. Schnee:

The Internal Audit Department has completed a follow up review of the Shelter Plus Care Program for the period February 1, 2008 through April 30, 2008.

The review was designed to assist management with the assessment of the adequacy of internal controls related to the use of funds as a sub-recipient of the Harris County Community and Economic Development Department, as it carries out a SPC funded program that provides rental assistance and supportive services to homeless and disabled persons who reside in the Harris County service area.

Additionally, the follow up audit was designed to determine the progress made toward implementation of the recommendations made in the original report (Audit Report #SPC0108). The review consisted primarily of interviews and document testing.

As a result of the audit procedures and surveys conducted, it was determined that the departmental compliance with established criteria and accuracy of reporting do not meet Agency policy and procedures. Further, the sub-recipient does not have an adequate system of internal controls. Compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal and State programs is the responsibility of the Authority's management. Internal Audit expresses an opinion on the Authority's compliance based upon the audit.

Internal audit appreciates the cooperation extended by personnel during the course of the audit.

Respectfully submitted,

-S-
Henry E. Webb, CFE, Internal Auditor

-S-
Michele Johnson, MPA, Staff Internal Auditor

Cc: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division
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Audit Committee

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SCOPE AND PURPOSE

The scope of the work did not constitute an evaluation of the overall internal control structure of the units. The examination was designed to evaluate and test compliance with established policies and procedures and to test the internal control over tested areas and material.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected in a timely manner. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance of the audit was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected.

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. Internal Audit would like to thank management and staff for their cooperation throughout the audit.

CONCLUSION

As a result of the audit procedures and surveys conducted, it was determined that the departmental compliance with established criteria and accuracy of reporting do not meet Agency policy and procedures. Further, the sub-recipient does not have an adequate system of internal controls. Compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal and State programs is the responsibility of the Authority's management. Internal Audit expresses an opinion on the Authority's compliance based upon the audit.

_____-S-_____
Henry E. Webb, CFE
Internal Auditor

_____-S-_____
Michele Johnson, MPA
Staff Internal Auditor

INTRODUCTION

Mental Health and Mental Retardation Authority (MHMRA) of Harris County is a sub recipient of the Harris County Community and Economic Development Department, and carries out a SPC funded program that provides rental assistance and supportive services to homeless and disabled persons who reside in the Harris County service area.

The SPC program is authorized by Title IV, Subtitle F, of the Stewart B. McKinney Homeless Assistance Act and is designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities (primarily those who are seriously mentally ill; have chronic problems with alcohol, drugs, or both; or have acquired immunodeficiency syndrome (AIDS) and related diseases) and their families. The program provides grants to be used for rental assistance for permanent housing for homeless persons with disabilities. Rental assistance grants must be matched in the aggregate by supportive services that are equal in value to the amount of rental assistance and appropriate to the needs of the population to be served. Recipients are chosen on a competitive basis nationwide.

Housing Quality Standards

Housing that is assisted with SPC funds, at a minimum, must meet Housing Quality Standards (HQS) in 24 C.F.R. &882.109, and if applicable 24 C.F.R. &882.803(b). The Sponsor Agency shall notify the Grantee, of any and all units in need of HQS inspection. The Grantee shall perform HQS inspections for all units to be assisted with funds provided under the Agreement. Before any rental assistance will be provided, each unit shall be physically inspected and must meet HQS. Assistance will not be provided for units that fail to meet HQS, unless the owner/landlord corrects any deficiencies within thirty (30) days from the date of the lease agreement. HQS inspections performed by the Grantee shall not preclude the Sponsor Agency from its responsibility to ensure that units are in compliance with HQS between initial and annual inspections by the Grantee.

In addition, the Sponsor Agency must document rent reasonableness for each unit receiving assistance in accordance with 24 C.F.R. Part 582.305(b).

Time of Performance

Services of the Sponsor Agency shall start on the 24th day of July 2007 and end on the 30th day of April 2008, or until funds are expended, whichever occurs sooner, in accordance with the Grant Agreement between HUD and the Grantee dated June 11, 2007. The Agreement may only be extended upon written approval from HUD.

Reports and Deadlines

The Sponsor Agency shall furnish the following reports to the Grantee:

- a. Household Characteristics Report will contain information on the total rent, the total subsidy, and the amount paid by each tenant submitted to the Grantee on a monthly basis.
- b. Household Characteristics Summary detailing the number and types of rental units and categories of participants' disabilities submitted to the Grantee on a monthly basis.
- c. Certification letter signed by Sponsor Agency's authorized official that all SPC participant data is current in HMIS on a monthly basis.
- d. Financial Reports (Reimbursement Request, Cost Control Report, Cost Worksheet) submitted to the Grantee on a monthly basis.
- e. Quarterly Operations Match/Share Reports.
- f. Persons Served Worksheet submitted to the Grantee on a quarterly basis. This form will summarize the number of persons actually served by the Program.
- g. Annual Progress Report (APR) summarizing the number of persons served during the year.
- h. Sufficient documentation to support any amount requested through invoices to the Grantee including, but not limited to, lease agreements for each participant. The Grantee will be the sole determiner of "sufficient documentation."
- i. Monthly reports are to be submitted within fifteen (15) working days of the end of the reporting period.

- j. Quarterly Operations Match/Share Reports are due within thirty (30) days of the end of each quarter detailing the amount of match incurred by the Sponsor Agency during the previous three (3) months.
- k. The APR is due within one month after the end of the Agreement period.

**2006 MHMRA SPC RENEWAL TX244C60-2055
Maximum Amount to be Paid Under Current Agreement**

	SHELTER PLUS CARE	MATCH	PROJECT BUDGET
	<i>Grantee</i>	<i>Sponsor Agency</i>	
SPC Rental Assistance	\$1,965,168.00	\$0	\$1,965,168.00
Administrative Cost*	\$0	\$0	\$0
Supportive Services	\$0	\$1,965,168.00	\$1,965,168.00
Total Budget	\$1,965,168.00	\$1,965,168.00	\$3,930,336.00

*An amount up to 8% of the grant may be used for administrative costs after rental assistance has been paid. Sponsor Agency may request up to 6% of the grant.

The Sponsor Agency shall administer rental assistance to two hundred forty-eight (248) disabled homeless individuals and their families. The amount of rental assistance is calculated as follows:

RENTAL ASSISTANCE

Bedroom Size	Number of Requested Units	FMR	Number of Months	Total Amount
SRO	0	\$427	0	0
0	0	569	12	0
1	215	633	12	1,633,140.00
2	27	768	12	248,832.00
3	3	1,024	12	36,864.00
4	3	1,287	12	46,332.00
Total	248			\$1,965,168.00

50th Percentile Fair Market Rents-effective 11/01/2006

**Exhibit 1
Shelter Plus Care (SPC) Program
Follow-Up Results**

AUDIT FINDING	PRIORITY RATING	RECOMMENDATION	ACTION STATUS	WORK PERFORMED
Agency has not requested funding for administrative cost of program.	1	Agency should seek funding for administrative cost.	Implemented	<i>Agency staff will seek some administrative funding for program.</i>
Rental assistance is not being paid on behalf of consumers due to inaccurate, missing or incomplete information.	1	Agency staff should review all files on a continuous basis to ensure compliance with HUD guidelines and initiate an approval process.	Open	<i>A review of 46 consumers files were selected for testing. 67% were found to be out of compliance due to lack of current leases, original leases, current financial information, rent calculations were done incorrectly, no current occupancy agreements, annual income calculated incorrectly, lack of current rent reasonableness and consumer records were found to be in the wrong files.</i> <i>Note:</i> Although SPC program staff has reviewed each file, they have only focused

				<p>on current rent calculations, current rent reasonableness, current income, and current leases.</p> <p><i>The graph below presents the results of testing conducted by Internal Audit.</i></p> <table border="1"> <caption>Shelter Plus Care Compliance Data</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Total Records</td> <td>45</td> </tr> <tr> <td>In Compliance</td> <td>15</td> </tr> <tr> <td>Out of Compliance</td> <td>30</td> </tr> </tbody> </table>	Category	Count	Total Records	45	In Compliance	15	Out of Compliance	30
Category	Count											
Total Records	45											
In Compliance	15											
Out of Compliance	30											
Agency filed required reports approximately 75% of the time late.	1	Management should file all reports as required by HUD Policy 24 C.F.R. Part 582.	On Hold	<i>The last HCR report was completed for the month of January 2008. However, according to SPC staff all reports have been placed on hold as the program is required to redo all reports for the entire grant year and resubmit them to HCCED due to past errors.</i>								
Quarterly Operations Match/Share Reports are due within thirty (30) days of the end of each quarter. The latest report was only approximately 15% complete.	1	Management should file all reports on time and complete. A review process should be in place stating accuracy of all reports.	On Hold	<i>The last match report was completed for the month of January 2008. However, according to SPC staff all reports have been placed on hold as the program is required to redo all reports for the entire grant year and resubmit them to HCCED due to past errors.</i>								
Office supplies for the SPC grant are being ordered from Unit #2230 and #2238.	1	Management should change and charge all expenditures to the proper account codes thereby providing a more efficient means to track expenditures.	Implemented	<i>All supplies for SPC have been ordered and are tracked correctly.</i>								

Management's Response:**1) Agency has not requested funding for Administrative Costs:**

March 31st was the year end for the grant period. We are currently calculating rental subsidies from April 1, 2007 through March 31, 2008 and are scheduled to submit this information no later than June 1, 2008. These final calculations should tell us the total amount of financial obligation/liability we have with the Shelter Plus Care program. We will be requesting funding for Administrative Costs for this past year; although it is clear that the cost of administering this grant far exceeds what is allowable for reimbursement of administrative costs.

2) Rental assistance not being paid to consumers, etc.:

All files were worked with the focus of: 1) obtaining current leases; 2) updating inspections; 3) obtaining current income source documents; 4) clarifying members in the household and their income; 5) obtaining current Rent Reasonableness; and 6) calculating the rental subsidies for the months of April and May, 2008.

No rental subsidy was paid if all of the above documents were not present. Approximately, 136 out of 217 consumers were cleared for rental subsidy payment in April; 197 were cleared for May Subsidy. All errors in calculations were corrected (error was in rounding off cents from 4 decimal points to 2 decimal points when calculating annual income), staffs were re-trained. A formula was inserted into the rental calculation sheet to ensure the subsidy and consumer rents were correctly calculated.

Present standing of rental calculations:

- 197 cleared and approved for May, 2008 subsidy
- 2 are on hold
- 9 continue to be unresolved (w/ 3 to 4 possible resolutions for June)
- No rents were paid from Flex Funds in May

The initial goal was not to correct the homelessness documentation, at this time, because of the amount of time required to do the rental calculations.

3) Reports

All reports have been placed on "hold" until rental calculations from April 1, 2007 through March 31, 2008 have been completed. Additional staffs have been hired from our contract resources to assist in the calculation of these subsidies while we simultaneously review all records for homelessness documentation. In cases where the documentation is unsupportable, we will document our efforts to obtain this information. All reports are to be submitted to Harris County by June 1, 2008.