

LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo
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Arlene Barrera
CHIEF DEPUTY

Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Agripino Alonso
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

April 3, 2018

Los Angeles Homeless Services Authority

MEASURE H

PHASE I - FISCAL OPERATIONS ASSESSMENT REVIEW



NUMBER OF
RECOMMENDATIONS

PRIORITY 1

8

PRIORITY 2

4

PRIORITY 3

4



BOARD OF SUPERVISORS

Hilda L. Solis
FIRST DISTRICT

Mark Ridley-Thomas
SECOND DISTRICT

Sheila Kuehl
THIRD DISTRICT

Janice Hahn
FOURTH DISTRICT

Kathryn Barger
FIFTH DISTRICT

REPORT #X18602

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FACT SHEET

Los Angeles Homeless Services Authority

MEASURE H PHASE I - FISCAL OPERATIONS ASSESSMENT REVIEW

With the support and active participation of the Chief Executive Office (CEO) and the Los Angeles Homeless Services Authority (LAHSA or Agency), we have completed a review of LAHSA to determine whether their fiscal operations are designed to adequately meet Measure H requirements and responsibilities as stated in their Operational Agreement with the CEO, and provide recommendations for improved efficiency to enhance their fiscal operations processes and ensure Measure H requirements are met.

Key Outcomes

We noted various opportunities to improve and strengthen LAHSA's operational oversight and fiscal processes to adequately meet Measure H requirements and responsibilities. For example, LAHSA will need to:

- Develop a comprehensive staffing plan to ensure they have appropriate staffing levels to meet their current or anticipated workload, especially with the addition of the Measure H funding from the CEO.
- Implement processes that will ensure they have adequate financial resources to pay their sub-recipients timely. For example, LAHSA management obtain all available cash advances from their various funding sources to ensure they have adequate cash flow to pay their sub-recipients timely.
- Execute their contracts with their sub-recipients timely to prevent retroactive contracting, which contributed to the delays in processing, approving, and paying sub-recipients' cash advance requests and monthly invoices.

Impact

These enhancements will provide greater assurance that LAHSA's fiscal operations are effectively designed to meet all their contractual requirements, including Measure H. In addition, these improvements will greatly increase management oversight, and decrease the risk of retroactive contracting, late payments to their sub-recipients, and interrupted services to clients.

In their attached response (Attachment II), LAHSA details the significant improvements they have made over their fiscal processes since the time of our review. We will work with the CEO to schedule a follow-up review to validate management's assertions and provide assurance to the Board of Supervisors that LAHSA has implemented the recommendations addressed in this report.

FAST FACTS

Measure H, a quarter-cent special sales tax measure, was approved in March 2017 to prevent and combat homelessness within Los Angeles County.

LAHSA expects to receive approximately \$140 million in Measure H funds from October 2017 through June 2018, and significantly more in the subsequent fiscal years.

LAHSA provides services to residents of all Supervisorial Districts.

NUMBER OF RECOMMENDATIONS

PRIORITY 1

8

PRIORITY 2

4

PRIORITY 3

4



This report is also available online at auditor.lacounty.gov
Report Waste, Fraud, and Abuse: fraud.lacounty.gov

For questions regarding the contents of this report, please contact Agripino Alonso, Countywide Contract Monitoring Division Chief, at aalonso@auditor.lacounty.gov or (213) 253-0301.

REPORT #X18602



JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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April 3, 2018

TO: Supervisor Sheila Kuehl, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: John Naimo 
Auditor-Controller

SUBJECT: **LOS ANGELES HOMELESS SERVICES AUTHORITY – MEASURE H –
PHASE I – FISCAL OPERATIONS ASSESSMENT REVIEW**

We completed a fiscal operations assessment review of Los Angeles Homeless Services Authority (LAHSA or Agency). The Chief Executive Office (CEO) contracts with LAHSA to provide Measure H Program services. Measure H Program services include providing shelter, assistance with housing, and social services to homeless families and individuals in the County. Details of our findings and recommendations for corrective action are included in Attachment I.

Scope and Objectives

The purpose of our review was to assess whether LAHSA's fiscal operations were appropriately designed to meet Measure H requirements and responsibilities outlined in their Operational Agreement with the CEO, and to determine whether LAHSA complied with their established operational design and provide recommendations for improved efficiency to enhance their fiscal operations processes and ensure all the Measure H requirements and responsibilities are met as required.

Our review focused on evaluating LAHSA's fiscal operations, internal controls, and compliance with their established fiscal policies and procedures in key areas, such as revenue, cash, billings, invoice processing, and disbursements. We also observed the Agency's fiscal processes, conducted interviews, and reviewed LAHSA's financial records and documentation for a sample of transactions during Fiscal Year (FY) 2017-18.

What Prompted the Review

The CEO requested that we assess LAHSA's fiscal operations because the Agency expects to increase their operations from \$94 million in FY 2016-17 to \$234 million in FY 2017-18, a \$140 million annual increase in revenue due to Measure H.

Review of Report

We discussed our report with LAHSA and CEO. LAHSA's attached response (Attachment II) indicates agreement with our findings and recommendations. CEO will work with LAHSA to ensure that our recommendations are implemented.

Follow-up Process

At CEO's request, we will follow up on LAHSA's implementation status during our Phase III review to provide assurance to the Board of Supervisors that LAHSA has taken appropriate and timely corrective action to address the recommendations addressed in this report.

We thank LAHSA management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Agripino Alonso at (213) 253-0301.

JN:AB:PH:AA:YP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Celia Zavala, Acting Executive Officer, Board of Supervisors
Noah Farkas, Board Chair, LAHSA
Peter Lynn, Executive Director, LAHSA
Audit Committee
Countywide Communications

CHIEF EXECUTIVE OFFICE
LOS ANGELES HOMELESS SERVICES AUTHORITY
MEASURE H – PHASE I
FISCAL OPERATIONS ASSESSMENT REVIEW

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P¹	SUMMARY OF RESPONSE
1	<p>Inadequate Staffing Levels: At the time of our review, LAHSA did not have appropriate staffing levels within their Finance Department to meet their current or anticipated workload, especially with the addition of their Measure H funding from the Chief Executive Office (CEO). For example:</p> <ul style="list-style-type: none"> • We noted a high turnover of Finance staff, particularly at the accountant/analyst level positions that are primarily responsible for processing sub-recipient cash advances and monthly invoices. For example, LAHSA is budgeted for seven full-time program accountant positions. However, at the time of our review, five (71%) of the seven positions were vacant with temporary staff being used to backfill four of the five vacant positions. • Finance Department's staff indicated that many routinely worked overtime hours to complete the additional responsibilities placed on them due to inadequate staffing levels. 	<p>Without adequate staffing, LAHSA cannot provide the required level of service within established time frames, which could potentially impact the Agency's and sub-recipients' ability to provide the required Program services to clients.</p>	<p>LAHSA management immediately complete a comprehensive Agency-wide staffing assessment, including determining the cause for their high staff turnover, and develop a comprehensive staffing plan to address the short and long-term staffing needs of the Agency.</p>	1	<p>Agree Target Implementation Date: June 30, 2018</p> <p>LAHSA indicated they completed an Agency-wide staffing analysis during Fiscal Year (FY) 2017-18, and will continue to conduct assessments on the short and long-term staffing needs of the Agency to manage the increased responsibilities related to Measure H. LAHSA also indicated they hired a consultant to assess the causes of their high staff turnover and will continue to work with the consultant to implement their recommendations.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential magnitude and likelihood for negative impact on the Agency's operations if corrective action is not taken. See Attachment III for detailed definitions of the priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE	
<p>● At the time of our review, LAHSA did not provide documentation to support that a comprehensive Agency-wide staffing assessment was completed to determine the appropriate level of staffing needed to properly operate the Agency’s growing operations.</p> <p>Subsequent to our review, LAHSA submitted their five page, “Fiscal Year 17-18 Staffing Analysis”, dated January 11, 2018, in which LAHSA reported their plan to add 13 new positions to their Finance Department, increasing from 45 positions in FY 2016-17 to 58 positions in FY 2017-18.</p>					

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
2	<p>Retroactive Contracts: At the time of our review, LAHSA did not execute contracts with their sub-recipients timely, which resulted in delays in processing, approving, and paying sub-recipient cash advance requests and monthly invoices.</p> <p>We noted sub-recipients continued to provide services without having an executed contract in place.</p> <p>At the time of our review, LAHSA's policy was to hold payment to sub-recipients until their contracts with the sub-recipients have been executed. Management indicated the delays were caused by their funding sources and they could not legally enter into subcontracts until their contracts with the funding sources have been executed and finalized.</p> <p>At CEO's request, the Agency's contracting operations will be reviewed during our Phase II review of LAHSA schedule to start in February 2018.</p>	<ul style="list-style-type: none"> • Retroactive contracting results in delays in the Finance Department's ability to process, approve, and issue payments to sub-recipients. As a result, sub-recipients must wait an excessively long period of time to receive payment. • In addition, sub-recipients providing services without a contract poses a significant liability to LAHSA and the County. 	<p>LAHSA management evaluate current contracting processes/operations to identify streamlining opportunities to ensure contracts with the funding sources and their sub-recipients are executed on time as required.</p>	1	<p>Agree Target Implementation Date: June 30, 2019</p> <p>LAHSA indicated they have identified and are in the process of implementing new streamlining opportunities, such as implementing a new system that will automate the contract workflow process, and establishing three-year terms for contracts funded by Measure H. In addition, the Agency indicated they hired a consultant to complete a contracting workflow assessment to identify additional streamlining opportunities, with the final report expected in March 2018. LAHSA also plans to implement a new grant management system, which is expected to improve contract processing time.</p>

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
3	<p>Inadequate Cash Flow to Pay Sub-recipients: At the time of our review, LAHSA management indicated they did not have funding reserves or other resources, such as a line of credit, to pay their sub-recipients until they received payments from their funding sources since they are a pass-through agency.</p> <p>As of October 25, 2017, LAHSA's Agency-wide unaudited year-to-date financial statements reported \$6.9 million in Accounts Payable (A/P) but had less than \$923,000 in Operating Cash. Of the \$6.9 million in A/P as of October 25, 2017, \$730,136 (11%) related to Measure H, \$1,567,971 (23%) related to other County programs, and the remaining \$4,572,479 (66%) related to LAHSA's other non-County programs.</p> <p>At the time of our review, the Agency's policy was to issue payments to the sub-recipients after they received payments from their funding sources. However, we noted that LAHSA did not submit their reimbursement claims to their funding sources until after the sub-recipients' invoices have been processed and approved. As such, if there were any delays in the receipt and/or processing of sub-recipients' invoices, this caused further delays in paying the sub-recipients.</p>	<p>Failure of LAHSA to properly manage their financial resources may impact the sub-recipients' ability to provide the adequate level of Program services to clients.</p>	<p>LAHSA management explore options with banking institutions for obtaining a line of credit/revolving fund, and/or re-evaluate and discuss options with their funding sources, such as allowing billing for accruals, increasing frequency and limits of cash advance requests, and allowing for multiple reimbursement claims on an as needed basis, that would allow the Agency access to cash on a short-term basis.</p>	1	<p>Agree Target Implementation Date: Not Applicable (Implemented)</p> <p>LAHSA indicated they have improved their cash flow status and currently have adequate cash on hand. For example, the Agency worked with the County to obtain additional working capital and cash advances, and worked with their non-County funding sources to utilize available billing options (billing for accruals, increase billing frequency, etc.).</p> <p>In addition, LAHSA implemented a finance operations dashboard which allows the Agency to track their cash flow status to ensure that there is sufficient cash to pay their sub-recipients. In addition, the Agency indicated they have renewed the line of credit with their banking institution, which can be used to cover the Agency's operational expenses, if necessary.</p>

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
	Subsequent to the completion our fieldwork in October 2017, LAHSA received a \$33.5 million cash advance on October 25, 2017, from the County to cover expenses related to Measure H, and an additional \$5 million in cash advances from the County's Department of Public Social Services from November 2017 through January 2018. However, LAHSA did not provide their current cash flow status.				
4	<p>Lacked Documentation Supporting All Available Cash Advances from Funding Sources Were Obtained: At the time of our review, LAHSA management did not provide documentation to support that the Agency took full advantage of requesting and/or obtaining all cash advances allowed from their funding sources. Specifically, LAHSA did not:</p> <ul style="list-style-type: none"> Identify all funding sources that allow for cash advances. Maintain a record of all cash advance requests made or received to date. <p>As a result, we were unable to verify whether LAHSA obtained all available cash advances from their funding sources.</p>	Insufficient operating cash could materially impact LAHSA and their sub-recipients' operations in providing the required Program services.	LAHSA management ensure they are maximizing their options for cash advances from funding sources by identifying all funding sources that allow for cash advances and tracking all cash advances requested and received.	1	<p>Agree Target Implementation Date: Not Applicable (Implemented)</p> <p>LAHSA indicated they have developed a log to effectively track cash advances by funding source to ensure that they are maximizing all cash advances.</p>

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
5	<p>Reimbursement Claims Not Submitted Timely: At the time of our review, LAHSA did not always submit their reimbursement claims to their funding sources by their established due dates. In September 2017, LAHSA submitted 16 (22%) of 74 reimbursement claims after the established due dates.</p> <p>LAHSA's manual processes hinder the Agency's efficiency in their fiscal operations. According to LAHSA's staff, the number of reimbursement claims are expected to increase significantly due to Measure H, and as such, they may not be able to handle the additional workload with the current manual process. For example:</p> <ul style="list-style-type: none"> • LAHSA's staff are not notified when invoices from the sub-recipients are approved for payment, which should then trigger the initiation of the reimbursement claims to the funding sources. Instead, staff must manually review the A/P reports to determine which sub-recipients' invoices have been recently posted in order to process the reimbursement claims to the funding sources. <p>In addition, only hard copies of reimbursement claims are distributed to be reviewed and approved.</p>	<p>Delays and inefficiencies in processing reimbursement claims to the funding sources lead to delays in receiving cash, impacting payments to their sub-recipients and their ability to provide the required Program services to clients.</p>	<p>LAHSA management re-evaluate their current operational processes and implement updated and/or automated procedures to ensure that reimbursement claims to the funding sources are initiated timely and submitted within established due dates.</p>	1	<p>Agree Target Implementation Date: December 31, 2018</p> <p>LAHSA indicated they have implemented new procedures, such as the use of a cash request log, to ensure reimbursement claims to their funding sources are initiated timely and submitted within established due dates. In addition, the Agency is working with their Information Technology (IT) Department to identify processes that can be automated to improve efficiency and effectiveness.</p>

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION																							
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE																		
6	<p>Payments to Sub-Recipients Not Paid Timely: At the time of our review, sub-recipients' cash advance requests and invoices were not always paid timely.</p> <p>As of October 25, 2017, LAHSA's Agency-wide A/P Aging Report identified \$4,955,318 (72%) of the \$6,870,586 in A/P were between 1 – 120 days past due as follows:</p> <table><tr><th>Days Past Due</th><th>Amount</th><th>% Past Due</th></tr><tr><td>1-30 days</td><td>\$3,162,846.80</td><td>46.03%</td></tr><tr><td>31-60 days</td><td>\$768,372.50</td><td>11.18%</td></tr><tr><td>61-90 days</td><td>\$1,012,044.50</td><td>14.73%</td></tr><tr><td>Over 90 days</td><td>\$12,054.54</td><td>0.18%</td></tr><tr><td>Total</td><td>\$4,955,318.34</td><td>72.12%</td></tr></table> <p>Of the \$4,955,318 in past due A/P, \$504,307 (10%) related to Measure H and \$1,412,204 (28%) related to other County Programs.</p> <p>For a sample of transactions reviewed, we noted that payments were at times received from the funding sources, but staff could not provide an explanation as to why the sub-recipients' cash advance requests and invoices were not paid.</p>	Days Past Due	Amount	% Past Due	1-30 days	\$3,162,846.80	46.03%	31-60 days	\$768,372.50	11.18%	61-90 days	\$1,012,044.50	14.73%	Over 90 days	\$12,054.54	0.18%	Total	\$4,955,318.34	72.12%	Delays in payments made to sub-recipients can impact their cash flow and ability to provide Program services to clients.	LAHSA management improve controls and oversight over the A/P function by strengthening procedures to ensure payments to sub-recipients are paid timely by identifying who will be responsible for following-up on aging A/P.	1	<p>Agree</p> <p>Target Implementation Date: Not Applicable (Implemented)</p> <p>LAHSA indicated they have implemented a new A/P process that resulted in 97% of LAHSA's payables being current as of January 2018. The Agency is also working with their IT Department and an outside vendor to further enhance their A/P functions.</p>
Days Past Due	Amount	% Past Due																					
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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
7	Aged Accounts Receivables Not Followed up Timely: At the time of our review, LAHSA did not always follow up on their aged Accounts Receivables (A/R) timely. For example, the Agency did not contact the funding source until after the A/R was approximately 50 days old. Once staff followed up with the funding source, the cash requests were approved.	Untimely follow up on their aged A/R impacts LAHSA's ability to receive the revenue timely, which could lead to delays in paying their sub-recipients and the Program services they provide to clients.	LAHSA management re-evaluate their current operational processes and implement updated and/or automated procedures to ensure that they follow up on their aged A/R timely.	1	Agree Target Implementation Date: Not Applicable (Implemented) LAHSA indicated they have enhanced their A/R process to ensure the appropriate internal controls are in place to follow up on aged A/R timely.
8	Fiscal Operations Lacked Management Oversight: LAHSA management did not always provide adequate oversight over key fiscal functions. For example, as indicated above: <ul style="list-style-type: none"> • Inadequate fiscal staffing levels. • Retroactive contracting with their sub-recipients. • Agency management did not ensure that their A/R and A/P units/divisions followed up on their aged receivables/payables timely. 	Lack of management oversight increases the risk of operational deficiencies and inefficiencies.	LAHSA management provide adequate oversight over key fiscal functions.	1	Agree Implementation Date: February 28, 2018 LAHSA indicated they have enhanced oversight over key fiscal functions with the addition of three senior managers and six supervisors. In addition, LAHSA hired a consultant to provide recommendations regarding staffing and operational oversight.

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
9	<p>Management Review and Approval Process Inefficiencies Over Payments to their Sub-recipients: LAHSA can improve their efficiency over the sub-recipients' cash advance requests and monthly invoices approval processes by re-evaluating the levels of review required.</p> <p>Based on the dollar amounts, LAHSA's policy requires <u>up to five</u> levels of review. Specifically:</p> <p>\$10,000 or less – Senior Accountant \$10,001 - \$24,999 – Financial Manager \$25,000 - \$49,999 – Controller \$50,000 - \$99,999 – Chief Financial Officer (CFO) \$100,000 or more – Executive Director (ED)</p> <p>Each of the sub-recipients' cash advance requests or invoices must be reviewed by each required level based on the dollar amount requested.</p> <p>When checks are prepared, the documents are then reviewed <u>again</u> by the two check signers, Controller, CFO, and/or ED.</p> <p>We noted approximately 57% of sub-recipients' expenditure transactions were approved by the Controller, CFO, and/or ED for the month of September 2017.</p> <p>We also noted the approval process for a sample of transactions needing approval by the CFO and/or ED, took between 12 to 71 days.</p>	<p>Inefficiencies in approvals result in delays in payments to sub-recipients, which could materially impact the sub-recipients' cash flow and ability to provide the required Program services to clients.</p>	<p>LAHSA management re-evaluate their current review and approval processes to improve efficiency and reduce the time required to process all of their transactions.</p>	2	<p>Agree Target Implementation Date: July 1, 2018</p> <p>LAHSA indicated they are implementing a streamlined approval process that will reduce the number of approvals from five to three, which will reduce the time needed to process transactions.</p>

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
10	<p>Excessive Management Reviews and Approvals Over Reimbursement Claims to the Funding Sources: All reimbursement claims to the funding sources require <u>ALL</u> five levels of review and approval, regardless of the reimbursement request type and/or amounts, as follows: (1) Senior Financial Analyst, (2) Manager, Finance Admin [currently vacant], (3) Associate Director, (4) Controller, and (5) Chief Financial Officer.</p> <p>In September 2017, we noted there were 74 reimbursement requests that required all five levels of review and approval before submitting the reimbursement claims to the funding sources.</p>	The multiple levels of review and approval could result in delays in submitting the reimbursement claims to the funding sources and receiving cash from the funding source.	LAHSA management re-evaluate their review and approval processes for preparing and submitting the reimbursement claims to the funding sources.	2	<p>Agree Target Implementation Date: July 1, 2018</p> <p>Similar to their response to Issue 9, LAHSA indicated they are implementing a streamlined approval process that will reduce the number of approvals from five to three, which will reduce the time needed to process the reimbursement claims.</p>
11	<p>Unclear Job Roles and Responsibilities Within the Finance Department: At the time of our review, LAHSA did not provide adequate management oversight to ensure that Finance Department's staff were clear on their roles and responsibilities, or who was responsible for certain functions. For example, their Finance Department's employees did not know who was responsible for following up on delinquent A/P accounts, and as such, the delinquent A/P accounts were not resolved timely.</p>	Employees without a clear understanding of their job roles and responsibilities cannot meet performance expectations and organizational goals, which may negatively impact the Agency's ability to operate efficiently and effectively.	LAHSA management provide adequate oversight to ensure that responsible individuals are clear on their roles and responsibilities.	2	<p>Agree Target Implementation Date: December 31, 2018</p> <p>LAHSA indicated, with the assistance of their consultant, they are revising their Finance Procedures, developing desk manuals, and providing comprehensive training to staff to ensure responsible individuals are clear on their roles and responsibilities.</p>

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12	<p>Delays due to Errors or Incomplete Documentation: Sub-recipients' cash advance requests and invoices were not always processed timely due to improper coding or incomplete documentation required by LAHSA.</p> <p>At the time of our review, LAHSA's Finance Department did not have a central reference file that identified the contract requirements for each sub-recipient, which could assist staff in ensuring the required documents have been submitted and transactions were coded accurately.</p> <p>When necessary, staff had to locate the specific contract for each sub-recipient, and manually input the coding for each sub-recipient expenditure.</p>	Errors and missing required documentation delay the processing of cash advance requests and monthly invoices, delaying payments to the sub-recipients, which can negatively impact the sub-recipients' cash flow and ability to provide the required Program services to clients.	LAHSA management establish and use a centralized file that identifies each of the sub-recipients' contract requirements.	2	<p>Agree Target Implementation Date: July 1, 2018</p> <p>LAHSA indicated they are developing a central reference file that will contain all sub-recipient contract requirements, and expects it to be fully implemented by July 2018.</p>
13	<p>Lack of Quality Assurance Reviews: At the time of our review, LAHSA did not have an internal quality assurance process to evaluate their business operations' internal controls, compliance with internal policies and procedures, and/or compliance with contract requirements. The Agency's last internal control assessment performed by their Monitoring and Compliance Unit was conducted in 2014 due to staff shortages and turnover.</p>	The risk for errors, fraud, abuse, non-compliance, and/or other operational weaknesses/inefficiencies increases when an organization does not have an effective quality assurance process in place to evaluate and monitor their internal operations.	LAHSA management implement a quality assurance process to periodically evaluate internal business operations and its effectiveness to ensure compliance with internal controls, internal policies and procedures, and contract requirements.	3	<p>Agree Target Implementation Date: July 31, 2018</p> <p>LAHSA indicated they are developing an internal monitoring team to ensure a more robust quality assurance process.</p>

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	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
14	Cross-Training of Staff: As mentioned above, due to high turnover in their Finance Department and staff shortage, the remaining staff, at the time of review, had to take on additional responsibilities outside of their assigned job functions. However, Finance Department's staff voiced concerns that they had little or no cross-training to perform the additional duties required of them.	Without adequate guidance from management and proper cross-training of staff, the Agency's work product could be negatively impacted and create a backlog of assignments.	LAHSA management ensure that more than one employee can perform key job functions by cross-training staff.	3	Agree Target Implementation Date: July 1, 2018 LAHSA indicated they are updating existing procedures, which will be used to develop desk manuals for staff reference. In addition, the Agency is developing a training curriculum to ensure Finance staff are regularly trained on the updated procedures.

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FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
15	<p>Policies and Procedures Not Updated or Consistently Followed: At the time of our review, LAHSA's fiscal policies and procedures manual was missing critical fiscal processes and had not been updated to reflect current actual practices since August 2016. For example:</p> <ul style="list-style-type: none"> • LAHSA did not have documented policies and procedures for following up on delinquent A/R or A/P. • LAHSA's policies and procedures manual reflected only hard copy invoice processing even though some of their sub-recipients' invoices were processed electronically. <p>In addition, LAHSA's management did not ensure compliance with their established fiscal policies and procedures. For example, the existing A/P policy indicates that the Administrative Financial Manager is responsible for reviewing the A/P aging report on a weekly basis to identify invoice payment delays and work with the finance team to ensure invoices are paid as promptly as possible. However, as noted above, the Agency's A/Ps were not adequately monitored to ensure sub-recipients' cash advances and invoices were paid promptly.</p>	<p>The risk of internal control weaknesses and inconsistencies in how procedures are applied increases when the Agency's policies and procedures are not updated to reflect current practices.</p> <p>Not consistently following established policies and procedures can result in internal control weaknesses, organizational inefficiencies, and risk of non-compliance with contract requirements.</p>	<p>LAHSA management should review and update the existing fiscal policies and procedures manual to include critical fiscal processes and reflect updated practices that are/should be in place, and ensure staff are in compliance with their established policies and procedures.</p>	3	<p>Agree Target Implementation Date: July 1, 2018</p> <p>LAHSA indicated they updated their fiscal policies, which were approved by LAHSA's Commission, the Agency's governing body. With the assistance of their consultant, LAHSA is working on a training curriculum to ensure that finance staff are trained on the updated procedures.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential magnitude and likelihood for negative impact on the Agency's operations if corrective action is not taken. See Attachment III for detailed definitions of the priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
16	Lack of a Fiscal Operations Manual: At the time of our review, LAHSA did not have a comprehensive fiscal operations manual, which was referenced in their fiscal policy and procedures manual. A fiscal operations manual is important to ensure compliance with proper internal controls and to help standardize processes. In addition, documenting the technical work procedures for each position help other employees perform necessary functions when the employee normally assigned to a particular duty is absent.	The lack of a comprehensive fiscal operations manual can lead to internal control weaknesses, improper processing of financial transactions, and organizational inefficiencies.	LAHSA management develop a comprehensive fiscal operations manual for each position that includes step-by-step procedures for all assigned duties to ensure compliance with proper internal controls and to help standardize processes.	3	Agree Target Implementation Date: December 30, 2018 LAHSA indicated they are working on developing a Fiscal Operations Manual that will incorporate ongoing process improvements in the Finance Department.

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential magnitude and likelihood for negative impact on the Agency's operations if corrective action is not taken. See Attachment III for detailed definitions of the priority rankings.



March 2, 2018

John Naimo
Auditor-Controller
Department of Auditor-Controller
Kenneth Hahn of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012

**Subject: Response to Auditor-Controller Fiscal Operations Assessment Review
Draft Report for Los Angeles Homeless Services Authority**

Dear Mr. Naimo:

Peter Lynn
Executive Director

The Los Angeles Homeless Services Authority (LAHSA) is in receipt of the Fiscal Operations Assessment Review issued by the County of Los Angeles Department of Auditor-Controller (AC), regarding the on-site review started on October 16, 2017. We welcome the opportunity to work with the Auditor-Controller to strengthen LAHSA's finance operations and appreciate the opportunity to respond to the Review.

Board of Commissioners

Noah Ferkas
Chair

Wendy Greuel
Vice Chair

Kelli Bernard

Sarah Dussault

Mitchell Kamin

Lawson Martin

Irene Muro

Booker Pearson

Kelvin Seals

Jacqueline Waggoner

The passage of Measure H in 2017 introduced tremendous growth in funding for homeless services, and LAHSA has undertaken multiple efforts to transform the way we do business. Measure H funding alone represents an increase of 70% in the total LAHSA operating budget. In preparation for this growth, in Spring 2017, LAHSA procured a financial management consulting firm to provide a comprehensive assessment and recommendations for the Finance Department of LAHSA, contracting with KH Consulting in June 2017. In preparation for the expected growth in contracting, LAHSA procured a new contract management system, and contracted with a business process consultant to streamline operations. LAHSA is committed to continuous improvement of our finance and contracting operations.

LAHSA is currently engaged in a national search for a new Chief Financial Officer through an executive search firm, and has engaged the LA County Homeless Initiative Director and LA City Chief Administrative Officer in the interview process.

RECOMMENDATION NO. 1

Inadequate Staffing Levels: LAHSA does not have appropriate staffing levels within their Finance Department to meet their current or anticipated workload, especially with the addition of their Measure H funding from the Chief Executive Office (CEO). For example,

- We noted a high turnover of Finance staff, particularly at the accountant/analyst level positions that are primarily responsible for processing sub-recipient cash advances and monthly invoices. For example, LAHSA is budgeted for seven full-time program accountant positions. However, at the time of our review, five (71%) of the seven positions were vacant with temporary staff being used to backfill four of the five vacant positions.
- Finance Department's staff indicated that many routinely worked over-time hours in order to complete the additional responsibilities placed on them due to the Agency's inadequate staffing levels.

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Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 2 of 14

- At the time of our review, LAHSA did not provide documentation to support that a comprehensive Agency-wide staffing assessment was completed to determine the appropriate level of staffing needed to properly operate the Agency's growing operations.

Subsequent to our review, LAHSA submitted their five-page, "Fiscal Year 17-18 Staffing Analysis", dated January 11, 2018, in which LAHSA reported their plan to add 13 new positions to their Finance Department, increasing from 45 positions in FY 2016-17 to 58 positions in FY 2017-18.

Recommendation:

LAHSA management immediately complete a comprehensive Agency-wide staffing assessment, including determining the cause for their high staff turnover, and developed a comprehensive staffing plan to address the short and long-term staffing needs of the Agency.

LAHSA Response:

LAHSA acknowledges the central importance of adequate staffing for the healthy operation of the Finance Department, and will continue to update its staffing plan. In anticipation of the implementation of Measure H, during the FY 17-18 Budget process, which began in April 2016, the LAHSA Executive Management Team engaged in an Agency-wide staffing exercise to assess the level of staffing that would be needed to manage the increased responsibilities related to the Measure H expansion. As stated in the AC report, the result of the staffing analysis resulted in 13 positions being added to the Finance Department (Note: Staffing increased from 45 positions in FY16-17 to 58 positions in FY 17-18). LAHSA Executive Management will re-assess current staffing levels to ensure that they are sufficient and provide adequate coverage of the financial functions as a part of FY 18-19 budget process. The staffing analysis will begin on March 1, 2018 and is scheduled to be completed by April 1, 2018. Please see FY 18-19 Staffing Memo (Attachment I) which provides guidance to Department Directors on the process of conducting a staffing analysis.

Additionally, to assess the Finance Department's organizational structure, staffing and processes in preparation for the FY 18-19 budget process, LAHSA engaged KH Consulting in June 2017. Through their initial assessment which was completed in November 2017, KH Consulting assessed the factors contributing to staff turnover within the finance department and are currently working with the management team to implement the recommendations resulting from the assessment, with a target implementation date of June 30, 2018.

Assessing the short and long-term staffing needs of the agency is an ongoing exercise for the Executive Team. To address the short-term staffing needs, LAHSA has engaged Account Temps, who provide experienced financial professionals to the organization ensuring that there is coverage over the critical functions, while we hire and recruit a fulltime permanent staff member into the open position. At the time of the review, LAHSA had twenty-one (21) open positions in the Finance Department, which included the Manager of Finance Administration; as of the writing of this response the Finance Department has ten (10) open positions, and the Manager of Finance Administration has been hired and is being onboarded into the position. The Finance Team is working diligently with the HR Department to recruit and fill the remaining 11 open positions, with the goal to have the department fully staffed by June 30, 2018.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 3 of 14

RECOMMENDATION NO. 2

Retroactive Contracts: At the time of our review, LAHSA did not execute contracts with their sub-recipients timely, which results in delays in processing, approving, and paying sub-recipient cash advance requests and monthly invoices. We noted sub-recipients continued to provide services without having an executed contract in place.

At the time of our review, LAHSA's policy was to hold payment to sub-recipients until their contracts with the sub-recipients have been executed. Management indicated the delays were caused by their funding sources and that they cannot legally enter subcontracts until their contracts with the funding sources have been executed and finalized.

At CEO's request, the Agency's contracting operations will be reviewed during our Phase II review of LAHSA scheduled to start in February 2018.

Recommendation:

LAHSA management evaluate current contracting processes/operations to identify streamlining opportunities to ensure contracts with the funding sources and their sub-recipients are executed on time as required.

LAHSA Response:

LAHSA acknowledges the importance of this recommendation and continues to evaluate current contract processes and seeks optimization and innovation whenever possible. In the spring of 2017, LAHSA began the implementation of Contract Logix, a document management system. This document management system will allow LAHSA to streamline the contract creation process by creating automatic workflows, maintaining a centralized document repository for contract components, and project, track and report on the contract operations timeline from identification and encumbrance of available funding, through procurement and subrecipient contract execution. In October 2017, LAHSA worked with the CEO to allow 3-year contract terms for contracts funded by Measure H and we are currently working on the implementation plan. In addition, LAHSA contracted in October 2017 with the Center for Nonprofit Management to complete a contracting workflow business process assessment and make subsequent recommendations, with the final report expected in March 2018. Numerous process improvements that have been implemented to date include Interdepartmental contract generation workflow, pre-populated Contract Exhibits which include Agency Certifications and Representations, Budget and Advance Templates to expedite contract generation and advance payments, as well as daily interdepartmental contracting huddles to resolve process blocks.

In addition, LAHSA is receiving technical assistance from Abt Associates regarding Program Evaluation, Monitoring and Compliance, which started in October 2017 and completed their initial assessment in January 2018. As part of their ongoing technical assistance, Abt Associates will work with LAHSA on implementing a robust grant management system, which will be used across LAHSA departments to manage all funding sources and contracts administered by LAHSA. This system will interface with Contract Logix, and is expected to provide contract processing time improvements. The implementation of the grant management system will begin March 2018 and will include Abt Associates facilitating planning and implementation workgroups. LAHSA foresees the planning and implementation process to conclude June 2019.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 4 of 14

RECOMMENDATION NO. 3

Inadequate Cash Flow to Pay Sub-recipients: At the time of our review, LAHSA management indicated they did not currently have funding reserves or other resources, such as a line of credit, to pay their sub-recipients until they received payments from their funding sources since they are a pass-through agency.

As of October 25, 2017, LAHSA's Agency-wide unaudited year-to-date financial statements reported \$6.9 million in Accounts Payable (A/P) but had less than \$923,000 in Operating Cash. Of the \$6.9 million in A/P as of October 25, 2017, \$730,136 (11%) related to Measure H, \$1,567,971 (23%) related to other County programs, and the remaining \$4,572,479 (66%) related to LAHSA's other non-County programs.

At the time of our review, the Agency's policy was to issue payments to the sub-recipients after they received payments from their funding sources. However, we noted that LAHSA did not submit their reimbursement claims to their funding sources until after the sub-recipients' invoices have been processed and approved. As such, if there were any delays in the receipt and/or processing of sub-recipients' invoices, this caused further delays in paying the subrecipients.

Subsequent to the completion our fieldwork in October 2017, LAHSA received a \$33.5 million cash advance on October 25, 2017, from the County to cover expenses related to Measure H, and an additional \$5 million in cash advances from the County's Department of Public Social Services from November 2017 through January 2018. However, LAHSA did not provide their current cash flow status.

Recommendation:

LAHSA management explore options with banking institutions for obtaining a line of credit/revolving fund, and/or re-evaluate and discuss options with their funding sources, such as allowing billing for accruals, increasing frequency and limits of cash advance requests, and allowing for multiple reimbursement claims on an as needed basis, that would allow the Agency access to cash on a short-term basis.

LAHSA Response:

LAHSA acknowledges the critical importance of adequate cash flow, and appreciates the recommendation to strengthen the Agency's cash position. In July 2017, LAHSA's Finance Department with the assistance of the IT Department created a finance operations dash board that allows for real time financial data to be generated, which includes a Cash Flow Status Report. This cash flow status report titled Total Cash & AR vs AP (see Attachment II), was presented to the LAHSA Commission for the first time on September 15, 2017 and is now a standard monthly financial report that was most recently presented to the Commission's Finance, Contract, and Grants Management (FCGM) Committee, under Item 14.0, on Friday, February 16, 2018.

LAHSA has taken steps to ensure that there is sufficient cash on hand to pay subrecipients. In the Fall of 2016 LAHSA worked with the CEO office to receive 5 months of "working capital" to cover expenses related to Measure H, including the three-month advances provided to funded service agencies. LAHSA currently has adequate cash on hand, as represented by the February 16, 2018 report noted above.

Additionally, LAHSA negotiated with the County Department of Public Social Services (DPSS) regarding funding requests and received advance payments based on 1/12th of contract with quarterly reconciliation from actual expense reimbursement method of payment for Quarter 1 and 2 of FY 17-18. Through discussions with our partners at the City, finance department staff received clarity around the ability to bill for accruals and increase the frequency of billings to ensure sufficient cash flows to reimburse subrecipient expenses on County GF, CDBG and ESG contracts. Additionally, LAHSA has renewed its Line of Credit

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 5 of 14

with Wells Fargo, which allows for coverage of LAHSA operations and frees up any cash on hand to cover subrecipient expenses in the event of a government shut down or unforeseen delay in reimbursement from our funders.

RECOMMENDATION NO. 4

Lacked Documentation Supporting All Available Cash Advances from Funding Sources were Obtained: At the time of our review, LAHSA management did not provide documentation to support that the Agency took full advantage of requesting and/or obtaining all cash advances allowed from their funding sources. Specifically, LAHSA did not

- Identify all funding sources that allow for cash advances
- Maintain a record of all cash advance requests made or received to date

As a result, we were unable to verify whether LAHSA obtained all available cash advances from their funding sources.

Recommendation:

LAHSA management should ensure they are maximizing their options for cash advances from funding sources by identifying all funding sources that allow for cash advances and tracking all cash advances requested and received.

LAHSA Response:

The Department acknowledges the value of this recommendation, and has created an LAHSA Funder Advance Log (see Attachment III) that simplifies the tracking of cash advances by funding source to ensure maximization of all cash advances. In addition, LAHSA revised Finance procedures and hosted a training with Finance Administration staff, regarding reviewing/updating the Advance Log on a monthly, quarterly and annual basis. This process is being overseen by the Associate Director of Finance Operations and is managed by the recently hired Manager, Finance Administration.

RECOMMENDATION NO. 5

Reimbursement Claims Not Submitted Timely: At the time of our review, LAHSA did not always submit their reimbursement claims to their funding sources by their established due dates. In September 2017, LAHSA submitted 16 (22%) of 74 reimbursement claims after the established due dates.

LAHSA's manual processes hinder the Agency's efficiency in their fiscal operations. According to LAHSA's staff, the number of reimbursement claims are expected to increase significantly due to Measure H, and as such, they may not be able to handle the additional workload with the current manual process. For example:

- LAHSA's staff are not notified when invoices from the sub-recipients are approved for payment, which should then trigger the initiation of the reimbursement claims to the funding sources. Instead, staff must manually review the A/P reports to determine which sub-recipients' invoices have been recently posted in order to process the reimbursement claims to the funding sources.
- In addition, only hard copies of reimbursement claims are distributed to be reviewed and approved.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 6 of 14

Recommendation:

LAHSA management re-evaluate their current operational processes and implement updated and/or automated procedures to ensure that reimbursement claims to the funding sources are initiated timely and submitted within established due dates.

LAHSA Response:

The Department acknowledges the importance of timely reimbursement requests, and has implemented an enhanced internal process to ensure that reimbursement claims to funding sources are initiated timely and submitted within established due dates. The process included the creation of a Cash Request Log (see Attachment IV) which was utilized for the first time and presented to management for review in July 2017. This document allows for LAHSA to track cash requests by funding source to ensure reimbursement claims being initiated are sufficient to cover outstanding payables. As a part of the process, LAHSA staff met with funders to clarify their Cash Request submission requirements and adjusted the Cash Request Master log accordingly. In addition, LAHSA revised Finance procedures and hosted a training with Finance Admin Staff, regarding review/updating the Cash Request Log on a monthly, quarterly and annual basis. This process is overseen by the Associate Director of Finance Operations and is managed by the Manager, Finance Administration.

The Department is currently reviewing internal processes with LAHSA IT Department to assess where automation can improve efficiency and effectiveness. The interim automation options identified will be launched by July 2018 and are expected to be fully implemented by December 2018.

RECOMMENDATION NO. 6

Payments to Sub-Recipients Not Paid Timely: At the time of our review, subrecipients' cash advance requests and invoices were not always paid timely. As of October 25, 2017, LAHSA's Agency wide A/P Aging Report identified \$4,955,318 (72%) of the \$6,870,586 in A/P were between 1 – 120 days past due as follows

Days Past Due	Amount	%
1-30 days	\$3,162,846.80	46.03%
31-60 days	\$768,372.50	11.18%
61-90 days	\$1,012,044.50	14.73%
Over 90 days	\$12,054.54	0.18%
Total	\$4,955,318.34	72.12%

Of the \$4,955,318 in past due A/P, \$504,307 (10%) related to Measure H and \$1,412,204 (28%) related to other County Programs. For a sample of transactions reviewed, we noted that payments were at times received from the funding sources, but staff could not provide an explanation as to why the subrecipients' cash advance requests and invoices were not paid.

Recommendation:

LAHSA management improve controls and oversight over the A/P function by strengthening procedures to ensure payments to sub-recipients are paid timely by identifying who will be responsible for following-up on aging A/P.

LAHSA Response:

Timely payments to sub-recipients is among LAHSA's highest priorities. LAHSA acknowledges that at the time of the Auditor-Controller Review, A/P arrears were a significant issue. In Spring of 2017, with

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 7 of 14

the passage of Measure H, the LAHSA Finance Department began to explore opportunities to enhance its current finance processes and procedures. Through discussions with key stakeholders, it was determined that controls and oversight over the A/P Function could be improved and procedures to ensure timely payments to sub-recipients could be strengthened. To ensure that payments are being made to subrecipients timely, in October 2017, LAHSA launched a 7- day pay process, replacing our previous net-30 process, which has dramatically improved invoice processing time. This process utilizes post-payment reconciliation, and has practically eliminated aged payables. For January 2018, 97% of LAHSA payables were current, and 3% of payables, representing a single defective invoice, were aged 1-30 days, and 0% were older. In addition, LAHSA has created an A/R Aging Action Plan which ensures appropriate internal controls are in place. As part of this action plan, LAHSA revised internal Finance Department oversight roles to ensure timely follow up on AR aging.

The 7-Day process enables LAHSA to pay at face value the Agency reimbursement request within 7 business days and requires reconciliation by LAHSA staff within 14 days. If during the reconciliation process, it is determined that expenses are ineligible, the documentation doesn't fully support expenses, or a line item budget was exceeded on the request, adjustments are applied to the next reimbursement request received on the contract. The 7-Day process is dependent upon our Funder Agreements. If a Funder requires reconciliation prior to Agency reimbursement, then the 7-Day payment process is not applied. The chart below details, by contract type, the number of business days LAHSA is striving to make payment to the Agency.

Contract Type	Payment Term (Days)
CDBG	7
City ESG	7
CityGF	7
Measure H	7
CountyGF	7
Supervisor Discretionary Funds	30
DPSS	30
County ESG	30
LP	45

*Missing from the Chart is contract type CoC (Federal HUD Funding) which is subject to 7-day pay except for the final month of the contract.

LAHSA continues to work with Funders to establish mutually agreeable terms regarding review requirements of agency reimbursement requests to minimize the amount of time an agency is required to carry costs before reimbursement. LAHSA Finance, in partnership with our IT department, are investigating alternate means of invoice submission that may result in a faster turnaround time from submission to payment issuance. LAHSA has engaged its financial management software system vendor to deploy additional automation of A/P functions.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 8 of 14

RECOMMENDATION NO. 7

Aged Accounts Receivables Not Followed-up Timely: At the time of our review, LAHSA did not always follow up on their aged Accounts Receivables (A/R) timely. For example, the Agency did not contact the funding source until after the A/R was approximately 50 days old. Once staff followed up with the funding source, the cash requests were approved.

Recommendation:

LAHSA management reevaluate their current operational processes and implement updated and/or automated procedures to ensure that they follow up on their aged A/R timely.

LAHSA Response:

LAHSA acknowledges the importance of timely follow-up on A/R, and appreciates the recommendation for operational review and automation. The Department has recently enhanced our A/R Process to include an A/R Aging Action Plan (see Attachment V) which ensures appropriate Internal Controls are in place to follow up on aged A/R timely. The action plan included an update to roles and responsibilities for oversight in the new management structure within the Finance Administration Unit. In addition, LAHSA revised Finance procedures and hosted a training with Finance Administration staff, regarding action plan and the importance of following up on receivables in a timely manner. This process is being overseen by the Associate Director of Finance Operations and is managed by the recently hired Manager, Finance Administration. LAHSA has engaged its financial management software system vendor to deploy additional automation of A/R functions.

RECOMMENDATION NO. 8

Fiscal Operations Lacked Management Oversight: LAHSA management did not always provide adequate oversight over key fiscal functions. For example, as indicated above:

- Inadequate fiscal staffing levels.
- Retroactive contracting with their sub-recipients.
- Agency management did not ensure that their A/R and A/P units/divisions followed-up on their aged receivables/payables timely.

Recommendation:

LAHSA management provide adequate oversight over key fiscal functions.

LAHSA Response:

During the 17-18 budgeting process, LAHSA recognized the need for additional finance oversight, thus three senior management staff positions, Associate Directors, were created, and several additional management and senior staff positions were added, including one Program Finance Manager, a Budget Supervisor, a Sr. Financial Analyst and three Sr. Accountants were added to the department structure to provide additional oversight of Finance Program and Administration, Finance Operation, and Monitoring and Compliance. These positions were fully staffed as of February 1, 2018. LAHSA has filled all open management positions as of Feb 28, 2018, with the exception of the Chief Financial Officer that is under active recruitment with the assistance of an executive search firm. Prior to this addition, finance oversight was held by the CFO, the then-Controller, now Director of Finance, and five Managers. In addition to this

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 9 of 14

reorganization, LAHSA has engaged with KH Consulting to provide a management assessment and to provide recommendations regarding staffing and operation oversight.

RECOMMENDATION NO. 9

Management Review and Approval Process Inefficiencies Over Payments to their Sub-recipients:
LAHSA can improve their efficiency over the sub-recipients' cash advance requests and monthly invoices approval processes by re-evaluating the levels of review required. Based on the dollar amounts, LAHSA's policy requires up to five levels of review. Specifically:

\$10,000 or less – Senior Accountant
\$10,001 - \$24,999 – Financial Manager
\$25,000 - \$49,999 – Controller
\$50,000 - \$99,999 – Chief Financial Officer (CFO)
\$100,000 or more – Executive Director (ED)

Each of the sub-recipients' cash advance requests or invoices must be reviewed by each required level based on the dollar amount requested. When checks are prepared, the documents are then reviewed again by the two check signers, Controller, CFO, and/or ED. We noted approximately 57% of subrecipients' expenditure transactions were approved by the Controller, CFO, and/or ED for the month of September 2017. We also noted the approval process took between 12 to 71 days for a sample of transactions needing approval by the CFO and/or ED.

Recommendation:

LAHSA management re-evaluate their current review and approval processes to improve efficiency and reduce the time required to process all of their transactions.

LAHSA Response:

In the Winter of 2016-17, the Finance Department Management Team engaged in a strategic planning process, with the overarching goal to identify opportunities to improve our existing department structure and processes to ensure that we have the internal capacity to be more efficient and effective in our role as financial administrator of Federal, County and City Funds. This assessment highlighted the opportunity to shorten process cycle times and free executive management to perform more strategic activities and provide the critical management oversight with the reduction of upper-level review of routine transactions and increasing the approval thresholds of the staff who are directly responsible for overseeing the tasks. With the assistance of KH Consulting Group, LAHSA is implementing a streamlined approval process which reduces the level of review of the Executive Director, CFO and Controller. This process began implementation on March 1, 2018 and is expected to be fully implemented by July 1, 2018. The new streamlined approval process reduces the levels of review and approval down to three from five, as follows:

- \$25,000 or less – Senior Accountant
- \$25,000 - \$75,000 – Financial Manager
- Over \$75,000 – Associate Director

RECOMMENDATION NO. 10

Excessive Management Review and Approval Over Reimbursement Claims to the Funding Sources:
All reimbursement claims to the funding sources require ALL five levels of review and approval, regardless of the reimbursement request type and/or amounts, as follows: (1) Senior Financial Analyst, (2) Manager,

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 10 of 14

Finance Admin [currently vacant], (3) Associate Director, (4) Controller, and (5) Chief Financial Officer. In September 2017, we noted there were 74 reimbursement requests that required all five levels of review and approval before submitting the reimbursement claims to the funding sources.

Recommendation:

LAHSA management reevaluate their review and approval processes for preparing and submitting the reimbursement claims to the funding sources.

LAHSA Response:

In the Winter of 2016-17, the Finance Department Management Team engaged in a strategic planning process, with the overarching goal to identify opportunities to improve our existing department structure and processes to ensure that we have the internal capacity to be more efficient and effective in our role as financial administrator of Federal, County and City Funds. This assessment highlighted the opportunity to shorten process cycle times and free executive management to perform more strategic activities and provide the critical management oversight with the reduction of upper-level review of routine transactions and increasing the approval thresholds of the staff who are directly responsible for overseeing the tasks. With the assistance of KH Consulting Group, LAHSA is implementing a streamlined approval process which reduces the level of review of the Executive Director, CFO and Controller. This process began on March 1, 2018 and is expected to be fully implemented by July 1, 2018. The new streamlined review process reduces the levels of review and approval down to three from five, as follows: (1) Senior Financial Analyst, (2) Manager, Finance Administration, (3) Associate Director.

RECOMMENDATION NO. 11

Unclear Job Roles and Responsibilities Within the Finance Department: At the time of our review, LAHSA did not provide adequate management oversight to ensure that Finance Department's staff were clear on their roles and responsibilities, or who was responsible for certain functions. For example, their Finance Department's employees did not know who was responsible for following up on delinquent A/P accounts, and as such, the delinquent A/P accounts were not resolved timely.

Recommendation:

LAHSA management provide adequate oversight to ensure that responsible individuals are clear on their roles and responsibilities.

LAHSA Response:

LAHSA recognizes staff should have a clear understanding of their roles and responsibilities. With assistance from KH Consulting, LAHSA is revising Finance Procedures and will be developing desk manuals for all financial procedures. Revised drafted Procedures will be available July 1, 2018, desk manuals will be created by June 2018, with a comprehensive training scheduled outlined and incorporated into standing unit and department meetings by December 2018. Additionally, Associate Directors and Managers are working with the Director of Finance and KH Consulting to identify where the gap in oversight exists, and ensure that the proper controls are in place to ensure that processes and procedures are updated to clearly define which staff member is responsible for which tasks and that the staff member identified is fully aware of their responsibility and has been adequately trained and equipped with the tools to meet to the expectation of the role.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 11 of 14

RECOMMENDATION NO. 12

Delays due to Errors or Incomplete Documentation: Sub-recipients' cash advance requests and invoices were not always processed timely due to improper coding or incomplete documentation required by LAHSA. At the time of our review, LAHSA's Finance Department did not have a central reference file that identified the contract requirements for each sub-recipient, which could assist staff in ensuring the required documents have been submitted and transactions were coded accurately. When necessary, staff had to locate the specific contract for each sub-recipient, and manually input the coding for each subrecipient expenditure.

Recommendation:

LAHSA management establish and use a centralized file that identifies each of the sub-recipients' contract requirements.

LAHSA Response:

LAHSA acknowledges the value of this recommendation and recognizes the need and benefit of having a central reference file that identifies the contract requirements of each sub-recipient and the benefit that it provides to ensuring that staff have the documents and information needed to ensure subrecipient transactions are being coded carefully when they are submitted. As notated by the Auditor-Controller, contract requirements are found in each sub-recipient agreement. In addition, LAHSA includes a Documentation Checklist in the Funding Request template specific to that contract. This checklist has been review and revised to reflect each funder requirement. Since the review, the finance department has undertaken the development of a single central document that contains all subrecipient contract requirements, which will be completed by March 15, 2018. Once completed, A/P Function staff will be trained on the new centralized file.

RECOMMENDATION NO. 13

Lack of Quality Assurance Reviews: At the time of our review, LAHSA did not have an internal quality assurance process to evaluate their business operations' internal controls, compliance with internal policies and procedures, and/or compliance with contract requirements. The Agency's last internal control assessment performed by their Monitoring and Compliance Unit was conducted in 2014 due to staff shortages and turnover.

Recommendation:

LAHSA management implement a quality assurance process to periodically evaluate internal business operations and its effectiveness to ensure compliance with internal controls, internal policies and procedures, and contract requirements.

LAHSA Response:

While LAHSA's management currently completes quality assurance checks, LAHSA acknowledges the need for a more robust internal quality assurance process. As such, LAHSA will be recruiting an Internal Monitoring Team which will report to the Associate Director of Monitoring and Compliance. We anticipate implementation of an Internal Monitoring program in July 2018.

RECOMMENDATION NO. 14

Cross-Training of Staff: As mentioned above, due to high turnover in their Finance Department and staff shortage, the remaining staff, at the time of review, had to take on additional responsibilities outside of their

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 12 of 14

assigned job functions. However, Finance Department's staff voiced concerns that they had little or no cross-training to perform the additional duties required of them.

Recommendation:

LAHSA management ensure that more than one employee can perform key job functions by cross-training staff.

LAHSA Response:

LAHSA acknowledges the importance of cross-training in key job functions. In the Winter of 2016-17, the Finance Department Management Team engaged in a strategic planning process, with the overarching goal to identify opportunities to improve our existing department structure and processes to ensure that we have the internal capacity to be more efficient and effective in our role as financial administrator of Federal, County and City Funds. This assessment highlighted the need to update the existing Finance Policies and Procedures Manual to ensure that it was in alignment with current processes and procedures. The first four chapters were revised and presented to the Finance, Contracts and Grants Management Committee in February 2017. Through their initial assessment completed in November 2017, KH Consulting identified an opportunity to further revise the Finance Policies and Procedures Manual to separate Board-approved financial policies from financial procedures that are updated as staffing and systems changes are made, and from the detailed operating procedures, or "desk manuals" for staff reference. Updated policies were presented and approved by the Commission on January 26, 2018. The finance management team is updating procedures and outlining a training curriculum to ensure finance staff are trained on the updated procedures on a continuous basis, with the goal to have draft procedures and curriculum available by July 1, 2018.

Currently, LAHSA's onboarding and training process ensures staff understand their roles and responsibilities. The immediate supervisor prepares an on-boarding toolkit for each new staff, which includes copies of regulations, program overviews, common acronyms, and best practice recommendations as applicable. The onboarding template outlines the processes and timeline that the new employee will be introduced to and trained on new concepts or procedures with an approximate date when that will occur.

RECOMMENDATION NO. 15

Policies and Procedures Not Updated or Consistently Followed: At the time of our review, LAHSA's fiscal policies and procedures manual was missing critical fiscal processes and had not been updated to reflect current actual practices since August 2016. For example:

- LAHSA did not have documented policies and procedures for following up on delinquent A/R or A/P.
- LAHSA's policies and procedures manual reflected only hard copy invoice processing even though some of their sub-recipients' invoices were processed electronically.

In addition, LAHSA's management did not ensure compliance with their established fiscal policies and procedures. For example, the existing A/P policy indicates that the Administrative Financial Manager is responsible for reviewing the A/P aging report on a weekly basis to identify invoice payment delays and work with the finance team to ensure invoices are paid as promptly as possible. However, as noted above, the Agency's A/P were not adequately monitored to ensure subrecipients' cash advances and invoices were paid promptly.

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 13 of 14

Recommendation:

LAHSA management should review and update the existing fiscal policies and procedures manual to include critical fiscal processes and reflect updated practices that are/should be in place, and ensure that staff are in compliance with their established policies and procedures.

LAHSA Response:

LAHSA acknowledges the importance of up to date fiscal policies and procedures and is actively updating both. LAHSA began the process of updating the Finance Policies and Procedures Manual in the Winter of 2016-17, presenting chapters through the LAHSA Commission Finance, Contracts and Grants Management Committee. Through their initial assessment completed in November 2017, KH Consulting identified an opportunity to separate Board-approved financial policies from financial procedures that are updated as staffing and systems changes are made, and from the detailed operating procedures, or “desk manuals” for staff reference. The updated policies were presented and approved by the Commission on January 26, 2018, and are now in effect. The finance management team, with the assistance of KH Consulting, is in the process of updating procedures and outlining a training curriculum to ensure finance staff are trained on the updated procedures on a continuous basis, with the goal to have draft procedures and curriculum available by July 1, 2018.

RECOMMENDATION NO. 16

Lack of a Fiscal Operations Manual: At the time of our review, LAHSA did not have a comprehensive fiscal operation manual, which was referenced in their fiscal policy and procedures manual. A fiscal operations manual is important to ensure compliance with proper internal controls and to help standardize processes. In addition, documenting the technical work procedures for each position help other employees perform necessary functions when the employee normally assigned to a particular duty is absent.

Recommendation:

LAHSA management develop a comprehensive fiscal operation manual for each position that includes step-by-step procedures for all assigned duties to ensure compliance with proper internal controls and to help standardize processes.

LAHSA Response:

LAHSA acknowledges the importance of up to date fiscal operations manual and is actively updating its Finance Operations Manual. LAHSA began the process of updating the Finance Policies and Procedures Manual in the Winter of 2016-17, presenting chapters through the LAHSA Commission Finance, Contracts and Grants Management Committee. Updates to Finance Operations Manuals are closely connected to ongoing process improvements in the Finance Department, and the Finance Department Management Team is actively revising current Operations Manuals with the assistance of KH Consulting. LAHSA is prioritizing completion of key finance operations manuals that will be developed on an ongoing and continuous basis. The key operations manual sections will be completed by June 30, 2018. The draft of the comprehensive finance operations manual is projected for review and testing by June 30, 2018.

Conclusion

We appreciate the opportunity to address the recommendations in the final Auditor-Controller review. We look forward to continuing our collaboration in the administration of Measure H funding with the Chief Executive Office and with the Auditor-Controller to ensure the continued success of individuals and families experiencing homelessness and the programs that serve them in the County of Los Angeles. LAHSA believes that substantial improvements have been made the areas of concern noted by the Auditor-

Department of Auditor-Controller
Fiscal Operations Review
March 2, 2018
Page 14 of 14

Controller Review, and it is our hope that the final report will acknowledge those areas where clear progress has been made.

If you or your staff have any questions or require additional information, please contact Darcie Mulholland, Monitoring and Compliance Associate Director at (213) 225-8449 or by email at dmulholland@lahsa.org.

Sincerely,



Peter Lynn
Executive Director

Enclosures (5)

Cc: Karla Barrow
Terry Matsumoto
Kristina Dixon
Chris Callandrillo
Darcie Mulholland
Jeffrey Samson
Rhonda Wilson

PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments or contractors provide to the community,
- b) The accuracy and completeness of the County or contractor's books, records or reports,
- c) The safeguarding of County assets,
- d) The County's or contractor's compliance with pertinent rules, regulations or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's/contractor's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the contractor's operations and must be corrected or more serious exposures could result.

Target Implementation Dates

Target implementation dates are based on the nature of each finding and the expected timeframe required to implement the recommendation. Departments must ensure contractors implement recommendations by the target implementation dates.