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August 27, 2004

Report Number: A-09-03-01017

Mitchell H. Katz, M.D.
Director
San Francisco Department of Public Health
101 Grove Street, Room 308
San Francisco, California 94102

Dear Dr. Katz:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Ryan White Title I Funds Claimed by a Housing Contractor of the San Francisco Eligible Metropolitan Area for the Fiscal Year Ended February 28, 2002." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The action official will make final determination as to the actions taken on all matters reported. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Please refer to report number A-09-03-01017 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Nancy J. McGinness
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RYAN WHITE TITLE I FUNDS
CLAIMED BY A
HOUSING CONTRACTOR
OF THE SAN FRANCISCO
ELIGIBLE METROPOLITAN AREA
FOR THE FISCAL YEAR
ENDED FEBRUARY 28, 2002**



**August 2004
A-09-03-01017**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The U.S. Senate Finance Committee requested that we examine the implementation of Ryan White Comprehensive AIDS Resources Emergency (CARE) Act Title I at the local level. Under CARE Act Title I, the Health Resources and Services Administration (HRSA) makes grants to local eligible metropolitan areas (EMAs) that have been hit hardest by the HIV/AIDS epidemic. The CARE ACT Title I program is the payer of last resort for people living with HIV/AIDS who have limited insurance coverage or no other source of health care.

The San Francisco EMA, the nation's second largest, received \$35.8 million during fiscal year (FY) 2001,¹ the period of our review, to provide CARE Act Title I services. On behalf of the Department of Public Health for the City and County of San Francisco, the AIDS Office acts as the CARE Act Title I grantee. In this role, the AIDS Office issued contracts totaling \$1.5 million to Baker Places, Inc. (Baker Places) to provide short-term and emergency housing, as well as medical and social services, to low-income people with HIV/AIDS.

OBJECTIVES

In response to the U.S. Senate Finance Committee's request, we conducted audits nationwide, including one of the San Francisco AIDS Office to determine the following:

- Did the AIDS Office ensure that Baker Places provided the expected **program services** to clients eligible for CARE Act Title I?
- Did the AIDS Office ensure that Baker Places followed Federal requirements for claiming **program costs** under CARE Act Title I?

SUMMARY OF FINDINGS

The AIDS Office ensured that Baker Places provided expected program services. However, it did not monitor Baker Places to ensure that the time limit for housing services met the intent of CARE Act Title I and that Baker Places followed Federal requirements for claiming costs.

Program Services. Although Baker Places provided the expected program services to clients, it extended housing services beyond a reasonable limit. For example, three clients received housing for more than 8 years, and seven others received housing for more than 4 years. This situation occurred because in the absence of specific guidance from HRSA, the AIDS Office did not establish a reasonable time limit for housing assistance and did not develop a strategy for ensuring that clients could make the transition to a stable living situation. As a result, the AIDS Office reimbursed Baker Places \$80,776 for services that exceeded a reasonable limit for short-term housing and may have been inconsistent with the intent of CARE Act Title I.

¹ For CARE Act Title I, HRSA defined FY 2001 as the period from March 1, 2001 through February 28, 2002.

Program Costs. Baker Places inappropriately claimed costs of \$216,461 that did not comply with Federal cost principles, as stated in Office of Management and Budget (OMB) Circular A-122. Specifically, Baker Places:

- claimed costs for facilities where no program services were provided (\$89,701)
- claimed rental costs that were not allowable, reasonable, or allocable (\$126,760), some of which were already paid by another Federal program
- used budget estimates to bill for services and allocate personnel costs

These conditions occurred because the AIDS Office did not provide fiscal monitoring to ensure that Baker Places had an adequate accounting system, which would have included year-end reconciliation of program reimbursements to allowable program costs and a time-and-effort reporting system to allocate salaries to programs. As a result, the AIDS Office could not determine actual costs of services, measure program effectiveness, or project future funding needs.

RECOMMENDATIONS

We recommend that the AIDS Office:

1. refund \$216,461² to the Federal Government, the total amount overpaid to Baker Places for unallowable costs
2. work with HRSA to evaluate the allowability of \$80,776² claimed for housing services that may not have met the intent of CARE Act Title I, and make a refund as appropriate
3. develop and use a reasonable time limit for short-term housing consistent with CARE Act Title I
4. ensure that Baker Places develops a strategy to assist clients to make the transition to a stable living situation
5. require Baker Places to develop and implement an accounting system that accurately tracks, allocates, and reports the allowable costs of providing CARE Act Title I services
6. require Baker Places to perform a year-end reconciliation of program reimbursements to allowable program costs

² The draft report recommended a refund of \$297,237. Based on comments from the AIDS Office and additional analysis, we reduced the amount to \$216,461 and recommended that the AIDS Office work with HRSA to evaluate the allowability of the remaining \$80,776.

7. require Baker Places to develop and implement a time-and-effort reporting system to distribute personnel costs

AIDS OFFICE COMMENTS

In a written response to the draft report, the AIDS Office stated that it did not concur with the findings and the recommendation to refund \$216,461. The AIDS Office believed that Baker Places met its performance objectives.

The AIDS Office agreed with the recommendation to perform a year-end reconciliation of program reimbursements to allowable program costs. Although it agreed with the other four procedural recommendations, the AIDS Office believed that corrective actions had already been taken.

OFFICE OF INSPECTOR GENERAL RESPONSE

The \$216,461 should be refunded to the Federal Government because the costs did not comply with Federal regulations contained in OMB Circular A-122. We disagree with the AIDS Office's statement that it has already implemented corrective actions. The AIDS Office needs to take further action to fully implement our recommendations.

Where appropriate, we made changes in the report to reflect the AIDS Office's written comments. We also included the AIDS Office's written response to our draft report in its entirety as an appendix to this report.

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INTRODUCTION

BACKGROUND

Ryan White CARE Act Title I

Within the U.S. Department of Health and Human Services, HRSA administers the CARE Act, enacted in 1990 and reauthorized in 1996 and 2000. The objective of CARE Act Title I is to improve access to comprehensive, high-quality, community-based medical care and support services for the HIV/AIDS community. To deliver services, HRSA awards grants to EMAs, which are urban areas disproportionately affected by the incidence of HIV/AIDS. The CARE ACT Title I program is the payer of last resort for people with HIV/AIDS who have limited coverage or no other source of health care.

HRSA makes grants to the local government's mayor or county executive, who, while remaining the steward of the Federal funding, usually gives the day-to-day program administration to the local health department, referred to by HRSA as the CARE Act grantee. Using service priorities established by the local CARE Act Title I planning council, the grantee contracts for health care and support services, including medical and dental care, prescription drugs, housing, transportation, counseling, home and hospice care, and case management.

The grantee is responsible for overseeing the service providers' performance and adherence to contractual obligations. The grantee is responsible for providing oversight through:

- **program monitoring**, to assess the quality and quantity of services provided
- **fiscal monitoring**, to ensure that contractors use the funds for approved purposes and in accord with Federal, State, and local regulations and guidelines

If monitoring reveals problems, HRSA advises the grantee to offer the contractor technical assistance, or in serious cases, a corrective action plan. The CARE Act Title I manual states:

In an era of managed care and shrinking resources, it is in the EMA's [grantee's] best interest to know how well agencies function in spending and managing service dollars.

For FY 2001, HRSA funded 51 EMAs for \$604 million. From the enactment of CARE Act Title I through FY 2003, total Federal funding was \$5 billion.

San Francisco EMA

The San Francisco EMA, the second largest in the nation, covers a 3-county area with over 22,000 individuals living with HIV/AIDS. For FY 2001, HRSA awarded a CARE Act Title I grant totaling \$35.8 million to the Department of Public Health for the City and County of San Francisco AIDS Office, which serves as the CARE Act Title I grantee for the EMA. The AIDS Office entered into memorandums of understanding with internal agencies and contracted with

external agencies to provide services in the San Francisco EMA. In FY 2001, the AIDS Office worked with 69 agencies to provide program services.

For housing services, the AIDS Office had a memorandum of understanding with the Housing and Urban Health Division (housing division), an organization within the health department, to contract with external agencies. The housing division was responsible for entering into contracts with the agencies; however, the AIDS Office retained responsibility for the housing services provided and paid for by the CARE Act Title I grant. As of December 2003, there was a waiting list of 2,500 eligible people with HIV/AIDS requesting housing in the San Francisco area.

Baker Places

Baker Places is a San Francisco-based nonprofit organization that provides social rehabilitation and housing for HIV/AIDS clients with mental and psychological illness or chemical addictions. For FY 2001, it entered into three contracts with the AIDS Office to provide short-term and emergency housing to low-income people with HIV/AIDS. During FY 2001, Baker Places provided housing to 231 CARE Act Title I clients. Baker Places submitted monthly invoices to the AIDS Office and was reimbursed based on these invoices.

The following table summarizes the amount awarded under each CARE Act Title I contract:

Contract	Amount
1 - Residential Services	\$1,280,240
2 - HIV Substance Abuse and Detoxification	177,000
3 - Emergency Housing	65,832
Total	<u>\$1,523,072</u>

Contract for Residential Services. This fee-for-service contract offered three programs representing a continuum of care—beginning with residential treatment up to 90 days, moving to a program for supported living, and concluding with independent living through rental subsidies.

The supported living program provided continued treatment and other support services, which included teaching CARE Title I clients independent living skills in a clean and sober environment. Baker Places housed clients throughout San Francisco in cooperative apartments and flats, which it either owned or leased. The rental subsidy program provided subsidies to CARE Act Title I clients to establish independent places of residence. The clients contributed one-third of their income to the rent amount, while Baker Places subsidized the remaining portion.

Contract for the HIV Substance Abuse and Detoxification Program. This cost reimbursable contract offered three levels of care (medically managed detoxification services, residential detoxification, and residential services) at four detoxification facilities in San Francisco.

Contract for Emergency Housing. This cost reimbursable contract provided emergency housing for clients at several hotels in San Francisco.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

In response to the U.S. Senate Finance Committee's request, we conducted audits nationwide, including one of the San Francisco AIDS Office to determine the following:

- Did the AIDS Office ensure that Baker Places provided the expected **program services** to clients eligible for CARE Act Title I?
- Did the AIDS Office ensure that Baker Places followed Federal requirements for claiming **program costs** under CARE Act Title I?

Scope

We audited three CARE Act Title I contracts between Baker Places and the AIDS Office for a total of \$1,523,072 for FY 2001 (March 1, 2001 through February 28, 2002).

We selected Baker Places, the AIDS Office's fourth largest contractor, for audit based on our evaluation of program files and the type of services provided to CARE Act Title I clients. Specifically, Baker Places provided housing services in San Francisco, an area known for high costs and housing shortages.

We limited our reviews of internal controls at the AIDS Office and Baker Places to the procedures needed to accomplish our audit objectives. Meeting the objectives did not require a complete understanding or assessment of the internal control structure of either the AIDS Office or Baker Places. We performed our fieldwork from April 2003 to March 2004 at the AIDS Office and Baker Places in San Francisco, CA.

Methodology

To accomplish our audit objectives, we performed audit procedures at the AIDS Office and at Baker Places.

At the AIDS Office, we:

- interviewed officials responsible for program and fiscal monitoring
- obtained a list of all contractors and amounts of funding
- reviewed the independent auditor reports for selected contractors
- reviewed contracts and related invoices for selected contractors
- researched general background material, such as local health commission minutes and newspaper articles, for selected contractors

At Baker Places, we:

- interviewed contractor officials
- reviewed the three contracts and budgets for CARE Act Title I
- traced selected costs from the final voucher submitted to the AIDS Office to the general ledger detail
- reviewed the supporting documentation for costs claimed for at least 1 month from each contract
- reviewed lease agreements, loan documents, and accounting records
- compared monthly reports of housing services provided to CARE Act Title I clients with subsidiary client rental records
- reconciled monthly invoices with census reports
- reviewed the audited financial statement for Baker Places for the year ended June 30, 2002

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The AIDS Office ensured that Baker Places provided expected program services. However, it did not monitor Baker Places to ensure that the time limit for housing services met the intent of CARE Act Title I and that Baker Places followed Federal requirements for claiming costs. These conditions occurred because the AIDS Office did not provide adequate program and fiscal monitoring of Baker Places. As a result, the AIDS Office reimbursed Baker Places \$80,776 of Federal funds for services that may not have met the intent of CARE Act Title I. Also, the AIDS Office inappropriately reimbursed Baker Places \$216,461 of Federal funds for unallowable costs, which reduced the funding available for needed services for the HIV/AIDS community in San Francisco.

HOUSING SERVICES PROVIDED BEYOND A REASONABLE TIME LIMIT

Although Baker Places provided the expected program services to clients, it extended housing services beyond a reasonable limit. CARE Act Title I was intended to provide short-term or emergency housing services; however, Baker Places provided long-term housing services to some clients. This situation occurred because in the absence of specific guidance from HRSA, the AIDS Office did not establish a reasonable limit for housing assistance and did not develop a strategy for ensuring that clients could make the transition to a stable living situation. We estimate that the AIDS Office reimbursed Baker Places \$80,776 for housing services that may

have exceeded the intent of CARE Act Title I. These funds could have been used to meet the housing needs of additional people with HIV/AIDS, many of whom were on waiting lists.

Federal Requirements for Housing Assistance

Because the intent of the CARE Act is to provide emergency assistance for housing, HRSA requires the assistance to be short-term and transitional. The assistance is not intended to be permanent and should be accompanied by a strategy to ensure that the individual or family is capable of maintaining a stable living situation. To ensure that grantees use program funds appropriately, the CARE Act Title I Manual requires grantees to monitor contractor performance, including assessing the quality and quantity of services provided. The manual requires grantees to develop standard limitations for emergency assistance, such as housing.

Although the AIDS Office did not establish a standard time limit for short-term housing, an official at Baker Places informed us that 6 months to 1 year was reasonable. The HRSA project officer stated short-term housing could be for a period of 1½ years.

Housing Services Exceeded Reasonable Time Limit

The census reports at Baker Places showed that 20 of 80 clients, or 25 percent, received supported living and rental subsidies beyond 1½ years. Of these 20 clients, 15 received rental subsidies and 5 received supported living services.

In the rental subsidy program, the AIDS Office reimbursed Baker Places for rental subsidies provided to 18 clients during our audit period. Of the 18 clients, 15 received the subsidy for more than 1½ years. Of these 15 clients, 5 received services between 1½ and 4 years, 7 received services between 4 and 8 years, and 3 received services for more than 8 years.

In the supported living program, the AIDS Office reimbursed Baker Places for housing services provided to 62 clients during our audit period. Of the 62 clients, 5 received services for more than 1½ years.

Program Monitoring Not Adequate

The AIDS Office did not provide adequate program monitoring of Baker Places to ensure that it complied with the intent of CARE Act Title I. Specifically, it did not establish a reasonable limit for housing assistance and did not develop a strategy for ensuring that clients could make the transition to a stable living situation.

The AIDS Office and Baker Places were aware that CARE Act Title I clients at Baker Places received long-term housing services. However, the officials told us that there were no other viable options available for the San Francisco area.

Housing Needs Not Met

We estimated that Baker Places expended \$80,776 of Federal funds for housing services that may have exceeded the intent of CARE Act Title I. This amount included \$63,451 for rental subsidies and \$17,325 for supported living services. Our estimate is based on a limit of 1½ years for short-term housing. These funds could have been used to meet the housing needs of additional people with HIV/AIDS. As of December 2003, there was a waiting list of 2,500 eligible people with HIV/AIDS requesting housing.

FEDERAL COST REQUIREMENTS NOT FOLLOWED

The AIDS Office reimbursed Baker Places \$216,461 for costs that did not comply with Federal regulations. Of this amount, \$89,701 was claimed for facilities where no program services were provided, and \$126,760 was claimed for unallowable rental costs. In addition, Baker Places billed for services and allocated personnel costs based on budget estimates. These conditions occurred because the AIDS Office did not provide adequate fiscal monitoring of Baker Places to ensure that it had an adequate accounting system. As a result, the AIDS Office did not know the actual and allowable costs of providing services at Baker Places. The AIDS Office could have used the Federal funds of \$216,461 to provide housing assistance to additional people with HIV/AIDS.

Federal Cost Requirements for Grantees and Contractors

To ensure that grantees use program funds appropriately, HRSA's CARE Act Title I Manual requires grantees to perform fiscal monitoring of its contractors. The contractors must comply with Federal cost principles and contract requirements. Federal cost requirements for nonprofit organizations are listed in OMB Circular A-122, which states that claimed costs must be allowable, reasonable, and allocable.

Costs Claimed for Facilities Where No Program Services Were Provided

Under one of its contracts with the AIDS Office, Baker Places claimed \$89,701 of costs for facilities with no CARE Act Title I clients. This practice did not comply with OMB Circular A-122, attachment A, section A.4.a.(2), which states that a cost is allocable to a contract in accordance with the relative benefits received. Each month, Baker Places billed the AIDS Office for costs from each of its four facilities without regard to the number of CARE Act Title I clients residing in each facility.

At three of the four facilities, Baker Places claimed costs for facilities where no program services were provided:

- At one facility, Baker Places claimed \$61,696, even though no CARE Act Title I clients resided at the facility during the entire fiscal year.
- At a second facility, Baker Places claimed \$20,109 for 10 months when no program clients resided at the facility.

- At a third facility, Baker Places claimed \$7,896 for 4 months when no program clients resided at the facility.

During these periods, the facilities were treating clients under other programs. Therefore, Baker Places should have charged the costs to those programs.

Costs Claimed for Unallowable Rental Expenses

Under two of its contracts with the AIDS Office, Baker Places claimed \$126,760 for unallowable rental costs. Of this amount, \$70,451 was paid by another Federal program, \$25,550 was rent claimed in excess of actual cost, and \$30,759 was for rental costs that should have been charged to another program.

Baker Places claimed \$70,451 for rental charges at two of its facilities, even though the U.S. Department of Housing and Urban Development funded the facilities. OMB Circular A-122, attachment B, paragraph 11.c.(2) specifically prohibits the reimbursement of costs paid by another Federal program.

Baker Places initially stated that rental costs of \$25,550 comprised interest, maintenance, and depreciation. However, interest was an unallowable cost according to OMB Circular A-122, attachment B, paragraph 23.a.(1)(f). Also, Baker Places claimed maintenance costs under a separate line item in the budget; claiming them again as part of rent constituted a duplicate charge. Although depreciation is an allowable cost, Baker Places could not identify the portion of rental costs attributable to depreciation. Baker Places later claimed that rental costs represented fair market value. However, OMB Circular A-122, attachment B, section 46.c. does not allow reimbursement based on fair market value.

Baker Places claimed \$30,759 of rental costs unrelated to the CARE Act Title I program. These costs were incurred for long-term housing funded by a local program. OMB Circular A-122, attachment A, section A.4.a. specifically prohibits claiming costs that do not benefit the Federal program.

Costs Claimed Based on Budget Estimates and Inadequate Time Reporting

Under two of its contracts with the AIDS Office, Baker Places used budget estimates to bill for services and allocate personnel costs. These accounting practices did not comply with OMB Circular A-122, attachment A, section A.4.a.(2), which states that a cost is allocable to a contract in accordance with the relative benefits received.

Baker Places billed for services based on budget estimates that were unsupported. For example, in FY 2001, Baker Places assigned the costs of equipment, furniture rental, telephone, and utilities to its various programs based on their fund balances without regard to the benefits received. Baker Places also transferred the rental costs of one CARE Act Title I program to another, consequently misstating the costs of both programs.

Baker Places billed for personnel costs based on budget estimates that were unsupported rather than employees' actual time worked on programs. For example, for employees who worked on multiple programs, the timesheets did not specify the number of hours worked on each program.

Baker Places' Accounting System and AIDS Office's Fiscal Monitoring Not Adequate

Baker Places did not have an accounting system to track and allocate the actual costs of providing CARE Act Title I services nor did it have accounting policies and procedures to ensure that only allocable, allowable, and reasonable expenses were charged to the program. Baker Places also did not have an adequate time-and-effort reporting system to distribute personnel costs to programs.

The AIDS Office did not provide adequate fiscal monitoring of Baker Places to ensure that it had an adequate accounting system. To make interim program payments, the AIDS Office relied on invoices submitted by Baker Places. It did not review supporting documentation, which would have disclosed unallowable costs. At the end of the program year, the AIDS Office did not require Baker Places to reconcile interim reimbursements to the actual cost of providing the services.

Actual Costs of Program Not Known

Without ensuring that its contractors followed proper accounting procedures, the AIDS Office could not determine actual costs of services, measure program effectiveness, or project future funding needs. The AIDS Office inappropriately reimbursed Baker Places \$216,461 for costs that did not comply with Federal regulations. The AIDS Office could have used these funds to provide housing assistance to additional people with HIV/AIDS.

RECOMMENDATIONS

We recommend that the AIDS Office:

1. refund \$216,461 to the Federal Government, the total amount overpaid to Baker Places for unallowable costs
2. work with HRSA to evaluate the allowability of \$80,776 claimed for housing services that may not have met the intent of CARE Act Title I, and make a refund as appropriate
3. develop and use a reasonable time limit for short-term housing consistent with CARE Act Title I
4. ensure that Baker Places develops a strategy to assist clients to make the transition to a stable living situation

5. require Baker Places to develop and implement an accounting system that accurately tracks, allocates, and reports the allowable costs of providing CARE Act Title I services
6. require Baker Places to perform a year-end reconciliation of program reimbursements to allowable program costs
7. require Baker Places to develop and implement a time-and-effort reporting system to distribute personnel costs

AIDS OFFICE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We summarized and responded to the AIDS Office's comments relating to the concerns raised in our draft report as follows: general summary, program services, and program costs. Where appropriate, we made changes in the report to reflect the AIDS Office's written comments. We also included the AIDS Office's written response to our draft report in its entirety as an appendix to this report.

General Summary

AIDS Office Comments

In a written response to the draft report, the AIDS Office stated that it did not concur with the findings and the recommendation to refund \$216,461 (the draft report recommended a refund of \$297,237). The AIDS Office believed that Baker Places met its performance objectives.

The AIDS Office agreed with the recommendation to perform a year-end reconciliation of program reimbursements to allowable program costs. Although it agreed with the other four procedural recommendations, the AIDS Office believed that corrective actions had already been taken.

In comments not directly addressed to the findings and recommendations, the AIDS Office explained that it did not have a direct contractual relationship with Baker Places for two contracts; the housing division entered into these contracts with Baker Places.

Office Of Inspector General Response

The \$216,461 should be refunded to the Federal Government because the costs did not comply with Federal regulations contained in OMB Circular A-122. We disagree with the AIDS Office's statement that it has already implemented corrective actions. The AIDS Office needs to take further action to fully implement our recommendations.

The AIDS Office serves as the CARE Act Title I grantee and is responsible for service providers' performance and adherence to contractual obligations. Specifically, a memorandum of understanding with the housing division explicitly states that the AIDS Office will monitor all units of service and expenditures incurred by the housing division's service providers.

Program Services

AIDS Office Comments

The AIDS Office disagreed with our finding that clients received housing services beyond a reasonable time limit. It pointed out that HRSA did not define or provide guidelines for defining short-term or long-term housing. Therefore, the AIDS Office stated that it was unreasonable for us to set an arbitrary standard of 1½ years. Further, the AIDS Office stated that short-term housing was defined in the contract with Baker Places. It stated, “Since this contract was centered on providing an integrated service model of treatment, the focus was to provide stable residential services during critical clinical treatment of multi-diagnosed clients.” It also stated that the contract allowed the services to “be extended as long as necessary.”

Office of Inspector General Response

Based on comments from the AIDS Office and additional analysis, we recommended that the AIDS Office work with HRSA to evaluate the allowability of the \$80,776 for housing services provided beyond 1½ years. The \$80,776 identified in our report was for 20 clients who were not part of the detoxification program, where they would have received critical clinical treatment. Rather, 20 clients were in supported living and rental subsidy programs, which should have been part of a progression to a long-term housing situation.

The AIDS Office needs to set specific guidelines for short-term housing consistent with the intent of CARE Act Title I. Although HRSA did not set specific guidelines for short-term or long-term housing, its policy notice 99-02, “The Use of Ryan White CARE Act Funds for Housing Referral Services and Short-term or Emergency Housing Needs,” states that CARE Act Title I funds should not be used to house clients for indefinite periods of time.

Program Costs

AIDS Office Comments

The AIDS Office disagreed with our finding that Baker Places claimed \$216,461 of unallowable costs, which included \$126,760 of unallowable rental costs and \$89,701 for costs claimed where no services were provided. Overall, the AIDS Office believed that all costs should be allowable because Baker Places met all of its program objectives.

For the \$126,760 of unallowable rental costs, the AIDS Office stated that Baker Places inadvertently charged \$96,001 of rental costs for a building that was donated by another Federal program. The AIDS Office claimed that these rental costs were not a direct charge to the contract but were incorrectly included in the fee-for-service rate developed by Baker Places. The AIDS Office disagreed that Baker Places claimed \$30,759 of unallowable rental costs. The AIDS Office stated that these costs were allowable rental expenses for CARE Act Title I clients and had been incorrectly charged to the wrong cost center.

For the \$89,701 representing costs claimed for facilities where no services were provided, the AIDS Office stated that Baker Places met the program objectives and did not agree with our recommended refund. Further, the AIDS Office disagreed with our statement that Baker Places claimed costs based on budget estimates and funds availability. The AIDS Office said that Baker Places billed in accordance with contract terms.

The AIDS Office agreed to require Baker Places to perform a year-end reconciliation of shared program reimbursements to allowable program costs. Specifically, the AIDS Office agreed to reconcile smaller accounts, such as furniture, utilities, telephone, materials, and supplies.

The AIDS Office did not agree with our recommended improvements to Baker Places' time reporting and accounting systems because it believed that Baker Places had adequate systems and procedures. The AIDS Office believed that it had provided adequate fiscal monitoring of Baker Places.

Office of Inspector General Response

The AIDS Office reimbursed Baker Places \$216,461 for unallowable costs. As part of its responsibilities under the CARE Act Title I program, the AIDS Office was required to limit reimbursement to its contractors to the actual allowable cost of providing services to CARE Act Title I clients.

Baker Places included unallowable rental costs in the computation of its fee-for-service rate. The computed rate was overstated and its use resulted in an overclaim of \$126,760 to CARE Act Title I. As discussed in the body of the report, \$70,451 was paid by another Federal program, \$25,550 was rent claimed in excess of actual cost, and \$30,759 was for rental costs that should have been charged to another program. The AIDS Office should have identified these overstatements during its review of Baker Places' rate computation.

The AIDS Office reimbursed Baker Places \$89,701 of costs claimed for facilities where no services were provided. At these facilities, Baker Places billed 100 percent of the contract amount even though it had provided only 63 percent of the residential bed days specified in the contract and 17 percent of the medication monitoring encounters required for the year.

Baker Places billed the AIDS Office based on budgeted amounts. The accountant at Baker Places confirmed this practice. Because the CARE Act Title I contract is cost reimbursable, Baker Places' billing invoices should have been based on actual and allowable costs, not budget estimates. Since Baker Places billed for services based on budget estimates, it should have performed a year-end reconciliation of all program reimbursements to actual allowable costs.

Baker Places did not have adequate time reporting and accounting systems to properly identify, track, and allocate actual and allowable costs. For example, the medical staff did not indicate on their timesheets the amount of time spent on each contract; as a result, Baker Places could not directly identify the salary cost of medical care. Further, Baker Places did not track medical services provided under each contract; therefore, it did not have a basis for allocating medical costs based on actual benefits received. The AIDS Office contributed to the problems associated with program costs by not providing adequate fiscal monitoring.

APPENDIX

City and County of San Francisco

Department of Public Health



Mitchell H. Katz, MD
Director of Health

May 11, 2004

Report Number A-09-0301017

Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102-4912

Dear Ms. Ahlstrand,

Attached is the City and County of San Francisco, Department of Public Health and the San Francisco EMA response to the U.S. Department of Health and Human Services, Office of Inspector General draft report entitled "*Ryan White Title I Funds Claimed by a Housing Contractor of the San Francisco Eligible Metropolitan Area During Fiscal Year Ended February 28, 2002*".

In summary, the City and County of San Francisco, Department of Public Health and the San Francisco EMA does not concur with the findings. However, we are dedicated to improving the delivery of program services and improving the compliance with the Ryan White CARE Title I Act and other regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Mitchell Katz".

MITCHELL H. KATZ, MD
Director of Health

**San Francisco EMA Response to the Department of Health
and Human Services Office of Inspector General
Audit Findings
(Baker Places)**

BACKGROUND

The San Francisco, California Eligible Metropolitan Area (SFEMA) consists of three counties: Marin, San Francisco, and San Mateo. The San Francisco Department of Public Health AIDS Office serves as the grantee for the Ryan White Care Title I Grant. The SFEMA has a population of 1,731,183 and an estimated 22,000 people living with HIV/AIDS with the vast majority located in San Francisco County.

San Francisco was one of the first epicenters of the epidemic and continues to be one of the hardest hit areas of the country. The HIV/AIDS epidemic is still predominantly among MSM at 83%, including those who inject drugs, and the number of new cases among MSM is increasing again. Both whites and African-Americans are disproportionately affected by HIV/AIDS. African Americans and Native Americans have the highest HIV prevalence rates. Increasing numbers of people with HIV/AIDS are homeless or diagnosed with co-morbidities such as substance abuse, mental health problems, or hepatitis C.

The regional economy is suffering, due mostly to the decline in the computer and Internet industries. State and Local governments are seeing decreased revenues. Specifically, the San Francisco public health system is faced with financial challenges caused by the increased numbers of uninsured patients and inadequate reimbursement for health care by federal and state agencies. *The SFEMA is in the midst of a severe housing crisis, with the least affordable housing market in the nation.* Rates of homelessness, mental illness, and drug use are very high, especially in San Francisco. Methamphetamine and heroin use is increasing. *Today, homelessness and active substance use are the most significant barriers and challenges facing the SFEMA and its contractor in providing services for people with HIV/AIDS.*

OBJECTIVES

The SF AIDS Office received conflicting information regarding the intent, purpose, and objective of this audit from the San Francisco Regional OIG representatives (herein referred to as "local OIG representatives) and the Department of Health and Human Services Office of Inspection General letter dated January 17, 2003. At the entrance conference, the San Francisco Regional Office OIG representatives expressed the intent of the visit was to merely conduct a survey of the SFEMA and not an audit of the SFEMA and the information provided by the AIDS Office would only be used to select a local contractor to be audited. The local OIG representatives also stated that the audit report would be issued to the Contractor and not to the SFEMA. The letter dated January

17, 2003 stated that the objective of the review is to gain an understanding of Ryan White Title I operations at the San Francisco Department of Public Health and determine whether its contractors have spent the funds in accordance with federal regulations. After several months into the survey/audit/review, the local OIG representative notified the AIDS Office of a legal opinion that was issued by the OIG Counsel to clarify the intent of the review and it was determined, that the survey was truly an audit of the SFEMA and any reports as a result of this audit would be addressed to the SFEMA.

The fact that the SFEMA, Baker Places, and the local OIG representative were not clear on the intent of the audit, lead to the remarks of the initial interviews as stated by the staff to be taken out of context. As a result, the OIG report reflects various inconsistent statements regarding contractual relationships, fiscal processes and the organization and delivery of program services of the SFEMA and its contractors.

CLARIFICATION OF CONTRACT ISSUES

In FY 2001 -2002, the period of this audit, the SFEMA received approximately \$35.8 million in Ryan White CARE Title I funds. In an effort to expeditiously award Ryan White CARE Title I funds to contractors and to meet the needs of the client, the SFEMA used the request for proposal, competitive bid, and alternative solicitation procurement process to award approximately 70 contracts during FY 2001-2002. The SFEMA created new and innovative integrated service models to deliver complex services to multi-diagnosed clients in accordance with the 2002 Client Needs Assessment Report.

The following is a clarification of the contractual relationship amongst all parties (SF AIDS Office, Housing and Urban Health, and Baker Places); the SF AIDS Office only issued two contracts that were reviewed during this audit:

- a. **Housing and Urban Health (HUH)** (\$6.8 million) – HUH, a division of SFDPH which specializes in housing services provided emergency housing and residential services (short-term and long-term housing services and rental subsidies) through a memorandum of understanding (MOU) agreement with SF AIDS Office. HUH, through a separate contracting process, selected Baker Places as the subcontractor to provide these services and issued two contracts - \$1,280,240 (Residential Services) and \$65,832 (Emergency Housing). Therefore, the SF AIDS Office did not have a direct contractual relationship with Baker Places for residential services or emergency housing. **Baker Places was a subcontractor to (HUH).**
- b. **Baker Places** (\$177,000)- Baker Places was selected to work directly with the SF AIDS Office to establish and operate a cost efficient, new and innovative HIV Substance Abuse detoxification treatment program to treat multi-diagnosed clients who were HIV positive and required substance abuse treatment **which reflected the makeup of the HIV/AIDS clients in San Francisco.**

Baker Places

Incorporated in 1969, Baker Places is a non-profit corporation, providing an array of community-based treatment services to the residents of San Francisco with mental health, substance abuse and/or HIV/AIDS related issues. Baker Places program services are not focused on housing services as stated in the audit report. Baker Places programs are focused on providing a continuum of care from acute residential, transitional residential, and supported community living program services using the social rehabilitation model of treatment for persons with mental health, substance abuse and/or HIV/AIDS related issues. Baker Places has a culturally and ethnically diverse staff responsible for providing adequate program services to over 1,500 persons annually within the SFEMA.

Housing and Urban Health

Housing and Urban Health (herein referred to as "HUH") is the division within the City and County of San Francisco Department of Public Health (SFDPH) responsible for creating housing options for homeless people and those living with disabilities, including HIV/AIDS. SFDPH through its many services, is deeply involved in caring for persons who are living in poverty, many of whom lack adequate housing. Throughout our system of care, this pervasive lack of a stable living environment has emerged as a key stumbling block to achieving lasting improvements in the health status of the population SFDPH is most committed to assisting. Because of this reality, SFDPH has embarked upon a strategy to develop housing sites tailored to the needs of clients utilizing the public health system. HUH's main goal is to provide community-based housing combined with innovative healthcare services for people who have been living on the streets and/or managing a range of physical and mental disabilities. Creating alternatives to institutional care to facilitate discharge and prevent unnecessary hospitalization is also a key program goal.

RESPONSE TO SUMMARY OF FINDINGS

The SF AIDS Office does not concur with the findings of the OIG report. Baker Places provided program services consistent with the intent of the CARE Act Title I and reasonably followed Federal requirements for claiming costs. Contrary to the audit report, Baker Places received adequate program monitoring conducted by HUH and SF AIDS Office program management staff and their technical teams. In addition, Baker Places received an annual Independent audit conducted by an accounting firm which did not indicate any material weaknesses in this organization's internal controls or its accounting systems. The audit reports were provided to the SF AIDS Office and HUH for review.

The SF AIDS Office does not concur that it inappropriately disbursed \$297,237 in Federal funds to Baker Places reducing the funding available for needed services for the HIV/AIDS community in San Francisco, based upon the following reasons:

Housing Services Provided Beyond a Reasonable Time Limit

The Ryan White CARE Act does not define or set limits for short or long term housing. Also, HRSA does not define or provide guidelines for defining short or long term housing stays for any EMA in the nation. HRSA's program managers have learned through various site visits to the SFEMA, over the past ten years, of the severe housing shortage impacting the geographical area of this EMA. Therefore, it is unreasonable for the local OIG representatives to set an arbitrary standard of one and half years (1.5 years) for this audit and disallow the cost (\$80,776) beyond that time limit. The standards or definition of short or long Term housing stays was defined in the contract between HUH and Baker Places. Since this contract was centered on providing an integrated service model of treatment, the focus was to provide stable residential services during critical clinical treatment of multi-diagnosed clients. The contract clearly stated the following as the definition of the length of stay:

“The stay at this level of care can be as brief as six months or can be extended as long as necessary, based upon clinical needs and the client’s decision and placement among continued housing options...”

The Ryan White CARE clients located at the Baker Places facilities received adequate services and were allowed to remain in the facility based upon their “critical HIV positive healthcare needs” and their treatment plans and were not forced out of the facility to a situation of homelessness during treatment. If HRSA sets or establishes definitions for short or long term housing length of stays, then each EMA should be measured against that which is “reasonable” to provide critical services to persons living with HIV/AIDS considering the availability of housing in the respective geographical areas.

Given the SFEMA's housing shortage and the intent to provide stable housing for clients during treatment, imposing a time limit may only serve to destabilize clients and push clients out of housing and into homelessness. Such limits would neither reduce homelessness in the SFEMA nor decrease the AIDS Housing Waitlist, but rather it would cycle people in and out of housing and through costly emergency systems. The medical stability that people achieved while placed in programs that link services to housing, would invariably decrease, resulting in sporadic use of services and an increase in medical complications related to HIV/AIDS.

Program Monitoring Not Adequate

During FY 2001-2002, HUH staff and a technical team conducted a program monitoring of Baker Places programs: Ferguson Place and Baker Supportive Living Program (BSLP). Both of these programs received a rating of “*commendable, exceeds standards,*” the highest possible score. Also, during this period, the SF AIDS Office program management staff and a technical team conducted a comprehensive program monitoring of the Baker Places' HIV Detoxification program. The program monitoring results was a “*commendable*” rating with a maximum score of 100 points. Both program

monitoring reports were provided to the local OIG representatives for review during this audit.

Costs claimed for Facilities Where No Program Services Were Provided

Baker Places did not inappropriately claim costs of **\$89,701** for facilities where no program services were provided for the following reasons:

(1) During the audit of the HIV Detoxification program, a local OIG representative noticed a monthly client log which indicated that there were “no CARE clients” at the [REDACTED] facility for a particular month for residential treatment and this entry was misinterpreted to mean that Baker Places had charged the Ryan White CARE grant for services during this month while there were no Ryan White CARE clients at that facility. In actuality, the “no CARE clients” entry as explained by Baker Places staff only referred to the residential services. Ryan White CARE clients also received medication and medical support services from medical staff based at the [REDACTED] facility; and

(2) Secondly, the contract clearly stated that the HIV detoxification program model consisted of rotating the client amongst all four facilities as appropriate and as one integrated service program and the measurement of client benefit to program should be consistent with the contract. The local OIG representatives has arbitrarily decided to track each facility separately in an attempt to determine client benefit to program cost per facility which is inconsistent with the structure of the program service model.

To clarify this issue, the HIV Substance Abuse Detoxification program was an integrated service model to coordinate detoxification services from street drugs and alcohol for HIV-infected clients and its goals were defined in the cost-reimbursement contract between SF AIDS Office and Baker Places. The program model consisted of four residential treatment programs [REDACTED] which provided various levels of services to poly-substance users or abusers with HIV disease. This multi-phased program rotated clients amongst the four facilities depending on the intensity and level of service needed by the client. The medical staff who provided medication support services to the clients were located at the [REDACTED] facility. The cost reimbursement contract and fiscal policies allowed Baker Places to bill monthly for its allowable cost to maintain, operate, and make available 3 residential substance abuse detoxification beds (to rotate clients) for 365 days with an average of 6.5 psychiatric/medication monitoring encounters. Clients were rotated amongst the facilities and provided adequate high level detoxification services (including residential services and medical services). During this contract period, Baker Places met the program objectives and outcomes and provided adequate program services on an average of 82 units of services per month. If the program was measured according to client benefit to program services in its totality (including all four facilities) and as stated in the contract, then it would have been determined that this program design was a result of cost saving efforts to the Ryan White CARE grant.

Costs Claimed for Unallowable Rental Expenses

The SF AIDS Office staff agrees that Baker Places indirectly charged HUH for rental costs of **\$96,001** which were unallowable in accordance with OMB Circular A-122. Baker Places inadvertently charged HUH \$96,001 (\$70,451 and \$25,550) of rental costs for a building that was donated by another Federal program. The rental costs was not a direct charge to the contract but was an oversight during the development of a fee-for service rate. Despite the oversight, Baker Places did meet all programmatic objectives and provided clients with stable living environments and met the program objectives.

The SF AIDS Office does not agree that Baker Places claimed **\$30,759** for rental costs that should be charged to another program. The \$30,759 was correcting journal entry transferring incorrect rental charges from one cost center to the correct cost center. Baker places did transfer \$30,759 of rental costs from an account that was incorrectly charged for rent of Ryan White CARE clients. Baker Places provided documentation to support that the correcting journal entry (\$30,759) were rental charges for facilities by which Ryan White CARE clients received services and these rental costs were allowable under OMB Circular A-122.

Costs claimed on Budget Estimates and Inadequate Time Reporting

The SF AIDS Office do not agree that Baker Places should develop and implement a time and effort reporting system to distribute personnel costs. Neither, do we agree that Baker Places billed for services based upon budget estimates. However, we recommend that Baker Places ensure that all (100%) employees time sheets are properly marked for time and effort within the existing time and effort reporting system. Specifically during this audit, the local OIG staff identified only two (2) clinical/supervisory employees who performed services for more than one program/facility and their times sheets did not clearly allocate their time and effort. Baker Places has an adequate time and effort reporting system for 99% of its employees which is coded two-ways: (1) one using the time sheets and (2) another way using specific coding in the general ledgers by cost center to track the actual cost of time and effort which is not based upon an estimated time and effort. Baker Places should ensure that 100% of its employees time sheets are clearly marked to identify the time and effort spent at each facility/program within its existing time and effort reporting system.

Baker Places billed the AIDS Office in accordance with the contract terms. The contract was negotiated and the budgeted cost were established for equipment, furniture, telephone, and utilities categories by Baker Places and the SF AIDS Office program staff. During these negotiations, cost analysis were performed by the program management staff to determine cost fair and reasonable and to ensure the overall rate per facility was within the market rate and within the HIV Planning Council rate limits. The program manager and the fiscal staff monitored the expenditures, budget revisions, and spending patterns of the contract and reviewed the direct expenditures for allowable cost. Baker

places did provide supporting documentation for all equipment, furniture, telephone, and utility expenditures for facilities that provided services to all Ryan White Care clients. After reconciliation by staff to test this finding, it was determined that Baker Places actual cost for utilities and furniture, in certain facilities, exceeded the budgeted amount allowed in the contract. In these cases, Baker Places did not bill the SF EMA and absorbed the excess costs.

Baker Places' Accounting System and AIDS Office 's Fiscal Monitoring Not Adequate

Baker Places accounting system is adequate. Baker Places accounting system is setup using general ledgers, subsidiary ledgers, cost centers, and clearing accounts to track, allocate, and report costs for CARE Act Title I. Baker Places uses generally accepted accounting principles to account, track, and report costs.

In addition, Baker Places received an annual Independent audit conducted by an accounting firm which did not indicate any material weaknesses in the organization's internal controls or it's accounting systems. As a requirement during the contracting process and prior to award, the audit report were provided to the SF AIDS Office and HUH for review.

RESPONSE TO RECOMMENDATIONS

1. We do not agree with the recommendation that the SF AIDS Office refund \$297,237 to the Federal Government due to an overpayment to Baker Places. Clearly, Baker Places provided adequate services for Ryan White CARE clients who benefited from the services and Baker Places met the performance objectives for providing detoxification services and residential services as stated in the contract and within the intent of the Ryan White CARE Act.
2. We agree with the recommendation that the SF AIDS Office (under guidance from HRSA and the Ryan White CARE Act) should develop and use a reasonable limit for short-term housing consistent with CARE Act Title I. However, we do not agree that a limit of eighteen (18) months can be arbitrarily established as the limit. We also believe that the limit has to be consistent with the goal of not evicting HIV-infected person from housing before permanent housing is available.
3. We agree that the SF AIDS Office should ensure Baker Places develops a strategy to assist clients to make the transition to stable living situation. However, under the HIV Detoxification contract, Baker Places was contracted to provide integrated services to multi-diagnosed clients. Baker Places ensured the clients were provided a stable living situations during critical clinical treatment.
4. We agree that the SF AIDS Office should require Baker Places to have an accounting system that accurately tracks, allocates, and reports the allowable costs of providing CARE Act Title I services. However, Baker Place's existing accounting system is

adequate; it is setup using ledgers, cost centers and clearing accounts to track, allocate, and report costs for CARE Act Title I. Baker Places follows the generally accepted accounting principles to account, track, and report costs.

5. We agree that Baker Places should perform year-end reconciliation of shared program reimbursements to allowable program costs. Specifically, Baker Places should reconcile the smaller accounts shared with other programs such as furniture, utilities, telephone, materials and supplies.
6. We agree that Baker Places should develop and implement a time and effort reporting system to distribute personnel costs. However, we believe that Baker Places current system accomplishes this goal. We recognize a small mistake was made in the time and effort reporting of two (2) employees. However, Baker Places has an adequate time and effort reporting system for 99% of its employees which is coded two-ways: (1) one using the time sheets and (2) another way using specific coding in the general ledgers by cost center to track the actual cost of time and effort which is not based upon an estimated time and effort. However, Baker Places should ensure that 100% of its employees time sheets are clearly marked to identify the time and effort spent at each facility/program within its existing time and effort reporting system.