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February 18, 2021

TO: Each Supervisor

FROM: Arlene Barrera, Auditor-Controller

SUBJECT: **LOS ANGELES HOMELESS SERVICES AUTHORITY – MEASURE H – FISCAL OPERATIONS ASSESSMENT REVIEW (REPORT #X18602) - SECOND FOLLOW-UP REVIEW (September 1, 2020, Board Agenda Item 19)**

On September 1, 2020, the Board of Supervisors instructed the Chief Executive Officer (CEO), in consultation with the Auditor-Controller (A-C) and County Counsel, to report back on exploring new governance models to improve accountability and oversight of homeless funds. Item 2 of the motion included a request to report back on any outstanding issues related to the Los Angeles Homeless Services Authority’s (LAHSA or Agency) fiscal and contracting operations and/or data collection and management systems, and corrective actions in each of these areas that are underway or pending.

On October 2, 2020, the CEO submitted a report back which indicated the A-C would conduct follow-ups of their prior reviews to determine whether there are outstanding issues in any of the areas indicated above. Attached are the results of our second follow-up review of LAHSA’s Fiscal Operations Assessment Review dated April 3, 2018 (Report #X18602). We reviewed the status of the eight Priority 1, four Priority 2, and four Priority 3 recommendations that had not been fully implemented in our first follow-up report issued June 4, 2018.

As summarized in Table 1, LAHSA fully implemented ten recommendations and partially implemented six recommendations to enhance controls over their Fiscal Operations. LAHSA should fully implement the six outstanding recommendations to further enhance the effectiveness and efficiency of their Fiscal Operations.

Table 1 - Results of Second Follow-up Review

RECOMMENDATION IMPLEMENTATION STATUS					
PRIORITY RANKINGS	TOTAL RECOS OUTSTANDING	EXEMPT FROM REVIEW	FULLY IMPLEMENTED	FINAL OUTSTANDING RECOMMENDATIONS	
				PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
PRIORITY 1	8	0	7	1	0
PRIORITY 2	4	0	3	1	0
PRIORITY 3	4	0	0	4	0
TOTAL	16	0	10	6	0
				6	

Attachment I provides details of our review and LAHSA's corrective actions. Our review consisted of an examination of LAHSA's description of actions taken, the relevant documents and supporting evidence provided by the Agency, as well as inquiry and discussion with responsible LAHSA personnel. Our follow-up review did not constitute an "audit" and did not include testing of assertions for verification purposes.

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 Terri Kasman at tkasman@auditor.lacounty.gov.

AB:OV:PH:TK:JH:tw

Attachment

c: Fesia A. Davenport, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Heidi Marston, Executive Director, Los Angeles Homeless Services Authority

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COUNTYWIDE CONTRACT MONITORING DIVISION

Report #X21706

LOS ANGELES HOMELESS SERVICES AUTHORITY – MEASURE H – FISCAL OPERATIONS ASSESSMENT REVIEW (REPORT #X18602) SECOND FOLLOW-UP REVIEW

	RECOMMENDATION	A-C COMMENTS
<p>1 Priority 1 - Los Angeles Homeless Services Authority (LAHSA or Agency) 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. In addition, 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>Original Issue/Impact: At the time of our review, LAHSA did not have appropriate staffing levels within their Finance Department to meet their current or anticipated workload, and 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. The lack of adequate staffing can impact LAHSA's and their sub-recipients' ability to provide critical client services.</p> <p>After our review, LAHSA provided their Fiscal Year (FY) 2017-18 Staffing Analysis, but 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 subsequent short and long-term staffing needs.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA completed a comprehensive staffing assessment to determine the appropriate staffing levels needed for their operations. Specifically, LAHSA implemented a comprehensive internal business planning process, which includes a standardized method for completing a staffing analysis for each LAHSA department. The staffing analysis is based on various factors, such as a department's projected workload and strategic priorities. In addition, LAHSA's staffing levels within their Finance Department significantly improved since our initial review and the Agency's Finance Department was more than 90% staffed as of December 2020.</p> <p>It should be noted that for their contracting operations, LAHSA must still improve their staffing levels to meet workload demands, as detailed in our Contracting Operations Assessment Follow-up Review issued on February 5, 2021.</p>	
<p>2 Priority 1 - 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>Recommendation Status: Partially Implemented</p> <p>We confirmed LAHSA management identified streamlining opportunities and made enhancements to their contracting operations. For example, LAHSA implemented Contract Logix in 2018, a document management system that replaced</p>	

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
<p>Original Issue/Impact: LAHSA did not execute contracts with their sub-recipients timely. As a result, sub-recipients continued providing services without having an executed contract in place which caused delays in LAHSA’s ability to process, approve, and issue payments to sub-recipients. Retroactive contracting also poses a significant liability to the contracted providers, LAHSA, and the County.</p>	<p>LAHSA’s manual contract database, and also established multi-year contract terms for their sub-recipient contracts to reduce their contracting workload.</p> <p>However, the Agency must still amend the contracts annually to establish new budget amounts since LAHSA’s own funding is approved on an annual basis. As a result, LAHSA still had contracts/ amendments that were pending execution as of December 2020, as detailed in our Contracting Operations Assessment Follow-up Review. LAHSA management attributed this to the expansion of services and funding challenges caused by the COVID-19 pandemic.</p> <p>To further enhance their contracting operations, LAHSA indicated they are in the process of implementing additional enhancements, such as a Grant Management System, a full grant lifecycle management system that will replace Contract Logix, and a Procurement Modernization Plan that will expedite the contract application and award process. LAHSA plans to implement these enhancements to further streamline the contracting process and prevent retroactive contracts by July 2021.</p>
<p>3 Priority 1 - 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. In addition, 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>Original Issue/Impact: At the time of our review, LAHSA did not have adequate cash flow to pay their sub-recipients timely. The Agency did not submit reimbursement claims to their funding sources until after the sub-recipient invoices were processed and approved and as a result, LAHSA indicated they did not have funding reserves or other resources, such as a line of credit, to pay their sub-recipients until they</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA improved their cash flow to pay their Measure H sub-recipients timely once they had received invoices for reimbursement. The Agency received approximately \$82.5 million in Measure H cash advances from the Chief Executive Office (CEO) in FY 2020-21, which they properly accounted for in their accounting records, and can now make supplemental cash requests to the CEO to reduce the processing time for paying their sub-recipients. As a result, the average time for LAHSA to pay their sub-recipients decreased from approximately 41 days in September 2018 to approximately eight days in September 2020, as indicated below in Issue 6.</p> <p>It should be noted that as mentioned in our Contracting Operations Assessment Follow-up Review, LAHSA had contract amendments that were executed retroactively in FY 2020-21, which impacted their sub-recipients’ ability to submit timely invoices for reimbursement.</p>

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RECOMMENDATION	A-C COMMENTS
<p>received payments from their funding sources. A lack of adequate cash flow impacts the timeliness of payments to sub-recipients, which may also impact the ability to provide critical client services.</p>	
<p>4 Priority 1 - 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>Original Issue/Impact: LAHSA did not provide documentation to demonstrate that they took full advantage of requesting and obtaining all available cash advances from their funding sources, which could negatively impact the Agency's cash flow. Specifically, LAHSA did not identify all funding sources that allow for cash advances and did not maintain a record of all cash advance requests made/received. In addition, our June 4, 2018 follow-up review identified approximately \$3 million in available cash advances that were not requested.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA developed a log used to identify all funding sources that allow for cash advances and adequately tracked the amount of advances requested and received. In addition, we confirmed LAHSA maximized their use of cash advances by reviewing their log, which indicated they had requested all advances that were available and unrestricted, including advances from the County and City of Los Angeles.</p>
<p>5 Priority 1 - 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. In addition, LAHSA management should work with the CEO to re-negotiate the terms of their Operating Agreement (OA) to allow the Agency to submit their reimbursement claims on an as needed basis to enhance cash flow.</p> <p>Original Issue/Impact: LAHSA did not always submit reimbursement claims to their funding sources by the established due dates. For Measure H, LAHSA's OA with the CEO requires invoices to be submitted within 30 days after the claim period.</p> <p>The delays were caused by LAHSA's manual processes, which hindered the Agency's efficiency in their fiscal operations and ultimately impacted the timeliness of payments to sub-recipients.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA developed updated procedures, such as the use of a Cash Request Log, to track claims sent to their funding sources for reimbursement. We also confirmed LAHSA tracked the timeliness of their reimbursement claims by reviewing their Cash Request Logs for FYs 2019-20 and 2020-21. In addition, we confirmed LAHSA can now submit as-needed supplemental reimbursement claims to the CEO to enhance cash flow.</p>
<p>6 Priority 1 - LAHSA management improve controls and oversight of the Accounts Payables (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>Recommendation Status: Implemented</p> <p>We confirmed LAHSA improved controls and oversight of their A/P function to pay sub-recipients timely. For example, LAHSA implemented new software for sub-recipient invoicing to improve</p>

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RECOMMENDATION	A-C COMMENTS
<p>Original Issue/Impact: LAHSA did not always pay their sub-recipients timely, which impacted their cash flow and the ability to provide client services. In addition, after our initial review, we noted that LAHSA's sub-recipients were still not always paid timely even though the Agency initiated a 7-day pay process to improve the timeliness of their sub-recipient payments. Specifically, 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.</p>	<p>controls and strengthen their A/P process and allocated additional staff to their A/P function. As a result, LAHSA significantly improved the average time to process and pay their sub-recipients. Specifically, we reviewed LAHSA's internal reports that track the timeliness of their sub-recipient payments and confirmed that LAHSA reduced the average time to pay their sub-recipients from approximately 41 days in September 2018 to approximately eight days in September 2020. Although LAHSA did not specifically meet their original 7-day pay process goal, the Agency implemented our recommendation by improving controls and oversight of their A/P function to significantly improve the timeliness of sub-recipient payments.</p> <p>It should be noted that as mentioned in our Contracting Operations Assessment Follow-up Review, LAHSA had contract amendments that were executed retroactively in FY 2020-21, which impacted their sub-recipients' ability to submit timely invoices for reimbursement.</p>
<p>7 Priority 1 - LAHSA management re-evaluate their current operational processes and implement updated and/or automated procedures to ensure they follow-up on their aged Accounts Receivables (A/R) timely.</p> <p>Original Issue/Impact: LAHSA did not always follow-up on their aged A/R timely. This impacted LAHSA's ability to receive revenue timely, which could lead to delays in paying their sub-recipients.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA developed and implemented updated procedures to follow-up on aged A/R timely. Specifically, we reviewed the Agency's A/R Aging Action Plan which indicated a specific follow-up process that is initiated once a receivable is past due.</p>
<p>8 Priority 1 - LAHSA management provide adequate oversight of key fiscal functions.</p> <p>Original Issue/Impact: LAHSA management did not always provide adequate oversight over key fiscal functions, which led to operational inefficiencies. As previously indicated, LAHSA did not always maintain adequate staffing levels and follow-up on aged receivables and payables timely.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA filled and maintained additional key positions (e.g., supervisors and managers) in their Finance Department to enhance oversight of key fiscal functions. In addition, LAHSA implemented key fiscal recommendations, such as recommendations 3 through 7 identified in this review.</p>
<p>9 Priority 2 - 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>Original Issue/Impact: LAHSA's review/approval process for payments to sub-recipients required <u>up to</u></p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA revised their approval thresholds to streamline the sub-recipient cash advance request and invoice processes. Specifically, we reviewed LAHSA's updated policy indicating they reduced the number of approvers</p>

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RECOMMENDATION	A-C COMMENTS
<p>five levels of review depending on the dollar amount of the payment, resulting in inefficiencies and delays that could impact their sub-recipients' cash flow and ability to provide client services.</p>	<p>required from five to two and the Agency indicated their sub-recipient invoicing system reflects the updated processes. As a result, the average time for LAHSA to pay their sub-recipients significantly decreased, as mentioned above in Issue 6.</p> <p>It should be noted that as mentioned in our Contracting Operations Assessment Follow-up Review, LAHSA had contract amendments that were executed retroactively in FY 2020-21, which impacted their sub-recipients' ability to submit timely invoices for reimbursement.</p>
<p>10 Priority 2 - LAHSA management re-evaluate their review and approval processes for preparing and submitting the reimbursement claims to the funding sources.</p> <p>Original Issue/Impact: LAHSA's reimbursement claims to their funding sources required five levels of review and approval regardless of the reimbursement request type and/or amount. Having excessive layers of approval could result in delays in submitting reimbursement claims and receiving cash from LAHSA's funding sources.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA revised their approval thresholds to streamline the reimbursement claims process. Specifically, we reviewed LAHSA's updated policy indicating they reduced the number of approvers required from five to two and the Agency implemented updated procedures to reflect the new approval process. As a result, LAHSA improved the timeliness of submitting their reimbursement claims, as mentioned above in Issue 5.</p>
<p>11 Priority 2 - LAHSA management provide adequate oversight to ensure that responsible individuals are clear on their roles and responsibilities.</p> <p>Original Issue/Impact: LAHSA did not provide adequate management oversight to ensure that finance staff had a clear understanding of their roles and responsibilities and were aware of who was responsible for certain functions. Having unclear roles and responsibilities may negatively impact LAHSA's ability to operate efficiently and effectively.</p>	<p>Recommendation Status: Partially Implemented</p> <p>We confirmed LAHSA developed a comprehensive Fiscal Operations Manual (Manual) to ensure finance staff were clear on their roles and responsibilities. In addition, we reviewed the Manual and confirmed it included detailed procedures for various functions within LAHSA's Finance Department. However, as mentioned below in Issue 16, LAHSA has not yet finalized the Manual. To fully implement our recommendation, LAHSA should ensure the Manual is finalized, reviewed and approved by management, and issued to the appropriate staff.</p>
<p>12 Priority 2 - LAHSA management establish and use a centralized file that identifies each of the subrecipients' contract requirements.</p> <p>Original Issue/Impact: Sub-recipients' cash advance requests and invoices were not always processed timely due to improper coding or incomplete documentation required by LAHSA, which delayed payments and negatively impacted the sub-recipients cash flow. At the time of our initial review, LAHSA's Finance Department did not have a</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed LAHSA established a centralized reference file to identify their sub-recipients' contract requirements for cash advance requests and invoices. The file is used to assist staff in ensuring required documents have been submitted and transactions were coded accurately. We also confirmed LAHSA populated the centralized reference file by reviewing screenshots identifying</p>

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	RECOMMENDATION	A-C COMMENTS
	<p>central reference file that identified the contract requirements for each sub-recipient that could assist staff in ensuring the required documents have been submitted and transactions were coded accurately.</p>	<p>separate files for each of LAHSA's sub-recipient contracts.</p>
<p>13</p>	<p>Priority 3 - 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>Original Issue/Impact: 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 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.</p>	<p>Recommendation Status: Partially Implemented</p> <p>We confirmed LAHSA established an Internal Auditing Unit (IAU) to periodically evaluate their internal business operations. However, IAU's Annual Risk Assessment and Audit Plan (Audit Plan), which identifies the scope and frequency of their internal audit reviews, has not been updated since FY 2018-19. LAHSA's Audit Plan should be reviewed annually and updated as necessary. In addition, as of December 2020, IAU had not issued an audit report since July 2019. LAHSA attributed these issues to staff shortages within IAU.</p> <p>To fully implement our recommendation, LAHSA should ensure they fully staff their IAU, update their Audit Plan annually, and issue timely audit reports to ensure proper oversight of their internal business operations. LAHSA plans to fully implement this recommendation by June 2021.</p>
<p>14</p>	<p>Priority 3 - LAHSA management ensure that more than one employee can perform key job functions by cross-training staff.</p> <p>Original Issue/Impact: As mentioned above, 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 staff voiced concerns that they had little or no cross-training to perform the additional duties. 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.</p>	<p>Recommendation Status: Partially Implemented</p> <p>As previously mentioned, we confirmed LAHSA developed a Manual that includes detailed procedures for various functions within LAHSA's Finance Department. In addition, we reviewed the Manual and confirmed it identifies the primary and secondary staff who are responsible for and can perform key fiscal functions.</p> <p>However, the Manual still needs to be finalized and approved, as mentioned below in Issue 16. To fully implement our recommendation, LAHSA needs to finalize and approve the Manual, and ensure staff are adequately cross trained to perform key functions as indicated in the Manual. LAHSA plans to fully implement this recommendation by June 2021.</p>

RECOMMENDATION	A-C COMMENTS
<p>15 Priority 3 - 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 the established policies and procedures.</p> <p>Original Issue/Impact: 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, which could result in internal control weaknesses and inconsistencies with fiscal procedures. In addition, LAHSA management did not always ensure compliance with existing fiscal policies and procedures, which could also result in internal control weaknesses, organizational inefficiencies, and risk of non-compliance with contract requirements.</p>	<p>Recommendation Status: Partially implemented</p> <p>As previously mentioned, LAHSA developed a comprehensive Manual, which we confirmed replaced LAHSA's outdated fiscal policies and procedures manual. In addition, we reviewed the Manual and confirmed it includes critical fiscal processes and reflects updated procedures that are currently in practice.</p> <p>However, as mentioned below in Issue 16, LAHSA has not yet finalized the Manual. To fully implement our recommendation, LAHSA should ensure the Manual is finalized, reviewed and approved by management, and issued to the appropriate staff. LAHSA plans to fully implement this recommendation by June 2021.</p>
<p>16 Priority 3 - 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>Original Issue/Impact: LAHSA did not have a comprehensive fiscal operations manual, which was referenced in their fiscal policy and procedures manual. The lack of a comprehensive fiscal operations manual can lead to internal control weaknesses, improper processing of financial transactions, and organizational inefficiencies.</p>	<p>Recommendation Status: Partially Implemented</p> <p>As previously mentioned, we confirmed LAHSA management developed a comprehensive Manual that included detailed procedures for various functions to help standardize processes within LAHSA's Finance Department. However, although the Manual includes updated procedures to guide LAHSA's fiscal operations, LAHSA is still actively updating the Manual and therefore, it has not been finalized and approved by LAHSA management. To fully implement our recommendation, LAHSA should ensure the Manual is finalized, reviewed and approved by management, and issued to the appropriate staff. LAHSA plans to fully implement this recommendation by June 2021.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management's responsibility for internal controls, visit auditor.lacounty.gov/audit-process-information.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.