

LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo
AUDITOR-CONTROLLER

Arlene Barrera
CHIEF DEPUTY

Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Agripino Alonso
DIVISION CHIEF

COUNTYWIDE CONTRACT MONITORING DIVISION

June 4, 2018

FOLLOW-UP REVIEW Los Angeles Homeless Services Authority MEASURE H PHASE I - FISCAL OPERATIONS ASSESSMENT



IMPLEMENTATION
STATUS

ON
TARGET

9

NOT ON
TARGET

2

NOT YET
IMPLEMENTED

5



BOARD OF SUPERVISORS

Hilda L. Solis Mark Ridley-Thomas Sheila Kuehl
FIRST DISTRICT SECOND DISTRICT THIRD DISTRICT

Janice Hahn Kathryn Barger
FOURTH DISTRICT FIFTH DISTRICT

REPORT #B18001

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June 4, 2018

FACT SHEET

FOLLOW-UP REVIEW

Los Angeles Homeless Services Authority

MEASURE H

PHASE I - FISCAL OPERATIONS ASSESSMENT

On April 10, 2018, your Board instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C), the Los Angeles Homeless Services Authority (LAHSA or Agency) and County Counsel, to report back in 30 days on strengthening the accountability of Measure H funds. Item 1 of the Board motion included a request to report back with the operational improvements that LAHSA has implemented in response to our Phase I – Fiscal Operations Assessment Review (Phase I) issued on April 3, 2018. With the support and active participation of the CEO and LAHSA, we have completed a follow-up review of Phase I.

Key Outcomes

Of the 16 Phase I recommendations, five were not yet implemented as LAHSA previously indicated, nine were still in progress, and two were not on target to meet their implementation dates as follows:

Phase I – Implementation Status by Priority Ranking



LAHSA showed improvement in some areas, such as completing their first implementation phase for their new automated contract management system, and updating their management approval thresholds to streamline the sub-recipient cash advance request and invoice processes. However, LAHSA did not:

- Properly account for all cash advances in their accounting records, or optimize their cash flow by utilizing all available cash advances from their funding sources and ensuring that reimbursement claims were submitted timely.
- Standardize their process for completing a comprehensive staffing analysis, including using clear methodologies that are supported with documentation, to assess their short and long-term staffing needs.
- Always reimburse their sub-recipients within the established timeframes. Of the ten recent Measure H sub-recipient payments made, all ten (100%) were paid after their targeted seven days, of which four (40%) were paid after the required 30 days. In addition, of the total \$5.6 million in their Accounts Payables at the time of our review, \$5.6 million (100%) were past due, of which \$790,384 (14%) related to Measure H.

The details of our review are included in Attachment I.



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.

FAST FACTS

On April 3, 2018, we issued our Phase I – Fiscal Operations Assessment Review report of LAHSA, which identified 16 recommendations with the following Priority Rankings:

- Priority 1: 8
- Priority 2: 4
- Priority 3: 4

Based on the results of this follow-up review, we've added an additional three recommendations related to our Priority 1 recommendations.

IMPLEMENTATION STATUS

ON TARGET

9

NOT ON TARGET

2

NOT YET IMPLEMENTED

5

REPORT #B18001



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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JOHN NAIMO
AUDITOR-CONTROLLER

June 4, 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 FOLLOW-UP REVIEW
(Board Motion – April 10, 2018, Item 1)**

On April 10, 2018, your Board instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C), the Los Angeles Homeless Services Authority (LAHSA or Agency) and County Counsel, to report back in 30 days on strengthening the accountability of Measure H funds. Item 1 of the motion included a request to report back with the operational improvements that LAHSA has implemented in response to our Phase I – Fiscal Operations Assessment Review (Phase I), to increase their capacity to administer Measure H funds, including resulting improvements in performance. Details of the implementation statuses are included in Attachment I.

Scope and Objectives

The purpose of our Phase I 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. In addition, we determined whether LAHSA complied with their established operational design and provided recommendations for improved efficiency to enhance their fiscal operation processes and ensure all Measure H requirements and responsibilities are met. This follow-up review focuses on evaluating the implementation statuses of the recommendations identified in our Phase I report.

In addition, it should be noted that we identified potential issues regarding LAHSA's sub-recipients' utilization of non-Measure H funds that were not within the intended scope of our review.

Specifically, LAHSA's Measure H contracts allow providers to recover administrative costs at a rate of 12% of their billings, versus 10% for their non-Measure H contracts. This may incentivize contractors to recover their costs from Measure H funds before recovering from federal and other funding sources. While it was not within our scope and objectives to ensure non-Measure H funds are being fully utilized, LAHSA management acknowledged that service providers may find it advantageous to exhaust their funding of Measure H funds before recovering from the other sources.

Review of Report

We discussed our report with LAHSA and the CEO. LAHSA's attached response to our follow-up review (Attachment II) indicates concurrence with the reported implementation statuses for nine of the 16 recommendations. For the remaining seven recommendations, LAHSA's response indicates partial concurrence but does not include any details that specifically refute our assessment of their implementation statuses. The CEO will work with LAHSA to ensure that all of our recommendations are implemented.

Follow-up Process

As part of the CEO's report back on the April 10, 2018 motion, we proposed an on-going monitoring plan to strengthen LAHSA's accountability of Measure H funds, and to provide assurance that our recommendations are implemented. Specifically, we proposed quarterly monitoring of LAHSA's operations and Measure H strategies, in addition to our plan to complete a Phase III review of LAHSA's Homeless Management Information System, and a Phase IV review of their Contract Monitoring Operations.

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:jh

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
FOLLOW-UP REVIEW**

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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 Department 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 they routinely worked overtime hours to complete the additional responsibilities placed on them due to inadequate staffing levels. • 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>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>	<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> <p>Priority Ranking: 1¹</p>	<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.

IMPLEMENTATION STATUS: NOT ON TARGET FOR JUNE 30, 2018 IMPLEMENTATION

1	<p>LAHSA has not yet completed the recommended comprehensive staffing assessment and plan to meet their target implementation date of June 30, 2018. LAHSA did not develop a standardized method for completing their staffing analyses that clearly identified the methodologies used in developing their FY 2017-18 staffing plan, or the methodologies they plan to use to assess their FY 2018-19 short and long-term staffing needs. For example, LAHSA could not demonstrate, or provide documentation to support, the methodologies used to develop their FY 2017-18 staffing plan.</p> <p>Since the issuance of our Phase I report, LAHSA filled five permanent positions in their Finance Department that were previously backfilled with temporary staff. However, LAHSA has experienced difficulty in hiring and retaining qualified staff, and appears to still lack adequate staffing levels in some key areas, such as sub-recipient payment processing, as mentioned in Issue 6 below.</p> <p>New Recommendation: LAHSA management ensure they standardize the method for completing their staffing analyses, including using clear methodologies that are supported with documentation, to ensure that adequate staffing levels are maintained.</p> <p>Agency Response: Partially Concur</p> <p>LAHSA indicated they did complete a FY 2017-18 staffing assessment, but acknowledged their FY 2017-18 staffing assessment was not in the standardized method, and are currently working with their consultant to ensure their staffing analysis incorporates best practices including a clear methodology and supporting documentation. In addition, LAHSA indicated they have revised the budgeting process to be standardized for next fiscal year.</p> <p>However, LAHSA has not yet completed, or provided a timeline as to when, the recommended comprehensive staffing assessments and plans will be completed to address their FY 2018-19 and subsequent fiscal years' staffing needs.</p>
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¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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 had been executed and finalized.</p> <p>At CEO’s request, the Agency’s contracting operations will be reviewed during our Phase II – Contracting Operations Assessment Review of LAHSA which we started in February 2018.</p>	<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> <p>Priority Ranking: 1¹</p>	<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>
IMPLEMENTATION STATUS: ON TARGET FOR JUNE 30, 2019 IMPLEMENTATION			
<p>LAHSA’s project plan showed they completed the first implementation phase for their new automated contract management system, which included design configuration and testing. In addition, the Agency received their consultant’s contracting workflow assessment, and indicated they will continue to identify additional streamlining opportunities during the implementation process of the new system.</p> <p>However, LAHSA remains at risk in this area until the full implementation of our recommendation, targeted for June 30, 2019. For example, LAHSA currently uses Microsoft Excel spreadsheets to manually track their subrecipient contracts. However, the spreadsheets were often missing necessary information, such as the contract execution dates, and the information was not always accurate. In addition, LAHSA new staffing plan does not accommodate LAHSA’s 85% increase in contract obligation in FY 2017-18, or the significant increases in subsequent FYs. As a pass-through entity, the number of contracts will continue to increase as the Agency awards a majority of their funds to sub-recipients.</p>			

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2 IMPLEMENTATION STATUS: ON TARGET FOR JUNE 30, 2019 IMPLEMENTATION (CONTINUED)			
2	<p>The above issues and recommendations will be addressed in our Phase II – Contracting Operations Assessment Review of LAHSA report to be issued no later than June 2018.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated they agree with our assessment of their implementation status.</p>		
PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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 LAHSA did not submit their reimbursement claims to their funding sources until after the sub-recipients’ invoices had 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>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</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> <p>Priority Ranking: 1¹</p>	<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</p>

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
3	Services (DPSS) from November 2017 through January 2018. However, LAHSA did not provide their current cash flow status.		their banking institution, which can be used to cover the Agency's operational expenses, if necessary.
IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA			
<p>LAHSA did not always maintain adequate cash on hand to pay their short-term debts. Specifically, as of April 13, 2018, LAHSA only had approximately \$2.1 million in cash when their A/P totaled \$6.1 million, as indicated below in Issue 6. This can be due to the fact that LAHSA did not optimize their cash flow. For example:</p> <ul style="list-style-type: none"> The CEO indicated LAHSA did not fully utilize their remaining available Homeless Initiative (HI) funds, totaling approximately \$10 million. In August 2017, LAHSA was provided with initial, one-time carryover funding of \$25 million, approved by the Board of Supervisors for implementation of the County Homeless Programs and HI Strategies. LAHSA did not always submit their quarterly reimbursement claims for Measure H to the CEO timely, as mentioned in Issue 5 below. For example, the claims submitted in April 2018, which totaled approximately \$13.5 million, were originally due to the CEO no later than January 30, 2018, and would have improved their cash flow had LAHSA submitted them timely. <p>In addition, in FY 2017-18, LAHSA received approximately \$41 million in Measure H cash advances from the CEO. However, the Agency did not properly account for the cash advances in their accounting records. Specifically, LAHSA's accounting records identified approximately \$37 million as a Refundable Advance liability, and the remaining \$4 million as Measure H revenue instead of recognizing the full \$41 million as a liability to be repaid to the County. Subsequent to our review, LAHSA updated their records to reflect the full \$41 million.</p> <p>It should be noted that LAHSA also received \$2.9 million in cash advances from DPSS that were not reflected in their Refundable Advance liability account balance.</p> <p>New Recommendation: LAHSA management ensure that all cash advances are properly accounted for in their accounting records, and optimize their cash flow by utilizing all available cash advances from their funding sources and ensuring that reimbursement claims are submitted timely.</p> <p>Agency Response: Partially Concur</p> <p>New Target Implementation Date: July 1, 2018</p>			

¹ **Priority Ranking:** Recommendations were 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.

3	IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA (CONTINUED)
	<p>LAHSA indicated that due to a lack of clarity on how to treat Measure H and HI funds, cash requests were delayed which prevented the Agency from having enough funds to make payments. After discussions with the CEO, LAHSA subsequently updated their accounting records to appropriately account for the Measure H cash advances. In addition, LAHSA indicated they will ensure all available cash advances are utilized, recorded properly, and that reimbursement claims are submitted timely.</p> <p>It should be noted that LAHSA did not provide documentation to support that they updated their accounting records to properly account for the cash advances they received from DPSS.</p>

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS

	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
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>	<p>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.</p> <p>Priority Ranking: 1¹</p>	<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 they are maximizing all cash advances.</p>

IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA	
<p>LAHSA did not always maximize the use of available cash advances. Specifically, their cash advance tracking log identified \$3,052,972 in available and unrestricted cash advances the Agency had not requested.</p> <p>Agency Response: Partially Concur</p> <p>New Target Implementation Date: September 1, 2018</p> <p>LAHSA indicated they will continue to work with their funders to ensure they have sufficient resources on hand by fully utilizing all available cash advances.</p>	

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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>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> <p>Priority Ranking: 1¹</p>	<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>
IMPLEMENTATION STATUS: ON TARGET FOR DECEMBER 31, 2018 IMPLEMENTATION			
<p>LAHSA reduced the amount of late reimbursement claims Agency-wide from 22% in September 2017 to 7% in March 2018, of which approximately \$12 million related to Measure H. For continued improvement, LAHSA indicated they are developing an automated process to ensure all reimbursement claims are initiated and submitted timely.</p> <p>As previously mentioned in Issue 3, LAHSA did not submit their quarterly Measure H reimbursement claims to the CEO timely. For example, LAHSA submitted their Second Quarter invoices in April 2018, totaling approximately \$13.5 million, which were originally due to the CEO no later than January 30, 2018. According to LAHSA’s Operational Agreement (OA) with the CEO, invoices are required to be submitted within 30 days after the claim period.</p> <p>New Recommendation: LAHSA management should work with the CEO to re-negotiate the terms of their OA to allow the Agency to submit their reimbursement claims on an as needed basis to enhance their cash flow.</p>			

¹ **Priority Ranking:** Recommendations were 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.

5	IMPLEMENTATION STATUS: ON TARGET FOR DECEMBER 31, 2018 IMPLEMENTATION (CONTINUED)																				
	<p>Agency Response: Concur</p> <p>New Target Implementation Date: August 1, 2018.</p> <p>LAHSA indicated they will work with the CEO to re-negotiate the terms of their OA by July 1, 2018, and will ensure all available cash advances from funding sources are utilized and reimbursement claims are submitted timely.</p>																				
PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS																					
	ISSUE	RECOMMENDATION	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 border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Days Past Due</th> <th style="text-align: center;">Amount</th> <th style="text-align: center;">% Past Due</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1-30 days</td> <td style="text-align: right;">\$3,162,846.80</td> <td style="text-align: right;">46.03%</td> </tr> <tr> <td style="text-align: center;">31-60 days</td> <td style="text-align: right;">\$768,372.50</td> <td style="text-align: right;">11.18%</td> </tr> <tr> <td style="text-align: center;">61-90 days</td> <td style="text-align: right;">\$1,012,044.50</td> <td style="text-align: right;">14.73%</td> </tr> <tr> <td style="text-align: center;">Over 90 days</td> <td style="text-align: right;">\$12,054.54</td> <td style="text-align: right;">0.18%</td> </tr> <tr> <td style="text-align: center;">Total</td> <td style="text-align: right;">\$4,955,318.34</td> <td style="text-align: right;">72.12%</td> </tr> </tbody> </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%	<p>LAHSA management improve controls and oversight of 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.</p> <p>Priority Ranking: 1¹</p>	<p>Agree 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																			
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%																			
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¹ **Priority Ranking:** Recommendations were 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.

IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA			
6	<p>LAHSA’s sub-recipients were not always paid timely even though the Agency initiated a 7-day pay process to improve the timeliness of their sub-recipient payments. We reviewed a sample of ten Measure H sub-recipient payments made in February and March 2018, and noted that all ten (100%) were paid after the Agency’s targeted seven days, of which four (40%) were paid after the required 30 days. LAHSA’s payment processing is labor intensive, and currently, the delays appear to result from inadequate staffing levels, as mentioned in Issue 1. The Agency must continue to work with their IT Department to identify opportunities to enhance their A/P process.</p> <p>In addition, as of April 13, 2018, LAHSA’s Agency-wide A/P Aging Report, which consisted of federal, County, and City of Los Angeles related transactions, identified approximately \$6.1 million in A/P, of which approximately \$4.3 million were past due 30 days. It should be noted that LAHSA’s cash balance at the time was only \$2.1 million, as mentioned in Issue 3. On May 2, 2018, LAHSA provided their updated reports, in which LAHSA’s Agency-wide A/P Aging Report identified that all of their \$5,609,038 (100%) in A/Ps were past due 30 days. Of the \$5,609,038 in total past due A/P, \$790,384 (14%), totaling 123 transactions, were related to Measure H. For reference, it should be noted that in March 2018, LAHSA processed \$19 million in A/P transactions Agency-wide.</p> <p>Agency Response: Partially Concur</p> <p>New Target Implementation Date: July 1, 2018.</p> <p>LAHSA indicated that due to a lack of clarity on how to treat Measure H and HI funds, cash requests were delayed which prevented the Agency from having enough funds to make payments. LAHSA also indicated they have improved controls and oversight of the A/P function, and are working with their consultant to identify additional opportunities to ensure payments to sub-recipients are paid timely.</p>		
PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
7	<p>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.</p>	<p>LAHSA management re-evaluate their current operational processes and implement updated and/or automated procedures to ensure they follow up on their aged A/R timely.</p> <p>Priority Ranking: 1¹</p>	<p>Agree Target Implementation Date: Not Applicable (Implemented)</p> <p>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.</p>

¹ **Priority Ranking:** Recommendations were 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.

7	IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA
	<p>As previously mentioned in Issues 3 and 5, LAHSA did not always submit their Measure H reimbursement claims to the CEO timely to enhance their cash flow.</p> <p>Agency Response: Partially Concur</p> <p>New Target Implementation Date: August 1, 2018.</p>

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS

	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
8	<p>Fiscal Operations Lacked Management Oversight: LAHSA management did not always provide adequate oversight of key fiscal functions. For example, as indicated above:</p> <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. 	<p>LAHSA management provide adequate oversight of key fiscal functions.</p> <p>Priority Ranking: 1¹</p>	<p>Agree Implementation Date: February 28, 2018</p> <p>LAHSA indicated they have enhanced oversight of 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.</p>

IMPLEMENTATION STATUS: NOT YET IMPLEMENTED AS PREVIOUSLY INDICATED BY LAHSA	
	<p>As indicated in their response, LAHSA filled the additional positions, three managers and six supervisors, in their Finance Department. However, as demonstrated in Issues 4, 5, 6, and 7, LAHSA’s fiscal operations continues to lack management oversight.</p> <p>Agency Response: Partially Concur</p> <p>New Target Implementation Date: August 1, 2018</p> <p>LAHSA indicated they are finalizing the selection of a permanent Chief Financial Officer, has a fully staffed finance management team, and is committed to ensuring adequate oversight of key fiscal functions.</p> <p>However, as mentioned above, LAHSA’s fiscal operations continues to lack management oversight, as demonstrated in Issues 4, 5, 6, and 7.</p>

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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 invoice 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> <ul style="list-style-type: none"> \$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>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>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> <p>Priority Ranking: 2¹</p>	<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>
IMPLEMENTATION STATUS: ON TARGET FOR JULY 1, 2018 IMPLEMENTATION			
<p>LAHSA revised their management approval thresholds to streamline the sub-recipient cash advance request and invoice processes. LAHSA's next step would be to configure their document management system to update their new approval thresholds.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated they are working to reconfigure their documentation management system to be in line with the new approval thresholds and expects full implementation by July 1, 2018.</p>			

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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 Administration [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>	<p>LAHSA management re-evaluate their review and approval processes for preparing and submitting the reimbursement claims to the funding sources.</p> <p>Priority Ranking: 2¹</p>	<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>
IMPLEMENTATION STATUS: ON TARGET FOR JULY 1, 2018 IMPLEMENTATION			
<p>LAHSA revised their management approval thresholds to streamline the reimbursement claim process. Specifically, we reviewed five Measure H reimbursement claims for March 2018 and verified that LAHSA reduced the total number of required approvals. LAHSA's next step would be to develop an automated process to ensure that all reimbursement claims are initiated and submitted timely.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated that the reimbursement claims automation process is under development and on target to meet the implementation date of July 1, 2018.</p>			

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
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>	<p>LAHSA management provide adequate oversight to ensure that responsible individuals are clear on their roles and responsibilities.</p> <p>Priority Ranking: 2¹</p>	<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>
IMPLEMENTATION STATUS: ON TARGET FOR DECEMBER 31, 2018 IMPLEMENTATION			
<p>As mentioned in their response, LAHSA is currently working with their consultants to develop a fiscal operations manual and revise their Finance Procedures. LAHSA also developed their fiscal training curriculum, and expects to train all staff by June 2018, with full implementation of this recommendation by December 31, 2018.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated they are in the process of revising their procedures, developing their operations manual, and training staff on the new protocols, and expects full implementation by December 31, 2018.</p>			

¹ **Priority Ranking:** Recommendations were 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.

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	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
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>	<p>LAHSA management establish and use a centralized file that identifies each of the sub-recipients' contract requirements.</p> <p>Priority Ranking: 2¹</p>	<p>Agree Target Implementation Date: July 1, 2018</p> <p>LAHSA indicated they expect to fully implement a central reference file that will contain all sub-recipient contract requirements by July 2018.</p>
IMPLEMENTATION STATUS: ON TARGET FOR JULY 1, 2018 IMPLEMENTATION			
<p>LAHSA has developed a central reference file to identify each sub-recipient's contract requirements. The Agency is currently populating the file, and expects this to be completed by the end of this fiscal year.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated they have developed a central file for sub-recipient contract requirements, and expects full implementation by the end of this fiscal year.</p>			
PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
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>	<p>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.</p> <p>Priority Ranking: 3¹</p>	<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>

¹ **Priority Ranking:** Recommendations were 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.

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IMPLEMENTATION STATUS: NOT ON TARGET FOR JULY 31, 2018 IMPLEMENTATION

At the time of our review, LAHSA had not yet developed a quality assurance plan or an internal monitoring team to meet their target implementation date of July 31, 2018. Although the Agency is currently recruiting for internal audit staff and expects to have a team in place by the end of this fiscal year, their timeline indicates they will not begin engagements until October 2018.

Agency Response: Partially Concur

LAHSA indicated they are actively recruiting to fill the new positions by July 1, 2018, and will develop an Internal Monitoring Plan by August 1, 2018.

However, as mentioned above, LAHSA does not plan to begin their internal monitoring engagements until October 2018, which is after their original target implementation date of July 31, 2018.

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ISSUE

RECOMMENDATION

SUMMARY OF RESPONSE

14

Cross-Training of Staff: As mentioned earlier, due to high turnover in their Finance Department and staff shortages, the remaining staff, 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.

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

Priority Ranking: 3¹

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 Department staff are regularly trained on the updated procedures.

IMPLEMENTATION STATUS: ON TARGET FOR JULY 1, 2018 IMPLEMENTATION

As mentioned in Issue 11, LAHSA developed their fiscal training curriculum and expects to train all staff by June 2018, which will ensure that staff are appropriately cross-trained.

Agency Response: Concur

LAHSA indicated they have developed the comprehensive training curriculum and are actively training staff through June 2018.

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	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>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> <p>Priority Ranking: 3¹</p>	<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 Department staff are trained on the updated procedures.</p>
IMPLEMENTATION STATUS: ON TARGET FOR JULY 1, 2018 IMPLEMENTATION			
<p>We verified that LAHSA updated their fiscal policies, and they were approved by LAHSA's Commission in January 2018. To ensure staff compliance, LAHSA is currently working with their consultant to provide training, which is expected to be completed by June 2018.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated they have revised and approved fiscal policies, and are working with their consultant to ensure that staff training is on target.</p>			

¹ **Priority Ranking:** Recommendations were 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.

PHASE I – FISCAL OPERATIONS ASSESSMENT RESULTS			
	ISSUE	RECOMMENDATION	SUMMARY OF RESPONSE
16	<p>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 helps other employees perform necessary functions when the employee normally assigned to a particular duty is absent.</p>	<p>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.</p> <p>Priority Ranking: 3¹</p>	<p>Agree Target Implementation Date: December 30, 2018</p> <p>LAHSA indicated they are working on developing a Fiscal Operations Manual that will incorporate ongoing process improvements in the Finance Department.</p>
IMPLEMENTATION STATUS: ON TARGET FOR DECEMBER 30, 2018 IMPLEMENTATION			
<p>As mentioned in Issue 11, LAHSA is working with their consultant to develop their fiscal operations/desk manual. The Agency provided a draft copy of the manual, and indicated they are on target to have this recommendation fully implemented by December 31, 2018.</p> <p>Agency Response: Concur</p> <p>LAHSA indicated that the development of their operations/desk manual is on target to be fully implemented by December 31, 2018.</p>			

¹ **Priority Ranking:** Recommendations were 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.



May 16, 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 Follow-up Review for Los Angeles Homeless Services Authority

Dear Mr. Naimo:

The Los Angeles Homeless Services Authority (LAHSA) is in receipt of the Phase I Follow Up report in response to the Board of Supervisors' direction that the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (AC), the Los Angeles Homeless Services Authority (LAHSA) and County Counsel, report back in 30 days on LAHSA's implementation of AC recommendations in the Phase I Fiscal Operations Assessment Review issued on April 3, 2018.

Due to the increase in funding that occurred with the passage of Measure H, a supplemental funding source to existing funding including HI, became available to pay for the Homeless Initiatives. It was not clear to LAHSA at the beginning of the fiscal year that the HI funds should be treated separately as funds in the FY 17-18 budgets, as well as spent down prior to the spend down of the Measure H funds. This misunderstanding resulted in the challenges related to Cash flow, Accounts Payable and Accounts Receivable that are highlighted by the A-C in Recommendations 3, 5, 6 and 7. While our initial approach to the treatment of the funds may have been incorrect, it was related to the information that we had at that time. To ensure that the funds are accounted for as intended moving forward, LAHSA has created a separate grant code for Measure H and is ensuring that expenses related to the activities funded by the Homeless Initiatives are allocated to HI prior to Measure H.

LAHSA concurs with the Auditor-Controller's proposed quarterly monitoring of LAHSA's operations and Measure H strategies to strengthen LAHSA's accountability of Measure H funds. In addition, LAHSA has identified areas where the AC can provide technical assistance to support the implementation of the recommendations. LAHSA has reached out to the CEO's office and the Accounting Unit to coordinate this process.

RECOMMENDATION NO. 1

Inadequate Staffing Levels Recommendation: 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.

Peter Lynn
Executive Director

Board of Commissioners

Noah Farkas
Chair

Wandy Grauel
Vice Chair

Kelli Bernard

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Implementation Status: Not on Target

LAHSA has not yet completed the recommended comprehensive staffing assessment and plan to meet their target implementation date of June 30, 2018. LAHSA did not develop a standardized method for completing their staffing analyses that clearly identified the methodologies used in developing their FY 2017-18 staffing plan, or the methodologies they plan to use to assess their FY 2018-19 and long-term staffing needs. For example, LAHSA could not demonstrate, or provide documentation to support the methodologies used to develop their FY 2017-18 staffing plan.

Since the issuance of our Phase I report, LAHSA filled five positions in their Finance Department that were previously backfilled with temporary staff with permanent staff. However, LAHSA has experienced difficulty in hiring and retaining qualified staff, and appears to still lack adequate staffing levels in some key areas, such as with processing sub-recipient payments, as mentioned in Issue 6 below.

New Recommendation:

LAHSA management ensure that they standardize the method for completing their staffing analyses, including using clear methodologies that are supported with documentation, to ensure that adequate staffing levels are maintained.

LAHSA Response:

Partially Concur.

LAHSA did do an assessment of the FY 17-18 staffing needs for each department, however we do acknowledge that it was not in the standardized method that the A-C would prefer. We are currently working with our consultant to ensure our staffing analysis incorporates best practices including a clear methodology and supporting documentation. LAHSA has revised the 17-18 budgeting process to be standardized for 18-19 budget year. However, LAHSA will request AC technical assistance to ensure that our process meets the standards as laid out in the AC report.

RECOMMENDATION NO. 2

Retroactive Contracts 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.

Implementation Status: On Target

LAHSA's project plan showed that they completed the first implementation phase for their new automated contract management system, which included design configuration and testing. In addition, the Agency received their consultant's contracting workflow assessment, and indicated that they will continue to identify additional streamlining opportunities during the implementation process of the new system.

This issue and recommendation will also be addressed in our Phase II – Contracting Operations Assessment Review of LAHSA report to be issued no later than June 2018.

LAHSA Response:

LAHSA agrees with this assessment.

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RECOMMENDATION NO. 3

Inadequate Cash Flow to Pay Sub-recipients 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.

Implementation Status: Not Yet Implemented as Previously Indicated

LAHSA did not always maintain adequate cash on hand pay their short-term debts. Specifically, as of 4/13/18, LAHSA only had approximately \$2.1 million in cash when their A/P totaled \$6.1 million, as indicated below in Issue 6. This can be due to the fact that LAHSA did not optimize their cash flow. For example:

- The CEO indicated that LAHSA did not fully utilize their remaining available Homeless Initiative funds, totaling approximately \$10 million. In August 2017, LAHSA was provided with initial, one-time carryover funding of \$25 million, approved by the Board of Supervisors for implementation of the County Homeless Programs and Homeless Initiative Strategies.
- LAHSA did not always submit their quarterly reimbursement claims for Measure H to the CEO timely, as mentioned in Issue 5 below.

In addition, in FY 2017-18, LAHSA received approximately \$41 million in Measure H cash advances from the CEO. However, the Agency did not properly account for the cash advances in their accounting records. Specifically, LAHSA's accounting records identified approximately \$37 million as a Refundable Advance liability, and the remaining \$4 million as Measure H revenue instead of recognizing the full \$41 million as a liability to be repaid to the County.

Subsequent to our review, LAHSA updated their records to reflect the full \$41 million.

It should be noted that LAHSA also received \$2.9 million in cash advances from the Department of Public Social Services. However, the Agency's updated accounting records showed their Refundable Advance liability account totaled only \$41 million.

New Recommendation: LAHSA management ensure that all cash advances are properly accounted for in their accounting records, and optimize their cash flow by utilizing all available cash advances from their funding sources and ensuring that reimbursement claims are submitted timely.

LAHSA Response:

Partially Concur. Planned Implementation is July 1, 2018.

At the time of the review, LAHSA treated the Measure H cash advances as a working capital advance to issue advances to partner agencies, reimburse partner agency's monthly expenses and cover LAHSA Administrative Expenses; revenues were recognized as funds were expended and Cash Requests were submitted quarterly to replenish the advance. LAHSA has confirmed with the CEO's office that the advance should be treated as a Cash Advance and updated the agency's accounting records to show a liability account of \$41M. As was noted above, the lack of clarity around the necessity to treat Measure H and HI

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as two separate funding sources, with the intention to spend down HI for expenses related to the Homeless Initiatives first, led to the delays in LAHSA submitting timely Cash Requests to replenish the initial advance. LAHSA will ensure that during future fiscal years all available cash advances from funding sources are utilized, recorded properly and that reimbursement claims are submitted timely.

RECOMMENDATION NO. 4

Lacked Documentation Supporting All Available Cash Advances from Funding Sources were Obtained: 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.

Implementation Status: Not Yet Implemented as Previously Indicated

LAHSA did not always maximize the use of available cash advances. Specifically, their cash advance tracking log identified \$3,052,972 in available and unrestricted cash advances that the Agency had not requested.

LAHSA Response:

Partially Concur. Full implementation expected by September 1, 2018.

LAHSA has updated our accounting records and the Cash Advance log showing actual Advances that were received and has reclassified Measure H cash advances to identify the funds as a liability. LAHSA management will continue to work with our funders to ensure that we have sufficient resources on hand by fully utilizing advances available to ensure timelier payments to our subrecipients.

RECOMMENDATION NO. 5

Reimbursement Claims Not Submitted Timely: 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.

Implementation Status: On Target

LAHSA reduced the amount of late reimbursement claims Agency-wide from 22% in September 2017 to 7% in March 2018, of which approximately \$12 million related to Measure H. For continued improvement, LAHSA indicated that they are developing an automated process to ensure that all reimbursement claims are initiated and submitted timely.

As previously mentioned in Issue 3, LAHSA did not submit their quarterly Measure H reimbursement claims to the CEO timely. For example, LAHSA submitted their Second Quarter invoices in April 2018, which were due by January 30th, 2018. According to LAHSA's Operational Agreement with the CEO, invoices are required to be submitted within 30 days after the claim period.

New Recommendation: LAHSA management should work with the CEO to re-negotiate the terms of their Operational Agreement to allow the Agency to submit their reimbursement claims on an as needed basis to enhance their cash flow.

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LAHSA Response:

Concur. Planned Implementation is August 1, 2018.

LAHSA agrees with the new recommendation and will work with the CEO to re-negotiate with the terms of our Operational Agreement by July 1, 2018. As was noted above, the lack of clarity around the necessity to treat Measure H and HI as two separate funding sources, with the intention to spend down HI for expenses related to the Homeless Initiatives first led to the delays in LAHSA submitting timely Cash Requests to replenish the initial advance. LAHSA will ensure that during future fiscal years all available cash advances from funding sources are utilized and that reimbursement claims are submitted timely.

RECOMMENDATION NO. 6

Payments to Sub-Recipients Not Paid Timely: 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.

Implementation Status: Not Yet Implemented as Previously Indicated

LAHSA's sub-recipients were not always paid timely even though the Agency initiated a 7-day pay process to improve the timeliness of their subrecipient payments. We reviewed a sample of ten Measure H sub-recipient payments made in February and March 2018, and noted that all ten (100%) were paid after the Agency's targeted seven days, of which four (40%) were paid after the required 30 days. LAHSA's payment processing is a labor intensive manual process, and currently, the delays appear to result from inadequate staffing levels, as mentioned above in Issue 1. The Agency must continue to work with their IT Department to identify opportunities to enhance their A/P process. In addition, as of April 13, 2018, LAHSA's Agency-wide A/P Aging Report identified approximately \$6.1 million A/P, of which approximately \$4.3 million were between 1 – 120 days past due. It should be noted that LAHSA's cash balance at the time was only \$2.1 million, as mentioned above in Issue 3.

On May 2, 2018, LAHSA provided their updated reports, in which LAHSA's Agency-wide A/P Aging Report identified all of their \$5,609,039 (100%) in A/Ps were between 1 – 120 days past due as follows:

Days Past Due	Amount	% Past Due
1-30 days	\$2,357,775	42%
31-60 days	\$1,933,570	34%
61-90 days	\$1,054,129	19%
Over 90 days	\$263,564	5%
Total	\$5,609,038	100%

Of the \$5,609,038 in total past due A/P, \$790,384 (14%), totaling 123 transactions, were related to Measure H. It should be noted that in March 2018, LAHSA processed \$19 million in A/P transactions Agency-wide.

LAHSA Response:

Partially Concur. Planned implementation is July 1, 2018.

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LAHSA is working with our IT Department and our accounting system vendor to deploy a more automated process. As was noted above, the lack of clarity around the necessity to treat Measure H and HI as two separate funding sources and the intention to spend down HI for expenses related to the Homeless Initiatives first. This thus led to the delays in LAHSA submitting timely Cash Requests to replenish the initial advance which prevented us from having the funds on hand to pay the expenses. Through an enhanced understanding of the need to account for Measure H and HI funds separately, the creation of a separate Grant Code to track Measure H funds separately from HI funds, and the onboarding of both an Associate Director of Finance Operations and Manager of Finance Admin, LAHSA management has improved controls and oversight over the A/P function and is working with KH consulting to continue to search for opportunities to strengthen procedures to ensure payments to sub-recipients are paid timely. The direct responsibility to follow up on A/P Aging falls under the responsibility of the Manager, Finance Admin, with supervision being provided by the Associate Director of Finance Operations., both positions are filled.

RECOMMENDATION NO. 7

Aged Accounts Receivables Not Followed-up Timely: 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.

Implementation Status: Not Yet Implemented as Previously Indicated

As previously mentioned in Issues 3 and 5, LAHSA did not always submit their Measure H reimbursement claims to the CEO timely. Although LAHSA did not have any outstanding A/R related to Measure H at the time of our review, the Agency should ensure that their reimbursement claims are submitted timely to enhance their cash flow.

LAHSA Response:

Partially Concur. Full implementation is expected August 1, 2018.

As noted we did not have any outstanding A/R related to Measure H at the time of review. LAHSA will continue to reinforce the newly enhanced A/R Aging Action Plan which ensures appropriate Internal Controls are in place to follow-up on aged A/R timely. As we began to implement the new procedures, LAHSA encountered some challenges in preparation of cash requests. The reclassification of Measure H expenses to HI as instructed by the CEO caused delays in submitting our HI and Measure H cash requests. Those issues have been caught up and we are on track to fully utilize the HI funds before drawing Measure H funds.

RECOMMENDATION NO. 8

Fiscal Operations Lacked Management Oversight: LAHSA management provide adequate oversight over key fiscal functions.

Implementation Status: Not Yet Implemented as Previously Indicated

As indicated in their response, LAHSA filled the additional positions, three managers and six supervisors, in their Finance Department. However, as demonstrated above in Issues 4, 5, 6, and 7, LAHSA's fiscal operations continues to lack management oversight.

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LAHSA Response:

Partially Concur. Full Implementation expected by August 1, 2018.

As of the review while LAHSA finalizing the selection of a permanent CFO, in the interim the position is being filled by Terry Matsumoto. LAHSA's Finance Management team that reports to the Director of Finance is fully staffed with the three associate directors, seven managers and seven supervisors. The Finance Management team is fully committed to ensuring that we provide adequate oversight over key fiscal functions and meet on a weekly basis to review and discuss key metrics from each unit. Additionally, through the LAHSA training academy and management team meetings, LAHSA will ensure staff are adequately trained on their roles and responsibilities, that there is appropriate coverage of all key fiscal functions, and that oversight roles are well-defined. LAHSA is committed to ensuring adequate fiscal operations oversight and continues to assess our management oversight.

RECOMMENDATION NO. 9

Management Review and Approval Process Inefficiencies Over Payments to their Sub-recipients: LAHSA management re-evaluate their current review and approval processes to improve efficiency and reduce the time required to process all of their transactions.

Implementation Status: On Target

LAHSA revised their management approval thresholds to streamline the sub-recipient cash advance request and invoice processes. LAHSA's next step would be to configure their document management system to update their new approval thresholds.

LAHSA Response:

Concur. Full implementation is expected July 1, 2018.

We are working to configure our document management system to be line with new approval thresholds.

RECOMMENDATION NO. 10

Excessive Management Review and Approval Over Reimbursement Claims to the Funding Sources: LAHSA management re-evaluate their review and approval processes for preparing and submitting the reimbursement claims to the funding sources.

Implementation Status: On Target

LAHSA revised their management approval thresholds to streamline the reimbursement claim process. Specifically, we reviewed five Measure H reimbursement claims for March 2018 and verified that LAHSA reduced the total number of required approvals. LAHSA's next step would be to develop an automated process to ensure that all reimbursement claims are initiated and submitted timely.

LAHSA Response:

Concur. Full implementation expected by July 1, 2018.

The reimbursement claims automation process is under development and is on target.

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RECOMMENDATION NO. 11

Unclear Job Roles and Responsibilities Within the Finance Department: LAHSA management provide adequate oversight to ensure that responsible individuals are clear on their roles and responsibilities.

Implementation Status: On Target

As mentioned in their response, LAHSA is currently working with their consultants to develop a fiscal operation manual and revise their Finance Procedures. LAHSA also developed their fiscal training curriculum, and expects to train all staff by June 2018, with full implementation of this recommendation by December 31, 2018.

LAHSA Response:

Concur. Full implementation expected by December 31, 2018.

LAHSA agrees with this assessment. LAHSA and our consultants, are in the process of revising our procedures, developing an operation manual, and training staff to these new protocols.

RECOMMENDATION NO. 12

Delays due to Errors or Incomplete Documentation: LAHSA management establish and use a centralized file that identifies each of the sub-recipients' contract requirements.

Implementation Status: On Target

LAHSA has developed a central reference file to identify each subrecipient's contract requirements. The Agency is currently populating the file, and expects this to be completed by the end of this FY.

LAHSA Response:

Concur. Full implementation expected by July 31, 2018.

LAHSA has developed a central file for subrecipient contract requirements.

RECOMMENDATION NO. 13

Lack of Quality Assurance Reviews: 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.

Implementation Status: Not on Target

At the time of our review, LAHSA had not yet developed a quality assurance plan or an internal monitoring team to meet their target implementation date of July 31, 2018. Although the Agency is currently recruiting for internal audit staff and expects to have a team in place by the end of this FY, their timeline indicates that they will not begin engagements until October 2018.

LAHSA Response:

Partially concur. Full implementation expected by August 1, 2018.

LAHSA is actively recruiting to fill these new positions and is on target to fully onboard staff by July 1, 2018. Implementation of an Internal Monitoring Program will begin in July 2018, in alignment with the

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timeline that has been established. Once the team is in place LAHSA management will work with them to develop a risk analysis and the Internal Monitoring Plan, which will be completed by August 1, 2018.

RECOMMENDATION NO. 14

Cross-Training of Staff: LAHSA management ensure that more than one employee can perform key job functions by cross-training staff.

Implementation Status: On Target

As mentioned above in Issue 11, LAHSA developed their fiscal training curriculum and expects to train all staff by June 2018, which will ensure that staff are appropriately cross-trained.

LAHSA Response:

Concur. Full implementation expected by June 2018.

We developed the comprehensive training curriculum and are actively training staff through June 2018.

RECOMMENDATION NO. 15

Policies and Procedures Not Updated or Consistently Followed: 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.

Implementation Status: On Target

We verified that LAHSA updated their fiscal policies, and that they were approved by LAHSA's Commission in January 2018. To ensure staff compliance, LAHSA is currently working with their consultant to provide training, which is expected to be completed by June 2018.

LAHSA Response:

Concur. Full implementation expected by June 2018.

We have revised, approved fiscal policies and are working with our consultant to ensure staff training is on target.

RECOMMENDATION NO. 16

Lack of a Fiscal Operations Manual: 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.

Implementation Status: On Target

As mentioned in Issue 11, LAHSA is working with their consultant to develop their fiscal operations/desk manual. The Agency provided a draft copy of the manual, and indicated that they are on target to have this recommendation fully implemented by December 31, 2018.

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LAHSA Response:

Concur. Full implementation expected by December 2018.

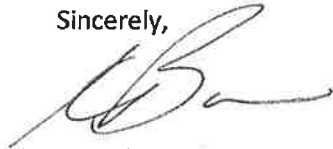
LAHSA agrees with this assessment. Development of the operation/desk manual is on target.

Conclusion

We appreciate the opportunity to address the Auditor-Controller Fiscal Operation Review Follow-up. 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 in assisting individuals and families experiencing homelessness and the programs that serve them in the County of Los Angeles. LAHSA is committed to continuous quality improvement and welcomes technical assistance to support our implementation of the AC's recommendations.

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,

 for Peter Lynn

Peter Lynn
Executive Director

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

LOS ANGELES COUNTY AUDITOR-CONTROLLER

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.