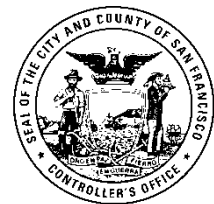


HOMELESSNESS AND SUPPORTIVE HOUSING:

**Increased Oversight, Fiscal
Sponsorship Controls, and
Accountability Are Needed to
Improve The United Council of
Human Services' Operations**



August 28, 2017

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

The City Services Auditor Division (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Charter Appendix F grants CSA broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Chief Audit Executive Tonia Lediju at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Audit Team: Mamadou Gning, Principal Auditor
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City and County of San Francisco

Office of the Controller - City Services Auditor

**Homelessness and Supportive Housing:
Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are
Needed to Improve The United Council of Human Services' Operations**

August 28, 2017

Why We Conducted the Audit

In 2015 The United Council of Human Services (UCHS), a nonprofit organization, received about \$1.5 million in federal grant funding through the City and County of San Francisco (City) to provide services for the homeless. The audit was conducted to determine whether UCHS used city funds for their intended purposes and whether costs claimed by UCHS were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the awards. Also, the audit assessed UCHS's internal controls over its payroll and reimbursement processes. Further, the audit assessed UCHS's internal governance and Board of Directors (board) to determine whether both provide an appropriate level of fiscal oversight.

The City's Human Services Agency, which requested the audit, administered UCHS's grants until the City's Department of Homelessness and Supportive Housing assumed this responsibility in August 2016. The audit also involved the Bayview Hunters Point YMCA (YMCA), which in 2009 became UCHS's fiscal agent to provide fiscal oversight services.

What We Found

UCHS's governance structure impedes its ability to be a sustainable organization.



- UCHS's board does not have some basic policies and does not adhere to its bylaws. Consequently, three board members served longer terms than allowed.
- Board members do not have the required financial expertise to properly oversee UCHS.
- UCHS's board generally does not provide adequate oversight, which increases the risk of ineffective management.

Improvement in UCHS's financial operations requires a transition from a fiscal agent to a fiscal sponsor and a new organizational structure.



- UCHS's fiscal agent, YMCA, has insufficient access to the records of UCHS's key financial operations.
- UCHS could lose its nonprofit status and grant funding because it does not always comply with federal tax and audit requirements.
- UCHS's organizational structure hinders its financial viability.

UCHS expenditures and payroll processes are flawed. Some payments were not verified as allowable due to insufficient supporting documentation.



- The audit could not verify that \$88,140 of expenditures was reasonable or allowable due to missing support, illegible receipts, and/or misclassified items.
- YMCA overbilled the Human Services Agency \$715 for improperly allocated fees.
- The audit could not verify the employment of 93 percent of former or current UCHS employees sampled because UCHS did not provide files for these employees.

What We Recommend

The report includes 28 recommendations for the Department of Homelessness and Supportive Housing to improve UCHS's organizational structure and compliance with federal guidelines. Specifically, the Department of Homelessness and Supportive Housing should:

- Direct UCHS to adhere to its bylaws' requirements on board composition and the maximum term of board members.
- Direct UCHS to require its board members to periodically review the organization's governing policies and procedures, including its bylaws, and have board members affirm in writing that they have done so.
- Ensure that UCHS's board includes at least one member with a formal background in finance.
- Assist UCHS's fiscal agent to become UCHS's fiscal sponsor; a fiscal sponsor would have more responsibility over UCHS's operations.
- Ensure that UCHS files its tax returns when due and files for extensions when needed.
- Ensure that UCHS develops a finance team to support the organization's various functions, which include business planning, budgeting, accounting, and human resources activities.
- Require UCHS's fiscal agent to fulfill its duties by ensuring that UCHS provides full and accurate receipt support for food and kitchen supply expenditures.
- Ensure that fees incurred are billed proportionally to each UCHS funding source based on the program assignments of UCHS employees.
- Ensure that UCHS's fiscal agent appropriately maintains all files, records, and documents in a readily accessible location to allow the fiscal agent to properly oversee UCHS's payroll process.

The report also includes two recommendations for the Human Services Agency: to recover overpaid funds, including \$715 from YMCA for a payroll-processing fee and taxes it overcharged, and to require YMCA to review all its payroll records and reimburse the agency for the total amount YMCA overcharged.

Copies of the full report may be obtained at:

*Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>*



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 28, 2017

Mr. Jeff Kositsky
Director
Department of Homelessness and Supportive Housing
1360 Mission Street, Suite 200
San Francisco, CA 94103

Mr. Trent Rhorer
Executive Director
Human Services Agency
170 Otis Street, 8th Floor
San Francisco, CA 94103

Dear Mr. Kositsky and Mr. Rhorer:

The Office of the Controller's City Services Auditor Division (CSA) presents its audit report of The United Council of Human Services (UCHS), a recipient of grants now managed by the Department of Homelessness and Supportive Housing (HSH) and formerly managed by the Human Services Agency (Human Services) of the City and County of San Francisco (City). The audit had as its objectives to determine whether costs claimed by UCHS were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant awards. Also, the audit assessed UCHS's internal controls over its payroll and reimbursement processes. Further, the audit assessed UCHS's internal governance and its Board of Directors (board) to determine whether both provide an appropriate level of fiscal oversight.

Among the audit's conclusions are that:

- The composition of the UCHS board does not comply with UCHS bylaw requirements.
- Board members must become more familiar with their responsibilities and the organization's governing procedures, including its bylaws.
- UCHS's fiscal agent, Bayview Hunters Point YMCA (YMCA), has insufficient access to UCHS's critical financial records, which impedes its ability to ensure that UCHS is a fiscally viable organization.
- UCHS expenditures and payroll processes are flawed.
- Due to missing support, illegible receipts, and misclassified items, it is impossible to verify whether \$88,140 of UCHS's expenditures were allowable.

The report includes 28 recommendations for HSH and 2 recommendations for Human Services to ensure that UCHS develops appropriate practices in accordance with fundamental board policies, establishes policies and procedures regarding board member responsibilities, implements adequate oversight of financial operations, and improves the overall payroll and disbursement process.

The responses of HSH, Human Services, and UCHS to the report are attached in the appendices. CSA will work with HSH and Human Services to follow up on the status of the recommendations made in this report.

CSA appreciates the assistance and cooperation of HSH, Human Services, the Mayor's Office of Housing and Community Development, YMCA, and UCHS staff during the audit. For questions about the report, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

A handwritten signature in black ink, appearing to read 'Tonia', with a stylized flourish at the end.

Tonia Lediju
Chief Audit Executive

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

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GLOSSARY OF TERMS

Board	Board of Directors
City	City and County of San Francisco
Controller	Office of the Controller
CSA	City Services Auditor Division of the Office of the Controller
GAO	U.S. Government Accountability Office
Human Services	Human Services Agency
HSH	Department of Homelessness and Supportive Housing
HUD	U.S. Department of Housing and Urban Development
MOHCD	Mayor's Office of Housing and Community Development
OMB	U.S. Office of Management and Budget
UCHS	United Council of Human Services
VA	U.S. Department of Veterans Affairs
YMCA	Bayview Hunters Point YMCA

INTRODUCTION

Audit Authority

This audit was conducted under the authority of the Charter of the City and County of San Francisco (City), Section 3.105 and Appendix F, which requires that the City Services Auditor (CSA) of the Office of the Controller (Controller) conduct periodic, comprehensive financial and performance audits of city departments, contractors, services, and activities.

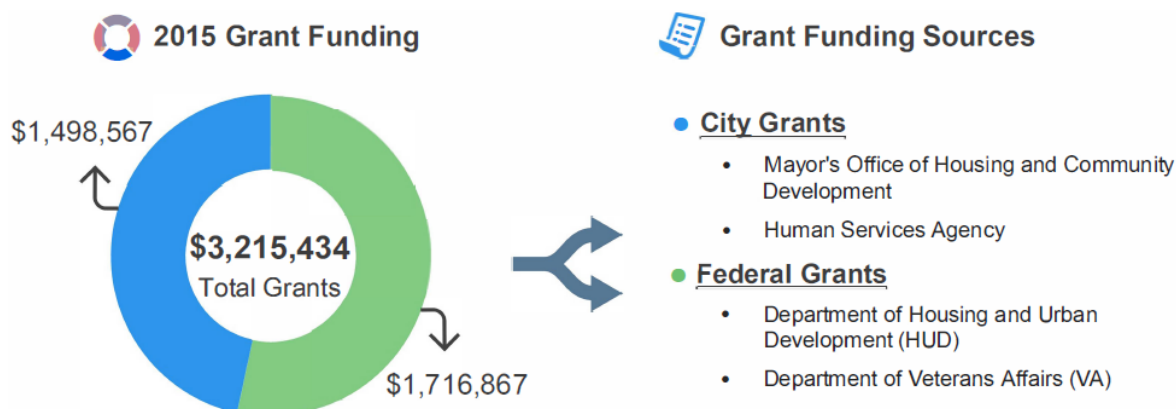
Background

United Council of Human Services

The United Council of Human Services (UCHS) is a nonprofit organization that began in San Francisco as a mobile outreach program more than 30 years ago to provide services to homeless and low-income families. UCHS's Bayview Hunters Point Multi-Service Drop-In Center opened in 1997 and UCHS reports that the center has delivered more than 1 million service units to individuals and families by providing food, clothing, employment assistance, job preparation training, housing assistance, and various other services. UCHS's mission is to reduce hunger and poverty through self-help, one life at a time.

Exhibit 1 shows UCHS's grant funding sources.

EXHIBIT 1 UCHS Grant Funding Sources in 2015



Source: UCHS's 2015 federal tax return.

Human Services Agency

According to the City's Human Services Agency (Human Services), it began doing business with UCHS in 1998 and, in June 2015, had two agreements with UCHS. Human Services managed both agreements at the beginning of the audit period. Human Services is the central resource for public assistance in the City. The department's mission is to promote well-being and self-sufficiency among individuals, families, and communities in San Francisco.

Department of Homelessness and Supportive Housing

The City's Department of Homelessness and Supportive Housing (HSH) launched in August 2016. According to Human Services, later that year management of the City's UCHS agreements was transferred from Human Services to HSH. Thus, most recommendations in this audit report are directed to HSH as the department now responsible for these agreements.

HSH combines key homeless-serving programs and contracts with the City's Department of Public Health, Human Services, Mayor's Office of Housing and Community Development (MOHCD), and Department of Children Youth and Their Families. HSH's mission is to prevent and end homelessness in San Francisco. HSH strives to make homelessness in San Francisco rare, brief, and one-time.

Besides its grant agreements with Human Services, UCHS also has one with MOHCD. Human Services and MOHCD have made grants to UCHS to provide services to low- and moderate-income communities.

Exhibit 2 shows the city grants provided to UCHS during the audit period.

Office of the Controller, City Services Auditor
Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve
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EXHIBIT 2 UCHS's Active City Grants in 2015

Award Amount	Grant Name	Term	Responsible Department ^d
\$6,548,460	UCHS Resource Center Bayview Drop-In	7/1/14 - 6/30/19	Human Services
\$3,936,616 ^a	Hope House and Bayview Drop-In Center ^b	6/1/12 - 6/30/15 ^c	Human Services
\$50,000	Public Services – Homeless Services	7/1/15 - 6/30/16	MOHCD

Notes:

^a Human Services is a pass-through entity and administers the funds the U.S. Department of Housing and Urban Development (HUD) provides.

^b Official name per the agreement is "UCHS Fiscal Agent/Hope House/Bayview Drop-in."

^c Effective 2015 the agreement was extended through 2018 with an additional amount of \$2,538,423.

^d In August 2016 responsibility for the two Human Services grants was transferred to HSH.

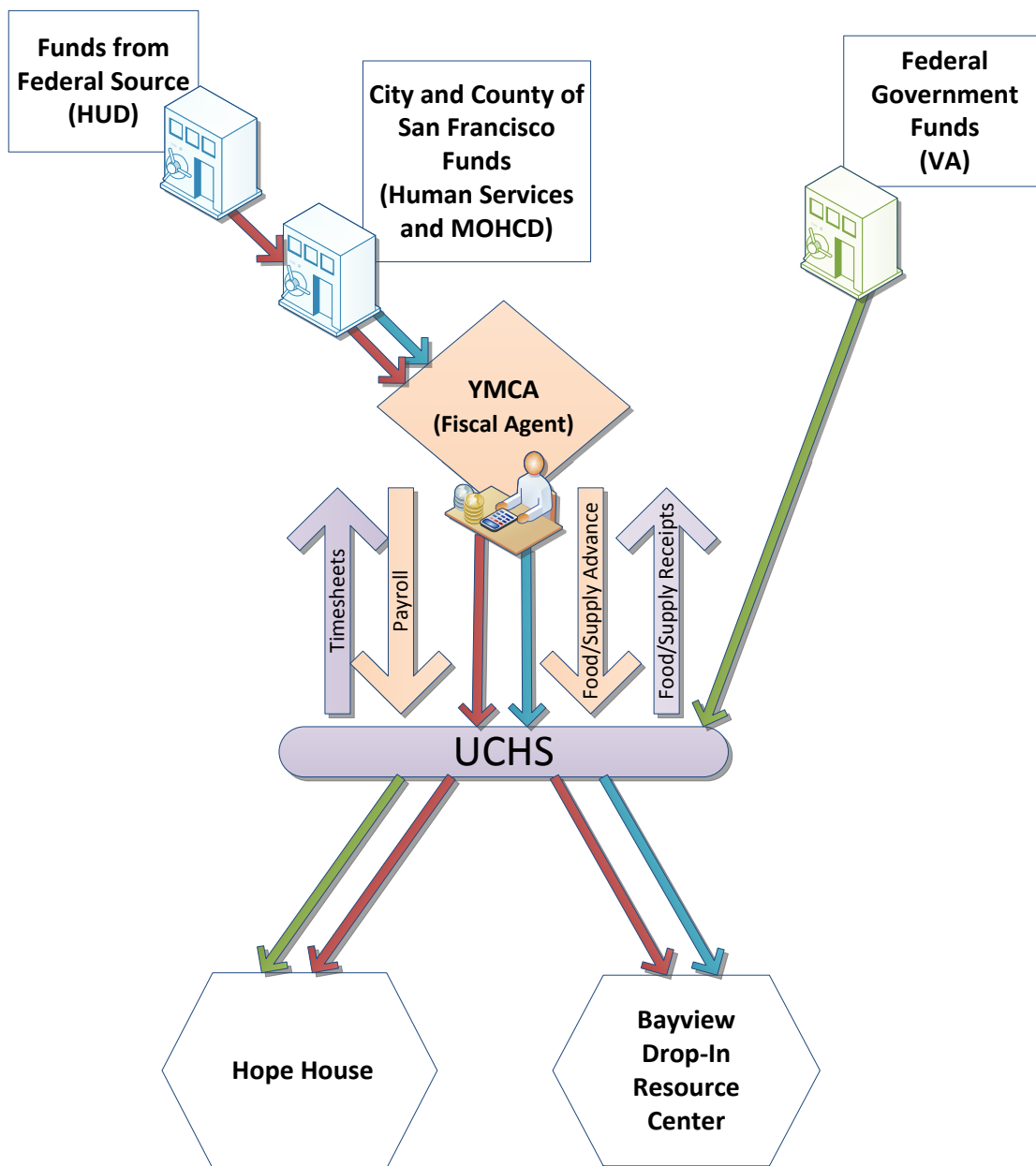
Source: City agreements with UCHS.

According to Human Services, Bayview Hunters Point YMCA (YMCA) was selected as the fiscal agent of UCHS in 2009 due to UCHS's deficiencies in financial recordkeeping and the issues Human Services faced when trying to obtain UCHS's audited financial statements. YMCA was contracted to provide fiscal oversight services on behalf of UCHS for its grant agreements. The agreement between the organizations requires YMCA to provide numerous services to UCHS, which include:

- Research, identify, codify, and implement fiscal and operating policies and procedures UCHS is to use.
- Help UCHS develop its organizational budget and program budgets.
- Train UCHS on effective fiscal management.
- Meet weekly with UCHS to discuss and resolve fiscal and operating issues.
- Submit invoices to Human Services on behalf of UCHS for all programs Human Services funds.
- Assist UCHS with financial reporting and all phases of the fiscal audit process.
- Help UCHS to establish and maintain program records.

Exhibit 3 shows the flow of federal and city funds to UCHS and the relationship between YMCA and UCHS.

EXHIBIT 3 Relationship Between YMCA and UCHS



Note: In August 2016 responsibility for Human Services' agreements with UCHS was transferred to HSH.

Source: UCHS agreements with the City and internal control interviews with relevant stakeholders.

Objectives

The primary objectives of this audit were to:

1. Determine whether costs claimed by UCHS are allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the award(s).
2. Assess UCHS's internal controls over its payroll and reimbursement processes to ensure that the organization's practices are consistent with federal internal control guidelines.
3. Assess UCHS's governance and Board of Directors (board) to determine whether both provide an appropriate level of oversight.

Scope and Methodology

CSA gathered information to evaluate UCHS's board and fiscal oversight. The audit included UCHS expenditures the City reimbursed during July 1, 2012, through June 30, 2015.¹ Specifically, CSA:

- Reviewed UCHS's agreements and policies to determine applicable requirements.
- Interviewed key staff about UCHS practices and the oversight YMCA and Human Services provide.
- Interviewed or administered an electronic questionnaire to board members to learn about UCHS practices and members' ability to provide necessary oversight.
- Tested a sample of 60 UCHS expenditures from fiscal years 2012-13 through 2014-15 to verify that:
 - Expenses had adequate receipt/invoice support.
 - Expenses appeared to be in line with the agreement.
 - Expenses were charged to the correct cost center.

¹ Program deliverables required of UCHS by its agreements with the City were outside the audit scope.

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UCHS's Operations

- Food and kitchen supplies were fully supported with receipt support.
- Tested records for a sample of 17 UCHS employees from fiscal years 2013 through 2015. The records were tested to verify that:
 - Wages were paid accurately.
 - Timesheets were appropriately approved.
 - The employee is chargeable to the City.
 - Amount billed to Human Services agrees with payroll records.
- Tested a sample of 14 UCHS personnel files from UCHS's list of former and current employees, provided by YMCA. The personnel files were tested to verify that individuals paid as employees were, in fact, UCHS employees, and that files contained sufficient documentation.

Statement of Auditing Standards

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

CHAPTER 1 – UCHS's Governance Structure Impedes Its Ability to Be a Sustainable Organization

Summary

UCHS's governance structure needs significant improvement. UCHS's board composition does not comply with its bylaws or meet the organization's needs. The board inadequately oversees the organization, does not have fundamental nonprofit organization policies and procedures, and does not comply with its written policies. Further, some board members are unaware of some of their key responsibilities.

Finding 1.1

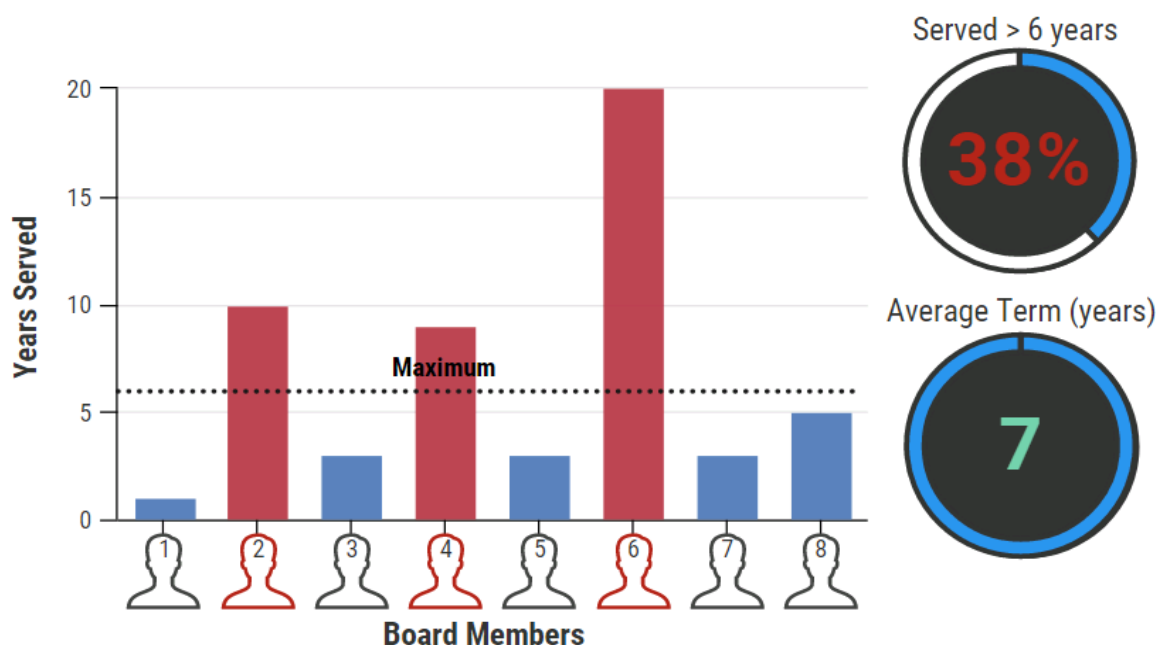
The composition of the UCHS board does not comply with the organization's bylaws.

UCHS's board is smaller than required, some board members have served longer than allowed, and two of its required committees do not exist.

Contrary to its bylaws, UCHS has fewer than the minimum required 13 board members, has board members that have served for more than the maximum of six consecutive years, and does not have two of the required board committees. UCHS's bylaws state that the board must consist of at least 13 persons and no more than 20 and that no director may serve more than two consecutive three-year terms (six consecutive years). However, according to UCHS's executive director, the board has only eight members, five fewer than the policy requires. Also, of the eight board members, three have been on the board for more than the six consecutive years the bylaws allow.

Exhibit 4 summarizes the board's membership.

EXHIBIT 4 Three UCHS Board Members Have Served Longer Than the Six-Year Maximum Term Allowed



Note: CSA interviewed two board members and sent the remaining six an electronic questionnaire on board member responsibilities. Of these six, four fully completed the questionnaire, one partially completed it, and one did not respond.

Source: Years of services provided by UCHS executive director and board members' responses to CSA's survey.

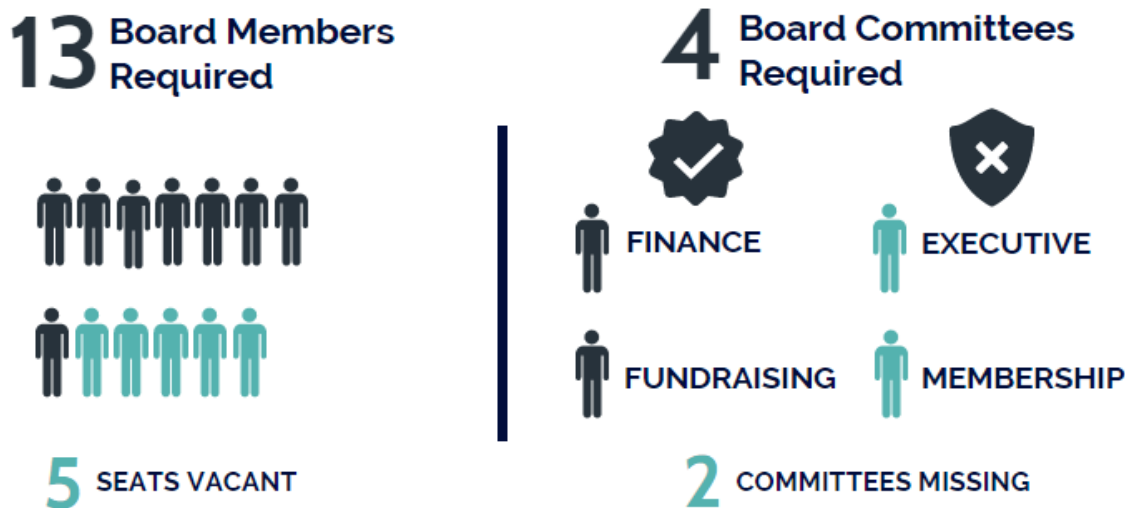
Also, UCHS's board does not have two of the four standing committees the bylaws require. The bylaws state there shall be an:

- Executive Committee
- Finance Committee
- Fundraising Committee
- Membership Committee

According to board members interviewed, a Finance Committee exists. Also, two board members surveyed indicated that they were on the Fundraising Committee. However, no board members identified involvement in an Executive Committee or Membership Committee.

Exhibit 5 outlines the board-related exceptions to the requirements of the bylaws.

EXHIBIT 5 The UCHS Board Does Not Meet Some Bylaws Requirements



Source: UCHS board member responses to CSA's survey and interview questions.

The Executive Committee is imperative, as this committee is to supervise the ordinary business affairs of UCHS and to make decisions in emergency situations when official action is needed on short notice. Without this committee, UCHS's board may be unable to quickly make organizational decisions outside of board meetings.

The fact that UCHS has fewer than the required 13 board members could be a direct result of not having a Membership Committee. UCHS's bylaws state that the Membership Committee is to recruit potential board members.² Because it has too few members, the board is less able to create or operate all the committees it should have and, consequently, cannot fulfill some of its oversight duties.

UCHS's board does not always adhere to its bylaws, which may be because they are outdated or largely ignored.

Although bylaws exist to guide the organization's activities, the board does not always adhere to this guidance. This may be partly because the bylaws are outdated.

² The bylaws state that the Membership Committee is to nominate officers and directors for election and to recruit and recommend potential board members to the organization.

According to its executive director, UCHS last updated its bylaws in 2010. Also, the board may not follow the bylaws because it is unaware of what they require. For example, one board member indicated that he had never read the organization's bylaws although he had been on the board for about three years. Also, at least two board members stated that they were unaware of when the bylaws were last updated.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should direct UCHS to:

1. Adhere to requirements in its bylaws regarding board composition and the board member term limit.
2. Review its bylaws to determine whether all requirements still apply and to update any requirement necessitated by changed conditions and that is in the organization's best interests.
3. Require its board members to periodically review the organization's governing policies and procedures, including its bylaws, and have board members sign a document affirming that they have done so.

Finding 1.2

UCHS's board does not have the financial expertise needed to ensure proper governance of the organization.

UCHS board members do not have the finance knowledge needed to successfully oversee the organization.

UCHS does not have board members with financial expertise, which impedes the board's ability to effectively oversee its critical financial responsibilities.

UCHS's bylaws state that the Finance Committee—which has three members, according to UCHS's executive director—is responsible for overseeing UCHS's fiscal affairs. This responsibility includes overseeing UCHS's assets and recommending financial policies. However, when committee members were asked how they gained experience in reviewing financial statements, all indicated they did not have any formal experience or education in finance. When asked

if any board member meets the definition of a finance expert,³ the board president confirmed that no board member has financial expertise.

Finance Committee members do not have the experience and education necessary to ensure that the organization's financial health is intact. Board members must act as trustees of the organization's assets and must exercise due diligence to ensure that the organization is well-managed and that its financial situation remains sound. To do so, according to BoardSource,⁴ board members must have the knowledge and experience to properly evaluate financial statements and financial audit reports and be able to recognize warning signs that might indicate a change in the overall health of the organization.

The UCHS board does not select the organization's outside auditor.

Reflecting its insufficient role in the organization's fiscal affairs, it appears that UCHS's board is not involved in selecting the organization's external financial auditor.⁵ Board members provided varying responses when asked about UCHS's process for identifying and selecting external auditors. Only one member stated that the board was involved in the selection process.

Traditionally, an organization's audit committee recruits and selects an organization's external auditor. However, because UCHS does not have an audit committee, its Finance Committee should fulfill this responsibility.

UCHS used an auditor with an expired license.

A 2015 U.S. Department of Veterans Affairs (the VA) Financial Services Center report states that UCHS was notified about problematic issues with its outside auditor. The report states that the public accounting firm UCHS used to complete its 2013 audit had an expired

³ In *Effective Audit Committees for Nonprofit Organizations*, BDO USA, LLP, (BDO) recommends that at least one audit committee member have financial expertise, which BDO defines as accounting or audit-related experience or training. According to its website, BDO is a firm that delivers assurance, tax, financial advisory, and consulting services to clients throughout the U.S. and around the globe.

⁴ BoardSource, *Fiduciary Responsibilities of Board Members*, 2010. The guidance refers to Andrew S. Lang, *Financial Responsibilities of Nonprofit Boards*, and Ober/Kaler attorneys at law, *The Nonprofit Legal Landscape*. According to its website, BoardSource is a national organization that works to strengthen nonprofit board leadership and its mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

⁵ The federal Single Audit Act requires organizations such as UCHS to undergo a financial statement audit (by an independent auditor) annually.

and delinquent license, which could cause its subsequent audits to be unacceptable.

Having a more qualified and involved Finance Committee could improve UCHS's external auditor selection process because at least some committee members would have the required knowledge and skills to identify and vet qualified auditors. Moreover, all committee members should be able to review and assess financial reports, financial statements, and financial audit reports to fulfill the board's duty to monitor the organization's financial health. The Finance Committee's failure to fulfill these key responsibilities increases the risk that UCHS could become noncompliant with grant guidelines and lose its approximately \$1.7 million in annual federal grant funding.

The UCHS board does not have key stakeholders. Including stakeholder representatives is a recommended practice.

Besides having no members with finance expertise, UCHS's board does not have key stakeholder group representatives. According to a board member, the board has neither a member who is a recipient of the organization's services nor one who represents a supporting agency.

Having a key stakeholder group or groups represented on the board could improve communication between UCHS and the community it serves—its clients—as well as between UCHS and supporting agencies. For example, community/recipient representation on the board may improve UCHS services because a current or former service recipient could provide insights about how programs should be improved. Also, a supporting agency representative on the board (as a non-voting member) could be a liaison between the two organizations and help to more quickly resolve any issues that may arise.

Guidance cited by the Minnesota Council of Nonprofits⁶ states that the composition and structure of a nonprofit organization's board of directors influence its ability to

⁶ Minnesota Council of Nonprofits, *Board Composition and Structure*. According to its website, the council is the largest statewide association of nonprofits in the U.S., with more than 2,100 nonprofit organizations as members. The council is part of the National Council of Nonprofits, which is the nation's largest network of nonprofits.

function and represent the community served. Board membership should reflect the diversity of the organization's constituencies.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

4. Ensure that UCHS's board includes at least two members who possess one or more of the following qualities:
 - Has a formal background in finance.
 - Receives or received UCHS's services.
 - Represents a supporting agency. (This would be a non-voting member.)
5. Ensure that UCHS's Finance Committee selects the organization's external financial auditor or recommends a firm or firms to the full Board of Directors so it can make the selection.

Finding 1.3

Some UCHS board members are unaware of their key oversight responsibilities and vital aspects of how the organization operates, increasing the risk of ineffective management.

UCHS's board generally does not provide adequate oversight, which increases the risk of ineffective management.

UCHS's board has no unified understanding of how the organization is managed or of its operations. Some board members are unaware of the organization's governing policies. Therefore, the board cannot be assured that the organization is managed effectively or that the governing policies are adhered to. For example, as stated in Finding 1.1, one board member stated that he had never read the organization's bylaws, despite being on the board for nearly three years.

The responses of UCHS board members to CSA's survey⁷ indicate that they are unaware of some of their critical oversight responsibilities. Specifically, they do not agree on standard criteria for key board responsibilities such as:

⁷ As mentioned in Finding 1.1, CSA sent six board members a questionnaire about board member responsibilities. Of these six, four fully completed the questionnaire, one partially completed it, and one did not respond.

- Setting the executive director's compensation.
- Evaluating the executive director's performance.
- Assessing the organization's overall performance.

Some board members appear to be unaware of who determines salary increases.

The responsibilities of a board include ensuring financial accountability by overseeing the organization's executive director and having processes to determine whether resources are used prudently.⁸ Based on their survey responses, UCHS board members do not agree on—or have only a vague notion of—the board's oversight duties. Specifically, some board member responses indicate that the respondents do not know who determines the executive director's compensation or when the executive director's last salary increase occurred. Unfamiliarity with important UCHS processes such as these increases the risk of improper executive compensation increases and other financial improprieties.

Board members do not know how often the executive director's performance is evaluated.

When asked about the frequency of executive director performance reviews and the criteria used in them, board member responses indicated that members did not know how often the executive director's performance is reviewed and that no standard criteria exist for evaluating the executive director's performance.⁹

Board members disagree on how UCHS's program evaluation system measures the impact of services, and one member does not believe it does so at all.

When asked whether the board ensured that program evaluations measured the impact of UCHS services, three of the four responding board members stated that impact was measured, but provided inconsistent explanations for how it was measured, and the fourth stated that impact was not measured. This indicates either that UCHS has no standardized system for evaluating impact or that the board is unaware of the organization's program evaluation system, or both.

According to BoardSource, having the proper tools to monitor and evaluate financial performance strengthens a board's capacity to evaluate the health of the

⁸ Connecticut Association of Nonprofits, *Responsibilities of a Non-Profit Board Member from a CPA's Perspective*. According to its website, the association is Connecticut's largest membership organization dedicated exclusively to nonprofits and has collaborated with more than 500 organizations.

⁹ The varied responses to this question from the responding board members indicate that they disagree about the evaluation criteria, which were not provided to CSA in writing, and that it appears that no written criteria exist.

organization. Board members must agree on general guidelines and standards to measure the effectiveness of organizational accomplishments, and appropriate policies must exist to guide management and board decision making to ensure sustainability.

UCHS has no conflict-of-interest policy or written job descriptions for board members.

UCHS and its board members are at a disadvantage because the organization has not documented all essential policies or job descriptions for its board. For example, UCHS does not have a conflict-of-interest policy for board members. Of equal concern is the fact that all four responding board members incorrectly stated that UCHS has a conflict-of-interest policy and two of four incorrectly stated that board job descriptions exist. UCHS's executive director and board president confirmed that the organization has no conflict-of-interest policy or job description for its board members.

A policy governing conflicts of interests is perhaps the most important policy a nonprofit board can adopt.¹⁰ A conflict-of-interest policy should require those with a conflict (or who think they may have a conflict) to disclose the conflict or potential conflict and prohibit interested board members from voting on any matter in which there is a conflict.¹¹ Also, guidance by the Minnesota Council of Nonprofits indicates that any nonprofit organization should have written expectations for board members, including expectations for full board participation in fundraising activities, committee service, and service activities.

When considering new board members, it is of the utmost importance to ensure that all candidates understand the duties and responsibilities they will assume.¹² Also, the board must ensure that the candidates understand the organization, its mission, management, history, financial stability, and liability exposures.

¹⁰ The National Council of Nonprofits is a resource and advocate for U.S. charitable nonprofits. According to its website, the council is the nation's largest network of nonprofits, with more than 25,000 members.

¹¹ An example of a conflict of interest is when a board member operates or works for a business that sells a product or service the organization may need, and the board member influences or participates in the purchasing decision.

¹² Connecticut Association of Nonprofits.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

6. Require UCHS to establish policies on board member oversight responsibilities, including periodic leadership and program performance reviews.
7. Require UCHS to adopt conflict-of-interest policies and formalize board member responsibilities.

CHAPTER 2 – Improvement in UCHS's Financial Operations Requires a Transition From a Fiscal Agent to a Fiscal Sponsor and a Change of Its Organizational Structure

Summary

Because it has insufficient access to UCHS's financial records, YMCA is ill-equipped to ensure that UCHS is a fiscally sound organization. UCHS's fiscal agent should act as a fiscal sponsor and be provided full access to UCHS's fiscal operations. UCHS is at risk of losing its nonprofit status and \$1.7 million in annual grants because it does not adhere to some federal reporting requirements. Further, UCHS's organizational structure does not provide for some key operational functions. As UCHS's fiscal agent, YMCA should be more involved in UCHS's organizational development process and lead UCHS's hiring process to recruit and hire essential staff.

Finding 2.1

YMCA has insufficient access to UCHS's critical financial records and operations.

To provide adequate fiscal oversight, YMCA needs full access to UCHS's financial records and operations.

YMCA cannot provide the fiscal oversight required by its fiscal agency agreement because it does not have full access to UCHS's financial records or key fiscal operations. YMCA's access to UCHS's fiscal operations and financial records should be expanded so that YMCA can better ensure UCHS's compliance with fiscal policies and further improve UCHS's ability to become a sustainable organization.

The fiscal agency agreement requires YMCA to assist UCHS in abiding by all fiscal monitoring procedures and reporting requirements of Human Services, the VA, MOHCD, and the City's Office of Economic and Workforce Development. Also, YMCA is required to help UCHS with various other fiscal components of its operations, which include meeting:

- Budget requirements
- Monitoring and reporting requirements
- Program monitoring and reporting requirements

However, YMCA cannot effectively oversee UCHS's fiscal matters because it does not have the appropriate access to UCHS's fiscal operations. According to YMCA, it has no access to UCHS's financial statements, bank statements, or records of its VA grants (which amounted to \$575,162 in 2015, or 18 percent of all grant funds that year). Not having access to these essential fiscal records has stifled YMCA's ability to adequately accomplish its fiscal agency duties and, thus, allowed UCHS to be noncompliant with various city and federal guidelines.

Under its agreement with UCHS, YMCA has the responsibilities of a fiscal sponsor, not a fiscal agent, so it should have greater access to UCHS records.

Although YMCA nominally serves as UCHS's fiscal agent, the fiscal agency agreement indicates that YMCA is to provide UCHS with fiscal sponsorship services, which exceed the services a fiscal agent offers. Specifically, the agreement states that YMCA is to provide fiscal sponsorship services on behalf of UCHS for the Hope House program. As a fiscal sponsor, YMCA would be responsible for managing all UCHS funds, assets, and other resources.¹³

Fiscal sponsors are responsible for the sponsored organization's financial solvency and resiliency, annual budget, and annual audit.¹⁴ Also, fiscal sponsors hire, train, and develop the operational staff, management, and leadership needed to operate in accordance with governing guidelines.¹⁵ Further, fiscal sponsors retain and protect financial and personnel records, required minutes of board meetings, and all other documents in accordance with all applicable laws.¹⁶

HSH should change UCHS's fiscal agent's status to that of a fiscal sponsor. Being UCHS's fiscal sponsor, with full access to UCHS's fiscal operations, will allow YMCA to fully comply with its responsibilities and to understand UCHS's financial position. When it achieves this, YMCA can ensure the sustainability of UCHS's operations and dictate the course of action needed for

¹³ These responsibilities are best practices for a fiscal sponsor per the National Network of Fiscal Sponsors, *Guidelines for Comprehensive Fiscal Sponsorship*. According to its website, the network promotes the understanding and professional practice of fiscal sponsorship.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

UCHS to become an independent, self-sufficient organization.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

8. Require UCHS to provide its fiscal agent with access to the fiscal operations related to all UCHS agreements.
9. Assist UCHS's fiscal agent to become UCHS's fiscal sponsor and assume all duties of this role.

Finding 2.2

UCHS could lose its nonprofit status and grant funding because it does not always comply with federal tax and audit requirements; it filed two federal tax returns an average of 549 days late.

UCHS filed some of its tax returns late and did not complete some federally mandated annual audits.

UCHS filed two of three annual federal tax returns late, failed to complete all federally required annual audits, and those audit reports that were submitted were late. Consequently, UCHS is at risk of losing its nonprofit status and \$1.7 million in annual federal grant funding.¹⁷

As a tax-exempt organization, UCHS must file a federal income tax return annually. U.S. Internal Revenue Service guidance requires nonprofit organizations to file tax returns yearly by May 15th unless they have requested and received an extension. Of the three federal returns the audit considered—those for tax years 2013 through 2015—UCHS filed two, those for 2013 and 2014, significantly late. On average, the two tax returns were filed almost 549 days late.

Exhibit 6 outlines UCHS's late tax return filings.

¹⁷ Grant funding based on HUD and VA grants that UCHS reported to have received on its 2015 Form 990 tax return. Form 990 is an Internal Revenue Service form, filed annually, that provides the public with financial information about a nonprofit organization.

EXHIBIT 6 Two of Three UCHS Tax Returns Reviewed by CSA Were Filed Late

Tax Year	Due Date	Date Accepted by Internal Revenue Service ^b	Days Late
2013	5/15/2014	5/16/2016	735
2014	5/15/2015	5/11/2016	362
2015	8/15/2016 ^a	8/3/2016	Not Applicable

Notes:

^a UCHS was approved for a three-month extension to submit its 2015 tax return.

^b For tax years 2014 and 2015, CSA used the dates UCHS's certified public accountant indicated as the dates the Internal Revenue Service accepted the tax returns.

Source: UCHS's federal income tax returns for 2013 through 2015; UCHS's certified public accountant.

UCHS risks losing its exemption from federal income tax and its eligibility to receive tax-deductible contributions.

Failure to file tax returns when due puts UCHS's federal tax-exempt status at risk. Although there is no penalty for nonprofit organizations filing their tax returns late, tax-exempt organizations that do not file for three consecutive years automatically lose their tax exemption. When tax-exempt status is revoked, various benefits are forfeited, including loss of exemption from federal income tax and loss of eligibility to receive tax-deductible contributions.

According to its executive director, UCHS filed its tax returns late because YMCA failed to keep accurate financial records on behalf of UCHS, which delayed UCHS in preparing its tax filings. However, YMCA disagreed, stating that it regularly provided financial records to UCHS.

Its single audit¹⁸ report summary¹⁹ shows that, through December 22, 2016, UCHS had failed to complete a single audit for 2014.²⁰ UCHS submitted its single audit reports for 2012, 2013, and 2015, but some submissions were significantly late, including the 2012 audit report, which was three years late. UCHS

¹⁸ The U.S. Office of Management and Budget (OMB) issued guidance in December 2013, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, requiring all non-federal government agencies and nonprofit organizations that spend \$750,000 or more in federal awards in a year to conduct a "single audit."

¹⁹ CSA used the Federal Audit Clearinghouse's search function to identify single audit reports UCHS submitted. The Federal Audit Clearinghouse operates on behalf of OMB to maintain a public database of completed audits.

²⁰ Although the Federal Audit Clearinghouse's summary report did not indicate that UCHS submitted a single audit for 2014, UCHS provided CSA documentation that its auditor completed a combined audit report for 2014 and 2015.

submitted its audit reports for all three years during June through October 2016.

Exhibit 7 outlines the untimeliness of UCHS's single audit reports.

EXHIBIT 7 UCHS Has Not Completed Its 2014 Single Audit and All Others Due Since 2013 Were Submitted Late

Fiscal Year	Due Date ^a	Date Received ^b	Days Late
2012	9/30/2013	9/30/2016	1,096
2013	9/30/2014	6/9/2016	618
2014	9/30/2015	N/A – Not Completed	N/A – Not Completed
2015	9/30/2016	10/9/2016	9

Notes:

^a Federal guidance requires that single audit reports be submitted 30 days after receipt of the auditor's report(s) or nine months after the end of the fiscal year, whichever comes first. CSA could not determine when the auditor submitted the reports to UCHS, so used a date nine months after UCHS's fiscal year end as the due date.

^b CSA used the date that UCHS's single audit was initially received by the Federal Audit Clearinghouse as the received date.

Source: Federal Audit Clearinghouse.

The federal government notified UCHS that it failed to submit its 2013 and 2014 single audit reports.

A 2015 VA Financial Services Center report indicated that UCHS was notified that it failed to submit its single audit reports for 2013 and 2014. CSA found that the 2013 audit report subsequently had been submitted but, as of December 22, 2016, the 2014 audit was still incomplete.

Failure to comply with the general or specific terms and conditions of a federal award could cause the federal government to impose additional requirements on UCHS to receive funding.²¹ However, if the awarding federal agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions, it may take one or more of the following actions, as appropriate in the circumstances:

- Temporarily withhold cash payments until the deficiency is corrected.
- Disallow all or part of the cost of the activity or action not in compliance.

²¹ U.S. Office of Management and Budget, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2013.

- Wholly or partly suspend or terminate the federal award.
- Initiate suspension or debarment proceedings.
- Withhold further federal awards for the project or program.
- Take other remedies that may be legally available.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should ensure that UCHS:

10. Files its tax returns when due and files for extensions when necessary.
11. Submits its single audits when due and files for extensions when necessary.
12. Completes its 2014 single audit immediately.

Finding 2.3

UCHS's organizational structure hinders its financial viability.

Its fiscal sponsor must assist UCHS in hiring and building essential functional units.

Although UCHS has had a fiscal agent since 2009, UCHS's operations continue to have poor processes and controls. To ensure proper governance, fiscal sustainability and the ability to exist without intermediary assistance, UCHS's fiscal sponsor²² must develop a strategic plan, and UCHS must strictly adhere to it. The strategic plan should call for the fiscal sponsor to assist UCHS with hiring key staff and building viable teams with the appropriate leadership and technical abilities.

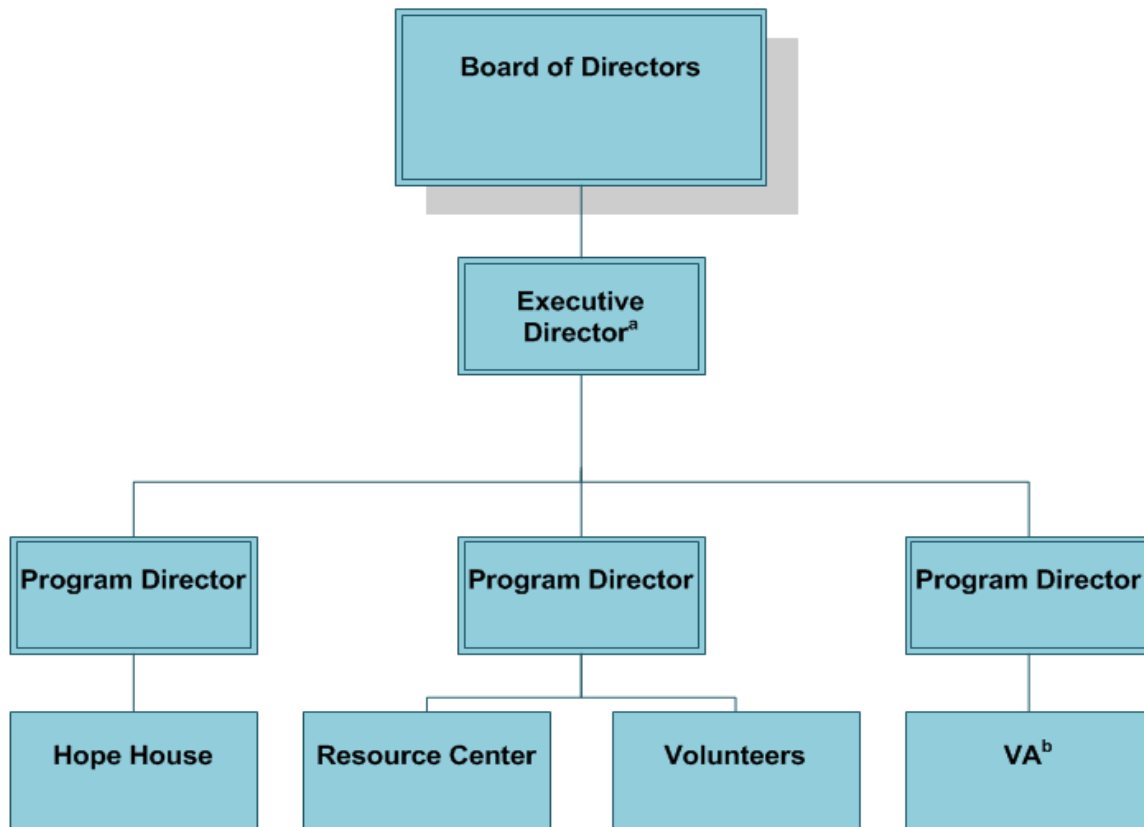
UCHS's organizational structure hinders its ability to be a fiscally responsible, stand-alone organization. UCHS's executive director confirmed that program directors only oversee UCHS's programs and volunteers. The executive director also confirmed that she is solely responsible for directly managing multiple core functions of the organization. Specifically, she manages the following functions without the assistance of a department director, program director, or a dedicated team:

²² As noted, UCHS has a *fiscal agent*. However, in Finding 2.1 CSA recommends that UCHS's fiscal agent become its *fiscal sponsor*.

- Finance
- Human resources
- Accounting, audit, and budget
- Payroll

Exhibit 8 depicts UCHS's structure.

EXHIBIT 8 UCHS's Organizational Structure



Notes:

^a According to UCHS's executive director, she is also responsible for UCHS's finance, human resources, payroll, accounting, audit, and budget functions.

^b This program is the VA-funded portion of Hope House.

Source: Documentation provided by UCHS. (UCHS's executive director confirmed this depiction.)

UCHS fails to have dedicated leadership over its financial operations.

As indicated above, UCHS does not have a department head to oversee the organization's financial operations. The various recordkeeping and payroll issues highlighted in Chapter 3 may be directly correlated to this absence of leadership. To become a sustainable organization, independent of a fiscal sponsor or agent, UCHS must have both dedicated staff and leadership for its finance team.

According to the Bridgespan Group,²³ a finance and administration director will manage, hire, and retain an internal team to support various functions, some of which include:

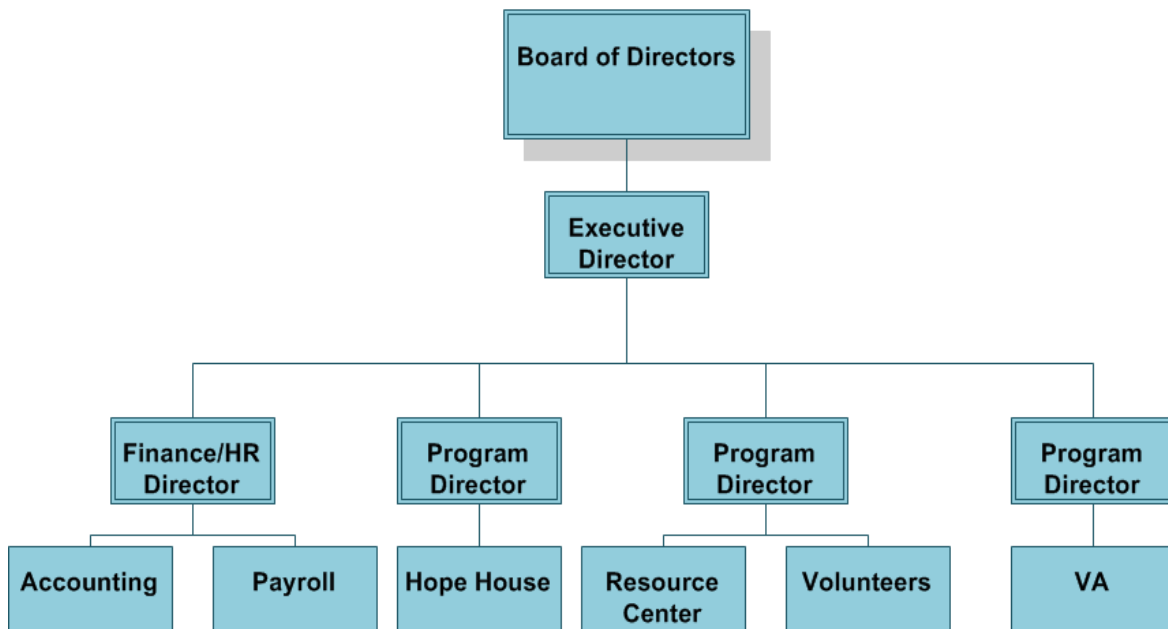
- Finance
- Business planning
- Budgeting
- Payroll
- Accounting
- Human resources

This director can be responsible for a variety of areas under the administrative umbrella, including human resources, information technology, legal, and facilities, and can even oversee building relationships with program recipients.

Exhibit 9 depicts how UHCS should be organized.

²³ According to its website, the Bridgespan Group is a global, nonprofit organization that works with mission-driven leaders, organizations, and philanthropists to break cycles of poverty and improve the quality of life of those in need.

EXHIBIT 9 Proposed Organizational Structure of UCHS Based on Best Practices



Source: CSA's analysis of UCHS's fiscal operations.

The fiscal agency contract requires that mentorship and guidance be provided to UCHS in the areas of board development, capacity building, and resource development and allocation. The fiscal agent also must provide UCHS with a sustainable foundation for its operational and fiscal needs. These responsibilities are intended to help UCHS become an independent, sustainable organization.

A detailed strategic and transition plan is needed to adequately ensure that both YMCA and UCHS have a shared fluency of fiscal sponsorship, which will enable both organizations to be accountable in fulfilling their respective roles as UCHS works toward becoming a stand-alone organization.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

13. Ensure that UCHS develops a finance team to support the organization's various functions, which include business planning, budgeting, accounting, and human resources activities.
14. Require UCHS's fiscal agent to develop a strategic plan that will help UCHS develop (including recruiting and hiring staff for) a finance/human resources unit.

CHAPTER 3 – UCHS's Expenditures and Payroll Processes Are Flawed, and Some Payments Were Not Verified as Allowable Due to Insufficient Supporting Documentation

Summary

UCHS must mitigate the multiple control weaknesses in its fiscal process. UCHS consistently fails to provide appropriate supporting documentation for expenditures to its fiscal agent. Similarly, UCHS's payroll process must be strengthened to enforce adequate approval review of timesheets. Further, UCHS fails to adhere to federal guidelines on internal controls for nonprofit organizations.

Finding 3.1

The audit could not confirm whether \$88,140 of UCHS expenditures were allowable due to missing support, illegible receipts, and/or misclassified items.

24 percent of tested expenditures did not have adequate support.

UCHS expenditures of \$88,140,²⁴ for which it was reimbursed by YMCA, could not be confirmed due to insufficient supporting documentation. Of a sample of 60 expenditures totaling \$370,487,²⁵ the audit could not determine whether 24 expenditures totaling \$88,140 (24 percent) were allowable due to various reasons, including:

- Missing invoice or receipt support
- Illegible receipts
- Misclassified items

Supporting documentation was provided to the audit team by YMCA, UCHS's fiscal agent, who received the


²⁴ This amount was calculated by summing the total expenditure amount for all expenditures tested that could not be determined as fully allowable. These include expenditures for which only a portion of the spending could not be confirmed as allowable.

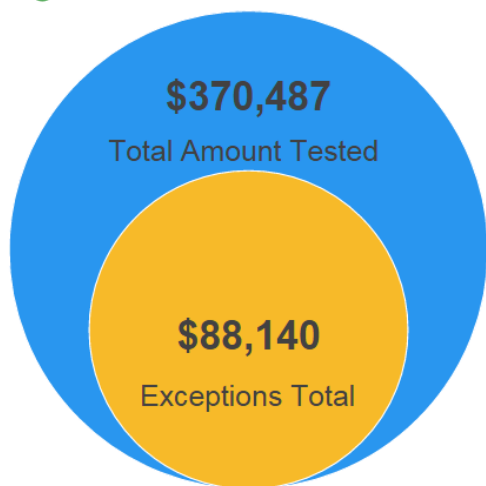
²⁵ CSA sampled 60 resource center expenditures identified on UCHS's general ledger during the three-year audit period. Expenditures were selected using random (21) and judgmental (39) sampling techniques.

documentation from UCHS at the time invoice payment or reimbursement was sought.²⁶

Exhibit 10 outlines the exceptions identified.

EXHIBIT 10 Exceptions Identified During Expenditure Testing

 60 Sample Payments Tested



 Breakdown of 24 Exceptions*



Missing Invoice or Receipt Support



Illegible Receipts



Misclassified Items

*Note: Some expenditures had two or more identified issues.

Source: CSA's analysis of UCHS expenditures in fiscal years 2012-13 through 2014-15.

Its fiscal agency agreement requires YMCA to work with UCHS to establish and maintain program records and documentation of all incurred costs. YMCA must also provide fiscal oversight services for UCHS programs and must ensure submitted invoices are accurate and include all required back-up documentation.

Missing Invoice or Receipt Support

Some of the documentation to support UCHS expenditures is inadequate.

YMCA provided CSA with support documentation for a sample of 60 UCHS expenditures, 13 (22 percent) of which did not have adequate invoice support or receipt support.²⁷ For example, of a sample of seven Sprint and AT&T (telephone service) invoices totaling \$6,862, six

²⁶ According to YMCA, it directly pays UCHS's expenses. However, YMCA advances funds to or reimburses UCHS for food and kitchen supplies.

²⁷ According to YMCA, UCHS must provide receipts to support reimbursable expenses and advanced funds. However, YMCA provides UCHS with invoice support for other expenses that YMCA will pay directly.

(86 percent) totaling \$6,268 (91 percent) had missing pages.

Of the six invoices with pages missing, five did not include most pages and one excluded the back of each page, resulting in every other page missing. Consequently, CSA could not confirm that the charges were allowable. Incomplete support increases the risk that improper purchases of cellular devices and/or services have gone unnoticed.

Illegible Receipts

Of a sample of 60 expenditures, 14 (23 percent) were identified as either food or kitchen supply expenditures. According to its staff, YMCA provides UCHS with monthly advances of \$8,300 so it can purchase food and kitchen supplies for the Resource Center. YMCA staff also stated that it requires UCHS to submit receipts to prove that only allowable items are purchased with the funds that were advanced. YMCA further stated that sometimes UCHS overspends on food and/or kitchen supplies, and, when this occurs, UCHS will provide receipt support and YMCA will reimburse the additional costs.

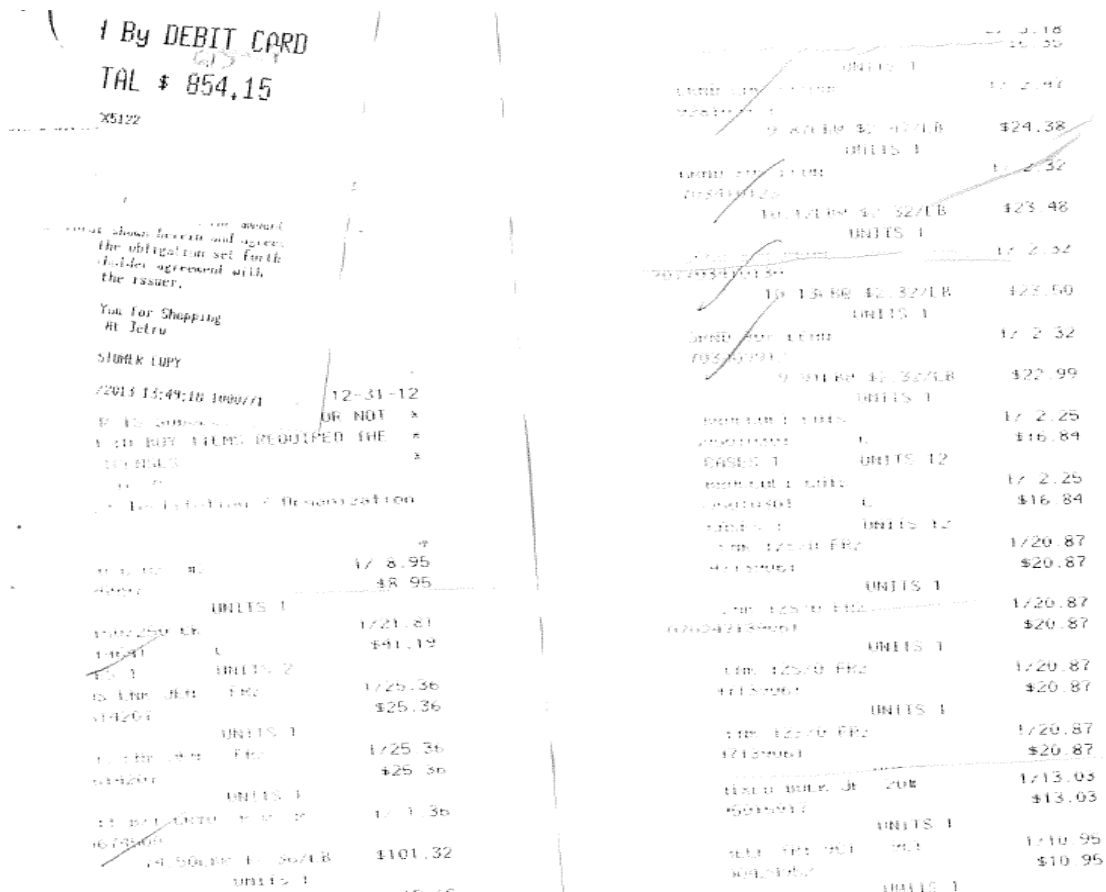
Twenty-two of 230 receipts included at least one transactional line item that was illegible.

UCHS often submitted multiple receipts to support the purchases made with the monthly advances. Therefore, CSA reviewed 230 receipts totaling \$55,072 submitted by UCHS to support the 14 advances sampled and found that 22 (10 percent) of the receipts included at least one illegible transactional line item. These 22 receipts²⁸ were processed as support for 6 expenditures totaling \$14,218. The illegible line items make YMCA and the City less assured that only allowable items were bought as part of the purchases represented by these 22 receipts.

Exhibit 11 is an example of an illegible receipt UCHS provided to YMCA.

²⁸ CSA reviewed receipts to ensure that all items were appropriately categorized and allowable. Some expenditures were supported by multiple receipts.

EXHIBIT 11 Illegible Receipt Example



Source: Food purchase receipt UCHS provided to YMCA as support for a cash advance from YMCA. Obtained from YMCA.

YMCA approved UCHS reimbursements although UCHS did not always provide legible receipts as support.

YMCA attributed the illegible receipts to UCHS, stating that UCHS may have originally provided YMCA with receipts that had low image quality. Nonetheless, YMCA approved reimbursements without sufficient and complete supporting documentation. UCHS's failure to provide adequate receipts to support its spending undermines YMCA's ability to promptly review UCHS's expenses. Also, UCHS's failure to produce adequate receipt support increases the risk that advanced funds are not fully expended on allowable purchases.

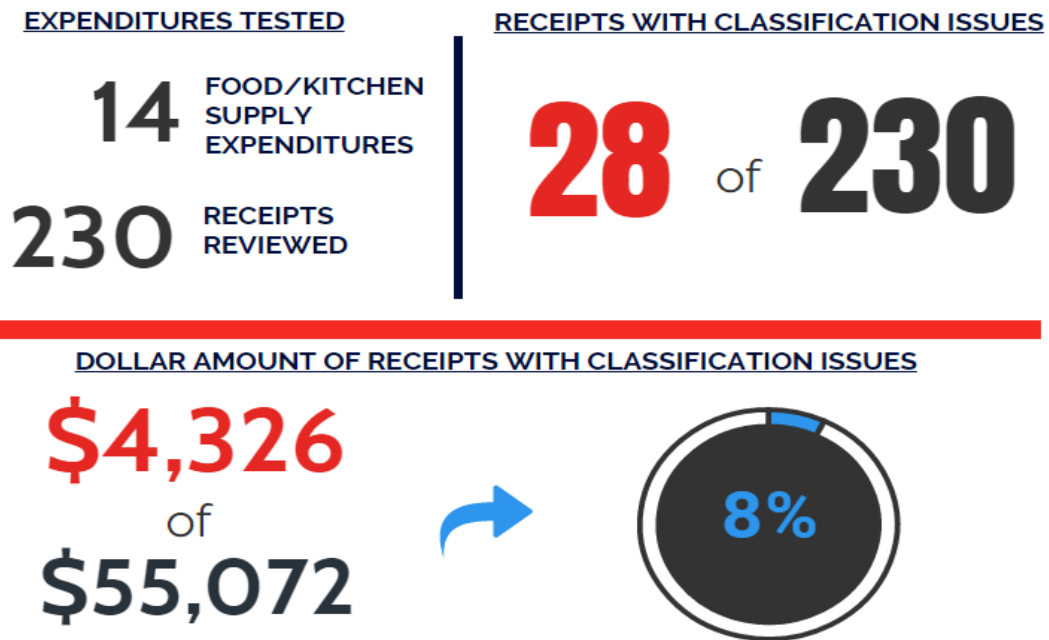
Misclassified Items

Receipts submitted to support 9 (64 percent) of the 14 food or kitchen supply expenditures in the sample included at least one item that was misclassified. Specifically, 28 of the receipts, totaling \$4,326, submitted to support these 9 food or kitchen supply expenditures had misclassification issues. For example, food items were sometimes included on receipts submitted to support supply expenses and vice versa. In other instances, receipts that include non-food or supply items were submitted as support for kitchen supply purchases.

Failure to correctly classify expenses makes it difficult for the City and UCHS to accurately track expenses because expense categories will not accurately reflect true balances. Further, failure to correctly track expenses increases the risk that UCHS exceeded the budget for certain expenses and concealed this, inadvertently or purposely, by misclassifying purchases.

Exhibit 12 summarizes the issues identified in the food or kitchen supply expenditures tested.

EXHIBIT 12 Issues Identified in Food or Kitchen Supply Expenditures Tested



Source: CSA analysis of UCHS's sampled expenditures.

Its financial statement audit report for 2014 and 2015 shows that UCHS has had expense classification issues in areas other than the Resource Center. The audit report states that “a few items were misclassified to the Veteran’s Program, although they belonged to other programs.” This finding indicates that UCHS’s more recent expense classification issues, found by CSA’s audit, may not be isolated incidents.

YMCA indicated that UCHS does not always provide full receipt support for the food and kitchen supply advances and reimbursements it receives. YMCA stated that when UCHS fails to provide full receipt support to YMCA, it must follow up with UCHS to request missing receipts that support how UCHS spent the advance.

Four gasoline receipts totaling \$270 were incorrectly processed as support for kitchen supplies.

YMCA tracks the cash advance and receipts submitted by UCHS to ensure that receipt support submitted accounts for the advances provided.²⁹ However, due to missing and misclassified receipts, it is impossible to verify that all expenditures recorded in the reconciliation are properly accounted for by YMCA. This increases the possibility that city funds were not always used for their intended purpose. For example, CSA identified four separate gasoline receipts that UCHS submitted as support for kitchen supplies. The gasoline receipts totaled \$270.

YMCA stated that it attempts to identify misclassified items on receipts submitted by UCHS. According to its staff, YMCA has continued to ask UCHS to ensure that submitted receipts include only one type of expense, but UCHS fails to comply.

Its contract requires YMCA to establish and maintain accurate financial books and accounting records relating to eligible expenses incurred and grant funds received and spent under the agreement. However, as the service provider, UCHS shares this responsibility and must ensure that it provides YMCA with complete and accurate information so that YMCA can assist it in

²⁹ YMCA’s tracking document showed that UCHS’s receipt support did not always agree with the total amount of funds advanced.

abiding by all city fiscal monitoring procedures and reporting requirements.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should require:

15. UCHS to submit legible documents as support for expenses and require UCHS's fiscal agent to properly review the documents.
16. UCHS's fiscal agent to retain all support documentation for audit purposes.
17. UCHS's fiscal agent to ensure that UCHS provides full and accurate receipt support for food and kitchen supply expenditures.
18. UCHS's fiscal agent to ensure that UCHS expenses are accurately classified and adequately reviewed.

Finding 3.2

YMCA overbilled Human Services \$715 for five sample pay periods by charging it for the entirety of certain payroll-related costs UCHS incurred.

YMCA billed Human Services for payroll fees and employer taxes that should have been allocated among UCHS's cost centers.

YMCA improperly charged Human Services for 100 percent of certain payroll-processing fees and employer taxes UCHS incurred, which should have been allocated among all UCHS cost centers. If YMCA had done so, nearly half of these expenses would have been charged to (and, presumably, paid by) UCHS funders other than Human Services.

Overbilled amounts appear in all five sample payroll billing spreadsheets selected by CSA and provided by YMCA. The expenses (and amounts charged to Human Services) for the five pay periods total \$1,633, average \$327 per pay period, and range from \$159 to \$661 per pay period. Based on the sample, \$715 was overcharged to Human Services.

According to YMCA, the expenses include both bank fees and employer taxes. The fees and taxes charged to UCHS should have been allocated among UCHS's various cost centers, such as the VA, HUD, and MOHCD, because UCHS employees work under

programs that are both Human Services-funded and non-Human Services-funded.

YMCA tracks and allocates its payroll billing with a spreadsheet that uses each UCHS employee's time by his or her position and program assignment to determine the UCHS funder(s) that should be charged. According to YMCA, UCHS's employer taxes were incorrectly captured for payroll expense allocations, which required YMCA to add an additional amount to "true-up" or balance UCHS's payroll liabilities. CSA concluded that YMCA improperly billed the entirety of these additional amounts to Human Services.

According to YMCA, the fee charged by the bank to process UCHS's payroll has historically been billed only to Human Services under an established process. However, YMCA could not provide supporting documentation to explain why the fee was not billed proportionally to Human Services and UCHS's other funding sources.

UCHS employees spend only about half their time on Human Services-funded programs, so Human Services should pay only about half of UCHS's indirect costs.

The cost allocation calculations on the payroll billing spreadsheets for the five sample pay periods show that UCHS employees spent an average of 56 percent of their time working in Human Services-funded programs. Therefore, only 56 percent of the payroll-related indirect costs (payroll processing fees and employer-paid taxes) should have been charged to Human Services for the pay periods tested. The remaining 44 percent of the costs should have been billed proportionally among UCHS's other funding sources.

Exhibit 13 details, for each sample pay period, the payroll-related indirect costs UCHS incurred per the payroll billing spreadsheet and Human Services' estimated overpayment.

EXHIBIT 13		Payroll-Related Indirect Costs Overpaid by Human Services, by Pay Period	
Sample Pay Period Ending	Amount Charged to Human Services	Amount That Should Have Been Charged to Human Services	Amount Human Services Overpaid
8/31/2012	\$294	\$165	\$130
9/28/2012	661	390	271
8/16/2013	341	181	160
1/3/2014	178	99	78
9/12/2014	159	83	76
Total	\$1,633	\$918	\$715

Source: Payroll sheets provided by YMCA.

YMCA does not properly understand the cost allocation in UCHS's payroll process.

City's guidelines³⁰ require nonprofit organizations to have a methodology or plan for allocating costs among funding sources. The cost allocation plan should show clear logic behind the charge and the percentage charged to city funds.

YMCA does not have a proper understanding of the allocation of expenses among each program in UCHS's payroll process and fails to adequately verify UCHS's payroll for accuracy.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should require UCHS's fiscal agent to:

19. Ensure that fees are billed proportionally to each funding source based on the employees' program assignment.
20. Verify and approve UCHS's payroll, ensuring that billing amounts are accurately reflected before processing the request.

The San Francisco Human Services Agency should:

21. Collect \$715 from YMCA for fees the fiscal agent previously overcharged for the five sample pay periods.

³⁰ City and County of San Francisco, *Cost Allocation Guidelines for Nonprofits Doing Business with the City*, 2005. The City follows the guidelines under generally accepted accounting principles and OMB Circular A-122.

22. Require YMCA to review all past payroll records for pay periods not covered by this audit to determine whether YMCA inappropriately billed 100 percent of incurred fees to the Human Services Agency. If overcharges are found, require YMCA to reimburse the Human Services Agency for the total amount overcharged.

Finding 3.3

UCHS employees' timesheets were sometimes inadequately reviewed, resulting in incomplete or inaccurate records of hours worked.

UCHS does not always ensure that employee timesheets are complete and accurate.

UCHS does not always appropriately review its employee timesheets for completion and accuracy as required. Of a sample of 17 UCHS timesheets, 9 (53 percent) did not contain sufficient information, such as the employees' position titles and shift times, or did not include correct information regarding the total number of hours worked. Also, 7 of the 17 sample timesheets had missing signatures or dates from either the employees or the supervisors, or both. Further, YMCA does not maintain accurate and updated information regarding UCHS employees in its system.

Multiple exceptions, totaling 21 instances, exist in each of the 17 timesheets tested. In each instance, UCHS had provided incomplete or inaccurate information, including:

- Missing approval date
- Miscalculated number of hours worked
- No employee position indicated
- Missing shift date and time

This indicates that the timesheets were not properly reviewed before they were processed.

YMCA's fiscal agency agreement requires UCHS employees to complete a timesheet and submit it to their supervisor. UCHS employee timesheets include the following sections:

- Employee name
- Dates worked

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- Time in/time out
- Total hours worked
- Employee signature and date

Supervisors are required to sign each timesheet to approve it.

YMCA's fiscal agency agreement also requires that timesheets be verified and signed by both the employee and supervisor and reviewed by UCHS's executive director. YMCA's finance director must then verify and process the request. Both UCHS and YMCA fail to comply with UCHS's fiscal agreement requirement to ensure that timesheets are fully completed.

Exhibit 14 summarizes the exceptions found in the audit's timesheet review.

EXHIBIT 14 Exceptions in Sample of 17 UCHS Employee Timesheets	
Issue Identified	Number of Instances
Missing Employee Signature and/or Date	7
Missing Supervisor's Date or Approval ^a	5
Missing Employee Title/Position	4
Missing Timesheet	3
Missing Shift Date and Time In/Time Out	1
Hours Calculated Incorrectly ^b	1
Total	21
Notes:	
^a Employee timesheets include a designated space for supervisors to indicate the date of signature. Although not explicitly required in the agreement, this date is needed because it can be used to verify that review occurred after the employee completed the timesheet.	
^b Issue resulted in one employee being overpaid \$10.74.	

Source: Sample of 17 biweekly UCHS employee timesheets selected by CSA and provided by YMCA.

One employee was overpaid for one hour.

In one instance found in the sample, a UCHS employee was overpaid due to an incorrect calculation of hours stated on the timesheet. The employee indicated the time worked during one shift as 5.5 hours. However, based on the indicated shift start and end times, the employee worked only 4.5 hours. Thus, the employee was overpaid \$10.74 for one hour. This overpayment is small but indicates that UCHS fails to ensure that employee timesheets are completed accurately and

reviewed thoroughly. Thus, more significant errors could have gone undetected.

Another employee did not indicate the date, time in, or time out for one of the days on a timesheet. Failure to adequately complete timesheets impedes YMCA's ability to confirm accuracy of hours worked and increases the risk of incorrect payments to UCHS employees.

Further, UCHS did not adequately approve seven timesheets. The timesheets did not have the employee's signature, the date the employee signed the timesheet, and/or the date the supervisor signed the timesheet. Consequently, it is impossible to determine whether a supervisor signed off on these timesheets before or after they were processed for payroll. Timesheets must be appropriately signed off to ensure that employee hours are not altered before they are entered in the payroll system for processing.

YMCA sometimes attempts to get a supervisor's signature on timesheets after payroll has been processed, which is a weak internal control.

According to YMCA, it does not always require a supervisor's signature on UCHS timesheets before they are processed. YMCA stated that it sometimes attempts to get a supervisor's signature on timesheets after entering employee hours in the system because of tight payroll processing deadlines. However, failure to ensure that UCHS supervisors properly review and YMCA verifies timesheets can cause them to include inaccurate information.

The fiscal agency agreement requires YMCA's finance director to verify payroll requests. However, YMCA fails to adequately indicate or confirm on the employee timesheets if or when the finance director received the timesheets. Not marking timesheets as received by the fiscal agent makes it difficult to ensure that they are appropriately collected when processing payroll requests.

YMCA uses its payroll billing spreadsheet to keep track of each UCHS employee's program assignment by the employee's indicated position. Job titles shown on the spreadsheets should be kept up-to-date so YMCA's finance director can correctly determine each employee's assigned program. Of the 17 UCHS

employees tested, 3 (18 percent) had outdated positions shown on the payroll spreadsheets when compared to the timesheets and YMCA's explanation. Maintaining accurate employee position information is necessary so that, based on the employee's program assignment, staff can determine which funding source should be charged for the cost of the employee's time.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

23. Require UCHS's fiscal agent to adequately review UCHS employee timesheets for accuracy and completeness before entering hours into the system for payroll processing.
24. Ensure that UCHS's fiscal agent implements a policy requiring its finance director to mark all employee timesheets with an indicator, such as a signature and date, as soon as they are reviewed.
25. Require UCHS to implement an effective control environment over its payroll operations by enforcing a more stringent timesheet review process.
26. Require UCHS's fiscal agent to periodically review all UCHS payroll spreadsheets to ensure that they show UCHS employees' current positions and/or job titles.

Finding 3.4

The audit could not verify the employment of 93 percent of tested employees or verify 18 percent of tested employees' pay.

UCHS failed to provide CSA requested personnel records and YMCA does not properly maintain payroll records needed to oversee UCHS's financial operations. The audit could not verify the employment of 13 (93 percent) of 14 tested former or current UCHS employees because UCHS did not provide the requested personnel files and, based on a test of five pay period(s), could not verify the pay of 3 (18 percent) of 17 tested UCHS employees (or \$2,397) due to missing timesheet support.

YMCA's grant agreement requires that all files and records are to be maintained in a readily accessible location for a period of not less than five years after final payment.

UCHS did not provide 13 of the 14 personnel files requested by CSA, which may create a risk for ghost employee fraud.

CSA judgmentally selected 14 people from a list of 279 former and current UCHS employees (representing a 5 percent sample size) and asked UCHS to provide these 14 personnel files for review. UCHS did not provide 13 (93 percent) of the 14 requested files even after multiple requests.

Failure to provide personnel files for an audit raises the risk of fraud due to an organization having ghost employees. A ghost employee is someone on the payroll who does not actually work for the organization.³¹ The ghost employee can either be a real person or a fictitious person created by a dishonest employee, and, when ghost employee fraud occurs, wages are paid in the name of the ghost and collected by the dishonest employee.³² The fact that UCHS could not provide 13 of the 14 requested personnel files makes it impossible to be assured that all those paid as UCHS employees were actual UCHS employees at the time they were paid.

No timesheet support was provided for 3 of 17 UCHS employees tested.

YMCA could not provide timesheet support for 3 (18 percent) of 17 sample UCHS employees. CSA had selected the timesheets of 17 UCHS employees for fiscal years 2013 through 2015 to determine whether wages were paid accurately and whether timesheets were appropriately approved. According to YMCA, the missing timesheets were misfiled and could not be located. The gross earnings on these timesheets for the three employees amounted to \$2,397.

YMCA's grant agreement requires that records be readily accessible for five years.

YMCA's grant agreement requires that all files, records, books, invoices, documents, payrolls, and other data be maintained in a readily accessible location for not less than five years after final payment or until any final audit has been fully completed, whichever is later.

³¹ Association of Certified Fraud Examiners, *Ghost Employees*, <https://www.acfe.com/article.aspx?id=4294968370>.

³² Ibid.

Recommendations

The San Francisco Department of Homelessness and Supportive Housing should:

27. Ensure that UCHS's fiscal agent creates a policy requiring UCHS to provide all necessary supporting documentation for its employee timesheets.
28. Ensure that UCHS's fiscal agent appropriately maintains all files, records, and documents in a readily accessible location to provide proper fiscal oversight services over UCHS's payroll process.
29. Thoroughly investigate why UCHS did not provide most of the requested employee personnel files for this audit, attempt to obtain the files, and assess the possibility that ghost employee fraud has occurred.

Finding 3.5

Contrary to federal internal control guidelines, UCHS does not segregate duties for its expenditure reimbursement and payroll processes.

UCHS's weak internal controls must be improved to mitigate the risk of fraud. As a tax-exempt, nonprofit organization that receives federal grants, UCHS must adhere to federal rules and regulations. However, UCHS fails to comply with federal internal control guidelines—which are not rules, but include procedures that nonprofit organizations may adopt—regarding segregating duties.

Federal internal control guidelines³³ state that management should design control activities³⁴ to achieve objectives and respond to risks. One of the control activities required is the segregation of duties. When duties are segregated, management divides key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing,

³³ U.S. Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*. These standards for an effective internal control system in federal agencies may also be adopted by state or local governments and not-for-profit organizations as a framework for an internal control system.

³⁴ Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.

processing, recording, and reviewing transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

However, as explained below, the audit found that several concerns exist regarding UCHS's failure to segregate duties and other internal control weaknesses around expenditure reimbursements and payroll.

Internal Control Weaknesses – Expenditure Reimbursements

UCHS's executive director has too many responsibilities in the expenditure reimbursement process, contrary to segregation of duties principles.

UCHS inadequately segregates duties related to expenditure reimbursements. According to UCHS's executive director, she:

- Authorizes reimbursements.
- Is involved in the processing of reimbursements.
- Distributes reimbursement checks.

These duties should not be assigned to one person because, as federal internal control guidelines state, this increases the risk of fraud.³⁵

According to UCHS's executive director, she approves all UCHS expense reimbursements before they are sent to YMCA for processing. She also stated that reimbursements are usually submitted to YMCA in her name even when she did not incur the expenses. She explained that often she personally reimburses employees for their expenses and submits the reimbursement under her name. She said that YMCA sends reimbursement checks to UCHS, where either she or a UCHS program director will distribute them to staff.

Payroll Internal Control Weaknesses

UCHS's executive director performs multiple payroll tasks that result in an increased risk of fraud.

UCHS fails to segregate payroll-related duties. Specifically, the executive director:

- Approves UCHS's payroll timesheets.
- Receives payroll checks.
- Distributes paychecks.

³⁵ GAO.

Federal internal control guidelines state that approval and custodial duties should not be assigned to the same employee because this increases the risk of fraud.³⁶ As mentioned in the previous findings, UCHS did not provide employee records for the audit and some processed timesheets were incomplete.

The VA reported concerns about segregation of duties in UCHS's payroll process. A 2015 VA report³⁷ found that UCHS's executive director could create new employees in the system and was responsible for receiving and distributing paychecks. This further increases the risk of improper transactions occurring because makes it more likely that ghost employees could exist.

These control issues are the direct result of UCHS not having an accounting or finance team. According to its executive director, UCHS relies on YMCA to maintain its books. Although YMCA is UCHS's fiscal agent, UCHS should have an internal accounting team to oversee its fiscal operations and ensure compliance with internal controls. UCHS's 2014-15 audited financial statement report³⁸ states that its auditor had previously recommended that UCHS hire a certified public accountant to prepare reconciliations and establish an accounting system independent of YMCA.

Recommendation

30. The San Francisco Department of Homelessness and Supportive Housing should require UCHS to adhere to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, in particular by properly segregating its expense reimbursement and payroll functions.

³⁶ Ibid.

³⁷ U.S. Department of Veterans Affairs Financial Services Center, 2015. The VA audited UCHS's compliance with various federal requirements and regulations during July 2012 through June 2014.

³⁸ In 2016 UCHS's independent auditor, Jeanpierre, Wegrem, Alabi and Co. LLP, audited UCHS's financial statements, which comprise the Statement of Financial Position as of December 31, 2015, and 2014.

APPENDIX A: DEPARTMENT RESPONSES

Department of Homelessness & Supportive Housing:

Mayor Edwin M. Lee
City & County of San Francisco



Department of Homelessness &
Supportive Housing

Jeff Kositsky
Director

July 3, 2017

Tonia Lediju, Director of City Audits
Office of the Controller
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: *Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve United Council of Human Services' Operations.*

Dear Ms. Lediju:

I would like to thank you and your staff for the work on the United Council of Human Services (UCHS) audit. Attached is our department's responses to the audit recommendations.

If you have any questions or need additional information, please contact me at (415) 355-5210.

Sincerely,

A handwritten signature in blue ink that reads "Gigi Whitley".

Gigi Whitley
Deputy Director for Administration and Finance

Enclosure

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Human Services Agency:

City and County of San Francisco



Edwin M. Lee, Mayor

Human Services Agency

Department of Human Services
Department of Aging and Adult Services
Office of Early Care and Education

Trent Rhorer, Executive Director

August 14, 2017

Ms. Tonia Lediju
Director of Audits
Office of the Controller
City Services Auditor Division
City Hall
1 Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102

Dear Ms. Lediju:

The Human Services Agency (HSA) has received the draft of the City Services Auditor's audit of United Council of Human Services. We appreciate the time and effort your staff spent on the audit. We concur with your recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Daniel B. Kaplan".

Daniel B. Kaplan
Deputy Director, Finance & Administration

For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination ¹
1. Direct UCHS to adhere to requirements in its bylaws regarding board composition and the board member term limit.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH plans to meet with the UCHS Board of Directors during the first quarter of FY2017-18 to address the governance recommendations (1-8) raised in the audit. Specially, HSH will direct UCHS to adhere to its bylaws regarding board composition and board member term limit.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
2. Direct UCHS to review its bylaws to determine whether all requirements still apply and to update any requirement necessitated by changed conditions and that is in the organization's best interests.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will direct UCHS to review its bylaws to determine whether all requirements still apply and to update any requirement as necessary.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
3. Direct UCHS to require its board members to periodically review the organization's governing policies and procedures, including its bylaws, and have board members sign a document affirming that they have done so.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will direct UCHS to require its board members to periodically review the organization's governing policies and procedures, including its bylaws, and have board members sign a document affirming that they have done so.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination ¹
4. Ensure that UCHS's board includes at least two members who possess one or more of the following qualities: <ul style="list-style-type: none"> • Has a formal background in finance. • Receives or received UCHS's services. • Represents a supporting agency. (This would be a non-voting member.) 	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will recommend to UCHS that its Board of Directors includes at least two members who possess one or more of the following qualities: <ul style="list-style-type: none"> • A formal background in finance, • Is a current or past recipient of UCHS's services, and • Represents a supporting agency. 	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
5. Ensure that UCHS's Finance Committee selects the organization's external financial auditor or recommends a firm or firms to the full Board of Directors so it can make the selection.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will recommend that UCHS's Finance Committee selects an external financial auditor.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
6. Require UCHS to establish policies on board member oversight responsibilities, including periodic leadership and program performance reviews.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS to establish policies on board member oversight responsibilities, including periodic leadership and program performance reviews.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
7. Require UCHS to adopt conflict-of-interest policies and formalize board member responsibilities.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH plans to meet with the UCHS Board of Directors during Q1 FY2017-18 and require UCHS to adopt conflict-of-interest policies and formalize board member responsibilities.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination ¹
8. Require UCHS to provide its fiscal agent with access to the fiscal operations related to all UCHS agreements.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will recommend to UCHS's Board of Directors that it provide UCHS's new fiscal intermediary broader access to fiscal records and operations related to all UCHS contracts. HSH is contracting with Public Health Foundation Enterprises to provide fiscal and human resources management for the HSH-funded services at UCHS services sites: Hope House and at the Bayview Drop-In Resource Center. Recommendations pertaining to financial and HR management and internal controls will be included in HSH's contract with the fiscal intermediary.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
9. Assist UCHS's fiscal agent to become UCHS's fiscal sponsor and assume all duties of this role.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH is contracting with a new fiscal intermediary to provide fiscal and human resources management for services at UCHS sites, rather than assist UCHS's previous fiscal agent in becoming a fiscal sponsor.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
10. Ensure that UCHS files its tax returns when due and files for extensions when necessary.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH is contracting with a new fiscal intermediary to provide fiscal and human resources management for services at UCHS sites. In accordance with citywide nonprofit monitoring fiscal and compliance review, HSH will monitor UCHS for compliance with federal tax reporting.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
11. Ensure that UCHS submits its single audits when due and files for extensions when necessary.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur As stated above, HSH will monitor UCHS for compliance with single audit deadlines in accordance with annual fiscal and compliance monitoring.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
12. Ensure that UCHS completes its 2014 single audit immediately.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur UCHS's external auditor has completed its 2014-2015 single audit.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination ¹
13. Ensure that UCHS develops a finance team to support the organization's various functions, which include business planning, budgeting, accounting, and human resources activities.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH is contracting with a new fiscal intermediary to provide finance and human resources management for UCHS. HSH will recommend to UCHS's Board of Directors that to be a self-sustaining organization, it will need to develop a finance team to support the organization's business planning, budgeting, accounting and human resources functions.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
14. Require UCHS's fiscal agent to develop a strategic plan that will help UCHS develop (including recruiting and hiring staff for) a finance/human resources unit.	Department of Homelessness and Supportive Housing	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur HSH is contracting with a fiscal intermediary to provide finance and human resources management to UCHS. Developing a strategic plan is not part of these contracted services. However, HSH will recommend to UCHS's Board of Directors that it develop a plan to build its internal financial and administrative capacity in order to become a self-sufficient organization.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
15. Require UCHS to submit legible documents as support for expenses and require UCHS's fiscal agent to properly review the documents.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH's contract with UCHS's new fiscal intermediary will require that the contractor collect all invoicing information and documentation from UCHS before submitting a combined invoice of prior monthly costs to the HSH for reimbursement. The fiscal intermediary will review all subcontractor expenditures for legibility, accuracy and completeness before submission to HSH.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
16. Require UCHS's fiscal agent to retain all support documentation for audit purposes.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to retain supporting documentation for fiscal monitoring and audit purposes.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	<u>CSA Use Only</u> Status Determination¹
17. Require UCHS's fiscal agent to ensure that UCHS provides full and accurate receipt support for food and kitchen supply expenditures.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to collect complete and accurate receipts for all expenditures before authorizing reimbursement.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
18. Require UCHS's fiscal agent to ensure that UCHS expenses are accurately classified and adequately reviewed.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to ensure expenditures are accurately classified and adequately reviewed.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
19. Require UCHS's fiscal agent to ensure that fees are billed proportionally to each funding source based on the employees' program assignment.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to ensure indirect fees are billed proportionally to funding sources based on employee FTE allocation.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
20. Require UCHS's fiscal agent to verify and approve UCHS's payroll, ensuring that billing amounts are accurately reflected before processing the request.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur UCHS's new fiscal intermediary is serving as the employer of record for all employees working on UCHS programs (funded by HSH). This practice ensures all payroll costs are verified, approved, and accurately allocated to HSH grants.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
21. Collect \$715 from YMCA for fees the fiscal agent previously overcharged for the five sample pay periods.	Human Services Agency	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSA will work with YMCA/UCHS to resolve the recommendation.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	<u>CSA Use Only</u> Status Determination¹
22. Require YMCA to review all past payroll records for pay periods not covered by this audit to determine whether YMCA inappropriately billed 100 percent of incurred fees to the Human Services Agency. If overcharges are found, require YMCA to reimburse the Human Services Agency for the total amount overcharged.	Human Services Agency	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSA will work with YMCA/UCHS to resolve the recommendation.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
23. Require UCHS's fiscal agent to adequately review UCHS employee timesheets for accuracy and completeness before entering hours into the system for payroll processing.	Department of Homelessness and Supportive Housing	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur UCHS's new fiscal intermediary is serving as the employer of record for employees working on UCHS programs (funded by HSH), to ensure all employee timesheets are accurate and complete prior to payroll processing.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
24. Ensure that UCHS's fiscal agent implements a policy requiring its finance director to mark all employee timesheets with an indicator, such as a signature and date, as soon as they are reviewed.	Department of Homelessness and Supportive Housing	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur UCHS's new fiscal intermediary is serving as the employer of record for employees working on UCHS programs (funded by HSH), to ensure all employee timesheets are accurate and complete prior to payroll processing, including implementing internal controls to ensure timesheet approval and review.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
25. Require UCHS to implement an effective control environment over its payroll operations by enforcing a more stringent timesheet review process.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur UCHS's new fiscal intermediary is serving as the employer of record for all employees working on UCHS programs (funded by HSH) to ensure all employee timesheets are reviewed and accurate.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

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Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	<u>CSA Use Only</u> Status Determination¹
26. Require UCHS's fiscal agent to periodically review all UCHS payroll spreadsheets to ensure that they show UCHS employees' current positions and/or job titles.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur UCHS's new fiscal intermediary to serve as the employer of record for employees working on UCHS programs funded by HSH. The contractor will train employees and supervisors on use of a time collection system with employee positions/job titles, and ensure payroll costs are correctly allocated and aligned with the approved budgeted position in HSH contracts.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
27. Ensure that UCHS's fiscal agent creates a policy requiring UCHS to provide all necessary supporting documentation for its employee timesheets.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to retain necessary supporting documentation for employee timesheets.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
28. Ensure that UCHS's fiscal agent appropriately maintains all files, records, and documents in a readily accessible location to provide proper fiscal oversight services over UCHS's payroll process.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to maintain all payroll and personnel files, records and documents readily accessible for fiscal oversight.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
29. Thoroughly investigate why UCHS did not provide most of the requested employee personnel files for this audit, attempt to obtain the files, and assess the possibility that ghost employee fraud has occurred.	Department of Homelessness and Supportive Housing	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur In August 2016, HSH took over contract management for UCHS services from the Human Services Agency. Agreement. Currently, HSH does not have the resources or expertise to further investigate anomalies that were uncovered during the audit of 2014-15 practices. However, HSH is ready to support the Controller's Office in any follow up investigation. Additionally, HSH has taken immediate action to ensure that a new fiscal intermediary is in place for UCHS. This fiscal intermediary serves as the employer of record for employees providing UCHS services to ensure HR and finance management, oversight and accountability.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

Office of the Controller, City Services Auditor

Increased Oversight, Fiscal Sponsorship Controls, and Accountability Are Needed to Improve UCHS's Operations

Recommendation	Responsible Agency	Agency Response	<u>CSA Use Only</u> Status Determination ¹
30. Require UCHS to adhere to the U.S. Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> , in particular by properly segregating its expense reimbursement and payroll functions.	Department of Homelessness and Supportive Housing	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur HSH will require UCHS's new fiscal intermediary to adhere to internal controls, including proper segregation of duties for expense reimbursement and payroll functions.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

¹ Status Determination based on audit team's review of the agency's response and proposed corrective action.

APPENDIX B: UCHS RESPONSE

DR. BARBARA J. BROWN
FOUNDER

GWENDOLYN WESTBROOK
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SAN FRANCISCO CA 94124



THE UNITED COUNCIL OF HUMAN SERVICES

REDUCING HUNGER & POVERTY THROUGH SELF-HELP. ONE LIFE AT A TIME.

August 22, 2017

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Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

**RE: Increased Oversight, Fiscal Sponsorship Controls and
Accountability are Needed to Improve The United Council of Human
Services**

Dear Mrs. Lediju:

The United Council of Human Services acknowledges receipt of the
Draft Audit for our programs, and is diligently working to make the
necessary changes as recommended in your report.

Thank you and your staff for the time you spent gathering the
information for this audit.

Sincerely Yours,

Gwendolyn Westbrook, CEO

CC: UCHS Board of Directors

MOTHER BROWN'S
DINING ROOM

SAN FRANCISCO

HOMELESS
RESOURCE CENTER

HOPE HOUSE PROJECT

HOPE HOUSE
FOR VETERANS

FOOD BANK

CLOTHING BANK