



EdgeAlliance, Inc., Chicago, IL

Continuum of Care Program



To: Ray E. Willis, Director of Community Planning and Development, 5AD

//signed//

From: Kelly Anderson, Regional Inspector General for Audit, (Chicago Region), 5AGA

Subject: EdgeAlliance, Inc., Chicago, IL, Did Not Administer Continuum of Care Program Funds for The Daniel R. Ruscitti Phoenix House in Accordance With Federal Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of EdgeAlliance, Inc.'s Continuum of Care program funds for The Daniel R. Ruscitti Phoenix House.

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

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

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



Audit Report Number: 2016-CH-1001

Date: November 24, 2015

EdgeAlliance, Inc., Chicago, IL, Did Not Administer Continuum of Care Program Funds for The Daniel R. Ruscitti Phoenix House in Accordance With Federal Regulations

Highlights

What We Audited and Why

We audited EdgeAlliance, Inc.'s Continuum of Care program funds for The Daniel R. Ruscitti Phoenix House (project). The audit was part of the activities in our fiscal year 2015 annual audit plan. We selected the project for review based upon a citizen's complaint. Our objectives were to determine whether EdgeAlliance complied with Federal requirements in its (1) maintenance of financial management systems for program funds and matching contributions for the project and (2) use of program funds for the project.

What We Found

EdgeAlliance (1) did not maintain financial management systems that adequately showed how program funds and matching contributions for the project were used, (2) could not provide sufficient documentation to support that program funds were used for eligible project expenses, and (3) used program funds for improper operating expenses. As a result, HUD and EdgeAlliance lacked assurance that nearly \$687,000 in program funds was used for eligible project expenses. Further, nearly \$88,000 in program funds was not available for eligible project expenses.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require EdgeAlliance to (1) support or reimburse its program from non-Federal funds for the program funds drawn down for which it did not provide sufficient documentation to show that the funds were used for eligible project expenses, (2) reimburse HUD from non-Federal funds for the program funds used for improper operating expenses, and (3) implement adequate procedures and controls to address the findings cited in this audit report.

Table of Contents

Background and Objectives	3
Results of Audit	5
Finding: EdgeAlliance, Inc., Did Not Administer Program Funds for the Project in Accordance With Federal Regulations	5
Scope and Methodology	11
Internal Controls	13
Appendixes	14
A. Schedule of Questioned Costs	14
B. Auditee Comments and OIG’s Evaluation	16
C. Federal Requirements	19

Background and Objectives

The Continuum of Care program was authorized under the McKinney-Vento Homeless Assistance Act, as amended by the Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009.¹ The Continuum of Care program (1) promotes community-wide commitment to the goal of ending homelessness; (2) provides funding for efforts by nonprofit providers and State and local governments to quickly rehouse homeless individuals and families while minimizing the trauma and dislocation caused to homeless individuals, families, and communities by homelessness; (3) promotes access to and effective use of mainstream programs by homeless individuals and families; and (4) optimizes self-sufficiency among individuals and families experiencing homelessness.

Incorporated in October 1992 as a nonprofit corporation under the laws of the State of Illinois, EdgeAlliance, Inc.'s mission is to assist its members in developing and operating quality housing and providing life-enriching services to vulnerable individuals and families. To accomplish its mission, EdgeAlliance has developed and operates the following housing subsidiaries: The Daniel R. Ruscitti Phoenix House (project), Sawyer Gardens, Garden View, and The Shawn Feeley Alpha House. The project is a 32-unit supportive living facility located in Chicago, IL, for adults who are otherwise homeless, disabled, and diagnosed with HIV-AIDS. The project's records are located at 1251 South Sawyer Avenue, Chicago, IL.

The U.S. Department of Housing and Urban Development (HUD) entered into 2011 through 2013 program grant agreements with EdgeAlliance totaling more than \$1.1 million for the project. The following table shows the grant year, program grant, and amount of program funds HUD awarded EdgeAlliance for the project for operating costs, supportive services, and administration.

Grant year	Program grant	Operating costs	Supportive services	Administration	Totals
2011	Supportive Housing Program	\$317,625	\$31,050	\$17,433	\$366,108
2012	Continuum of Care	318,465	31,050	24,245	373,760
2013	Continuum of Care	321,650	31,050	24,245	376,945
Totals		<u>\$957,740</u>	<u>\$93,150</u>	<u>\$65,923</u>	<u>\$1,116,813</u>

¹ The Act streamlined HUD's homeless grant programs by consolidating the Supportive Housing Program, Shelter Plus Care, and Single Room Occupancy grant programs into the Continuum of Care program. Unless otherwise noted in this audit report, the term "program" refers to the Supportive Housing Program, the Continuum of Care program, or both programs.

Our objectives were to determine whether EdgeAlliance complied with Federal requirements in its (1) maintenance of financial management systems for program funds and matching contributions for the project and (2) use of program funds for the project.

Results of Audit

Finding: EdgeAlliance, Inc., Did Not Administer Program Funds for the Project in Accordance With Federal Regulations

EdgeAlliance (1) did not maintain financial management systems that adequately showed how program funds and matching contributions for the project were used, (2) could not provide sufficient documentation to support that program funds were used for eligible project expenses, and (3) used program funds for improper operating expenses. These weaknesses occurred because EdgeAlliance lacked adequate procedures and controls for administering its program funds for the project to ensure that the funds were used in accordance with Federal regulations. As a result, HUD and EdgeAlliance lacked assurance that nearly \$687,000 in program funds was used for eligible project expenses. Further, nearly \$88,000 in program funds was not available for eligible project expenses.

Financial Management Systems Were Not Adequate

We selected for review more than \$934,000 in program funds EdgeAlliance drew down from HUD's Line of Credit Control System² through 16 vouchers³ from July 1, 2012, through December 31, 2014, to determine whether EdgeAlliance used program funds for the project in accordance with Federal requirements.

EdgeAlliance's financial management systems did not adequately show how program funds and matching contributions for the project were used as required by Federal regulations.⁴ EdgeAlliance initially deposited the more than \$934,000 in program funds into a bank account for the project (project account number 1). However, at least \$504,000 of the funds was transferred to EdgeAlliance's primary operating account (EdgeAlliance account number 1) from August 2012 through May 2014.⁵ Its accounting system showed that the program funds in the account (EdgeAlliance account number 1) were commingled with other funds, such as Housing Opportunities for Persons with AIDS funds from the City of Chicago, non-Federal Supportive Housing Program funds from the Illinois Department of Human Services,⁶ fundraising income, and donations. The accounting system also showed that funds from the account (EdgeAlliance account number 1) were used to pay for expenses of the project, Garden View, and Alpha House;

² The System is HUD's primary grant disbursement system for most of its programs.

³ The 16 vouchers included more than \$244,000 in Supportive Housing Program funds (4 vouchers) and more than \$690,000 in Continuum of Care funds (12 vouchers).

⁴ See appendix C of this audit report.

⁵ Due to commingling and the transfers of funds mentioned later in this audit report, we were generally unable to track the remaining program funds.

⁶ According to EdgeAlliance's chief operating officer, the matching contributions for the project were Housing Opportunities for Persons with AIDS funds from the City of Chicago and non-Federal Supportive Housing Program funds from the Illinois Department of Human Services.

payroll; rent for its former administrative office at 212 East Ohio Street, Chicago, IL; and fundraising expenses. Further, EdgeAlliance transferred funds from this account (EdgeAlliance account number 1) to several other bank accounts, including a second account for the project (project account number 2). In June 2014, EdgeAlliance started transferring funds⁷ from another operating account (EdgeAlliance account number 2) to the bank account for the project into which program funds were initially deposited (project account number 1). In July 2014, EdgeAlliance changed its primary operating account (EdgeAlliance account number 1) to this other operating account (EdgeAlliance account number 2). In addition, funds were transferred from the two bank accounts for the project (project account numbers 1 and 2) to one or more of EdgeAlliance's operating accounts (EdgeAlliance account numbers 1 and 2). Project expenses were also paid from both of the bank accounts for the project (project account numbers 1 and 2). However, neither EdgeAlliance's nor the project's accounting systems adequately showed which funds were used for the project's disbursements. Although the commingling of funds was not a violation, it placed greater responsibility on EdgeAlliance to maintain an accounting system that adequately showed how program funds and matching contributions for the project were used.

EdgeAlliance's chief operating officer, who joined the organization in July 2013, could not explain why former staff did not set up EdgeAlliance's financial management systems to show how program funds and matching contributions for the project were used. The chief operating officer also stated that before our audit, she was not aware of HUD's regulations at 24 CFR (Code of Federal Regulations) Part 84 regarding the uniform administrative requirements for Federal grants awarded to nonprofit organizations. Further, EdgeAlliance did not maintain written policies regarding how to account for program funds and matching contributions in its financial management systems.

In July 2014, the chief operating officer updated the project's chart of accounts to include descriptions designed to show the percentage allocable to the program funds and matching contributions for select expense accounts.⁸ However, the percentages used were general estimates that were not (1) always accurate, (2) based upon specific allocation bases or actual expenses from prior years, (3) fully integrated into the project's accounting system, or (4) regularly used to manually compare budgeted amounts to actual expenditures. Further, EdgeAlliance did not have a system in place to ensure the accuracy of the percentages if expenses fluctuated from period to period.

EdgeAlliance also did not maintain other records, such as voucher packages or match logs, to show the expenses paid for with program funds and matching contributions. However, EdgeAlliance maintained source documentation, such as invoices, receipts, and check stubs, for expenses. The chief operating officer reviewed the source documentation, matched it with a

⁷ EdgeAlliance's accounting system showed that the other operating account included several types of funds, such as program funds, Housing Opportunities for Persons with AIDS funds from the City of Chicago, non-Federal Supportive Housing Program funds from the Illinois Department of Human Services, and donations.

⁸ Before July 1, 2014, the project's accounting system did not associate expenses with funding sources.

voucher if she believed it was associated with project expenses under the program, and then provided it to us.

Lack of Sufficient Documentation To Support the Use of Program Funds

Although we were generally unable to determine whether program funds were used specifically for project expenses based on EdgeAlliance’s financial management systems, we reviewed the source documentation that the chief operating officer associated with the vouchers to determine whether it supported that project expenses were eligible under the program. Contrary to Federal regulations, EdgeAlliance could not provide sufficient documentation to support that it used nearly \$687,000 in program funds for eligible project expenses. The following table shows the unsupported category and the amount of program funds disbursed for unsupported expenses and drawn down without source documentation or sufficient payment records.

Unsupported category	Program funds
Salaries and wages	\$276,828
Draws with no source documentation	256,551
Utilities	63,049
Equipment maintenance and repairs	20,180
Telephone	15,995
Property insurance	12,973
Draws with insufficient payment records	11,939
Credit card purchases ⁹	6,942
Supplies (maintenance and office)	5,584
Equipment	4,018
Locksmith services	3,429
Internet services	2,369
Insurance (automobile, directors, and officers)	2,359
Miscellaneous ¹⁰	1,697
Postage	1,469
Security	<u>1,319</u>
Total	<u>\$686,701</u>

⁹ The credit card purchases were from a home improvement specialty retailer.

¹⁰ The miscellaneous unsupported category included pest control, garbage services, internet services (for residents), vehicle gas, sales tax, and an appliance store charge.

EdgeAlliance used nearly \$277,000¹¹ in program funds for unsupported salaries and wages. Before July 2014, it did not maintain documentation to support the time that employees spent working on the project. In July 2014, it started using grant tracking sheets to support the amount of time employees spent on grants. However, the chief operating officer stated that the grant tracking sheets included predetermined estimates rather than after-the-fact determinations of the actual amount of time employees spent on project activities.

EdgeAlliance drew down nearly \$257,000 in program funds for which it did not provide source documentation, such as checks and invoices or receipts, to support the use of the program funds. The chief operating officer stated that she believed that some of these program funds were used to pay for the salaries and wages of EdgeAlliance's employees.¹²

EdgeAlliance used more than \$63,000 in program funds to pay for unsupported utility expenses, including gas, electricity, and water. The first floor of the three-story project did not include supportive housing units.¹³ As of November 2015, EdgeAlliance had not provided an acceptable allocation method to support the portion of the utility expenses eligible to be charged to the program for the project.

Program Funds Were Used for Improper Operating Expenses

EdgeAlliance used nearly \$88,000 in program funds for improper operating expenses. The following table shows the expense category and the amount of program funds disbursed for the improper operating expenses.

¹¹ The nearly \$277,000 in unsupported salaries and wages included nearly \$151,000 for operating costs, nearly \$73,000 for supportive services, and more than \$53,000 for administration. All of the program funds drawn down from July 1, 2012, through December 31, 2014, for supportive services and administration were used for these unsupported salaries and wages.

¹² We were unable to determine whether program funds were used for the salaries and wages because the financial management systems did not adequately show how program funds were used.

¹³ The first floor consisted of EdgeAlliance's administrative offices, a security office, computer and television rooms for the project's residents, and other common areas.

Expense category	Program funds
Equipment maintenance and repairs	\$27,288
Expenses not associated with the project	17,199
Building maintenance and repairs*	13,105
Accounting and auditing services	7,850
Internet services (for residents)	7,606
Gas (for generator)	4,259
Landscaping (for beautification)	2,820
Miscellaneous* ¹⁴	2,653
Fees and penalties	1,941
Cable television	1,067
Duplicate payments	972
Building assessment	<u>891</u>
Total	<u>\$87,651</u>

*Expenses associated with common areas.

EdgeAlliance used more than \$27,000 in program funds to pay for improper equipment maintenance and repair expenses. The following items are examples of improper equipment maintenance and repair costs: (1) computer-related costs, such as user account maintenance, monthly security bulletin updates, personal computer repairs and updates, monthly managed services, and remote maintenance for servers and workstations; (2) generator-related costs, such as installation of new batteries, annual inspections, and remote monitoring; and (3) repair of an electrical bypass automatic transfer switch in a control panel with flood damage.

EdgeAlliance used more than \$13,000 in program funds to pay for improper building maintenance and repair expenses associated with the project's common areas. The following items are examples of improper building maintenance and repair costs: repair of concrete at the front entrance, installation of a new gutter, replacement of double-pane glass at the front entrance, replacement of tiles in the second and third floor hallways, installation of a new commercial door closer at the second floor stairwell, and supply and installation of a commercial touch bar exit device and replacement of an electric strike for a television room door.

The chief operating officer said that in April 2014, she met with staff from HUD's Chicago Office of Community Planning and Development to obtain a better understanding of the purpose of, reporting requirements for, and allowable costs associated with Continuum of Care program

¹⁴ The improper miscellaneous operating expense category included an iPad, clothing, pest control,* locksmith services (administrative), furniture,* towing services, and a coffee maker.

grants. Before the meeting, she was not aware of the specific allowable and unallowable costs associated with the grants.

Conclusion

The weaknesses described above occurred because EdgeAlliance lacked adequate procedures and controls for administering its program funds for the project to ensure that the funds were used in accordance with Federal regulations. As a result, HUD and EdgeAlliance lacked assurance that nearly \$687,000 in program funds was used for eligible project expenses. Further, nearly \$88,000 in program funds was not available for eligible project expenses.

Recommendations

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

- 1A. Support or reimburse its program from non-Federal funds for the \$686,701 in program funds drawn down for which it did not provide sufficient documentation to support that the funds were used for eligible project expenses.
- 1B. Reimburse HUD from non-Federal funds for the \$87,651 in program funds used for improper operating expenses.
- 1C. Implement adequate procedures and controls to ensure that (1) its financial management systems adequately show how program funds and matching contributions for the project are used and (2) it uses program funds for the project in accordance with Federal regulations.

Scope and Methodology

We performed our audit work from March through August 2015 at the project located at 1251 South Sawyer Avenue, Chicago, IL, and HUD's Chicago regional office located at 77 West Jackson Boulevard, Chicago, IL. The audit covered the period July 2012 through December 2014.

To accomplish our objectives, we reviewed

- Applicable laws, Federal regulations at 2 CFR Parts 215 and 230; HUD's regulations at 24 CFR Parts 84, 578, and 583; HUD's Supportive Housing Program desk guide; HUD's grant agreements with EdgeAlliance for program funds; data in HUD's Line of Credit Control System; and HUD's files for the project.
- EdgeAlliance's accounting records, audited financial statements for 2011 through 2013, organizational charts, and job descriptions associated with the project.
- The project's accounting records and source documentation associated with project expenses.

In addition, we interviewed EdgeAlliance's chief operating officer and HUD's staff.

Finding

We selected for review more than \$934,000 in program funds EdgeAlliance drew down from HUD's Line of Credit Control System through 16 vouchers from July 1, 2012, through December 31, 2014, to determine whether EdgeAlliance used program funds for the project in accordance with Federal requirements. The more than \$934,000 in program funds included more than \$808,000 for operating costs, nearly \$73,000 for supportive services, and more than \$53,000 for administration. Although we were generally unable to determine whether program funds were used specifically for project expenses based on EdgeAlliance's financial management systems, we reviewed the source documentation that EdgeAlliance's chief operating officer associated with the vouchers to determine whether it supported that project expenses were eligible under the program.

We relied in part on the data from HUD's Line of Credit Control System. Although we did not perform a detailed assessment of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes. Further, we performed minimal levels of testing on EdgeAlliance's financial management systems and determined that the systems did not adequately show how program funds were used. Therefore, we were unable to rely on data from these systems to show which expenses were paid with the program funds.

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

objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

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

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

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

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- EdgeAlliance lacked adequate procedures and controls for administering its program funds for the project to ensure that the funds were used in accordance with Federal regulations (see finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		<u>\$686,701</u>
1B	<u>\$87,651</u>	
Totals	<u>\$87,651</u>	<u>\$686,701</u>

- 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.
- 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

EdgeAlliance, Inc. Comment to the OIG Discussion Draft Audit

Report Number: 2016-CH-100X

October 26th, 2015

Comment 1

EdgeAlliance's Board agrees with the core findings of the Audit report. Our Operations Officer, [REDACTED] is actively working to identify and to find the right documentation to comply with the appropriate regulations. However, this is proving especially difficult as the transgressions were under different leadership at EdgeAlliance.

Comment 2

Before the Office of the Inspector General contacted the agency recently to commence its audit, the EdgeAlliance Board had been working through a restructuring and transformation plan to address these issues for nearly two years.

Comment 3

Two years prior to this fiscal year, the administration of the continuum of care program funds for the Daniel R. Ruscitti Phoenix House followed a "greatest need" philosophy vs. a careful and strict adherence with regulations. The individuals at EdgeAlliance who managed according to "need" instead of "compliance" have all left or have been fired from the Agency. In fact one of those former employees is the individual who contacted the Office of the Inspector General.

Comment 4

[REDACTED] was hired by EdgeAlliance with the important purpose of managing our HUD compliance and establishing an-going partnership with HUD. Over the last 18 months she has been working extremely hard to do this. Particular attention has been on managing to allowed salary amounts, building repeatable compliance processes and providing the necessary supported documentation for all amounts.

Comment 5

The two major discrepancy amounts in the Audit Report are \$ 276,828 and \$ 256,551 which were the result of salaries from the previous staff who were located off campus instead of on campus and who did not keep accurate records of their work time and activities. None of these individuals is with the Agency any longer.

Comment 6

Starting in July 2014 current staff have been recording their time on grant tracking sheets to assist in process payroll. Since April of 2015, [REDACTED] has trained staff on recording their hours per building in specific segments instead of the agency using percentages.

Additional Audit Report items being further addressed and documented:

- The utilities line items were redefined with 66.5% of the Phoenix building being used for the residents and 33.5% used for staff/administrative. In which EdgeAlliance will submit these percentages for re-review to use the 66.5% vs 33.5% allowable rate.

Ref to OIG Evaluation

Auditee Comments

Comment 7

- [REDACTED] is working to readdress the following expenses because they were for the residents but were not included in previous budgets (Internet services \$ 2497, Telephone \$ 16,090 and Property Insurance \$ 12,973).

Comment 8

Additionally, [REDACTED] and the team have implemented significant other changes to ensure current and future compliance:

- New accounting Policies and Procedures have been established
- Each invoice has an expense sheet which provides the expense and funder information on it. Also once the invoice is processed and paid the check stub is included for supportive documentation.
- The budget is updated with more details on expenses by line item.
- Accounting Software (Quickbooks) has been updated with class so that now reports can be run to show HUD only expenses.

In summary, quite a bit of painful change has taken place at EdgeAlliance over the last 24 months. We needed to change a culture that had existed at EdgeAlliance for 20 years. A culture focused on helping others, to be sure, but not prioritizing appropriate compliance. We are finally getting the right people and the right processes in place and our relationship with HUD has significantly improved. We would like to carry on the mission of supporting vulnerable individuals and families with supportive housing and services and feel we are really turning the corner on being a good partner with HUD. Thank you for your consideration.

Paul Dillon



Acting Chairman of the Board



OIG Evaluation of Auditee Comments

- Comment 1 EdgeAlliance stated that its operations officer is working to find the right documentation to comply with the appropriate regulations. The acting chairman of EdgeAlliance's board of directors referred to the current chief operating officer as the operations officer.
- Comment 2 EdgeAlliance stated that the transgressions were under different leadership at EdgeAlliance. The current chief operating officer drew down more than \$340,000 of the more than \$934,000 in program funds we reviewed. The more than \$340,000 included more than \$237,000 for which EdgeAlliance could not provide sufficient documentation to support that the program funds were used for eligible project expenses and more than \$22,000 EdgeAlliance used for improper operating expenses.
- Comment 3 EdgeAlliance stated that the individuals who managed according to need instead of compliance have all left or been fired, and one of those former employees is the individual who contacted the Office of Inspector General. We informed EdgeAlliance's staff and board members that we selected the project for review based upon an anonymous citizen's complaint.
- Comment 4 EdgeAlliance stated that the two major discrepancy amounts in the audit report were \$276,828 and \$256,551 which were the result of salaries from the previous staff who were located off campus instead of on campus and who did not keep accurate records of their work time and activities.
- In February 2014, EdgeAlliance moved its administrative staff from its administrative offices located at 212 East Ohio Street, Chicago, IL, to its offices located at the project. Nearly \$92,000 of the nearly \$277,000 in program funds EdgeAlliance used for unsupported salaries and wages and more than \$104,000 of the nearly \$257,000 in program funds EdgeAlliance drew down for which it did not provide source documentation to support the use of the program funds were drawn down from April through December 2014. The chief operating officer stated that she believed that some of these program funds that lacked source documentation were used to pay for the salaries and wages of EdgeAlliance's employees. However, EdgeAlliance did not provide documentation to support that the nearly \$257,000 was used for salaries and wages of employees.
- Comment 5 EdgeAlliance stated that since April 2015, its chief operating officer has trained staff on recording their hours per building in specific segments instead of using percentages. EdgeAlliance should work with HUD's Chicago Office of Community Planning and Development to ensure that it maintains sufficient documentation to support the time that employees spend working on the project.
- Comment 6 EdgeAlliance stated that the utility expenses were redefined with 66.5 percent of the project being used for the residents and 33.5 percent of the project being used

for staff or administrative activities. EdgeAlliance will submit these percentages for review. EdgeAlliance should work with HUD's Chicago Office of Community Planning and Development to support the utility expenses.

- Comment 7 EdgeAlliance stated that its chief operating officer is working to readdress the expenses for telephone, property insurance, and internet services because they were for the residents but were not included in previous budgets. EdgeAlliance should work with HUD's Chicago Office of Community Planning and Development to support the expenses for telephone, property insurance, and internet services.
- Comment 8 EdgeAlliance stated that it has implemented significant other changes to ensure current and future compliance. EdgeAlliance should work with HUD's Chicago Office of Community Planning and Development to resolve recommendation 1C.

Appendix C

Federal Requirements

HUD's 2011 Supportive Housing Program grant agreement with EdgeAlliance (grant number IL0221B5T101104) states that the grant agreement is governed by the McKinney-Vento Homeless Assistance Act, 24 CFR Part 583, and the applicable notice of funding availability.

HUD's 2012 and 2013 Continuum of Care program grant agreements with EdgeAlliance (grant numbers IL0221L5T101205 and IL0221L5T101306) state that the grant agreements are governed by the McKinney-Vento Homeless Assistance Act, the Continuum of Care program regulations,¹⁵ and applicable notices of funding availability.

Regulations at 24 CFR 84.21(b)(1) state that recipients' financial management systems must provide for accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. Section 84.21(b)(2) states that the systems must provide for records that adequately show the source and application of funds for federally sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest. Section 84.21(b)(7) states that recipients' financial management systems must provide for accounting records supported by source documentation.

Regulations at 24 CFR 578.99(e) state that nonprofit recipients must comply with the requirements of 24 CFR Part 84 and 2 CFR Part 230.

Regulations at 24 CFR 583.330(c) state that policies, guidelines, and requirements of Office of Management and Budget Circulars A-110 and A-122 apply to the acceptance and use of assistance by nonprofit organizations except when inconsistent with the provisions of the McKinney-Vento Homeless Assistance Act, other Federal statutes, or 24 CFR Part 583.

Federal regulations at 2 CFR 215.21(b)(1)¹⁶ state that recipients' financial management systems must provide for accurate, current, and complete disclosure of the financial results of each federally sponsored project or program. Section 215.21(b)(2) states that the systems must provide for records that adequately show the source and application of funds for federally sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest. Section 215.21(b)(7) states that recipients' financial management systems must provide for accounting records supported by source documentation.

¹⁵ Continuum of Care program regulations are at 24 CFR Part 578.

¹⁶ Office of Management and Budget Circular A-110 was relocated to 2 CFR Part 215.

Appendix A, section A.2, of 2 CFR Part 230¹⁷ requires all costs to be reasonable, allocable to the award, and adequately documented. Section A.3 states that in determining the reasonableness of a given cost, consideration must be given to whether the cost is of a type generally recognized as ordinary and necessary for the performance of the award. Section A.4 states that a cost is allocable to a Federal award if it is incurred specifically for the award and benefits both the award and other work and can be distributed in reasonable proportion to benefits received. Paragraph 8.m.1 of appendix B states that charges to awards for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports. Paragraph 8.m.2.a states that the reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates, such as estimates determined before the services are performed, do not qualify as support for charges to awards.

¹⁷ Office of Management and Budget Circular A-122 was relocated to 2 CFR Part 230.