



Audit of the Office of Homeless Solutions

September 17, 2021
(Revised January 20, 2022)

Mark S. Swann, City Auditor

Mayor

Eric Johnson

Mayor Pro Tem

Chad West

Deputy Mayor Pro Tem

Jaime Resendez

Council Members

Carolyn King Arnold

Tennell Atkins

Adam Bazaldua

Paula Blackmon

B. Adam McGough

Cara Mendelsohn

Jesse Moreno

Omar Narvaez

Paul E. Ridley

Jaynie Schultz

Casey Thomas, II

Gay Donnell Willis



Table of Contents

Executive Summary	1
Objectives and Conclusions	2
Audit Results	2
SECTION 1 – RAPID REHOUSING PROGRAM	2
Observation A: Background Checks	2
Observation B: Policies and Procedures	4
SECTION 2 – USE OF CARES ACT FUNDING	5
Observation C: Payments for Unused Hotel Rooms	5
Observation D: Hotel Payment Internal Controls	6
Appendix A: Background and Methodology	8
Background	8
Phase II - Hotel Payment Internal Controls	10
Methodology	10
Major Contributors to the Report	10
Appendix B: Management’s Response	11
Original Response	11
Revised Response	13

Executive Summary

Objectives and Scope

The objectives of this audit were to evaluate if: (1) the Office of Homeless Solutions Rapid ReHousing Program aligns with governance requirements and meets the City's objectives for the program; (2) the Coronavirus Aid, Relief, and Economic Security (CARES) Act federal funding has been used appropriately; and (3) the internal controls for the review and payment of hotel invoices were effective. The scope of the audit was the office's operations from March 1, 2020, through February 28, 2021.

This report was re-issued to include the third objective related to internal controls.

What We Recommend

Management should:

- Require documentation of background checks for Rapid ReHousing Program participants.
- Develop and implement policies and procedures for the Rapid ReHousing Program.
- Pursue resolution of payments for unused hotel rooms, which may include documenting the need for requesting reimbursement.
- Develop consistent documentation and contract language for hotel room use.

Background

This audit was requested to review Office of Homeless Solutions operations during the one-year period of interim leadership prior to the start of a new permanent Director of the Office of Homeless Solutions in March 2021.

During the period, the Office of Homeless Solutions was involved in the City's response to the COVID-19 pandemic by:

- Creating a new Rapid ReHousing Program that contracted with seven non-profit organizations, called subrecipients, to provide case management and housing units to about 300 homeless residents and families.
- Overseeing the use of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, including \$19.4 million in federal Department of Housing and Urban Development funds.

What We Found

The Office of Homeless Solutions Rapid ReHousing Program and CARES Act spending generally met governance requirements but there are opportunities to improve.

The Rapid ReHousing Program did not have policies and procedures, and its process for requiring background checks was not effective or fully documented.

The Office of Homeless Solutions had internal controls in place related to the review and approval of invoices. However, the application of those internal controls did not produce consistent documentation and contract language for hotel room use.

Objectives and Conclusions

1. Does the Office of Homeless Solutions Rapid ReHousing Program align with governance requirements and meet the City's objectives for the program?

Generally, yes. The Rapid ReHousing program provided housing units for people and families experiencing homelessness during the COVID-19 pandemic. However, the program's process for ensuring background checks were performed was not effective or fully documented. The program also did not have policies and procedures until after the audit period. (See [Section 1 – Rapid ReHousing Program](#)).

2. Was the United States Department of Housing and Urban Development Coronavirus Aid, Relief, and Economic Security (CARES) Act funding overseen by the Office of Homeless Solutions used appropriately?

Generally, yes. Most CARES Act fund payments reviewed were fully supported by documentation. However, the City spent more than \$281,000 on unused hotel rooms because of public health concerns at one hotel. The City's contract with the hotel did not define the requirements for a room to be considered unused. (See [Observation C](#)).

3. Were the Office of Homeless Solutions internal controls for the review and payment of hotel invoices effective?

Generally, yes. The Office of Homeless Solutions had policies and procedures in place and documentation that all payments were approved by the interim director prior to payment. However, the application of those internal controls did not produce consistent documentation and contract language for hotel room use. (See [Observation D](#)).

Audit Results

Both *City Council Resolution 88-3428* and Administrative Directive 4-09, *Internal Control* prescribe policy for the City to establish and maintain an internal control system. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Section 1 – Rapid ReHousing Program

Observation A: Background Checks

The Office of Homeless Solutions did not ensure subrecipients performed background checks on Rapid ReHousing Program participants prior to approval. As a result, ineligible participants may have received program services.

The subrecipients submitting applications were asked to state if they have *“confirmed that the applicant is not a registered sex offender and does not have outstanding felony warrants or prior violent felony convictions.”*

A review of a sample of 40 approved applications and interviews with six of the seven subrecipients determined this process was not effective due to the following:

1. For 30 applicants (75 percent), subrecipients confirmed their applicants were eligible on the application. Subrecipients said they confirmed their applicants were eligible without performing background checks because they understood another party had or would perform background checks. As a result, it is not clear that these applicants met the eligibility requirements.
2. For ten applicants (25 percent), the applications did not include the confirmation. As a result, it is not clear that these applicants met the eligibility requirements.

Policies and procedures for this program were not developed until after the audit period, which is a potential contributing factor for this observation and is separately addressed in [Observation B](#).

Criteria

- ❖ *Office of Homeless Solutions Rapid ReHousing Program Requests for Proposals – “Participants must not: be registered as Sexual Offenders, have outstanding felony warrants, have prior violent felony convictions.”*
- ❖ The City’s contracts with subrecipients for the program in *Section 2: Services* required services to *“conform in every respect”* to the Requests for Proposals.
- ❖ Standards for Internal Control in the Federal Government, *Principle 10 – Design Control Activities*

Assessed Risk Rating:

High

We recommend the **Director of the Office of Homeless Solutions:**

- A.1:** Require Rapid ReHousing Program subrecipients to provide documentation that a background check is performed for current participants and for future applicants prior to approval.

Observation B: Policies and Procedures

The Office of Homeless Solutions developed policies and procedures for the Rapid ReHousing Program in March 2021, after the scope period for this audit. Multiple subrecipients described inadequate written guidance on program requirements. As a result, the program may not operate as intended. This observation was identified as a contributing factor in [Observation A](#).

For example, the Office of Homeless Solutions did not have a formal and documented process during the audit period for reviewing the timely spending of prepaid program funds, which were required to be spent within seven to ten days of receipt.

The Office of Homeless Solutions used other guidance documents, including the overall Office of Homeless Solutions policies and procedures, a Rapid ReHousing Program Subrecipient Toolkit, and the Rapid ReHousing Program Requests for Proposals. These other documents either did not provide specific guidance for operating the program or were not available to all parties responsible for complying with the program requirements.

Multiple subrecipients said the Office of Homeless Solutions provided training on program operations and was responsive to questions regarding program implementation, which reduced, but did not eliminate the impact of not providing written policies and procedures.

Criteria

- ❖ Standards for Internal Control in the Federal Government, *Principle 10 – Design Control Activities*

Assessed Risk Rating:

Moderate

We recommend the **Director of the Office of Homeless Solutions**:

- B.1:** Develop, implement, and communicate policies and procedures for the Rapid ReHousing Program.

SECTION 2 – USE OF CARES ACT FUNDING

Observation C: Payments for Unused Hotel Rooms

The City of Dallas paid for unused hotel rooms as part of an emergency contract to temporarily house people affected by homeless shelter COVID-19 outbreaks. Charges on these rooms were not allowed by the City's contract with the hotel and may have been better used on other expenses authorized by CARES Act funding.

The City paid one hotel \$281,776 for unused rooms from July 13, 2020, to October 9, 2020.

Office of Homeless Solutions staff raised concerns about the payments and identified contract language not allowing charges for unused rooms; however, Office of Homeless Solutions management approved the invoices. Prior to approving payments that included charges for unused rooms, Office of Homeless Solutions management noted that they had instructed the hotel to set aside a specific number of rooms each week based on anticipated need and paid for all rooms on any floor on which the City had guests to prevent the spread of COVID-19 to other hotel guests.

Criteria

- ❖ *Section 3A* of the hotel contract states, "There will be no charges to the City for any rooms or services not used in the room block."
- ❖ *Section 27* of the hotel contract states:

This Contract embodies the entire agreement of both parties, superseding all oral or written previous and contemporary agreements between the parties relating to matters set forth in this Contract. Except as otherwise provided elsewhere in this Contract cannot be modified without written supplemental agreement executed by both parties.
- ❖ Standards for Internal Control in the Federal Government, *Principle 10 – Design Control Activities*

Assessed Risk Rating:

High

We recommend the **Director of the Office of Homeless Solutions**:

C.1: Review the invoices and contract with the hotel and resolve the payments for unused hotel rooms. Resolution may involve seeking reimbursement for unused hotel room payments, documenting acceptance of the payments as needed due to COVID-19, and/or using other funds to pay for these rooms.

Auditor's Note added in the January 20, 2022 report: According to information obtained after the initial report was released, the hotel considered all rooms invoiced to be used regardless of whether they were occupied by guests.

The hotel was not involved in guest check-in for rooms assigned to the City, did not have documentation of how many people were in the hotel, and did not have the ability to rent the rooms to other hotel guests.

Observation D: Hotel Payment Internal Controls

This is a new observation added in the January 20, 2022 report.

The Office of Homeless Solutions had internal controls in place for the payment of invoices for emergency hotel services. The internal controls included policies and procedures for invoice review, and documentation of review by the interim director and the City Controller's Office for all invoices. There were also opportunities for improvement in the application of these internal controls:

- Contract language regarding payment for unused hotel rooms and services was not consistent between City contracts. The contract referenced in [Observation C](#) did not allow charges for unused rooms, while other contracts by the Office of Homeless Solutions and the Office of Emergency Management either did not include similar language or required payment for unused rooms. City management at the time said language not allowing charges for unused rooms did not align with the needs for quarantining hotel guests during the pandemic.
- Documentation of hotel usage was not consistent and not precise in most cases and did not cover all periods of the same hotel's use. There was not enough information to know how many rooms were being used for most periods of hotel use. One example of precise documentation was from the Office of Emergency Management's tracking, which noted who stayed in each room on each night.

As a result, payments for hotel services were not consistent and the City may have paid for unused hotel rooms in excess of those identified in [Observation C](#).

The internal controls were affected by the emergency conditions created by the COVID-19 pandemic, the involvement of multiple offices in the preparation and development of hotel contracts, and confusion about requirements for hotel contracts and payments.

Criteria

- ❖ Standards for Internal Control in the Federal Government, *Principle 10 – Design Control Activities*

Assessed Risk Rating:

Moderate

We recommend the **Director of the Office of Homeless Solutions:**

D.1: Work with the Director of the Office of Emergency Management and the City Attorney to develop standard language for hotel usage, specifically unused rooms.

D.2: Work with the Director of the Office of Emergency Management to develop a consistent method of documenting hotel use.

Appendix A: Background and Methodology

Background

The Office of Homeless Solutions was established in October 2017 by consolidating the services of Street Outreach, Community Mobilization and Contract Administration into one office. The Office of Homeless Solutions is designed to prevent and intervene in homelessness by combating the complexity of homelessness with innovative and effective solutions.

Casey Thomas, II, Chair of the City Council's Committee on Housing and Homelessness Solutions, requested this audit on January 25, 2021. Mr. Thomas requested the audit cover the one-year period of interim leadership prior to the start of a permanent Director of Homeless Solutions in March 2021.

This audit focused on two components of the Office of Homeless Solutions' operations: The Rapid ReHousing Program and the use of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds.

Rapid ReHousing Program

The Office of Homeless Solutions developed a program to provide housing to about 300 people experiencing homelessness. The program's goals were to *"Rapidly re-house homeless individuals and families, prevent families and individuals from becoming homeless, provide housing relocation and stabilization services, and provide short and/or medium-term rental assistance while transitioning toward independence."*

The Rapid ReHousing Program contracts have a two-year cost of about \$7.1 million and were paid for with federal funds and \$500,000 in City general funds. The program received \$5.3 million in CARES Act funds and about \$1.3 million in Emergency Solutions Grant funds.

The City Council authorized contracts on June 24, 2021, with seven non-profit organizations, called subrecipients, to provide housing and case management services over a 24-month period with the possibility for two one-year extensions. The clients included individuals and families experiencing homelessness. See [Exhibit 1](#) for more information on the organizations providing housing and other assistance through the Rapid ReHousing program.

Exhibit 1:

Rapid ReHousing Program Subrecipients

Organization	Number of Clients	Maximum Contract Amount
Under 1 Roof	156	\$3,602,400
Union Gospel Mission	49	\$1,137,600
Austin Street Center	28	\$758,400
Salvation Army	22	\$521,400
Shared Housing Services	23	\$521,400
Family Gateway	12	\$284,400
The Family Place	12	\$284,400
Total	302	\$7,110,000

Source: Office of Homeless Solutions' roster of program participants as of March 2021 and the maximum allowed spending from contracts authorized by the Dallas City Council on June 24, 2020.

Use of CARES Act Funds

The Office of Homeless Solutions oversaw the spending of more than \$19.4 million in CARES Act funds administered by the United States Department of Housing and Urban Development. These funds had to meet the following requirement in the grant agreement:

"The funds under this Agreement may only be used to prevent, prepare for, and respond to coronavirus among individuals and families who are homeless or receiving homeless assistance, and to support additional homeless assistance and homeless prevention activities to mitigate the impacts created by coronavirus. People experiencing homelessness shall not be required to receive treatment or perform any other prerequisite activities as a condition for receiving assistance."

The funds were spent on a variety of activities, with 62 percent paying for hotels and other facilities that could be used to provide housing for homeless residents. See [Exhibit 2](#) for more information on CARES Act expenses.

Exhibit 2:

CARES Act Expenses by Expense Category

Expense Category	Amount Spent	Percent of Total Spent
Buying Hotels and Facilities	\$12,147,299	62%
Other Non-Payroll Expenses (Most were related to hotel or shelters)	\$3,471,558	18%
Hotel Sheltering Expenses	\$2,451,506	13%
Office of Homeless Solutions Payroll	\$838,900	4%
Rapid ReHousing Program Furnishings and Administration Expenses	\$527,623	3%
Total	\$19,436,886	100%

Source: Office of Homeless Solutions documentation of U.S. Department of Housing and Urban Development CARES Act spending as of February 28, 2021.

Phase II - Hotel Payment Internal Controls

The Fiscal Year 2022 Audit Plan included a Phase II of this audit focused on internal controls related to hotel payments. Additional work was performed to address questions from City Council members at the September 27, 2021, meeting of the Government Performance and Financial Management Committee regarding [Observation C](#). See the new [Observation D](#) for additional information regarding hotel payment internal controls.

Methodology

The audit methodology included: (1) interviewing personnel from Office of Homeless Solutions and other city departments; (2) reviewing policies and procedures, the *Texas Local Government Code*, applicable Administrative Directives, and best practices; and, (3) performing various analyses. All five internal control components of the *Standards for Internal Control in the Federal Government* were considered in this engagement.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Matthew Cheadle, CIA, CFE, CGAP – In-Charge Auditor
Dan Genz, CIA, CFE – Engagement Manager

Appendix B: Management's Response

Original Response

Memorandum



CITY OF DALLAS

DATE: September 13, 2021
TO: Mark S. Swann – City Auditor
SUBJECT: Response to Audit of the Office of Homeless Solutions

This letter acknowledges the City Manager's Office received the *Audit of the Office of Homeless Solutions* and submitted responses to the recommendations in consultation with the Office of Homeless Solutions.

We recognize the critically important role that comprehensive, written procedures and policies have in ensuring a consistent process that aligns with governance requirements and an effective response to help end homelessness in Dallas.

The Office of Homeless Solutions (OHS) has made great strides in strengthening and enforcing policies and procedures. For example, in March 2021, OHS finalized and implemented comprehensive policies and procedures for the Rapid Rehousing Program.

Additionally, OHS has addressed participant background checks noted in the audit by:

- Ordering background checks for 38 of the 40 clients in the sample (2 are victims of domestic violence whose identities are protected); and
- Reviewing Human Management Information Systems (HMIS) information to verify that all other current program participants successfully completed a background verification and are ordering background checks for those who have not.

Further, to help ensure only qualified individuals participate in the Rapid Rehousing Program, OHS will:

- Monitor vendors to ensure background checks are performed on all clients for whom the City is paying rental subsidies; and
- Require documentation that a background check was performed prior to the approval of payment.

Finally, OHS will request a reimbursement for the monies spent on unused hotel rooms.

"Our Product is Service"
Empathy | Ethics | Excellence | Equity

Response to Audit of the Office of Homeless Solutions
September 13, 2021
Page 2 of 2

Sincerely,



T. C. Broadnax
City Manager

C: Kimberly Bizzor Tolbert, Chief of Staff
M. Elizabeth Reich, Chief Financial Officer
Christine Crossley, Director, Office of Homeless Solutions

"Our Product is Service"
Empathy | Ethics | Excellence | Equity

Response to Re-Issued Report

Memorandum



DATE: January 14, 2022
TO: Mark S. Swann – City Auditor
SUBJECT: Response to the Reissued Audit of the Office of Homeless Solutions

This letter acknowledges the City Manager's Office received the *Reissued Audit of the Office of Homeless Solutions* and submitted responses to the recommendations in consultation with the City Controller's Office, Office of Emergency Management, and the City Attorney's Office.

Management has reviewed the reissued audit report and agrees to implement the revised audit recommendation C.1 concerning payment for unoccupied hotel rooms and the newly added recommendations regarding standard contract language relating to unoccupied hotel rooms and documenting hotel room occupancy.

Management asserts that the unoccupied hotel rooms were necessary during the early stages of the pandemic due to the uncertainty surrounding community spread, the prevalence of coronavirus, and other factors unique to this pandemic. The Office of Homeless Solutions (OHS) will formally document its position regarding the necessity of the rooms. Further, while management is confident the charges for the unoccupied hotel rooms qualify for Cares Act funding, management has moved the charges for the unoccupied hotel rooms to the General Fund out of an abundance of caution.

Additionally, while OHS does not currently contract with hotels, OHS will work with the Office of Emergency Management and the City Attorney's Office to establish standard contract language regarding unoccupied hotel rooms. Further, OHS will develop contingency procedures and tools to consistently document hotel room usage, should OHS contact directly with a hotel in the future.

Sincerely,



T.C. Broadnax
City Manager

C: Kimberly Bizer Tolbert, Chief of Staff
M. Elizabeth Reich, Chief Financial Officer
Christine Crossley, Director, Office of Homeless Solutions

"Our Product is Service"
Empathy | Ethics | Excellence | Equity

Assessed Risk Rating	Recommendation	Concurrence and Action Plan	Implementation Date	Follow-Up/ Maturity Date
High	We recommend the Director of the Office of Homeless Solutions:			
	<p>A.1: Require Rapid ReHousing Program subrecipients to provide documentation that a background check is performed for current participants and for future applicants prior to approval.</p>	<p>Agree: To promptly mitigate the risk identified by the auditors, OHS has performed background checks for the clients sampled by the auditor. Additionally, OHS is reviewing Human Management Information Systems (HMIS) information to ensure that all other current program participants successfully completed a background check.</p> <p>Additionally, OHS will ensure Rapid Rehousing Program participants eligibility by:</p> <ul style="list-style-type: none"> Contractually requiring subrecipients to perform background checks on program participants; Monitoring vendors to ensure background checks are performed on all of the clients for whom the City is paying rental subsidies; and Requiring documentation that a background check was performed prior to approval of payment. <p>Lastly, OHS will ensure the eligibility of future participants in programs with similar eligibility restrictions prior to approval.</p>	3/31/2022	9/30/2022

Assessed Risk Rating	Recommendation	Concurrence and Action Plan	Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the Director of the Office of Homeless Solutions:			
	B.1: Develop, implement, and communicate policies and procedures for the Rapid ReHousing Program.	Agree: OHS finalized and implemented policies and procedures for the Rapid Rehousing Program in March 2021. Staff were subsequently trained on the procedures. Additionally, OHS will thoroughly test the procedures and make any necessary enhancements.	12/31/2021	06/30/2022
High	We recommend the Director of the Office of Homeless Solutions:			
	C.1 Review the invoices and contract with the hotel and resolve the payments for unused hotel rooms. Resolution may involve seeking reimbursement for unused hotel room payments, documenting acceptance of the payments as needed due to COVID-19, and/or using other funds to pay for these rooms. NOTE: THIS RECOMMENDATION HAS CHANGED	Agree: OHS is preparing a memo to document that the unoccupied hotel rooms were necessary due to the uncertainty surrounding community spread, the prevalence of coronavirus, and other factors during the early stages of the pandemic. Management believes the charges for unoccupied hotel rooms are eligible for CARES Act funding. However, the City has moved the charges for unoccupied hotel rooms from the Coronavirus Relief Fund to the General Fund out of an abundance of caution.	3/31/2022	09/30/2022

Assessed Risk Rating	Recommendation	Concurrence and Action Plan		Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the Director of the Office of Homeless Solutions:				
	<p>D.1 Work with the Director of the Office of Emergency Management and the City Attorney to develop standard language for hotel use regarding the use of unused rooms.</p>	Agree:	<p>OHS does not currently contract with any hotels, instead reimbursing individuals and business partners for properly supported and occupied hotel rooms.</p> <p>However, OHS agrees to work with the Office of Emergency Management and the City Attorney to develop standard language regarding unoccupied hotel rooms.</p> <p>However, OHS realizes that standard language is subject to change over time to incorporate best practices and the advice of the City Attorney's Office.</p>	9/30/2022	3/31/2023
	<p>D.2 Work with the Director of the Office of Emergency Management to develop a consistent method of documenting hotel use.</p>	Agree:	<p>OHS does not currently contract with any hotels, instead reimbursing individuals and business partners for properly supported and occupied hotel rooms.</p> <p>However, OHS will develop contingency procedures and tools to consistently document hotel use should OHS contract directly with a hotel in the future.</p>	9/30/2022	3/31/2023