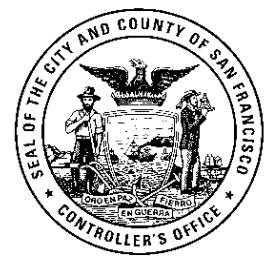


Community Housing Partnership, d/b/a HomeRise, Mismanaged Financial Activities and Misused City Funds Related to City Agreements for Its Properties and Supportive Housing Efforts

Department of Homelessness and Supportive Housing (HSH)
Mayor's Office of Housing and Community Development (MOHCD)



April 2, 2024

City & County of San Francisco
Office of the Controller
City Services Auditor

About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

Team:

Helen Vo, *Audit Manager*
Winnie Woo, *Audit Manager*

Mark de la Rosa
Director of Audits
Office of the Controller
City and County of San Francisco
(415) 554-7574

Consultant:

Sjoberg Evashenk Consulting, Inc.

For media inquiries, please contact
con.media@sfgov.org.



sf.gov/controller



[@sfcontroller](https://twitter.com/sfcontroller)



[LinkedIn Office of the Controller](#)

Audit Authority

CSA conducted this audit under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

Todd Rydstrom
Deputy Controller

April 2, 2024

Shireen McSpadden
Executive Director
Department of Homelessness and
Supportive Housing
440 Turk Street
San Francisco, CA 94102

Daniel Adams
Director
Mayor's Office of Housing and
Community Development
1 South Van Ness Avenue, 4th Floor
San Francisco, CA 94103

Dear Executive Director McSpadden and Director Adams:

The Office of the Controller (Controller), City Services Auditor (CSA), Audits Division, presents its report on the audit of the agreements between the nonprofit, community-based organization Community Housing Partnership doing business as HomeRise (HomeRise), and the City and County of San Francisco (City). The Department of Homelessness and Supportive Housing (HSH) and the Mayor's Office of Housing and Community Development (MOHCD) administer these agreements, which require HomeRise to provide supportive housing and related services to San Francisco residents experiencing homelessness, including but not limited to navigation centers, transitional housing, support services, property management, and rental assistance. The audit, which your departments requested after discovering HomeRise's significant fiscal challenges, had as its objective to determine whether HomeRise complied with the requirements of the city agreements, with a focus on fiscal areas and limited efforts on programmatic compliance. CSA engaged Sjoberg Evashenk Consulting, Inc., (SEC) to conduct the audit.

Although HomeRise had a framework to help it adhere to certain programmatic requirements of its city funding agreements to provide housing for formerly unhoused, low-income, and other residents, the audit found gross fiscal noncompliance, wasteful practices that misuse taxpayer funds, and spending of city funds on unallowed or questionable costs that likely diverted services from intended housing recipients or facility improvements. Key financial controls were missing, and problematic practices coupled with high corporate staff turnover and missing oversight heightened the risks of fraud, waste, and abuse at HomeRise.

Specifically, the audit found:

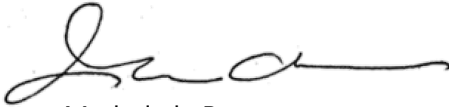
- HomeRise mismanaged some of its property financial activities, which led to reduced revenues and improper costs that may have adversely affected subsidies from the City and loan repayment to the City.
- HomeRise did not comply with city grant fiscal provisions given its wasteful, uncontrolled, and questionable spending.
- HomeRise's inadequate financial environment and controls contributed to its noncompliance with city agreements.

- Certain HomeRise financial decisions and practices exacerbated its cash flow problems and impacted its adherence to city agreements.
- Insufficient oversight by past executive leadership and the Board amplified HomeRise's noncompliance and fiscal issues.

The report makes nine recommendations for HSH and MOHCD to remediate the significant and pervasive issues with HomeRise and its noncompliance with city grants and agreements. The responses of HSH, MOHCD, and HomeRise are attached to this report. The auditor's comments on HomeRise's response are attached as Appendix E. CSA will work with your departments to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of all staff involved in this audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,



Mark de la Rosa
Director of Audits

cc: Board of Supervisors
Budget Analyst
Civil Grand Jury
Citizens Audit Review Board
City Attorney
Mayor
Public Library

City and County of San Francisco City Services Auditor

Community Housing Partnership, d/b/a HomeRise,
Mismanaged Financial Activities and Misused City
Funds Related to City Agreements for Its Properties
and Supportive Housing Efforts



MAYOR'S OFFICE OF
**HOUSING
+ COMMUNITY
DEVELOPMENT**



DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING



April 2024



Table of Contents

Table of Contents	i
Executive Summary.....	2
Introduction and Background.....	10
Chapter 1: HomeRise Mismanaged Some of Its Property Financial Activities, Which Led to Reduced Revenues and Improper Costs That May Have Adversely Affected City Subsidies and Loan Repayments to the City	19
Chapter 2: HomeRise Did Not Comply With City Grant Fiscal Provisions Given Wasteful, Uncontrolled, and Questionable Spending	43
Chapter 3: Inadequate Financial Environment and Controls Contributed to HomeRise’s Noncompliance with City Funding Agreements	56
Chapter 4. Certain HomeRise Financial Decisions and Practices Exacerbated its Cash Flow Problems and Impacted its Adherence to City Agreements.....	69
Chapter 5: Insufficient Oversight by Past Executive Leadership and Board Contributed to HomeRise’s Noncompliance and Fiscal Control Problems	77
Chapter 6: Conclusions and Recommendations.....	87
Appendix A: Audit Scope and Methodology.....	94
Appendix B: Suggested Control Recommendations for HomeRise	97
Appendix C: Department Responses.....	100
Appendix D: Contractor Response	114
Appendix E: Auditor Comments to Contractor Response	119

Executive Summary

The City and County of San Francisco (City) Office of the Controller's City Services Auditor engaged Sjoberg Evashenk Consulting, Inc., to conduct a performance audit of the agreements between the nonprofit, community-based organization Community Housing Partnership, doing business as HomeRise, and the Mayor's Office of Housing and Community Development (MOHCD) and the City's Department of Homelessness and Supportive Housing (HSH). The audit primarily covered calendar years 2019 through 2022, although we reviewed transactions in 2023 as warranted.¹

HomeRise develops affordable housing for homeless individuals and families including constructing new buildings, rehabilitating existing structures, or leasing properties. Through an annual budget of approximately \$34 million, HomeRise manages properties by providing maintenance, janitorial, and front desk services and/or supportive tenant/resident services including education, wellness checks, and other supportive services at facilities with over 1,500 dwelling units to house individuals and families across 19 properties.

Over the years, MOHCD and HSH have invested hundreds of millions of dollars in HomeRise, having provided almost \$110 million in loans to develop or rehabilitate housing properties, \$90 million in subsidies to operate and maintain the properties, and over \$40 million in grants to provide support services during the audit period.

According to MOHCD, it had significant concerns regarding HomeRise's organizational management and financial operations for some time. Similar concerns were raised by HSH who noticed discrepancies as well as ineligible expenses where HSH grant funds were used in HomeRise's invoicing in January 2021. Both entities stated they met with HomeRise staff and leadership several times in the fall of 2021 and into 2022 seeking clear documentation and improvements in HomeRise's fiscal practices.

In 2022, MOHCD and HSH requested the Office of the Controller's City Services Auditor to audit HomeRise after the entities noted many deficiencies and had growing concerns about HomeRise's financial stability. Both entities took this step after their own oversight efforts were not sufficient to compel corrective action, and hoped the intervention of the Office of the Controller could provide an understanding of the scope of HomeRise's issues and recommend solutions. On June 2, 2022, MOHCD issued a notice of default related to one of HomeRise's properties and then on December 12, 2022, the Office of the City Controller placed HomeRise on "elevated concern status" due to risk of instability. HomeRise remains on that elevated concern status in fiscal year 2023-24.

¹ Throughout this report, we refer to Community Housing Partnership's as its doing business name, HomeRise.

Our audit focused on the financial provisions and requirements of the City agreements.² We did not review HomeRise’s program areas such as supportive services offered to its residents or its facilities management and maintenance activities at the properties, nor did we review HomeRise’s real estate development or construction activities.

What We Found

During the audit, the breadth and magnitude of financial and compliance problems we found at HomeRise is concerning. Although HomeRise had a framework to help it adhere to certain programmatic requirements of its City funding agreements to provide housing and supportive services for formerly unhoused, low-income, and other residents, we found **gross fiscal noncompliance**, **wasteful practices** that misuse taxpayer funds, and spending of City funds on **unallowed or questionable costs** that diverted funds available for support services to intended housing recipients or facility improvements. **Key financial controls were missing**, and **problematic practices** coupled with **high corporate staff turnover** and **missing oversight** heightened the risk of fraud, waste, and abuse at HomeRise.³ Remaining corporate financial staff had to assume the extra workload and fulfill responsibilities outside of their assigned roles, and it took several months to obtain the information and documents requested by the auditors. According to HomeRise, the COVID-19 pandemic with stay-at-home orders and other world events affected HomeRise and its staff. However, stewards of public funds must continue to be accountable for the use of those funds and ensure compliance with City agreements. Controls and strong fiscal practices must be in place to ensure stability and resilience to weather external forces and events.

By late spring 2023, HomeRise had hired new executive employees who expressed interest to the auditors in developing new protocols aimed at improving its business practices and compliance with the areas we discussed with them during several interim audit briefings. Since that time, HomeRise stated that it has established new policies and procedures and made staffing changes and hiring decisions that are improving its operations, fiscal recordkeeping, and compliance with City funding agreements—in all the areas described as issues in audit briefings during the audit and as documented in this audit report. HomeRise informed us of its reported improvements in September 2023 after the end of our audit fieldwork, so we did not confirm their existence or effectiveness. Even though improvements are reportedly in progress or completed, we did not confirm that the changes were implemented or addressed the compliance issues we found during the four-year audit period from 2019 to 2022 including part of 2023.

² Although specific numbered sections in City agreements can vary, we tested against HSH agreement provisions including Section 5.2 Use of Grant Funds for Allowable Purposes; Section 6.5 Books and Records; Appendix A.X.B Services to Be Provided, Monitoring Activities; Appendix C.I Method of Payment, Actual Costs; Appendix C.II.D Instructions for Invoice Submittal, Spend Down; and Appendix C.II.E Instructions for Invoice Submittal, Documentation and Record Keeping. Likewise, we tested against MOHCD Local Operating Subsidy Program (LOSP) Policies and Procedures Manual 2022; Loan Agreements Section 6.2; LOSP Agreement Section 4.6 (in Island Bay Homes property agreement) Grantee’s Board of Directors; Section 10.8 (in Rachel Townsend Apartments property agreement) Books and Records; Appendix C (in Mission Bay 9 property agreement) Spend Down; and other sections specific to properties operating accounts, restricted accounts, and surplus reserve accounts. We also reviewed compliance with the Office of the City Controller, City and County of San Francisco, “Citywide Cost Categorization for Nonprofit Contracts.”

³ City Agreements require accurate books and records that are reliant on an effective internal control structure to manage risk, ensure reliability of financial data, and promote compliance with laws and binding agreements. As a recipient of federal funds, HomeRise is required by 2 CFR Part 200.303 to establish and maintain effective internal controls that should comply with the most widely recognized internal control framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control—Integrated Framework or the United States Government Accountability Office’s Standard for Internal Control in the Federal Government (GAO-14-704G) known as the Green Book—both of which also require leadership and boards to provide oversight.

Why It Matters

HomeRise provides about 6 percent of the affordable housing units and 18 percent of the number of supportive housing units in the City that MOHCD funds, and it operates nearly one-third of the City-funded units that serve people who were formerly homeless. Thus, the City has a vested interest in HomeRise remaining a viable permanent supportive housing operator for its existing residents and a potential developer of low-income housing in the future. If the City were to suspend or eliminate its ongoing annual operating subsidy to HomeRise, it could be fiscally and programmatically devastating because HomeRise heavily relies on those subsidies to pay the costs of operating the buildings, such as utilities, maintenance, and insurance. Providing supportive housing services is important, but equally essential is protecting taxpayer funds, safeguarding assets, and efficiently controlling costs for appropriate and compliant activities. Although HomeRise serves a vital function in the permanent supportive housing arena, the financial issues we noted are severe and must be addressed to be accountable, transparent, and cost-effective in spending limited City funds.

What We Recommend

The City must consider HomeRise's critical role in providing supportive housing in the City against its noncompliance with City agreements and issues identified by this audit, which could threaten the viability of HomeRise if they are not corrected. In doing so, the City may consider taking several actions, including the following.

1. **Engage multiple City departments in collaboration with HomeRise to rectify issues.** The City should immediately collaborate with HomeRise to determine whether and how its serious financial shortcomings can be resolved and to provide specific assistance to address and resolve HomeRise's financial control practices. This likely will require the City to provide significant time, fiscal and technical expertise, and likely funding, with efforts diligently coordinated and overseen by one of these City departments or a designated consultant.
2. **Alternately, bring in a fiscal agent, reduce funding, or rescind agreements.** If the City determines that collaboration is impossible, it could transition HomeRise's financial compliance obligations to a fiscal agent or use a fiscal sponsor arrangement to ensure City funds are protected and that the spending of these funds is compliant and appropriate—or reduce funding or rescind HomeRise's agreements if HomeRise does not remediate issues upon an agreed-upon timeframe, although those options may be a last resort. Besides questions surrounding their feasibility or difficulty, these options may be costly and time consuming as well.
3. **Require HomeRise to make wholesale changes and implement necessary controls.** The City should require HomeRise's Board to ensure the organization makes wholesale changes to its financial foundation, practices, controls, and operations to ensure it is not only a compliant City grantee, but also a thriving permanent supportive housing partner.

Key audit results from each Chapter are summarized as follows.

1. HomeRise Mismanaged Some of Its Property Financial Activities, Which Led to Reduced Revenues and Improper Costs That May Have Adversely Affected City Subsidies and Loan Repayments to the City



Although the City invested more than \$200 million of loans and subsidies in HomeRise, it mismanaged the financial aspect for some of its properties, which could affect the properties' operating subsidies received from the City and the related loan repayments due to the City. Further, HomeRise's inappropriate spending and fund transfers, and missing or outdated policies and procedures, contributed to noncompliance and left it vulnerable to undetected errors and irregularities. After the auditors shared the audit findings with HomeRise's interim Chief Executive Officer (CEO) and new administration, the interim CEO started implementing course correction and the new administration stated that they have corrected some of the issues we noted and brought to their attention.

RESULTS:

- HomeRise recorded certain expenses to property accounts that were not well-documented or were incorrectly charged to the property.
- HomeRise improperly transferred \$2 million from a restricted account without approval and borrowed another \$2.5 million from a property's operating account to help cover corporate payroll charges. As of August 23, 2023, \$2.1 million of this remained unpaid.
- Payroll information recorded in HomeRise's fiscal records did not provide sufficient detail or support to enable us to determine whether the appropriate staff salary costs were charged to the appropriate properties.
- Records of eight properties show instances of operational costs that were improperly charged to the property or questionable, with some costs being unplanned and unbudgeted, including more than \$100,000 in temporary rental charges, \$96,000 for tenant program services salaries, and \$12,500 for a social event.
- HomeRise adjusted \$1 million of expenses to properties' financial records without sufficient explanation.
- HomeRise was not proactive in maximizing revenues, containing costs, or monitoring finances against budgets.
- HomeRise gave staff bonuses of more than \$200,000 that were unplanned and unbudgeted, worsening cash flow problems.
- In 2022, 10 of 16 HomeRise properties we reviewed experienced revenue decreases, which ranged from \$13,000 to \$917,000, and general expense growth ranging from 16 to just over 50 percent over the four-year audit period.
- Most of the properties experienced vacancies, with an average vacancy rate in January 2023 of 14.6 percent. HomeRise lost approximately \$6.3 million due to vacancies during the four-year audit period. Moreover, as of April 2023, more than \$1.7 million in rent was more than 90 days late and remained unpaid.
- HomeRise could not locate certain documents, including reports, required by MOHCD agreements, such as annual monitoring reports the City uses to monitor HomeRise's performance and compliance.

2. HomeRise Did Not Comply With City Grant Fiscal Provisions Given Its Wasteful, Uncontrolled, and Questionable Spending



Although our high-level review of programmatic compliance with HSH supportive service grants suggests that HomeRise had a general framework for service compliance, HomeRise did not comply with several City financial grant provisions and misspent funds on corporate activities instead of supportive services to its residents as required by the grants. Also, we found missing controls that led to instances of uncontrolled and questionable spending and created an environment at high risk for waste and abuse to occur without being detected.

RESULTS:

- All nine types of expenses we reviewed, totaling nearly \$24,000, revealed instances of unallowable, imprudent, or questionable spending that did not meet the intent of the City's grant agreement. Money was spent for fundraising expenses, staff bonus pay, and lunches and gifts for staff.
- Our testing of HomeRise's grant expenses was made difficult by the poor condition of HomeRise's records, which would have required us to make exhaustive efforts to find supporting documentation. Thus, we could not conclusively determine the magnitude of HomeRise's inappropriate spending or of the unallowable and inappropriate charges HomeRise submitted to the City for reimbursement.
- HomeRise's spend-down practice did not conform to the City's expectation and was wasteful and imprudent. Our review of five of 22 questionable transactions coded as spend-down expenses revealed that all were improper or inconsistent with the City's intent.
- HomeRise's spend-down philosophy led to year-end executive management meetings largely focused on finding corporate expenses that could be paid for with remaining City grant funds.
- HomeRise lacked sufficient protocols to guide and control compliance with grant spending requirements and did not always base its grant budget on solid, supported rationale or adequately monitor budgets to ensure spending was allowable and did not exceed budget limits.
- At least two corporate positions were partially paid as direct costs, rather than as allowed indirect costs, under the HSH grants.
- HomeRise did not appropriately track or maintain an inventory of assets it purchased using grant funds and had no appropriate control framework or protocols in place to do so. Further, HomeRise had no records to show how it dispersed or where it stored its inventory purchases.
- HomeRise lacked adequate procedures for preparing, reviewing, and submitting grant reimbursement requests to the City, leading to unpaid expenses submitted for reimbursement, unsupported salary allocations, and disagreement among staff on which expenses can be billed.
- HomeRise appeared to have a sufficient programmatic framework to provide contracted program services to its intended recipients. HSH has monitored HomeRise's program performance and made recommendations for improvement.

3. Inadequate Financial Environment and Controls Contributed to HomeRise's Noncompliance with City Funding Agreements



HomeRise lacked an adequate framework to manage City funds and control spending, which likely led to the noncompliance, waste, and misuse of taxpayer funds identified in this report. HomeRise's fiscal environment was fraught with problems, including unreliable records, missing internal controls that should be standard, and many questionable financial practices. The auditors discussed these issues with HomeRise management throughout the audit and HomeRise's new administration stated that they have made improvements to address issues identified. Because these changes occurred after the audit's fieldwork, the auditors did not review or confirm the updates.

RESULTS:

- Some of HomeRise's financial records were unreliable, missing supporting detail, not monitored, and could be altered without sufficient oversight. We found instances in which rent collections and revenue subsidies were posted when due rather than when money was received.
- Too many people had access to HomeRise's property management and financial system, and users may not have been trained on or possessed sufficient knowledge of system functionality. Nearly all HomeRise's approximately 200 people had some type of access, and 18 individuals, including a volunteer, are superusers with access to edit data across areas.
- Financial policies and procedures for functions such as purchasing, payables, and cash collections were missing, incomplete, or outdated, creating an environment in which employee responsibilities were unclear, and lacked protocols needed to perform the work and be accountable.
- HomeRise did not perform many standard control activities needed for its business and properties to ensure compliance with City requirements, increasing the risk that errors, irregularities, loss, or theft could occur and remain undetected.
- HomeRise used credit cards to pay for many expenses related to its City agreements, without sufficient controls that increased the risk of fraud, waste, or abuse occurring and remaining undetected.
- As of January 2023, HomeRise had 118 active credit cards in use, of which more than one-third, or 40, had credit limits of \$10,000 or higher; 21 cards had limits ranging from \$15,000 to \$70,000.
- Nearly 15 percent of the credit cards HomeRise used did not require approval of purchases, with another 18 percent having the user assigned as the approver of their own purchases. Moreover, HomeRise lacked protocols for distributing credit cards or policies on their use.
- HomeRise's Finance Department experienced near-constant change and, at times, were excluded from certain property-related financial activities, such as controlling—or even tracking—revenue collection and expense activities, leading to some noncompliance.
- HomeRise's Finance Department experienced extremely high turnover; by February 2023, only 5 positions out of 14 in 2019 (36 percent) were filled.

4. Certain HomeRise Financial Decisions and Practices Exacerbated Its Cash Flow Problems and Impacted its Adherence to City Agreements



HomeRise had serious cash flow problems, and its fiscal decisions and practices did not seem to be working as intended or needed. Its missing financial controls and troubling practices—including giving some existing corporate employees large salary increases and signing bonuses that were partially charged to City agreements without ensuring it had sufficient resources to cover unbudgeted expenses—may have partially triggered its significant cash flow concerns, which, in turn, could affect its ability to provide critical services to clients on behalf of the City. HomeRise is aware of its fiscal challenges and is working on them. HomeRise has a new CEO, who started in June 2023, and a new CFO, who started in May 2023.

RESULTS:

- HomeRise’s past fiscal decisions did not always ensure it maintained sufficient assets or reserves to pay bills, addressed worsening cash flow through budget monitoring entity-wide, or made prudent fiscal decisions.
- HomeRise leadership relied heavily on grants, subsidies, and other City funds to pay for operational and salary expenses. This caused cash flow problems when HomeRise did not bill or receive subsidies in a timely manner, property units stayed vacant for too long, or the City delayed reimbursements to HomeRise because of its noncompliance.
- Reserves shown on its most recent audited financial statements, in 2021, were barely sufficient to cover its average monthly expenses for one month, heightening risks and likely contributing to HomeRise’s actions to inappropriately use restricted City funds as discussed in Chapter 1.
- HomeRise’s cash flow problems continued into 2023, when it had more than \$1.2 million in payables over 90 days late and, in one instance, incurred \$21,600 in late fees.
- HomeRise exacerbated its cash flow problems when it increased staff compensation, created new corporate positions, and paid bonuses to staff that were partially charged against property finances and City agreements without ensuring it had sufficient resources to cover unbudgeted expenses.
- HomeRise increased the salaries of four corporate employees by 12.4 percent to 25.5 percent between July 2021 and December 2022 that were charged against property finances and City agreements. Although compensation amounts were relatively low and staff may have deserved the raises, HomeRise did not have ample cash flow at the time to pay for them.
- Employees were promoted into newly created corporate positions at greatly added cost and were partially charged against City agreements. For three corporate promotions, annual salary increases ranged from \$22,000 to \$72,000 more than the prior positions the employees held. The annual salary for one of the corporate promotions increased more than \$87,000, or 74 percent, in the span of just nine months.
- In April through June 2022, HomeRise approved bonuses ranging from \$1,000 to \$10,000 per employee for five employees we tested. HomeRise gave these employees “signing” bonuses although they had been employed with HomeRise for two to thirteen years. Like other salary related financial decisions, these increased costs were charged against property finances and City agreements.

5. Insufficient Oversight by Past Executive Leadership and Board Contributed to HomeRise’s Noncompliance and Fiscal Control Problems



During 2019 through early 2023, HomeRise’s leaders did not establish an accountable culture and compliance-focused environment, and its Board of Directors (Board) could not demonstrate that it provided adequate oversight or exercised the required fiscal inquiries to properly oversee HomeRise’s City agreements during a turbulent time. The lack of leadership needed to guide and oversee the organization’s practices was partly due to an alarming rate of turnover in key corporate positions such as chief executive officer and chief financial officer.

RESULTS:

- HomeRise leaders did not establish an accountable tone at the top to instill a strong fiscal control environment, emphasize staff roles and responsibilities to guide accountability, monitor and remediate cash flow issues, or ensure compliance with City agreements.
- High turnover at the corporate level made HomeRise’s leadership inconsistent, impacting compliance with its City agreements and required internal controls.
- Between 2019 and early 2023, HomeRise’s chief executive officer and chief financial officer turned over three and five times, respectively. Other key positions with high turnover were the directors of Housing Operations, Finance, and Human Resources.
- The Board meeting minutes did not demonstrate sufficient oversight of financial operations or compliance with City agreements.
- Neither the Board nor its Finance Committee’s meeting minutes reflected strong enough action on HomeRise’s serious and ongoing cash flow problems that affected compliance with City agreements or asked questions related to property financial information or compliance with its City agreements.
- The Board could benefit by complementing its team with more financial knowledge to oversee HomeRise’s commitments and responsibilities related to City funding agreements and fiscal internal controls.
- The board meeting minutes did not always demonstrate alignment with board policy and industry control practices to demonstrate oversight.

Introduction and Background

As part of the City's response to addressing homelessness, it has "prioritized the development of nonprofit owned and operated permanent supportive housing for formerly homeless adults and families."^{4, 5} The City also recognized that financing is needed to leverage the building of supportive housing for this population as well as the operation of the buildings at the scale needed because the properties "cannot be feasibly operated relying on insufficient federal or state operating subsidies." One such nonprofit community-based organization that the City partners with and provides funding to is Community Housing Partnership, doing business as HomeRise, which is based in San Francisco.⁶

City Departments Partner with Nonprofits to Fund and Provide Housing and Services

In June 2004, the City launched a "Ten-Year Plan to Abolish Chronic Homelessness" that included approaches to partner with nonprofits to replace emergency shelters with permanent housing that includes supportive services. As part of the City's effort to address the needs of people who are experiencing homelessness, the City prioritized the development of permanent supportive housing for formerly homeless adults and families that is owned and operated by nonprofit organizations such as community-based organization like HomeRise. For instance, MOHCD provides capital development loans to nonprofit, community-based organizations to develop single-site, permanent supportive housing projects with emphasis on formerly unhoused adults, families with minors and children, seniors, transitional age youth, and people with mental illnesses, among others.

In 2006, MOHCD in partnership with the Department of Public Health and Human Services Agency created the Local Operating Subsidy Program (LOSP) to provide funds to "support the creation of permanent supportive housing on a large scale" and provide funds to cover the gap in operating costs for permanent supportive housing units. Capital financing is leveraged to build or rehabilitate properties for supportive housing for this population, although stakeholders realize housing cannot be feasibly operated at the scale needed if nonprofit community-based organizations rely solely on insufficient federal or state operating subsidies. Thus, through multi-year MOHCD agreements—typically lasting 15 years—LOSP utilizes General Fund subsidies to pay the difference between the cost of operating housing for residents and all other sources of revenue, including tenant rent payments and subsidies from other non-City entities.⁷

Although MOHCD expects LOSP grantees to maximize revenue and contain costs, projects may request increases but only after having exhausted operating and subsidy reserves and only if they can demonstrate compelling reasons why actual expenses are greater than original projections or why actual income is less than original projections. Once the 15 years have passed, grantees must initiate a request for a renewed LOSP grant agreement at least 12 months before the end of the grant agreement.

⁴ SF Local Operating Subsidy Program (LOSP) Policies and Procedures Manual, 2022, page 4.

⁵ This report utilizes terminology such as "homeless" and "unhoused" as used by HomeRise and City departments.

⁶ Throughout this report, we refer to Community Housing Partnership as its doing business as name, HomeRise.

⁷ The term "tenant" is used when discussing HomeRise properties, housing operations, and MOHCD grants. The term "resident" is used when referring to supportive services provided to individuals and grants from City's Department of Homelessness and Supportive Housing.

In August 2016, ten years after LOSP was created, the City created the Department of Homelessness and Supportive Housing (HSH) with a mission “to make homelessness in San Francisco rare, brief, and one-time.” Once properties are developed with assistance from MOHCD, HSH provides grants for supportive housing and related services including but not limited to navigations centers, rental assistance, critical health, education, referrals and assessments for medical and mental health services, and other supportive services to tenants in housing units. Such support services for people that are chronically experiencing homelessness are part of the City’s affordable housing model that helps tenants retain and stabilize permanent housing, employment, and family lives to reach self-sufficiency.

Both MOHCD and HSH provide funding to HomeRise. Although the MOHCD and HSH loans, subsidies, and grants are separate, the two City departments collaborate when making funds available for development of new supportive housing units. LOSP grant agreements include references to the City’s capital financing, and outline service provision requirements that are funded by HSH. Often, the City’s contracted service providers through HSH are part of the MOHCD-funded developer team selected for the original capital financing for renovation or rehabilitation of a property. Further, tenants in properties that have LOSP subsidies must be referred and prioritized for permanent supportive housing through HSH. As the City acknowledges, permanent supportive housing at this scale “is only possible through collaborative partnerships between City funding agencies, developers, and service providers.”

HomeRise History and Background

Incorporated in 1990, Community Housing Partnership, doing business as and now commonly known as, HomeRise since 2020 is a nonprofit public benefit corporation with a mission to help people experiencing homelessness secure housing and become self-sufficient.⁸ HomeRise develops and manages affordable housing for homeless individuals and families, including constructing new buildings, rehabilitating existing structures, or leasing properties in San Francisco. It provides property management services such as maintenance, janitorial, and front desk services in addition to resident services encompassing economic and vocational development, education, wellness checks, and case management among other supportive services. Through an integrated network of services from housing to employment, HomeRise strives to ensure each client has a pathway to success.⁹

Governed by a 14-member Board of Directors and with various Board Committees at the time of our review, HomeRise operates a highly complex affordable housing organization with multiple ownership structures, funding streams, and compliance requirements for 19 properties that it owned, managed, or provided supportive services with over 1,500 dwelling units to house individuals or families in units ranging from single-room occupancy hotels to family housing.¹⁰ Tenants include families with children, seniors, and single adults who may have been formerly unhoused or have disabilities. Clients are referred to HomeRise programs, including to City departments with different funding programs, including those related to housing

⁸ Because Community Housing Partnership (CHP) adopted HomeRise as its fictitious name in 2020 changing its logo, website, letterhead, and other business signage, we will refer to the nonprofit as HomeRise in this report.

⁹ Statement is from HomeRise’s independent audit of its financial statements.

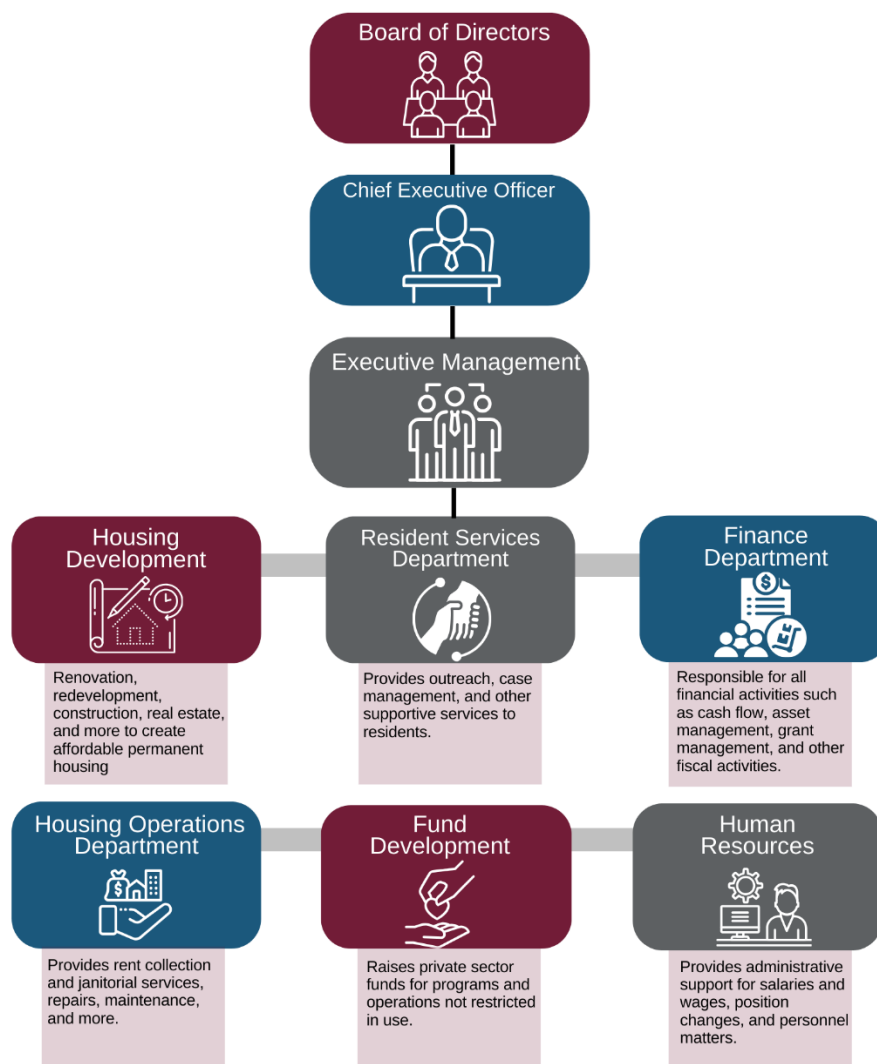
¹⁰ During the audit period, HomeRise provided supportive services at the Civic Center property that was decommissioned in 2022. Also, for two of the 19 properties, HomeRise only provides supportive services. At another property, 5th Street Apartments, HomeRise only provides limited property management services and supportive services.

and supportive services.¹¹ HomeRise relies heavily on government grants, operating subsidies, City loans, and other rental subsidies to cover costs of developing or redeveloping properties, managing properties, providing services to tenants, and providing administrative support for all the programs.

Property Management and Resident Supportive Services

To provide services funded by City agreements, HomeRise employed approximately 250 employees at the time of our review in various property, program, and corporate staff and executive positions. Key departments involved with the City agreements include the Resident Services Department and Housing Operations Department, although many other HomeRise departments work collaboratively to support its fiscal and programmatic efforts. These include Finance and Asset Management, Real Estate Housing Development, and Human Resources as shown in Exhibit 1.

EXHIBIT 1. KEY HOMERISE DEPARTMENTS INVOLVED WITH CITY GRANTS



Source: HomeRise’s 2021 Independent Audited Financial Statements, organization charts, and discussions with HomeRise staff

¹¹ HSH refers homeless applicants to housing units through a prioritization system, known as the Coordinated Entry Process, that assesses and matches people experiencing homelessness with specific housing. LOSP Policies and Procedures Manual, page 4.

Specifically, HomeRise's Director of Housing Operations oversees the Housing Operations Department which is responsible for managing owned and leased properties. The Housing Operations Department has supervisors who oversee property management at several properties. Each property has a property/site manager, may also have an assistant site manager, and has desk clerks who are responsible for managing the property and collecting rent, sending out late rent payment notices, budget variance reporting, and creating work orders for maintenance. Within the Housing Operations Department, the Director of Facilities oversees the maintenance staff, who maintains the properties, makes repairs as needed, and oversees repairs/maintenance. Moreover, the Director of the Housing Operations Department also oversees compliance management staff which ensure tenant-related regulatory requirements are adhered to, such as, determining continued tenant eligibility, responding to reasonable accommodation requests, managing vacancies, and managing subsidy revenue in accordance with agreements, laws, and subsidy plans.

HomeRise relies on a Vice President of Programs and a Director of Resident Programs to oversee and direct services and supervise a team that works at multiple properties. This team includes service managers responsible for one to five properties. Service managers provide information and referral services, resolve conflicts, participate in conferences with case managers, organize workshops and socialization activities, and assist residents with accessing public programs such as Medicaid, Medicare, and other welfare programs. Service managers also help organize services provided by external organizations. The services HomeRise provides can vary at each site it owns and develops and its staff provide certain services at other sites not owned by HomeRise.

HomeRise Operates Multiple Properties Managed Under Different Ownership Structures and Provides Supportive Services to Residents

Financing for each HomeRise property developed is complex and involves multiple stakeholders and sources of funding. Specific arrangements vary depending on whether the property is a new construction, rehabilitation of an existing structure, or remodel to accommodate special need populations.

Developing and Financing of Housing Properties

Every property has a different mix of financing and each loan agreement HomeRise executes has a different set of terms and requirements with which HomeRise must comply to prevent default. Development of most affordable housing projects relies on tax credit or bond financing and a variety of external entities and partners including banks, investors, developers, architects and engineers, and general contractors. Many of its loans require that HomeRise targets certain populations for the development of housing such as seniors, persons with disabilities, or formerly unhoused adults. Another common requirement is income limits that tenants may not exceed.

Varied Property Ownership Structures

The funding complexities of low-income housing projects typically require developers to establish a separate single asset economic entity for each property. HomeRise is affiliated with and is responsible for many properties. Each property that it owns, developed, rehabilitated, or that it provides property management services for, separately collects rent, receives subsidies from outside entities (such as LOSP)

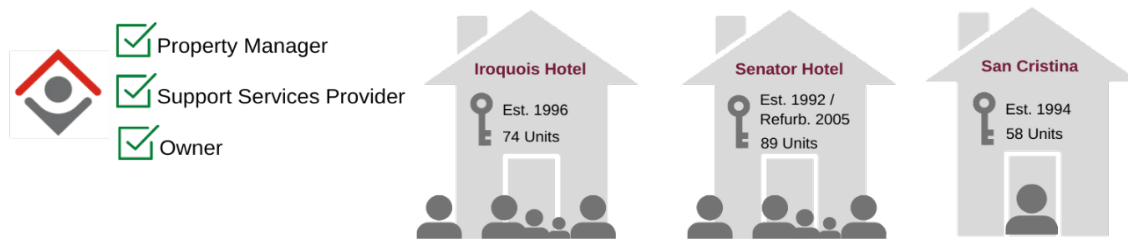
to offset rent or operational costs that are not covered by rent paid, tracks relevant costs including salaries and wages for its staff, and conducts or supervises financial activity related to that property.

During our audit period, HomeRise operated or provided services at 20 properties (one was decommissioned in 2022). Six of the properties, one of which was decommissioned, were not owned by HomeRise, but HomeRise either provided supportive services at the property, managed the property, or did both. HomeRise owns 100 percent of three properties—the Senator Hotel, San Cristina, and Iroquois—and has a very small percentage ownership in eleven properties that are technically owned by HomeRise and were either developed or rehabilitated as a limited partnership, as shown in Exhibit 2.¹²

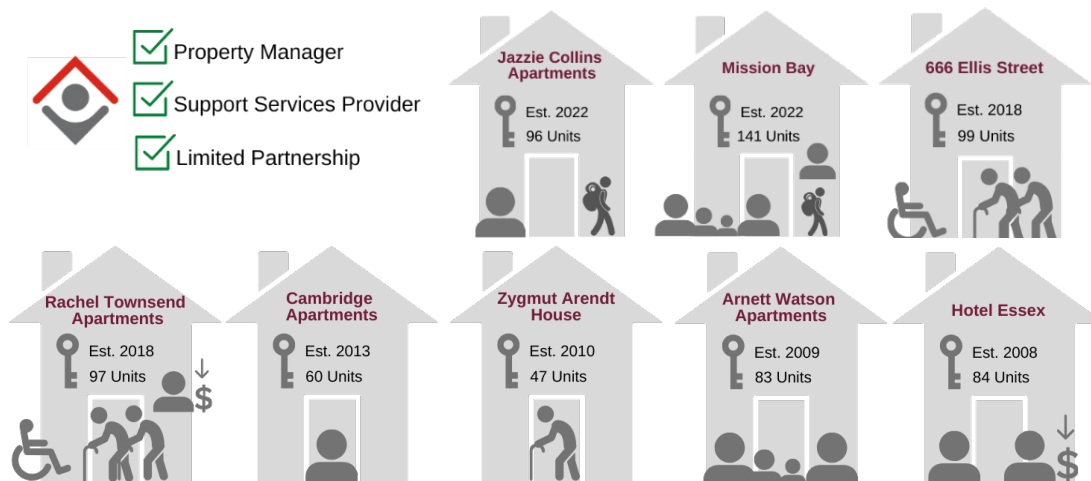
The eleven properties that were developed and operate through separate limited partnership arrangements were created to limit the liability of organizations, including companies, that are investing in the development and must include at least one general partner. For all limited partnerships in which HomeRise or its affiliates are involved, HomeRise serves as the general partner conducting the business operations of a limited partnership assuming responsibility for the operations of the property. In the housing development industry, this type of ownership arrangement is common. HomeRise provides different services at various properties for different types of residents, as shown in Exhibit 2.

EXHIBIT 2. SUMMARY OF INDIVIDUAL PROPERTIES OWNED, MANAGED, OR SERVICED BY HOMERISE, 2019-2022*

3 Properties with 221 housing units managed, owned and serviced by HomeRise



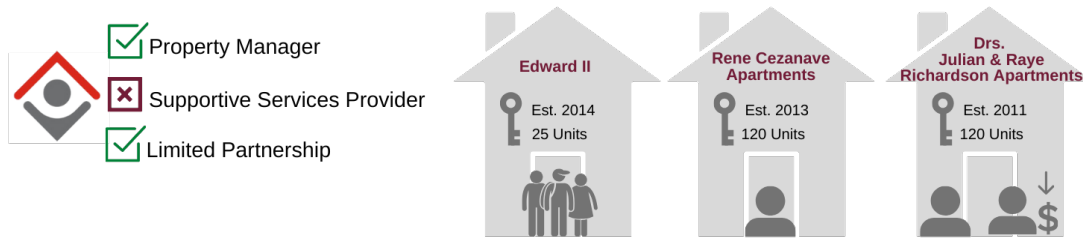
8 Properties with 707 housing units managed, serviced, and partially owned by HomeRise



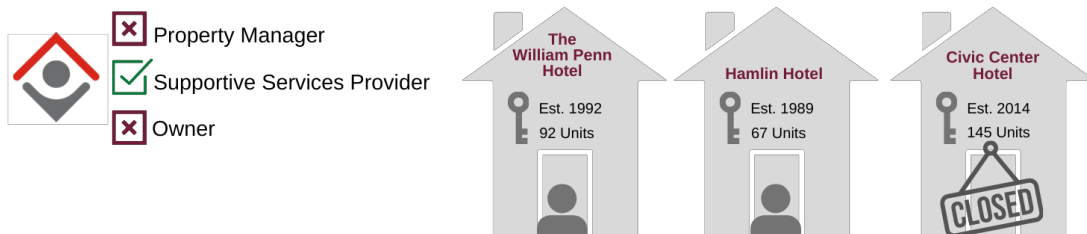
¹² According to Audited Financial Statements, Homerise is the sole member of limited liability companies (LLCs) that hold, or intend to hold, a controlling general partner interest in their respective limited partnerships providing affordable housing. These entities are single-member LLCs.

EXHIBIT 2 (CONTINUED). SUMMARY OF INDIVIDUAL PROPERTIES OWNED, MANAGED, OR SERVICES BY HOME RISE*

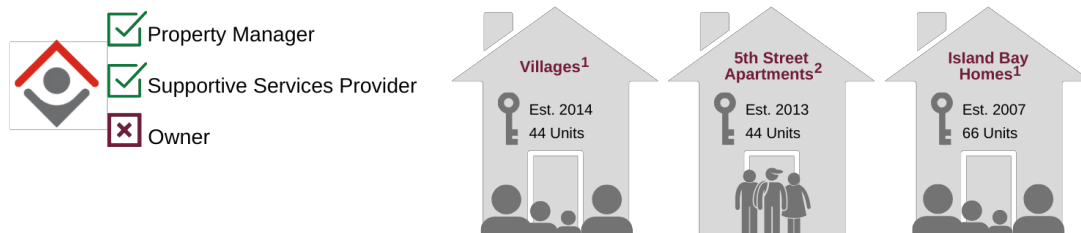
3 Properties with 265 housing units managed and partially owned by HomeRise, but not serviced



3 Properties with 304 housing units serviced, but not managed or owned by HomeRise



3 Properties with 154 housing units managed and serviced, but not owned by HomeRise



Source: MOHCD Loan and LOSP agreements, City Grant Agreements, and miscellaneous HomeRise provided documents.

Note *: Property names varied between HomeRise’s website, City agreements, and other documents; thus, we used the most used name.

Note 1: The number of units for Villages and Island Bay Homes was inconsistent between documents HomeRise provided such as financial records, funding agreements, and its website; thus, we used the number of units per the MOHCD agreements.

Note 2: HomeRise provides limited property managed services for 5th Street Apartments such as janitorial, minor repairs, and maintenance.

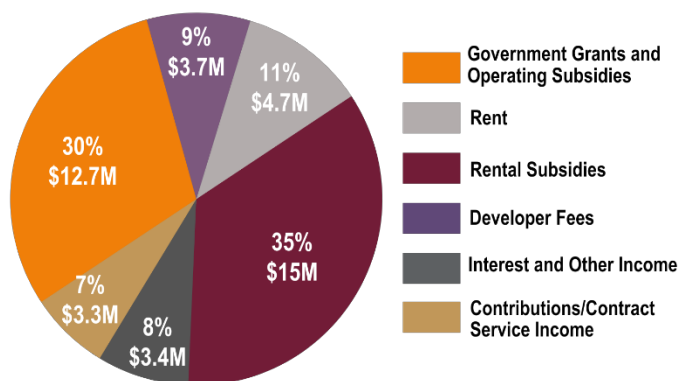
HomeRise provides all the property management for the eleven properties that it is a general partner for, and for three that it does not own but leases to operate at a limited level. Further, there are four properties that HomeRise did not own, but through other agreements, HomeRise provides supportive services for the residents. Each of the properties that HomeRise manages typically has a dedicated or shared staff such as a property manager, maintenance supervisor or manager, desk clerks, housing operations supervisor, compliance and facilities, director, and facilities manager. For those properties at which HomeRise provides supportive services, residents have access to a caseworker, wellness checks, referrals and assessments for medical and mental health care, and other supportive services.

City Agreements Help Fund Operations

During our audit period, HomeRise’s finances were consistent, with average operating expenses of approximately \$34 million.¹³ Those costs were funded by \$43 million for the most recent audited calendar year of 2021—of which the majority was generated by government grants, government operating subsidies, and government rent subsidies.¹⁴

As shown in Exhibit 3, approximately \$27.7 million or 65 percent of HomeRise’s operations are funded through rental subsidies, operating subsidies, and agreements with the City—primarily through MOHCD and HSH (and the San Francisco Housing Authority) but also state and federal funding. Rent was \$4.7 million (or 11 percent) of HomeRise’s revenues, with the remaining revenue generated from developer fees \$3.7 million (or 9 percent), interest earned or other income \$3.4 million (or 8 percent), and contributions and contract service income of \$3.3 million (or 7 percent).

EXHIBIT 3. COMPOSITION OF HOMERISE REVENUES AND FUNDING SOURCES, AS OF DECEMBER 2021



Source: Most recent financial statements for calendar year 2021 audited by its external certified public accountant

Universe of HomeRise’s Outstanding City Loans and Grants and Agreements in Effect as of October 2022

Exhibit 4 provides a universe of active City loans, grants and LOSP agreements as of October 2022. As shown, the City invested hundreds of millions of dollars in HomeRise—with almost \$110 million in loans to develop or rehabilitate housing properties that remained active, \$90 million in active subsidy agreements to operate and maintain the properties, and over \$40 million in grants to provide support services during the audit period. MOHCD loans are provided during the development of a project, with annual operating subsidies provided for a typical 15-year period after housing is developed.¹⁵ HSH provides annual grants to fund supportive services to housing residents. At the start of 2023, MOHCD approved another \$64 million for 15-year LOSP agreements.

¹³ As of June 30, 2023, audited financial statements were not yet available for the Calendar Year 2022.

¹⁴ We found that rent subsidies are mostly for low income and formerly homeless individuals from the San Francisco Housing Authority, Shelter Plus Care program, and Mental Health Subsidy program, among others.

¹⁵ MOHCD also provides leasing opportunities to HomeRise for operating affordable housing, such as 5th Street and the now closed Civic Center property.

EXHIBIT 4. HOMERISE CITY OPERATING SUBSIDIES, OUTSTANDING LOANS, AND GRANT AGREEMENTS, AS OF OCTOBER 2022

		(Amounts in Millions)			
	Property	LOSP Agreements	Active MOHCD Loans	HSH Grants ^a	Total City Funds
1	5th Street Apartments			\$5.7	\$5.7
2	666 Ellis Street		\$3.2		\$3.2
3	Arnett Watson Apartments	\$22.2	\$14.5	\$2.0 ^f	\$38.7
4	Cambridge Apartments		\$4.6	\$2.0 ^{b, d}	\$6.6
5	Civic Center ^c			\$9.6	\$9.6
6	Edward II	\$8.4	\$4.4		\$12.8
7	Hamlin Hotel			^d	-
8	Hotel Essex	\$10.7	\$6.1	\$2.4 ^e	\$19.2
9	Iroquois Hotel		\$3.2	^{b, d}	\$3.2
10	Island Bay Homes	\$2.2	\$1.0	\$2.0 ^f	\$5.2
11	Jazzie Collins Apartments		\$4.0	\$3.7	\$7.7
12	Mission Bay		\$37.2	\$5.1	\$42.3
13	Rachel Townsend Apartments		\$1.4		\$1.4
14	Rene Cazenave Apartments	\$17.9	\$9.7		\$27.6
15	Richardson Apartments	\$15.5	\$2.8		\$18.3
16	San Cristina		\$3.3	\$5.5 ^{b, d}	\$8.8
17	Senator Hotel		\$8.0	^{b, d}	\$8.0
18	Villages		\$1.6		\$1.6
19	The William Penn Hotel			^d	-
20	Zygmunt Arendt House	\$13.2	\$4.3	\$3.2 ^{e, f}	\$20.7
	Total ^g	\$90.1	\$109.3	\$41.1	\$240.6

Source: Mayor's Office of Housing and Community Development; San Francisco Department of Homelessness and Supportive Housing Notes:

^a Some HSH grant agreement funding was spread across multiple properties.

^b \$2 million on one grant agreement shared between multiple properties: Cambridge Apartments, Iroquois Hotel, San Cristina, Senator Hotel. The amount is only reflected in this exhibit once under Cambridge.

^c Civic Center was decommissioned at the end of 2022, But the grant agreement was provided to auditors as part of the grant universe.

^d \$5.5 million on one grant agreement shared between multiple properties: Cambridge Apartments, Hamlin Hotel, Iroquois Hotel, San Cristina, Senator Hotel, and The William Penn Hotel. Amount is only reflected on this exhibit once under San Cristina.

^e \$2.4 million on one grant agreement shared between multiple properties: Zygmunt Arendt House and Hoel Essex. The amount is only reflected in this exhibit once under Hotel Essex.

^f \$3.2 million on one grant agreement shared between multiple properties: Arnett Watson Apartments, Zygmunt Arendt House, Island Bay Homes. Amount is only reflected on this exhibit once under Zygmunt Arendt House.

^g Totals may not add up precisely due to rounding.

City Departments Requested an Audit of HomeRise Due to Its Noncompliance with Certain Provisions of Grant and Loan Agreements

MOHCD and HSH requested an independent audit of HomeRise after their monitoring and compliance tools proved inadequate to compel HomeRise's compliance with grant and loan agreements. According to MOHCD, it had significant concerns regarding HomeRise's organizational management and financial operations for some time. Similar concerns were raised by HSH who noticed discrepancies as well as ineligible expenses where HSH grant funds were used in HomeRise's invoicing in January 2021. Both entities stated they met with HomeRise staff and executive leadership several times in the fall of 2021 and into 2022 seeking clear documentation and improvements in HomeRise's fiscal practices. In 2022, MOHCD and HSH requested the Office of the Controller's City Services Auditor to audit HomeRise after the entities noted many deficiencies and had growing concerns about HomeRise's financial stability. According to MOHCD and HSH, both entities took this step after their own oversight efforts were not sufficient to compel corrective action, and hoped the intervention of the Office of the Controller could provide an understanding of the scope of HomeRise's issues and recommend solutions. On June 2, 2022, MOHCD issued a notice of default related to one of HomeRise's properties and then on December 12, 2022, the Office of the City Controller placed HomeRise on "elevated concern status" due to risk of instability. HomeRise remains on that elevated concern status in fiscal year 2023-24.

Chapter 1: HomeRise Mismanaged Some of Its Property Financial Activities, Which Led to Reduced Revenues and Improper Costs That May Have Adversely Affected City Subsidies and Loan Repayments to the City

With the City's investment of over \$200 million in current outstanding loans and subsidies to HomeRise for affordable housing development and management and an estimated 1,500 units for individuals and/or families dependent on its housing, HomeRise must ensure that it adequately manages and monitors its property assets and operations. As described in the Introduction, the City's LOSP subsidy is based on the entirety of revenues received and expenses charged on individual properties and many loan agreements require repayment of the debt only if the property had a cash surplus, i.e. collected more cash than it paid in expenses for the property for a particular year. Although individual LOSP agreements and MOHCD loans may have different requirements, all agreements we reviewed contained fiscal provisions on a property's fiscal performance related to operating revenue and expenses. For example, per City agreements, HomeRise "shall establish and maintain accurate files and records of all aspects of Operating Expenses and Project Income" and must annually report "information about the project's operations" with detailed information about the income and expenses in reporting fiscal activity.^{16, 17} Thus, proper controls to ensure accuracy and allowability of revenues and expenses are critical for compliance with the City agreements.

Yet, HomeRise did not always prepare accurate budgets, contain spending, maximize revenue, and comply with certain requirements which could affect the properties' operating subsidies received from the City and the related loan repayments due to the City. For instance, several HomeRise expenses charged to its properties do not appear appropriately related to property operating expenses and are not allowable uses for the individual property per City requirements. These inappropriate and noncompliant charges result in higher reported expenses and potentially lower cash surpluses. Also, HomeRise inappropriately transferred more than \$2 million from a restricted account without approval and borrowed funds from one property's operating account to help cover cash shortages with \$2.1 million remaining owed. In other instances, HomeRise recorded certain expenses to property accounts that were not well-documented or were incorrectly charged to the property.

Our effort to determine the scale of problems and concerns with HomeRise's property financial activities was hindered by the poor condition of HomeRise's records and complicated by the maze of HomeRise's corporate ownership structure. Although amounts may be immaterial relative to HomeRise's overall operating budget, some are significant at the property level which is what most loan repayments to the City are based on. Further, HomeRise is required to maintain separate financial information, separate accounts, and separate accounting for each property per loan agreements and subsidy grants.¹⁸

¹⁶ LOSP Grant agreement between the City and County of San Francisco and CHP for Island Bay Homes Treasure Island, section 6.5.

¹⁷ Loan agreement by and between the City and County of San Francisco and CHP Scott Street LLC for Edward II, Section 10.3 and Exhibit H.

¹⁸ Example of requirement: Loan agreement by and between the City and County of San Francisco and CHP Scott Street LLC for Edward II, Articles 11 and 12.

Yet, HomeRise’s financial practices did not have sufficient financial controls that would help affect compliance with City loan and grant requirements or provide monitoring protocols over expenses and budgets to ensure the fiscal performance of each project as discussed previously. The City is aware of HomeRise’s noncompliance with certain agreements and has previously withheld funding until HomeRise resolved the noted compliance issues.

Recent efforts reported by HomeRise stated that the organization is working on implementing a structure to comply with the requirements tied to MOHCD funding moving forward, including improving its financial practices—although this was reported after audit fieldwork was completed and was not confirmed by the auditors.

MOHCD Loan and Subsidy Funding Structure Is Complex and Interconnected with HomeRise’s Property Activities

MOHCD provides funding for capital development and rehabilitation of housing properties and provides operating subsidies to help eliminate operating deficits for properties that house formerly homeless persons through separate funding agreements. The related financial transactions are complex and connected.¹⁹

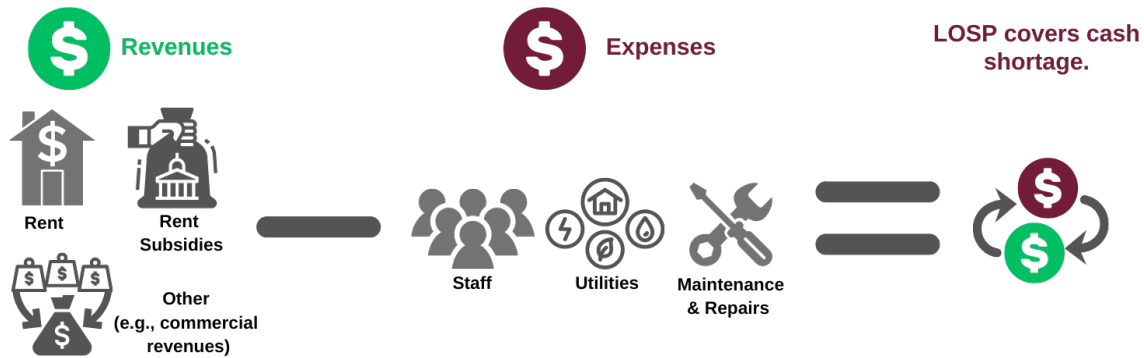
For instance, MOHCD funding for each property must be separately tracked. Such funding may be for a 50- to 75-year loan agreement period that provides funding on a drawdown basis (as funds are spent) during property development or rehabilitation, in addition to some funding for the first year of operation. Loan agreements contain an operating factor so that certain loan payments are based on surplus subsidies as explained below. Some loans are “forgivable,” but most require annual payments. Some are mandatory debt payments which are commonly referred to as “hard debt,” while other debt is considered “soft debt,” and debt payments are based on a calculation of property operations cash surplus for the prior year.

The City also provides funds through its LOSP, advancing HomeRise money at the beginning of each year or two regular intervals in a year based on the property’s expected budgets established in the agreements once residents move into a property. The LOSP agreements are typically for 15 years and are tied to a property that had or has a specific City project capital loan to fund the gap between operating costs and rental income from residents and rental subsidies to cover the projected cost of serving the formerly homeless. Operating costs are for activities to maintain the property to the standards required including maintenance and repairs and generally relate to utilities, taxes, property insurance, salary and related costs for property staff, and any extraordinary expenses.

Exhibit 5 demonstrates how LOSP subsidies provide funding to keep a housing property operating although its revenues do not cover the costs incurred to house and serve its residents. It is important to note that the LOSP funding is intended to cover only the portion of the shortfall associated with the homeless-serving units in HomeRise’s properties.

¹⁹ City capital loans are for the development of new or rehabilitated supportive housing units and provide potential gap funding for the first year of operations.

EXHIBIT 5. HOMERISE’S OPERATING BUDGET GAP FUNDED BY CITY LOSP SUBSIDY



Source: Local Operating Subsidy Program Policies and Procedures Manual

MOHCD typically requires annual payments under its loans to the extent that HomeRise’s ability to make payments is feasible and does not jeopardize the safety of its residents. Payments may be required under one or a combination of several structures including amortization, deferral, or payment from residual receipts, depending on individual circumstances. Payments based on residual receipts are in essence debt payments (known as “soft” debt) that are required only if project revenues exceed operating costs resulting in a surplus.²⁰ Depending on the amount of the surplus, HomeRise must pay a certain percentage as a loan repayment to the City if stipulated in the agreement. If an additional surplus remains, HomeRise must set aside the surplus as a subsidy reserve for future years. The smaller the surplus, the less is repaid to the City. Alternately, if HomeRise’s operating costs exceed the property’s income and there is a deficit instead of a surplus, no loan payments are due to the City, and HomeRise can use the full LOSP amount for its operating account expenses rather than placing excess money in a reserve account.

HomeRise Recorded Operating Expenses That May Be Inappropriate, Inaccurate, and Misleading, Which Can Affect Subsidies from and Payments to the City

Several HomeRise expenses charged to its properties did not appear appropriately related to property operating expenses and were not allowable uses for the individual property per City requirements. These inappropriate charges resulted in higher reported expenses and potentially lower cash surpluses.²¹ Because MOHCD relies on HomeRise’s reported cash surplus to calculate annual loan repayments and to make LOSP contributions, HomeRise may be reimbursing the City less than it should and receiving more in LOSP contributions than it is entitled to. Specifically, inaccurate, and misleading reported expenses affect and can reduce the amount of surplus calculated or can create a shortage that reduces or eliminates the repayment of debt owed to the City for a loan. If this occurs, HomeRise can use the full operating subsidy rather than placing the funds in a reserve.

HomeRise Charged Inappropriate and Questionable Costs to Property Operations

The records of eight properties we reviewed indicate instances in which operational costs were inappropriate, with some costs being unplanned and not budgeted for specific properties. Some of these

²⁰ The surplus is also reduced by other allowable “payments” which would be indicated in loan agreements.

²¹ The smaller the surplus, the less amount that HomeRise must repay to the City when debt repayment is based on residual receipts.

charges apparently went unnoticed. Although not an exhaustive list, Exhibit 6 shows examples of erroneous or questionable operating charges to properties related to leases, resident services that were charged to certain properties, and social events among other questionable charges as described in the bullets that follow.

For instance:

- Rental charges of \$126,000 for a temporary property used to house tenants from the San Cristina property while it was being rehabilitated were incorrectly charged to the San Cristina property rather than to the development (or construction) budget as planned.
- HomeRise charged properties for staff purchases for television monitors that appear to be unrelated to the property. However, due to the insufficient documentation HomeRise provided, we could not determine the appropriateness of the charge—that is, whether the monitors were related to the specific property, another property, or corporate headquarters.
- Records for the Rachel Townsend Apartments and Rene Cazenave Apartments, which did not have budgets for resident services in 2021 and 2022, showed costs (charges) of more than \$96,000 for resident program services in 2021 and 2022. The Rene Cazenave Apartments did not offer supportive services and the Rachel Townsend Apartments had a hefty monthly resident services fee charged on top of the program services salaries. In fact, the fee was nearly twice the amount per the agreement with MOHCD.
- Costs exceeding \$12,500 related to the social event for the opening of the Jazzie Collins Apartments property were charged to the property’s operations rather than being charged against a separate development budget.

In each of these examples, HomeRise staff should have ensured expenses were appropriate and properly charged to ensure compliance with City requirements and that funds were available to spend before making the transactions.

EXHIBIT 6. ERRONEOUS OR QUESTIONABLE PROPERTY EXPENSES INCURRED BY HOMERISE OR TRANSACTIONS RECORDED WITH INSUFFICIENT SUPPORT TO DETERMINE APPROPRIATENESS

Property	Date	Expenses/Entry	Amount	Issue
Jazzie Collins Apartments	December 2022	Office supplies, coffee dispenser, holiday decor	\$640	Charged to Conventions
Jazzie Collins Apartments	November 2022	Utility charges	\$31,275	No supporting documents
Jazzie Collins Apartments	July/ August 2022	Social Event Costs	\$12,500	Should have been charged to development budget, not operations
Rachel Townsend Apartments	2022	Program Service Salaries	\$14,600	MOHCD agreement did not provide for program services salaries
		Resident Services Fee	\$165,600	MOHCD agreement specified \$96,203 for supportive services for 2022; agreement with SFHSA to reimburse nearly \$70,000

Property	Date	Expenses/Entry	Amount	Issue
Rachel Townsend Apartments	2021	Program Services Salaries	\$29,930	MOHCD agreement did not provide for program services salaries
		Resident Services Fee	\$160,000	MOHCD agreement specified \$92,949 for supportive services for 2021; agreement with SFHSA to reimburse nearly \$70,000
Rene Cazenave Apartments	2021	Program Services Salaries	\$4,720	Property did not offer supportive services
Rene Cazenave Apartments	2022	Program Services Salaries	\$46,800	Property did not offer supportive services
Richardson Apartments	2021	Various adjustments	\$747,457	No supervisory review of entry and insufficient documentation. Journal entry was made for various adjustments at year-end. Reasons provided were vague—to “true-up costs” or reverse or reclassification
San Cristina	October 2022	Lease Cost for Relocation Site	\$126,000	Improperly charged to property. San Cristina was undergoing rehabilitation. Residents were being relocated to another site during construction—lease cost for the other site should be charged to project development
Zygmunt Arendt House	March 2022	Adjustments Made to Rent Subsidy Receivable	\$74,277	No documentation provided or review of entry. Explanation provided “to propose to true up prior year LOSP balances” which appeared to be audit adjustment for 2021, but unable to determine. We also question how LOSP would impact the rent subsidy account

Source: Yardi General Ledger and supporting documentation

HomeRise’s Payroll Cost Allocations to Properties Were Not Supported and Could Not Be Substantiated

Payroll costs—wages, benefits, payroll taxes and related expenses—were significant operating expenses charged to the properties. We would expect that payroll costs could include salaries and benefits for property managers, maintenance staff, desk clerks, and others who provide property services directly to the property. However, the information recorded in HomeRise’s fiscal records did not provide sufficient detail or support to enable us to determine whether the appropriate staff salary costs were charged to the appropriate properties. Further, the initial information provided to us did not reconcile to the payroll costs posted in each property’s records.

These payroll charges were made through system entries in HomeRise’s real estate and financial system—known as Yardi. According to HomeRise staff, a consultant programmed the payroll entries into the fiscal records, but the consultant was not available to provide support or to explain to us how this was done. We asked several times for a report to show the breakout of charges, but the consultant was not available to respond to our inquiries when asked and HomeRise staff did not have access to the consultant’s files despite having requested cost allocation information and staffing. HomeRise staff could not provide underlying support, documentation, explanation, or evidence that HomeRise staff had reviewed them for us

to determine whether the payroll allocation formula was appropriate. In fact, HomeRise Finance Department staff stated that due to its confidential nature, information regarding the allocation was not shared with them and no one at HomeRise, including the Human Resource Department, could confirm that the entries were correct or that the appropriate staff time and payroll charges were posted to the correct properties.

Beginning in March 2023, when HomeRise’s Finance Department assumed responsibility for the payroll allocations, staff reviewed past charges to correct inaccurate previous entries and salary costs recorded dating back to July 1, 2022. Although the errors HomeRise staff noted in its review may not have been significant by property, we cannot be sure of the magnitude of errors that may have been made over the course of years. HomeRise staff recently created a new allocation methodology to support future salaries charged to the properties; however, we did not confirm the accuracy or appropriateness of the revised charges.

More Than \$200,000 in Bonuses Were Unplanned and Paid Despite HomeRise’s Ongoing Fiscal Problems

Because MOHCD LOSP subsidies are provided to fill the gap when operating revenues cannot cover expenses and many of the MOHCD loan debt repayments are determined by cash surplus in any year, the City expects HomeRise to maximize revenues and contain costs. Yet, HomeRise did not contain costs and even gave staff bonuses in 2022 that were unplanned and unbudgeted, as shown in Exhibit 7. Despite this, HomeRise gave the bonuses and charged them to the properties, even some properties that were experiencing cash shortages and deficits.

EXHIBIT 7. 2022 UNPLANNED AND INAPPROPRIATE STAFF BONUSES HOMERISE CHARGED TO PROPERTIES WITH DEFICITS

Property	Cost of Unplanned Bonuses
666 Ellis Apartments	\$30,050
Arnett Watson Apartments	\$22,300
Cambridge Apartments	\$18,600
Edward II	\$23,250
Hotel Essex	\$22,240
Iroquois Hotel	\$10,625
Island Bay Homes	\$12,250
Rachel Townsend Apartments	\$23,320
Rene Cazenave Apartments	\$17,625
Richardson Apartments	\$5,375
San Cristina	\$12,605
Senator Hotel	\$14,850
Zygmunt Arendt House	\$16,900
Total	\$229,990

Source: Yardi generated 2022 Trial Balance for each property

In Some Instances, HomeRise Charged Its Properties and Adjusted Financial Records Without Sufficient Explanation

Other property charges we reviewed contained insufficient information to enable us to determine whether the charges or corrections made to fiscal records were appropriate. Explanations for some entries recorded in the system simply stated they were made “to true up costs” and did not include or refer to supporting documents. Even changes made at the end of the year based on the external independent auditor’s review lacked sufficient information about a charge or change to fiscal records. HomeRise staff could not explain why it made the external auditor-generated change and the reasons behind the changes remained unclear even after staff contacted its external auditors.

For example, HomeRise adjusted its 2022 LOSP subsidy receivable on the Rene Cazenave Apartments property by approximately \$1 million with the explanation that it was an end-of-year adjustment. Before the adjustment, the property was operating at a significant deficit and the LOSP agreement allowed up to \$1 million of funding—which was the full amount of its subsidy. Using the full LOSP subsidy was a significant departure from the prior year’s results and when we questioned HomeRise staff about the adjustment, staff could not explain and needed to consult with the auditors. Although the external auditors pointed to the LOSP agreement as justification for the adjustment, the question remained as to why the significant increase was needed.

In other instances, explanations for changes or costs attributed to properties were vague and lacked the documentation that would be needed to determine whether charges or transactions were appropriate. This is the case although HomeRise’s real estate and financial system can store supporting documentation such as invoices, memos, and attachments that should be available for review and approval. However, some HomeRise employees did not use the system properly and recorded many transactions without documentation. Also, supervisors did not always review transactions before recording the charges in the system. Complicating matters further, many of those employees are no longer at HomeRise and the remaining staff could not adequately explain some of the transactions without extraordinary effort. Even if the former employees had saved supporting emails or documents on the computers assigned to them, the existing HomeRise staff could not access the computer drives of former staff.

HomeRise Inappropriately Transferred \$2 Million in Restricted Funds and Still Owed Another \$2 Million It Borrowed from One Property to Fund HomeRise’s Expenses

During our audit period, HomeRise did not comply with MOHCD transfer requirements related to one property we reviewed, Villages at Treasure Island (Villages), when HomeRise inappropriately used \$2 million of restricted funds intended for Villages at another property, its Mission Bay property. HomeRise did not obtain the City’s approval for the transfer even though its loan agreement with MOHCD requires the City’s approval to use the restricted account. Also, HomeRise improperly borrowed more than \$2.5 million for expenses it incurred from Villages’ operating account and still owed the Villages more than \$2 million.

Separate, Purpose-Specific Accounts Are Required for Each Property

Each MOHCD loan and LOSP agreement typically requires separate accounts to facilitate the tracking of each property's financial activity, as shown in the bullets that follow. The loan agreements prescribe specific rules and approvals for the use of and appropriate transfer between property accounts. While some accounts do not require pre-approval for using the funds, they do require that the funds be used for the purpose specified and for the property to which they are attached. However, some accounts require approval to use the funds, depending on the funding scenario.

For example, for properties that have a MOHCD loan, restricted accounts typically require preapproval for using those funds and some accounts may require other approvals such as from the California Department of Housing and Community Development, another agency, or investors. Generally, all accounts are to be interest-bearing and can only be used for the specific property and purposes set forth in the agreements. Below are some of the typical accounts required.

- **Project Operating Account**—a checking account held in a bank or savings and loan institution acceptable to MOHCD insured by the Federal Deposit Insurance Corporation (FDIC) or another comparable federal insurance program.
- **Operating Reserve Account**—a depository account typically with 25 percent of the approved budget for the first year of operation.
- **Subsidy Reserve Account**— a checking account held in a bank or savings and loan institution acceptable to MOHCD insured by the FDIC or a comparable federal insurance program only available for purposes specified in the agreement.
- **Replacement Reserve Account**—account holds a set amount per unit to cover the costs of turning over tenants.
- **Tenant Security Deposit Trust**—account holds the security deposits from tenants.
- **Other Reserve**— a special surplus restricted account designated for a specific purpose.

To separately track activities on each property as required by its City or other the agreements, HomeRise generally set up at least four bank accounts per property.²² Thus, combined with the bank accounts it had for its own corporate operations, HomeRise had over 100 bank accounts, which are reconciled by staff consistent with best practices.

MOHCD agreements address the use of each account and of income generated from each property. The Project Operating Account is the general checking account to be used exclusively for the property (project). Per the agreement and annual operating budget, withdrawals from this account can be used “solely for the payment of project expenses.” Various reserve accounts are designated to be used for specific purposes such as indicated in the previous bullets. Using the funds for other purposes is only allowed on an exception basis with the City's express prior written approval. Transfers between different property accounts or from restricted accounts are prohibited without the City's prior written approval. Yet, HomeRise

²² Bank accounts are for specific purposes (replacement reserves, transition reserves, subsidy reserves, etc.) versus general operating reserves, with some that require approval to use the funds for operations.

did not comply with certain MOHCD transfer requirements related to Villages, when HomeRise inappropriately used funds intended for Villages at another property, its Mission Bay property.

To Pay for Storm Damage Repairs to a Property, HomeRise Improperly Moved \$2.5 Million and Did Not Fully Repay It

In late 2021 as HomeRise was developing its Mission Bay property, water intrusion from a major storm caused significant damage. HomeRise submitted a claim to its insurance company to pay for the estimated millions in repairs necessitated by the damage. While HomeRise waited for the insurance money, a bank agreed to fund the contractor for a few months but required a letter of credit or deposit in the amount of the repair costs as evidence that HomeRise had sufficient funds on deposit to repay the bank if HomeRise did not receive the insurance proceeds it had requested. The San Francisco Office of Community Investment and Infrastructure agreed to advance a portion of the funds, but HomeRise and its external partner on the development project had to pay for the remainder of the damages, with HomeRise's portion being slightly more than \$2.5 million.

In March 2022, under the direction of HomeRise's former Real Estate Development Director and without MOHCD's required prior approval, HomeRise transferred \$2 million from the Special Surplus Restricted Account of Villages to the Operating Account of Villages, then transferred more than \$2.5 million from this account to an account of the Mission Bay property, as shown in Exhibit 8. The \$2.5 million transfer to Mission Bay included \$2 million from Villages' restricted account and \$515,600 from Villages' Operating Account.

Three transfers were improper because HomeRise's loan agreement with MOHCD require permission to use the restricted special surplus reserve account, and because the City agreement for Villages specifies that funds from that operating account must only be used for properties on Treasure Island. Not only was the unapproved use and transfer of the Villages' money prohibited, but these actions caused the restricted account to lose interest earnings on the \$2 million that HomeRise transferred from that restricted account for nearly nine months.^{23, 24}

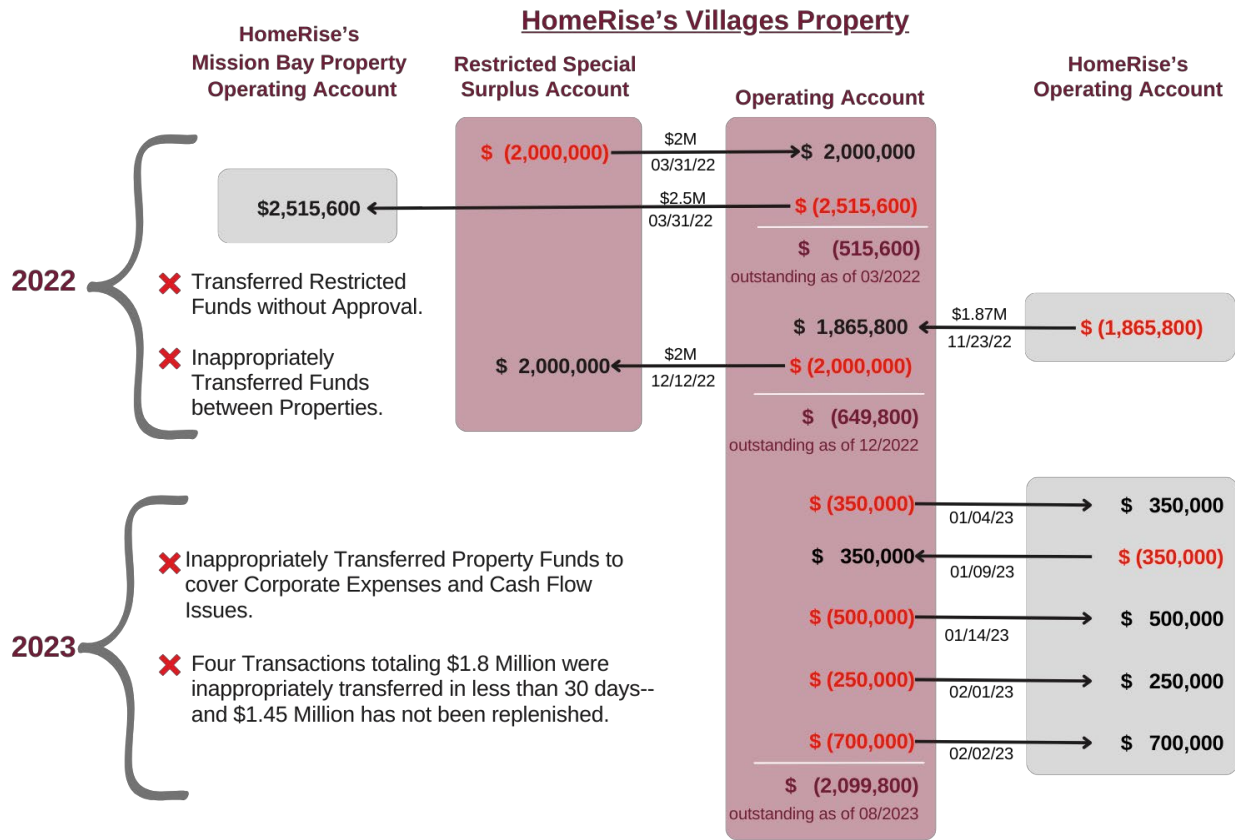
Upon learning of the transfer of money from the restricted account, HomeRise's asset management consultant cautioned the organization's Finance Department and executive management about the noncompliant transfer, stating that the funds should be immediately returned to the Villages restricted account. As repairs were made to the Mission Bay property and the insurance company reimbursed the Mission Bay development for its expenses, the development project reimbursed HomeRise so that it could return funds to the Villages project operating account and fully return the funds to the Village's restricted account, which it partially repaid in December 2022 without any lost interest repayment.

Exhibit 8 shows the transfer of funds between the properties' restricted and operating accounts in addition to other transfers made from the accounts as described in the section that follows.

²³ Second Amendment to City and County of San Francisco Affordable Housing Bond Program Loan Agreement and Secured Promissory Note, amendment to the agreement 1.d.12.4(a) and (f).

²⁴ Of the total \$2.5 million transferred to Mission Bay, the \$2 million from the Villages' restricted account was in an interest-bearing account in accordance with provisions in MOHCD funding agreement.

EXHIBIT 8. HOMERISE CORPORATE OWES THE VILLAGES PROPERTY NEARLY \$2.1 MILLION



Source: Bank Statements; General Ledger Information; Supporting Documents Within Yardi; Email Correspondence.

Specifically, in November 2022, HomeRise made a “partial repayment” to the Villages project operating account of \$1.87 million to repay the Villages restricted account for the \$2 million borrowed from that account. Because HomeRise made all the transfers through the Villages’ operating account, this account was used to absorb the shortage caused by the partial repayment that was needed to fully reimburse the restricted account. As of August 2023, the operating account had not been reimbursed the initial \$515,600 transferred and the absorbed shortage which totaled \$649,800.

Due to Its Cash Flow Problems, HomeRise Corporate Repeatedly Borrowed Money from Villages

This practice of borrowing funds from the Villages property continued in 2023 when HomeRise moved additional funds to pay for operating expenses and payroll salary costs because the corporation was experiencing significant cash flow problems. From January to February 2023, HomeRise “borrowed” an additional \$1.8 million in operating funds from Villages’ account over a 30-day period to cover corporate payroll. Although they returned \$350,000, HomeRise still owed \$1.45 million of these funds and had not replenished the account as of August 15, 2023. With \$649,800 outstanding as of December 2022 and the additional transfers, in total, HomeRise owed the Villages property nearly \$2.1 million.

Not only was borrowing funds from Village’s restricted special surplus account contrary to its agreement with MOHCD but using the Villages project operating account to cover expenses unrelated to a project on the property such as the costs for all HomeRise’s entire payroll, is prohibited by the agreement without

MOHCD's prior written approval.²⁵ Further, the organization's practice of drawing from a property's surpluses, such as a reserve or restricted fund, to cover corporate deficits is concerning and indicates a larger cash flow problem, as discussed in Chapter 4. In February 2024, HomeRise reported that they returned the funds to the Villages' account. However, this occurred after the end of our audit fieldwork; thus, we did not validate the fund repayment, source of funds, or whether HomeRise accurately calculated and paid any lost interest during the time the funds were not in the Project Operating Account for Villages.

HomeRise's Frequent Use of Consultants Did Not Provide for Knowledge Transfer and Increased Dependence on Consultants Rather Than Internally Developing Staff

The funding complexities of low-income housing projects often require developers to establish different economic entities for their properties. HomeRise is affiliated with and is responsible for the accounting and financial audits of 11 distinct 501(c)3 corporations and limited partnerships. The need to maintain distinct accounting for each property, while not losing sight of overall property financial operations, is challenging. However, during the period under audit, HomeRise did not take an active role in setting or updating compliance and asset management policies, nor did it sufficiently monitor the fiscal performance of some of its properties. HomeRise reported it has recently begun establishing and updating policies and establishing needed protocols—although those changes happened after the end of our audit fieldwork, and we did not review the updated policies.

Complex organizations such as HomeRise require employees who possess the skills needed to report accurately and in a timely manner on financial resources and obligations, create realistic budgets for all aspects of operations, and analyze the short and long-term impacts of major financial decisions. To perform these functions, HomeRise relied on a consultant for asset management services including establishing processes and procedures for HomeRise and training HomeRise asset and compliance management staff until June 2023. However, HomeRise reorganized its internal team and duties multiple times due to staff turnover. Compliance efforts typically focused on tenant-related items, while asset management focused on property-related compliance.

As we discuss later in the report, HomeRise experienced significant turnover including in the areas of compliance and asset management, finance, and housing operations executives. Most of HomeRise's compliance and asset management employees were relatively new during the audit period and mostly performed functions such as preparing required reports for each property, ensuring budgets reflect regulatory requirements, and reviewing and monitoring property related activities. The finance team was responsible for reconciling bank statements and transferring funds as directed. The compliance management team was charged with ensuring tenant-related regulatory requirements were met such as tenant eligibility certifications, rent and subsidy collections were received and recorded, and annual tenant recertifications were submitted. Yet, HomeRise had either outdated or missing written policies and procedures in addition to a coherent document filing system to guide the new staff, who instead relied on assistance from its consultants.

²⁵ MOHCD Original Loan Agreement, 11.1.

Due to the lack of current policies and procedures and a consistent filing system, HomeRise staff could not locate many documents we requested, such as some of the annual monitoring reports required under terms of the MOHCD agreements. We could not determine whether these reports did not exist or just could not be located. MOHCD was aware of this problem before our audit, having found HomeRise to be noncompliant several times due to its failure to submit certain required monitoring reports, resulting in the City withholding \$500,000 in LOSP amounts until HomeRise properly submitted the reports. These reports are critical because MOHCD uses them to oversee the use of funds, perform required capital needs assessments, and gather other important information.

Without adequate and current policies, procedures, and training to guide its staff regarding its responsibilities, HomeRise could not ensure that its staff had the proper information to ensure it met the terms of its City loan agreements or that it had adequate ongoing cash flow for each property's operations and current development projects. Without improvement in this area, HomeRise could continue to miss critical payments, reporting, and compliance obligations to the City. Regardless of who monitors assets, effective compliance and asset management necessitates that property owners take an active role in setting policies and expectations for asset management purposes and be able to monitor the performance of their property managers.

HomeRise's Inadequate Fiscal Monitoring Increased the Risk of Cash Flow Problems Going Undetected and Unaddressed

The California Attorney General's Guide for Charities, including nonpublic benefit corporations like HomeRise, discusses the importance of developing realistic budgets for review and approval and the importance of monitoring the budget and anticipated revenues. The guide explains that any sizable differences between expected and actual revenue and expenses should be investigated to obtain a full explanation. Further, the National Council of Nonprofits prescribes that a key component to financial sustainability is the commitment of board and staff to financial management that includes timely review of financial reports and advance planning.

Although HomeRise prepared annual property budgets to account for operational property expenses, it did not adequately monitor the associated revenues and expenses. Partly, this could have been caused by the unreliable real estate and financial system reports available to monitor activity, lack of available staff, or missing processes to manage financial activity, and/or HomeRise budgets not being adjusted as needed based on prior years' activity. For instance:

- **Poor Forecasting of Revenue and Expense Changes for Future Property Budgets.** When developing its operating budget, HomeRise did not always consider prior year revenues and expenses—such as lower-than-planned rent collections or subsidies realized or higher-than-planned expenses. Such occurrences can indicate what could occur in the future and should be considered when budgeting revenues and expenses for the coming year. For example, several HomeRise properties were experiencing increasing vacancies, yet subsequent budgets were not adjusted to show the loss in revenue—even though some property vacancy loss nearly doubled. In

another example, some of the properties incurred much higher salary and wage costs in 2022, yet subsequent annual budgets do not reflect this.²⁶

- **Budget Information in Yardi Was Missing for Certain Properties and Was Entered Late in 2023.** For at least two properties, Island Bay Homes and Villages, budget information was missing in the Yardi system in 2021. For the Jazzie Collins Apartments—it was missing for 2022. Further, HomeRise did not upload any of the property budgets into Yardi at the beginning of the year in January 2023. Although the budgets were eventually uploaded in May 2023, more than five months had passed, limiting HomeRise’s ability to monitor and make spending adjustments as needed.
- **Little Monitoring of Property Budget-to-Actual Variance Report.** Although staff could access revenue and expense data through HomeRise’s real estate and financial system, there was no formal process to review properties’ budget-to-actual reports monthly or on any other regular basis. Although staff said that it monitored the budget, there was no formal process for doing so. According to several HomeRise employees, practices had changed over the years with each new Director of Finance or CFO: teams once met monthly to discuss budget variances, then these became quarterly meetings, and later no meetings were held to discuss or monitor the budget.

Moreover, there was no evidence demonstrating the review of the property variance reports from Yardi between 2020 and 2022. None contain notes explaining the differences or why revenues and/or expenses significantly varied from the budgeted amounts. Budget-to-actual comparisons, and reasons for significant differences are critical to provide staff, leadership, and the Board information to adequately monitor or oversee finances and fiscal performance, make fiscal course corrections if costs are greater than revenues, and inform the development of the next year’s budget.

- **Property Budget Variance Reports Used Expected Revenue Instead of Actual Revenue.** Revenue amounts reported on property budget variance reports did not reflect revenue collected to date; rather, the amounts included “accrued revenue” or revenue that should have been received. This is problematic because it may lead the user to believe that the property was regularly receiving the revenue amounts shown and, consequently, that staff did not have to perform additional analysis or work to collect revenue such as rent or other subsidies. Further, such information might lead staff to believe it could spend funds as budgeted without the need to restrict or delay planned spending.

For example, MOHCD withheld a LOSP subsidy for one of the properties because HomeRise was out of compliance. The amount withheld was over \$500,000, which was due in 2022. HomeRise eventually provided what was needed and MOHCD made the payment in 2023. This created a cash flow issue for that property but may not have been evident using the Yardi reports. According to staff, they had to rely on bank statements to monitor the cash flow situation because the Yardi reports did not indicate the dire revenue shortfall situation that existed.

- **Some Property Expenses Were Paid with No Regard to Budget.** Increased property spending during the year for unbudgeted expenses including employee bonuses, salary adjustments,

²⁶ Vacancy loss is the amount of rental income that is lost because unoccupied units where there are no tenants.

additional property security, and other professional expenses seemed to occur without regard to the budget. It appears that these unbudgeted expenses were paid without considering offsetting them by spending less than budgeted in other expense categories or by obtaining additional funding. For instance, in 2021 and 2022 many properties incurred over \$100,000 in unbudgeted contractor costs for janitorial, maintenance, and security costs. According to the former HOD director, some of those costs were not visible in the budget variance reports the Director could view on Yardi. Thus, some directors and managers continued to spend without being informed of other critical charges that contributed to HomeRise's financial deficits and cash flow problems.

Best practices for budget development and monitoring include establishing realistic goals and protocols for regularly tracking and communicating issues of safeguarding, maintenance, and financial condition through some type of property management report. A management report could include monthly financial information, cash disbursement journal, information on extraordinary expenses, rent delinquency information, tenant register, and any management, occupancy, maintenance, or security issues that arose during a particular month or other period. As part of a report, compliance and asset managers could track and discuss with finance and housing operations any issues of safety and maintenance, along with other demographic information and communicate the monthly management information to the Board to appropriately govern housing assets.

We discussed these issues with the Interim CEO and the new administration several times, with new leadership stating that they have implemented new processes for establishing and monitoring budgets. However, we did not validate these efforts as the 2024 budgeting process was just underway in September 2023 after the end of our fieldwork and the issues we mentioned occurred during the past period under review.

Several HomeRise Properties Show Deficits with Cash Shortages to Fund Operations

The City expects its LOSP grantees to maximize revenue and contain costs. However, in 2022, several HomeRise properties experienced decreased revenues and increased costs and need additional attention to ensure their future financial viability.

Generally, each property that HomeRise owns or is affiliated with is treated as a separate entity, so a property's income can only be used to cover that property's expenses. Each property generates its own revenue through tenant rent, rental subsidies, external grants, and miscellaneous other revenue. Likewise, each property's expenses must relate to the property: salaries, wages, and related payroll expenses for employees or agents connected to the project; operating expenses such as utilities, real estate taxes and assessments, and insurance premiums required by the City or other lenders or grantors; fees for asset management, partnership management, and investor services; maintenance and repairs; property management; and other extraordinary expenses that apply to the property.

We reviewed each of HomeRise's properties' ability to generate cash flow and found shortages ranging from \$13,000 to \$917,000 as of 2022.²⁷ As shown in Exhibit 9, two HomeRise properties—Edward II and

²⁷ Cash flow calculation used was Earnings Before Interest, Taxes, Depreciation, and Amortization (known as EBITDA)—which is revenues less expenses excluding interest, taxes, depreciation, and amortization as well as funds required to be set aside in reserve accounts.

the Senator Hotel—did not perform well over the four years under audit as both properties had negative cash flow in each of the four years reviewed.²⁸ Another property, the Hotel Essex, had negative cash flow in three of the four years reviewed and the Arnett Watson Apartments property had fiscal struggles in 2021 and 2022.

EXHIBIT 9. HOMERISE PROPERTIES WITH FINANCIAL STRUGGLES: EXPENSES EXCEEDING REVENUES

Property	Excess (Shortage) of Revenue Over Expenses			
	2019	2020	2021	2022
666 Ellis Street	\$528,000	\$284,000	\$315,000	(\$293,000)
Arnett Watson Apartments	\$14,000	\$4,000	(\$33,000)	(\$13,000)
Cambridge Apartments	\$551,000	\$354,000	\$234,000	(\$87,000)
Edward II	(\$17,000)	(\$115,000)	(\$85,000)	(\$250,000)
Hotel Essex	\$27,000	(\$159,000)	(\$49,000)	(\$486,000)
Iroquois Hotel	\$686,000	\$461,000	\$558,000	\$70,000
Island Bay Homes	\$943,000	\$581,000	\$448,000	(\$200,000)
Jazzie Collins Apartments	N/A: Operations Started in 2022			\$78,000
Mission Bay	N/A: Operations Started in 2022			\$331,000
Rachel Townsend Apartments	\$820,000	\$755,000	\$722,000	\$355,000
Rene Cazenave Apartments	\$39,000	\$29,000	\$10,000	(\$917,000)
Richardson Apartments	\$37,000	(\$254,000)	\$14,000	\$274,000
San Cristina	\$743,000	\$574,000	\$569,000	(\$197,000)
Senator Hotel	(\$21,000)	(\$222,000)	(\$464,000)	(\$521,000)
Villages	\$1,019,000	\$959,000	\$1,120,000	\$869,000
Zygmunt Arendt House	\$23,000	\$26,000	\$17,000	(\$240,000)

Source: HomeRise’s Audited Financial Statements for 2019 through 2021 or Yardi fiscal records as of May 2023 if audited financial statement data was not available. Amounts rounded for table presentation.

Note: Data for the calendar year 2022 was based on unaudited financial information from HomeRise’s real estate and financial system (Yardi) as of June 2023.

Based on unaudited fiscal information for 2022, several other HomeRise’s properties began to struggle in that year. For instance, the Rene Cazenave Apartments property had a shortage of revenue over expenses of \$917,000, although it used \$1 million in LOSP subsidy—per its agreement—to allow the property to end the year with a positive cash flow. However, it is important to note that in 2021, this same property only needed \$285,000 in LOSP subsidy the year prior and thus, the \$1 million—although it was covered in and per the LOSP agreement—is significantly higher than what was needed in prior years.

Even HomeRise properties with positive cash flows started to show declines in their fiscal strength in 2022 with smaller margins of revenue to cover their costs. As costs were rising, revenues were decreasing. In fact, as shown in Exhibit 10, several properties experienced significant decreases in revenue over the four-year period between 2019 and 2022.

²⁸ MOHCD recently approved a new LOSP agreement for Edward II that will help with the cash flow.

EXHIBIT 10. MOST HOMERISE PROPERTIES EXPERIENCED SIGNIFICANT REVENUE DECREASES BY 2022

Property	HomeRise Property Revenue (Amounts Rounded in Thousands)					
	2019	2020	2021	2022	Dollar Increase (Decrease) 2019 to 2022	Percent Increase (Decrease) 2019 to 2022
666 Ellis Street	\$2,000	\$1,873	\$2,039	\$1,791	(\$209)	-10%
Arnett Watson Apartments	\$1,393	\$1,352	\$1,456	\$1,575	\$182	13%
Cambridge Apartments	\$1,660	\$1,464	\$1,413	\$1,444	(\$216)	-13%
Edward II	\$559	\$592	\$594	\$616	\$57	10%
Hotel Essex	\$1,216	\$1,205	\$1,268	\$1,153	(\$63)	-5%
Iroquois Hotel	\$1,885	\$1,772	\$1,864	\$1,633	(\$252)	-13%
Island Bay Homes	\$3,067	\$2,177	\$2,124	\$1,774	(\$1,293)	-42%
Jazzie Collins Apartments	Opened in 2022			\$943	N/A	N/A
Mission Bay	Opened in 2022			\$585	N/A	N/A
Rachel Townsend Apartments	\$2,270	\$2,292	\$2,394	\$2,189	(\$81)	-4%
Rene Cazenave Apartments	\$1,806	\$1,831	\$2,054	\$1,279	(\$527)	-29%
Richardson Apartments	\$1,840	\$1,733	\$1,749	\$2,068	\$228	12%
San Cristina	\$1,687	\$1,691	\$1,688	\$1,247	(\$440)	-26%
Senator Hotel	\$1,119	\$1,059	\$1,067	\$1,008	(\$111)	-10%
Villages	\$2,308	\$1,881	\$1,996	\$1,815	(\$493)	-21%
Zygmunt Arendt House	\$919	\$1,039	\$987	\$1,104	\$185	20%

Source: HomeRise's Audited Financial Statements for 2019 through 2021 or Yardi fiscal records as of May 2023 if audited financial statement data was not available.

As Exhibit 10 shows, properties such as Cambridge Apartments and Senator Hotel showed a steady decline in revenue over the years decreasing by 13 and 10 percent respectively over the 4-year period, while other properties like Island Bay Homes, showed a sharp decline in two years which contributed to a 42 percent decrease when compared to 2019.

Rene Cazenave Apartments declined significantly in 2022 bringing the change to 29 percent, although the decline was offset with the LOSP subsidy during the year-end audit. The decrease in revenue for the San Cristina property was at 26 percent and likely caused by the property being rehabilitated. The Villages' property revenues decreased by 21 percent over the four years, which is also concerning.

Several factors contributed to these fiscal challenges. The COVID-19 pandemic and executive orders for no-eviction policies and the closing of stores and restaurants lowered property rental revenues. Further, the vacancy loss was higher than anticipated, further reducing revenue in many of the properties as discussed earlier in this report.

However, HomeRise was unable to adjust quickly enough to reduce costs and create opportunities to increase revenue. Despite these cash flow problems and shortages in revenue, HomeRise paid unplanned and unbudgeted costs for the properties, including payments for staff overtime and bonuses, extra security costs, information technology purchases, underbudgeted for contractor expense for maintenance and janitorial services, fees/licenses, real estate taxes, and other costs that should be anticipated. Exhibit 11 shows that expenses for many of the properties grew tremendously by 2022.

EXHIBIT 11. MOST HOMERISE PROPERTIES' EXPENSES CONTINUED TO GROW FROM 2019 THROUGH 2022

Property	HomeRise Property Expenses (Amounts Rounded in Thousands)					
	2019	2020	2021	2022	Dollar Increase (Decrease) 2019 to 2022	Percent Increase (Decrease) 2019 to 2022
666 Ellis Street	\$1,433	\$1,550	\$1,685	\$2,004	\$571	40%
Arnett Watson Apartments	\$1,317	\$1,287	\$1,428	\$1,526	\$209	16%
Cambridge Apartments	\$1,078	\$1,079	\$1,148	\$1,469	\$391	36%
Edward II	\$563	\$692	\$667	\$834	\$271	48%
Hotel Essex	\$1,143	\$1,319	\$1,271	\$1,593	\$450	39%
Iroquois Hotel	\$1,172	\$1,285	\$1,280	\$1,537	\$365	31%
Island Bay Homes	\$2,124	\$1,596	\$1,644	\$1,936	(\$188)	-9%
Jazzie Collins Apartments	Opened in 2022			\$850	N/A	N/A
Mission Bay	Opened in 2022			\$255	N/A	N/A
Rachel Townsend Apartments	\$1,428	\$1,498	\$1,633	\$1,796	\$368	26%
Rene Cazenave Apartments	\$1,694	\$1,730	\$1,972	\$2,124	\$430	25%
Richardson Apartments	\$1,732	\$1,917	\$1,663	\$1,720	(\$12)	-1%
San Cristina	\$918	\$1,065	\$1,068	\$1,393	\$475	52%
Senator Hotel	\$1,095	\$1,245	\$1,494	\$1,492	\$397	36%
Villages	\$1,176	\$922	\$876	\$946	(\$230)	-20%
Zygmunt Arendt House	\$868	\$985	\$942	\$1,315	\$447	51%

Source: HomeRise's Audited Financial Statements for 2019 through 2021, or Yardi financial records as of May 2023 if audited financial statement data was not available.

HomeRise Did Not Adequately Monitor Rent Collections, Rental Subsidies, or Vacancies to Avoid Continued Significant Revenue Loss

Although our audit objectives did not include assessing how well HomeRise collects or accounts for rent and rent subsidies nor did it include analyzing the vacancy rates at each property over the four years of our audit period, these activities are important because they impact resulting properties' financial loss or cash surplus, amounts owed or available from the City agreements, and the required financial reports HomeRise must submit to MOHCD. HomeRise property site managers were responsible for collecting rent; yet, HomeRise had not always trained them how to properly handle and secure cash, track rent payments collected, or follow-up on missing subsidy payments and delinquent amounts owed. The HomeRise

compliance team was responsible for working with the rental subsidy providers to determine status or reasons for missing subsidy payments, ensuring subsidizing agencies are billed timely, and working with referring agencies to minimize vacancy losses. Based on our review, HomeRise needs to make improvements in these areas and management needs to act when the compliance team raises issues. Further, HomeRise did not always closely monitor these collection activities.

More Than \$1.7 Million of Tenant Rent Went Unpaid or Was Late as of April 2023

According to HOD Director, some tenants did not pay rent for months or even years and did not apply for subsidies available to them to assist them in paying rent. For example, the federal Emergency Rental Assistance program is intended to help tenants pay their rent. The HOD Director stated that some HomeRise tenants applied for this assistance and received funds intended to put toward their rent but did not pay the funds to HomeRise.

Based on a rent collection report as of April 2023, \$1.7 million in rent was more than 90 days late and had not been paid. We acknowledge that the COVID-19 pandemic and the City's eviction moratorium made it difficult for HomeRise to collect rents, which adversely affected cash flow. Further, we understand and do not suggest evicting formerly homeless individuals. However, HomeRise has a responsibility as part of City agreements that is combined with MOHCD expectations for HomeRise to maximize revenues and ensure rent and other subsidies are collected timely. Until recently, HomeRise had not acted to collect back rent by, for example, working with tenants to create payment plans. Further, rent collection practices were sometimes weak. At one property, the site manager placed tenant payments in a box that was found months after they were collected.

Average Vacancy Rate Exceeded 14 Percent

Also, 14 of 16 properties experienced vacancies as of July 2023, as shown in Exhibit 12. For example, the 666 Ellis Street property had 26 vacancies resulting in a 26.3 percent vacancy rate as of July 2023. Four units were vacant for up to two years, and another two units were vacant for nearly three years. Similarly, the Cambridge Apartments had 16 vacancies, with two units vacant for more than two years and another two units vacant for nearly two years, resulting in a 26.7 percent vacancy rate at that time. On average, the vacancy rate in July 2023 was 14.6 percent.

According to the HomeRise's HOD Director, some of the units went vacant because they are intended for tenants referred by the San Francisco Housing Authority, and the authority had not made such referrals. HomeRise's marketing plans typically discussed how to coordinate with referring agencies, such as the San Francisco Housing Authority, on marketing strategies. These agencies expect HomeRise to conduct affirmative marketing through some City agreements, in addition to the referring agencies' outreach efforts, such as advertising in local papers, radio ads, or other media that are likely to reach low-income households. We did not see evidence that HomeRise conducted affirmative marketing. Thus, we are unsure as to whether HomeRise simply requested referrals one time from the referring agencies or made diligent attempts to fill vacancies and proactively followed-up with the agencies to get the needed referrals of potential tenants.

Vacancies not only reduce potential rental revenue, but also reduce the dollar amount of rental subsidies to tenants and City subsidy payments HomeRise receives. More importantly, vacant units represent missed opportunities to provide unhoused people with permanent, supportive housing.

EXHIBIT 12. HOMERISE PROPERTIES WITH VACANCIES AS OF JULY 2023^a

	Vacant	Occupied	% Vacant		Vacant	Occupied	% Vacant
666 Ellis Street	26	73	26.3%	Rachel Townsend Apartments	13	84	13.4%
Arnett Watson Apartments	9	74	10.8%	Rene Cazenave Apartments	3	117	2.5%
Cambridge Apartments	16	44	26.7%	Richardson Apartments	3	117	2.5%
Edward II	5	20	20.0%	San Cristina	20	38	34.5%
Hotel Essex	10	74	11.9%	Senator Hotel	26	63	29.2%
Iroquois Hotel	15	59	20.3%	Villages ¹	1	42	2.3%
Island Bay Homes ¹	3	64	4.5%	Zygmunt Arendt House	6	41	12.8%
Total Units: 1,066 Total Occupied: 910 Total Vacant: 156 Average Vacancy: 14.6%							

Source: HomeRise Vacancy Reports

Note ^a: The table does not include the following properties: (1) Mission Bay because it was recently completed in 2022, (2) Jazzie Collins Apartments which had no vacancies (3) Hamlin Hotel, William Penn, and 5th Street Apartments that HomeRise did not manage or own.

Note 1: Although the number of units for Island Bay Homes and Villages is inconsistent with Exhibit 2 of this report, the HomeRise vacancy list as of January 2023 shows 43 units in Villages and 67 units in Island Bay Homes.

Nearly \$6.4 Million in Rent Was Lost Due to Vacant Units

During the four-year audit period, HomeRise lost a total of nearly \$6.4 million in rent due to vacant units at 14 of its properties. The exhibit below excludes the newest properties that were completed in 2022—Jazzie Collins Apartments and Mission Bay—as those were being leased in the latter part of 2022. Additionally, although HomeRise provides supportive services to residents in the Hamlin Hotel and The William Penn Hotel, HomeRise does not own or manage those properties. Similarly, 5th Street Apartments, which houses, serves, and support Transition-Aged Youth, operates under a lease to provide supportive services and limited property management.²⁹

Exhibit 13 shows the 14 properties with lost rental revenue due to vacant units.

²⁹ Transition-Aged Youth are defined as individuals from 18 to 25 years of age who are homeless or at high risk of being homeless.

EXHIBIT 13. HOMERISE PROPERTIES WITH LOST RENTAL REVENUE DUE TO VACANCIES, 2019 THROUGH 2022

Property	Lost Revenue 2019	Lost Revenue 2020	Lost Revenue 2021	Lost Revenue 2022	Total Lost Revenue 2019-2022
666 Ellis Apartments	\$(109,120)	\$(150,670)	\$(108,120)	\$(246,950)	\$(614,860)
Arnett Watson Apartments	(11,770)	(18,370)	(37,320)	(25,440)	(92,900)
Cambridge Apartments	(22,970)	(101,440)	(192,190)	(242,820)	(559,420)
Edward II	(1,380)	(3,940)	0	(20,620)	(25,940)
Hotel Essex	(50,860)	(105,350)	(131,230)	(234,790)	(522,230)
Island Bay Homes	(291,580)	(147,030)	(64,570)	(81,780)	(584,960)
Iroquois Hotel	(143,430)	(213,280)	(82,590)	(318,000)	(757,300)
Rene Cazenave Apartments	(107,310)	(122,110)	(88,300)	(300,460)	(618,180)
Richardson Apartments	(30,370)	(94,480)	(143,340)	(102,110)	(370,300)
Rachel Townsend Apartments	(30,920)	(33,540)	(49,330)	(78,100)	(191,890)
San Cristina Hotel	(148,720)	(116,170)	(225,470)	(394,420)	(884,780)
Senator Hotel	(93,510)	(114,620)	(172,490)	(238,470)	(619,090)
Villages	(295,080)	(154,690)	(7,670)	(24,030)	(481,470)
Zygmunt Arendt House	(21,190)	(12,960)	(8,240)	(4,830)	(47,220)
TOTAL	\$(1,358,210)	\$(1,388,650)	\$(1,310,860)	\$(2,312,820)	\$(6,370,540)

Source: Vacancy Offset Reported in HomeRise's Audited Financial statements for 2019 through 2021 or Yardi financial records as of May 2023 if audited financial statement data was not available. Amounts rounded for table presentation.

Moreover, rental subsidies were lagging, which reduced property revenue and decreased cash surplus requiring more City funds. HomeRise did not always ensure that rental subsidies were received timely by failing to address issues promptly as noted during inspections, schedule re-inspections immediately after corrections were noted, bill agencies promptly for subsidies, or monitor the receipt of subsidies due. Although the San Francisco Housing Authority—the largest subsidizing agency for HomeRise—rental subsidy funds were deposited or wired directly to the bank account based on tenant information and eligibility, other subsidizing agencies, such as Shelter plus Care, required HomeRise to send a bill to receive subsidies. Once HomeRise billed the subsidizing agencies, agencies remit checks that required depositing or wiring funds to the HomeRise corporate accounts that must be deposited to the appropriate property bank account.

During our review, we noted several subsidy anomalies, where most of the properties with rental subsidies received amounts significantly less than the budgeted amounts. One of HomeRise's staff investigated the issues and found at least \$1.1 million alone in lost revenue from subsidizing entities because HomeRise did not submit applications promptly, schedule inspections to continue receiving subsidies, or investigate missing subsidies at various properties. We reviewed a few of the items questioned from 2020 and found that HomeRise corrected the errors and correctly posted transactions in Yardi. Also, we found HomeRise back dated or recorded rental subsidy entries in Yardi much later than the month due.

Further, HomeRise staff indicated that subsidies were not being deposited into the proper property account. Although we did not examine subsidies received by HomeRise from other agencies during the review period, we identified an instance in which HomeRise recorded the subsidies received for the appropriate property much later than when funds were received. For example, in December 2022, HomeRise deposited subsidies received in August and September 2021 for its Island Bay Homes property in the property bank account—more than a year later.

HomeRise needs to be more vigilant in both collecting, depositing, and recording rent and ensuring it maximizes subsidies for which it is entitled to receive. Further, HomeRise should not hold on to subsidy payments and should immediately deposit funds in the correct property account to comply with City requirements.

Although HomeRise Complied With Some Fiscal Requirements, It Did Not Fully Comply with Certain Reporting Requirements; Many Reports Were Missing or Late

MOHCD funding agreements include requirements for HomeRise to establish bank accounts, conduct capital needs assessments on its properties, ensure tenants are eligible to live in the properties, prepare various reports for investors and lenders, prepare annual monitoring reports and other periodic reports for the City, and operate permanent supportive housing for formerly homeless and low-income adults, families, and transitional-aged youth.^{30, 31, 32} Many of the City agreements have similar regulatory requirements, although individual agreements may have unique requirements, such as requiring HomeRise to notify the City when key staff leave or to provide certain reports more frequently than is the norm. HomeRise complied with some, but not all, of these fiscal requirements.

For instance, HomeRise could not locate certain required documents and reports. We asked HomeRise to provide the required capital needs assessments for the eight properties we reviewed, but only received these documents for four of them. In another example, HomeRise staff could not locate the completed budget documents with underlying assumptions and approval information for its properties. Specifically, we did not receive the approved budget documents for three properties for any of the years between 2019 and 2021 and did not receive the 2022 approved budget documents for one of the eight properties that we requested. These budget documents likely existed because property investors and other development stakeholders must approve budgets, but existing HomeRise staff could not access them.

Further, HomeRise could not locate annual monitoring reports for some of the properties from 2019 through 2021; specifically, of the eight properties for which we requested information, six properties did not have completed annual monitoring reports for 2021. Although the annual monitoring reports are due 120 days after the end of the fiscal year (April 30th based on HomeRise's current fiscal year), HomeRise submitted the 2021 reports after we requested them and more than a year later for four of the eight properties. These

³⁰ Example of requirement: Loan agreement by and between the City and County of San Francisco and CHP Scott Street LLC for Edward II, Articles 11 and 12.

³¹ Example of requirement: Loan agreement by and between the City and County of San Francisco and CHP Scott Street LLC for Edward II, Article 10.

³² Example of requirement: LOSP agreement by and between the City and County of San Francisco and CHP Scott Street LLC for Edward II. Articles 4, 6, and 6.1 in addition to Exhibits D and G.

annual monitoring reports are particularly important because MOHCD uses them to monitor properties, assess performance, and ensure ongoing compliance. Thus, providing critical information so late makes it difficult for MOHCD to monitor in a timely manner because the data in year-old reports is stale.

Moreover, HomeRise's annual monitoring reports for the properties we reviewed lacked the level of detail and accuracy required by MOHCD including narrative information about large repairs and capital improvements. Yet, even when replacement reserves were used, indicating that the cost of the repairs or improvements was significant, some HomeRise reports did not provide sufficient narrative information to explain. Further, reserve summaries were not always correct or accurate and only provided data on replacement reserves and not the other reserves. The reports' lack of detail, accuracy, and late submissions make it difficult for MOHCD to monitor that the City's funds are being used as intended.

When HomeRise submits required reports late or does not provide all required detail, MOHCD can issue a notice of default and withhold funds until HomeRise complies with the requirements. Although this protects the City's interest, it can create a fiscal challenge for HomeRise. In June 2022, MOHCD issued a Notice of Default to HomeRise because it had not submitted the required quarterly reports on time for the Richardson Apartments property. Consistent with the Notice of Default, MOHCD withheld LOSP funds of nearly \$500,000 until HomeRise complied with the requirements. HomeRise did not fully comply with the reporting requirement for the property until nearly a year later, in the spring of 2023, which contributed to a significant cash flow problem for the organization. Employees were unaware that HomeRise had not submitted the required reports, likely due to staff turnover and a lack of policies and procedures.

HomeRise's Missing or Outdated Property Policies and Procedures Contributed to Noncompliance and Left It More Vulnerable to Undetected Errors or Irregularities

Written policies and procedures are the foundation closest to staff that state what activities must be done, who should do them, and, often, how they are recorded and approved. Where applicable, policies and procedures may also consider due dates for external reporting. Despite the importance and complexity of its activities and the need to record and approve them, HomeRise operated with missing, incomplete, and outdated policies and procedures related to its properties. Those policies and procedures would have helped HomeRise in better performing property management activities and fulfilling City loan and LOSP subsidy agreement provisions, which as previously mentioned, contained numerous fiscal provisions that impacted each project's fiscal performance from project development through ongoing operations.

As staff left HomeRise, the remaining employees were not provided with the tools needed to know what they had to do to perform sufficient property management and comply with City funding agreements. Consequently, newer staff had sometimes changed processes without understanding the potential ramifications of doing so. One result of these problems was that HomeRise staff did not know where to get the property asset information we requested or how to retrieve needed documents. Also, the lack of written procedures heightened the risk of errors or irregularities occurring without management knowledge and can create situations in which staff is faced with conflicting information and unclear documentation. Since the beginning of our audit period in 2019 and likely since much earlier, HomeRise operated without any or with very outdated policies and procedures regarding property asset information as shown in Exhibit 14, which

contributed to its noncompliance with MOHCD requirements for the Richardson property as previously discussed.

EXHIBIT 14. HOMERISE’S MISSING OR OUTDATED PROPERTY MANAGEMENT POLICIES AND PROCEDURES

Policy and Procedure Area	Last Updated	Issues Noted
Property Development & Construction	N/A	<ul style="list-style-type: none"> No policies or procedures existed to describe steps involved, persons involved, or responsibilities. Employees in this area have left HomeRise; procedures were unknown.
Asset Management	N/A	<ul style="list-style-type: none"> A few policies and procedures were outdated; however, the asset management consultant recently developed tools to track needed reporting and requirements. Some of the recent tools needed more development.
Property Accounting		<ul style="list-style-type: none"> No policies or procedures were available or provided.
Housing Operations Division: <ul style="list-style-type: none"> Rent Collections and Payment Plans Vacancy Monitoring Tenants Subsidies 	N/A	<ul style="list-style-type: none"> No formal policies or procedures existed for housing operations. Some guides or protocols appeared to have been created when auditors asked about their existence. Draft procedures referred to the wrong system, were not specific to HomeRise, and provided instructions on processes that were not relevant to site manager rent collection activities. Draft needed more development; missing elements such as responsibilities for review, and how to ensure procedures are followed.
Safeguarding Assets and Inventory Tracking		<ul style="list-style-type: none"> Staff could not provide any (even outdated policies) on tracking inventory or assets purchased for the property. Capitalized assets were tracked in financial records for depreciation, but anything under \$2,500 was expensed. Items such as furniture for client rooms, microwave ovens, and TVs were not tagged or tracked.
Capitalization/Fixed Assets	2022	<ul style="list-style-type: none"> Some draft policies and procedures appeared to have been created when auditors asked about their existence. Capitalization and depreciation levels used conflict with HomeRise’s Accounting Policies & Procedures. Draft policies and procedures did not cover all properties. Draft needed more development; missing elements such as responsibilities for review and how to ensure procedures are followed.
Reserve Accounting	2013	<ul style="list-style-type: none"> Policies and procedures were outdated. Policy lacked requirements for six HomeRise properties—although it is critical to capture requirements for each loan or subsidy agreement. Draft needed more development; missing elements such as responsibilities for review and how to ensure procedures are followed.
Loan and LOSP Compliance		<ul style="list-style-type: none"> Needed to update trackers and compliance information in draft HOD manual and consolidate task and other tracking documents to create policies and procedures. Protocols needed to describe steps for processing funds (how money should flow) between bank operating accounts and reserve accounts.

Source: Policies and Procedures Provided by HomeRise Staff

Over a decade ago, in 2010, HomeRise wrote a property manual, but according to HomeRise, it was set aside when executive management appointed a new Director of the Housing Operations Department, and the manual was never replaced once that person left HomeRise's employment. Although the current department director stated that they wanted to update and reinstitute the manual, this did not occur by the end of our audit period. Consequently, HomeRise was at greater risk of making purchases and decisions that do not comply with City agreements or do not align with its mission.

Further, in reviewing HomeRise's property transactions, we found a significant lack of supervisory review of many property operations, including rent collections, recording expenses in the real estate and financial system, and moving funds between bank accounts. For instance, asset management and compliance management play a critical role in funding the properties by ensuring that HomeRise receives subsidies, grants, and other funds and that it files the required tenant-related and funding-related reports. Yet, HomeRise did not perform certain asset and compliance management tasks or review them for accuracy or timeliness. These tasks related to the annual monitoring reports were required by MOHCD for each property it funds. This partly occurred because no policies, procedures, or other guidelines exist to help staff fulfill these duties and HomeRise relied too heavily on consultants to fulfill its duties in these areas, although one consultant did develop task lists to provide some direction to HomeRise staff.

We understand the complexity of the work needed to finance HomeRise properties, track investor and developer fees and activities, monitor grants and subsidies, ensure tenants meet eligibility requirements, maintain properties, and provide services to residents. This complexity is why it is critical to have proper controls and a structure that provides accountability. Without them, HomeRise cannot adequately mitigate the risk of errors and irregularities going unnoticed by management. After we completed our audit fieldwork, HomeRise's new executives indicated that they were drafting new and updated policies and procedures for several areas as well as working with a consultant to assist with other fiscal policies and procedures. However, auditors did not confirm the reported information.

Chapter 2: HomeRise Did Not Comply With City Grant Fiscal Provisions Given Wasteful, Uncontrolled, and Questionable Spending

Since the early nineties, HomeRise has provided resident services to its tenants funded through a variety of sources, including the City's HSH. Services are provided to people currently or formerly experiencing homelessness to stabilize their living situations, improve mental and physical health, obtain emergency sleeping accommodations, and retain or move on to other appropriate housing.

Although our high-level review of programmatic compliance suggested that HomeRise had a general framework for program compliance, HomeRise did not comply with several City financial grant provisions and misspent funds on some non-eligible activities which could have been used to provide support services to its residents as intended by the grants. Also, we found missing controls that allowed uncontrolled and questionable spending to go undetected and created an environment at high risk for continued non-compliance and waste and abuse to occur without being noticed.

Some Uncontrolled, Noncompliant Spending Occurred Using HSH Grants and Was Exacerbated by Insufficient Protocols for Grant Spending

HomeRise budgeted City funding for resident services such as outreach, case management, support groups, organized activities, and life skills training through expenses that widely-vary. These expenses included staff salaries, tenant meals, furniture, clothing, toiletries, and transportation. Staff salaries represented most of the grant costs, with the remaining operational expenses comprised of thousands of lower dollar transactions each year.

We attempted to select a representative or statistical sample of expenses for review from each HSH grant but were challenged by the poor condition of HomeRise's records and the exhaustive efforts required to find documentation to support individual expenses and confirm allowability or prudent spending. Thus, we could not determine with certainty the magnitude of HomeRise's inappropriate spending or how many unallowable and inappropriate charges HomeRise submitted to the City for reimbursement.

Instead, we reviewed nine types of HomeRise's resident services grant transactions and found unallowable, questionable, or wasteful expenses in each instance.³³ These types included credit card line items which had multiple charges, single vendor invoices, or multiple salary charges on payroll registers. The practices described in this chapter that caused HomeRise to misspend and waste City grant funds were compounded by missing protocols that would help to control grant spending. Further, during the period under audit, HomeRise's annual "spend-down" practices were contrary to City grant purposes and City expectations for spend-down.

³³ Because the condition of HomeRise's records did not allow us to identify a reliable universe of grant expenses from which to pull a sample of expenses for testing, we identified nine types of transactions for review based on our assessment of unusual dollar values, description, or vendors noted in monthly credit card transactions from 2021 and 2022; amounts charged in the City's CARBON system submitted for reimbursement; and expense items identified by HomeRise staff.

In general, finding a handful of instances of noncompliant spending would not necessarily cause concern for auditors. Yet, by considering the issues in their totality with other financial risks detailed in this report, it was evident that, during the period under audit from 2019 through early 2023, HomeRise’s spending practices met the definition of waste which is the result of mismanagement, inappropriate actions, and/or inadequate oversight causing resources to be carelessly or excessively spent.³⁴

At HomeRise, not just one employee made noncompliant and questionable purchases, but managers and executives participated in the processes that led to such purchases. It appears that making purchases in this way was a part of the organization’s normal practices during that period. Beyond constituting waste, HomeRise’s actions heightened the risk for abuse, defined as deficient or improper behaviors outside what a prudent person would consider reasonable and necessary business practice given the facts and circumstances.³⁵ Although HSH did some monitoring of expenses charged to HSH, its efforts were insufficient to identify HomeRise’s noncompliant and questionable spending.

All Nine Types of Audited Charges to the City Were Unallowable, Imprudent, or Questionable

Between 2020 and early 2023, HomeRise spent almost \$20 million in HSH City grant funds on salaries and operational expenses.³⁶ Although we wanted to test a sample of costs charged across all active HSH grants, HomeRise’s Yardi real estate and financial system could not provide reliable reports detailing expenses charges (as is discussed in Chapter 3). Because staff charged most expenses on credit cards or did not record the proper code descriptions in Yardi, testing individual transactions was an extremely time-consuming, exhaustive effort. Thus, we conducted a cursory review of expenses charged in the City’s CARBON system, that were listed on HomeRise’s credit card statements, and selected items that looked like unusual transaction types, vendors, or dollar amounts or were brought to our attention by HomeRise staff.

Specifically, we reviewed nine types of transactions and found each expense revealed instances of unallowable, imprudent, or questionable spending that did not meet the intent of the City’s grant agreement, as shown in Exhibit 15 and described in the bullets that follow.

EXHIBIT 15. EXAMPLES OF UNALLOWABLE OR QUESTIONABLE HOMERISE EXPENSES

	Date of Expense ¹	Expenditure	Amount	Problem ²	HSH Grant Site
1	May 2021	Staff lunches charged to staff development and noted as spend down expenses	\$581.25	Unallowable purchase for program staff	Island Bay Homes
2	September 2021	Staff outing lunch charged to staff development	\$143.43	Unallowable purchase for program staff	Arnett Watson Apartments
3	September 2021	Staff lunch charged to staff development	\$38.56	Unallowable purchase for program staff	Senator Hotel

³⁴ Per Generally Accepted Government Auditing Standards paragraphs 6.21 and 6.22.

³⁵ Per Generally Accepted Government Auditing Standards paragraph 6.23.

³⁶ Based on invoice records in CARBON, the City and County of SF’s Contracts Administration, Reporting, and Billing Online system for invoicing, as of June 2023. Although the audit period was 2018 to 2023, available records in CARBON did not align exactly.

	Date of Expense ¹	Expenditure	Amount	Problem ²	HSH Grant Site
4	January 2022	Gift for corporate strategic manager mailed to home address charged to staff development	\$30.87	Unallowable purchase for program staff and imprudent grant purchase	Civic Center/ VanNess
5	January 2022	Gift for staff at upscale home goods boutique charged to staff development	\$179.20	Unallowable purchase for program staff and imprudent grant purchase	Island Bay Homes
6	June 2021	Flowers for corporate vice president's birthday charged to staff development	\$87.04	Unallowable purchase for program staff and imprudent grant purchase	5 th Street Apartments
7	August 2022	Sweet beverages imbedded within group of purchases labeled 'donuts'	\$14.99	Questionable Expense	Hotel Essex
8	June 2021	Consultant services for corporate fundraising charged to HSH grants	At least \$11,290	Unallowable corporate expense	5 th Street Apartments
9	December 2021	COVID-19 Pandemic Bonus Pay intended for frontline staff also given to managerial staff	At least \$11,567	Questionable expense	Departmentwide (Resident Services)
Total			At least \$23,932		

Source: HomeRise Financial Reports from Yardi, invoices from CARBON, credit card reports from Wells Fargo Bank and RAMP, and documents provided by HomeRise staff

Note 1: Underlying records do not always include specific date of expense.

Note 2: Imprudent is defined by Merriam-Webster's Dictionary lacking discretion, wisdom, or good judgement and by the Cambridge Dictionary as unwise by failing to consider the likely results of an action.

Although the dollar values of our examples may be small, when combined with other issues we note throughout this report, they indicate larger concerns and the potential that HomeRise had a pattern of inappropriate spending. Specifically, we found the following:

- Unallowable Corporate Fundraising Expenses.** HomeRise improperly charged at least \$11,290 in corporate fundraising expenses to HSH grants. These included expenses for leadership consulting services and strategic planning for the temporary Chief Development Officer, a fundraising position, which should have been paid for from a discretionary corporate budget source.³⁷ Instead, HomeRise split these costs across multiple grant agreements, one of which was the 5th and Harrison agreement. Moreover, the interim CFO at the time acknowledged in an email to staff that HomeRise's reimbursement request to the City did not explicitly identify the expense as fundraising related but indicated that any concerns regarding the charge had "been investigated and resolved." This suggested that HomeRise's executive leadership understood that fundraising costs were unallowable under the grant agreement and should not have been billed to the City but did not appear to remedy the issue.

³⁷ The City Controller's Guidelines for Cost Categorization in Nonprofit Contracts and Grants states that "Fundraising expenses are never allowable in City grants or contracts unless the program objective for the City grant is defined as fundraising and/or development capacity building."

- **\$11,567 of Pandemic Bonus Pay for Ineligible Staff.** The City provided HomeRise with over \$200,000 in pandemic bonus pay for staff working under HSH grants from 2020 through 2023.³⁸ The City allowed its grantees flexibility in using the funds as needed, but the intent was to provide additional compensation to front-line pandemic workers who could not work remotely and, thus, had higher risk of exposure to COVID-19. Although HomeRise provided bonuses to certain front-line workers as intended, it also gave at least \$11,567 in bonuses to executive and managerial employees who do not meet the City’s criteria and charged these bonuses to the City grants.³⁹
- **More Unallowable Expenses: Lunches, Gifts for Staff, Sweetened Drinks.** Other direct expenses HomeRise charged to the City are corporate expenses that were also unallowable. For example, we found that HomeRise recorded \$38.56 staff lunches and DoorDash purchases in Yardi as being under City grant agreements.⁴⁰ Also, HomeRise charged the City at least \$297 in direct expenses for gifts for its staff including a cookbook, flowers for a corporate executive’s birthday, and goods from an upscale home boutique.⁴¹ Several of these gifts were sent or mailed to personal residences and staff indicated on the associated expense support that small purchases do not require approval. In another instance, HomeRise staff embedded an \$14.99 purchase of sweet, carbonated drinks within a lumpsum amount labeled “donuts” and assigned the expenses to a tenant activities line item. This occurred despite City guidelines that prohibit the purchase of sugar-sweetened beverages.⁴² Although the HomeRise purchase was for “artificially sweetened” drinks, we question whether the purchase meets the intent of the City’s restrictions.

HSH staff caught some instances of HomeRise’s ineligible spending under grant agreements and, when it did, rejected invoices for correction, but often HomeRise’ spending was below the \$10,000 line-item threshold that triggers HSH to ask grantees to submit underlying support.

The City also allows HomeRise to charge indirect costs to the grant up to 15 percent of its total direct costs, guided by the City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants. These guidelines allow indirect expenses such as rent, meals that only benefit HomeRise staff, and other

³⁸ Based on invoice records in CARBON, the City and County of San Francisco’s Contracts Administration, Reporting, and Billing Online system for invoicing, as of June 2023.

³⁹ In January 2021, HSH published a COVID-19 Provider Bonus Pay FAQ that stated that “HSH received feedback from Grantees that much of its nonprofit workforce, particularly lower wage workers must be on-site and interact with clients to perform their job duties. This funding is intended to provide one-time pay bonus for these front-line workers. These funds are not intended for managerial-level, administrative/indirect costs, or staff that can work remotely. These funds are not intended to hire new staff or to purchase equipment. However, HSH is providing Grantees flexibility to utilize these funds as best meets the needs and equity goals of each organization”.

⁴⁰ The City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants states that “costs for events that only benefit staff members, such as staff recognitions, celebrations, events attended by staff only, food for staff, and staff meals at restaurants” are only permissible under allowable indirect expense allowances.

⁴¹ The \$297 includes \$179.20 in gifts from an upscale home boutique for staff, \$87.04 in flowers for a corporate executive’s birthday, \$30.87 gift of a cookbook for a manager. HSH Grant, Article 5.2 “Use of Grant Funds” states that the “Grantee shall use the Grant Funds only for Eligible Expenses as set forth in Appendix A, Services to be Provided; Appendix A-1, Services to be Provided; and Appendix B, Budget and for no other purpose. Grantee shall expend the Grant Funds in accordance with the Budget”. Services to be provided vary across individual grants but are for the served population including outreach, intake and assessment, case management, coordination of services, benefits advocacy, and support groups.

⁴² The City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants states that sugar-sweetened beverages and bottled water are unallowable direct costs. HSH Grant, Article 16.19 “Distribution of Beverages and Water” states “Grantee agrees that it shall not sell, provide, or otherwise distribute Sugar-Sweetened Beverages, as defined by San Francisco Administrative Code Chapter 101, as part of its performance of this Agreement.”

corporate expenses. Yet, when seeking reimbursements from the City, HomeRise sometimes charged these expenses as direct expenses in addition to claiming the indirect percentage.⁴³

HomeRise's Spend-Down Practice Did Not Align with the City's Expectation

Eight of the ten HomeRise grant agreements with HSH we reviewed established expectations for spending annual funding proportionally each month over the fiscal year.⁴⁴ According to HSH grant staff, the expectation is that roughly 1/12th of the annual grant budget will be invoiced to the City each month for reimbursement. The “spend-down” provision is not intended to allow a provider to spend large sums of leftover grant money at the year end of the fiscal year.

In contrast to the City's expectation, HomeRise's spend-down practice led to year-end efforts with executive management to find expenses—including corporate expenses—that could be charged to City grants to spend any remaining and available (uncommitted) balances.⁴⁵ In a meeting, held in March 2022, a corporate manager asked the other meeting participants to suggest their wish list of ways to spend (remaining) City grant money to make an impact across the organization through corporate staff development, corporate office supplies, and resident services.

One director suggested introducing a program for residents (the intended beneficiaries of the HSH grants) to help them overcome the traumatic events in their lives to move toward healing and sustainability—an eligible grant expense that aligned with the mission of providing supportive services to the residents. Yet, most of the other ideas proposed in the meeting related to purchases and expenses that solely benefited HomeRise organizationally, such as HomeRise-branded swag; a barbeque for HomeRise staff; HomeRise staff diversity, equity, and inclusion investments; HomeRise culture enhancements for staff; breast-feeding stations for staff; deep cleaning of office space (after COVID); and building space makeovers at HomeRise properties—all unallowable expenses or corporate activities that were not supportive services to residents.

HomeRise executives employed at the time and present at the meeting suggested and supported these spend-down options, in addition to suggested corporate staff salary increases and potential supplemental payments to retirement plans for corporate staff who are charged to HSH agreements rather than “leaving money on the table.” Although these types of expenses may be appropriate from a business standpoint, if authorized, they should be paid from another funding source, not HSH grant funds. Due to the condition of HomeRise's records, we could not determine with certainty whether HomeRise made any of the planned or suggested spend-down purchases and charged them to an HSH grant.⁴⁶

More generally, a HomeRise Vice President asserted in that late-year spend-down meeting that past spend-down decisions had led HomeRise to charge previous HSH grants for the costs of transportation and

⁴³ According to City staff, the City does not typically ask for supporting documentation for indirect costs if HomeRise stays within the allotted percentage.

⁴⁴ HSH Grant Appendix C, Section II.D.2 states “Generally, Grantee is expected to spend down ongoing funding proportionally to the fiscal year.”

⁴⁵ Auditors reviewed a video of a March 2022 spend-down meeting in which several executives were present, including the CEO, CO&SO, VP of Programs, VP of Fund Development, VP of Learning and Training, and Directors of Housing and Residential Services, among others.

⁴⁶ Because HomeRise receipts or Yardi data are not clearly notated to capture which of the individual transactions HomeRise claimed for reimbursement from HSH, it is nearly impossible to wade through thousands of credit card transactions or vendor invoices to identify which expenses were charged in which month to which HSH grant.

food for an all-HomeRise staff event on Treasure Island, laptop cameras, and HomeRise jackets, among other items, presumably for HomeRise staff and not the intended resident beneficiaries of the HSH grants.

Ultimately, although the City expected its “spend-down” provisions to define the timing of spending of the budgeted funds on eligible expenses, it appears that HomeRise may have used the “spend-down” provision to consume remaining grant funds—regardless of whether the charges related to tenants (often allowable) or its own staff (unallowable).⁴⁷ To the extent that HomeRise used City grant funds to pay for unallowable expenses that benefited HomeRise or its staff, this practice diverted funds that could have otherwise been used for tenants which is the core focus of the HSH grants.

Given the issues we discuss later in this report related to extremely poor records, significant lack of policies and transaction approvals, gross overuse of credit cards, and concerning lack of leadership over HomeRise’s financial activity, there is substantial risk that HomeRise’s environment could easily allow an individual to conceal an improper transaction and seek reimbursement from the City. This practice created an environment at heightened risk for abuse of City funding.

HomeRise’s Spend-Down Purchases We Reviewed in May 2021 Appeared Ineligible for Reimbursement

We attempted to determine whether any of HomeRise’s year-end spend-down activities were charged to HSH, but we could not conclusively confirm or identify the magnitude of these potentially inappropriate charges because HomeRise did not always properly classify expenses in Yardi. Further, because HomeRise incurred charges through thousands of individual credit card purchases, it was prohibitively time-consuming for auditors to attempt a review of individual transactions. Thus, we identified 22 credit card purchases close to the end of the grant year in May 2021 that were earmarked as “spend-down” charges in the financial records and focused on five that had unusual or concerning descriptions. All were questionable on whether they were proper or aligned with the intent of City grants.⁴⁸ HomeRise’s practice of invoicing the City for higher reimbursement request at the end of the grant year contained instances of unallowable expenses as well that were improper or miscoded.

For instance, HSH reimbursed HomeRise for approximately \$581 of expenses for staff meals purchased from Cheesecake Factory, Wingstop, and California Pizza Kitchen that were coded to Tenant Projects and Activities or to Staff Development categories in HomeRise’s real estate and financial system. HomeRise may purchase meals for staff or otherwise reward its staff for their efforts and performance using corporate funding, but City grant funds are meant for services to tenants.⁴⁹

⁴⁷ HSH Grant Section 5.2 state “Use of Grant Funds” notes that Grantee shall use the Grant funds only for Eligible Expenses as set forth in the agreement.

⁴⁸ We filtered the May 2021 credit card statements for “spend,” and identified 22 individual charges for cursory review. Given the known exhaustive time- commitment involved with prior attempts to find and review individual receipts and invoices, we reviewed HomeRise’s notations in its credit card system and its Yardi financial system.

⁴⁹ HSH Grant, Article 5.2 “Use of Grant Funds” states that the “Grantee shall use the Grant Funds only for Eligible Expenses as set forth in Appendix A, Services to be Provided; Appendix A-1, Services to be Provided; and Appendix B, Budget and for no other purpose. Grantee shall expend the Grant Funds in accordance with the Budget”. Services to be provided vary across individual grants but are for the served population. Additionally, the City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants states that “costs for events that only benefit staff members, such as staff recognitions, celebrations, events attended by staff only, food for staff, and staff meals at restaurants” are only permissible under allowable indirect expense allowances.

In May 2021, HomeRise purchased \$2,600 in gift cards for the 5th Street Apartments property. The cards were issued by and redeemable at Costco, Amazon, Boston Market, and Krispy Kreme. HomeRise recorded that the gift cards were for (i.e., presumably to be given to residents at) resident services events to occur in the following fiscal year. In addition to the grant agreement for this property not having a spend-down provision, this purchase was questionable as it seemed to be an example of HomeRise using available grant funds late in the year due to a “use it or lose it” impetus and we could not confirm whether these gift cards were given to the residents or used for corporate staff purposes.

HomeRise Lacked Protocols to Guide and Control Grant Spending

To guide community-based organizations on how to spend City grant funds, the City Controller’s Office issued *Guidelines for Cost Categorization in Nonprofit Contracts and Grants*. These guidelines cover the treatment and allowability of direct and indirect costs under City agreements and are meant to provide general guidance but acknowledge that it is impossible to specify how to treat expenses in every situation. Because the City’s guidelines are intentionally broad, each recipient of City grants, including HomeRise, should have its own, more specific set of policies and procedures to guide its staff. However, HomeRise had no up-to-date internal policies or procedures to help ensure its staff spent grant money in compliance with the agreements. Moreover, HomeRise had few controls to limit staff spending and lacked preventive controls, with supervisory review of charges only occurring after charges were incurred, which is an after the fact control mechanism, not preventive control.

An old Resident Services manual issued in 2020 was HomeRise’s only spending guidance to help staff with decision-making in a few resident-related expenditure areas. For example, the manual had procedures to follow before incurring resident travel expenses (such as for resident trips to medical facilities) and stated the documentation required to support the cost of resident travel, such as the nature of the travel, the site associated with the client, and the date of travel. Yet, HomeRise appeared to have no current guidelines for spending in other HSH-grant budget categories, such as what types of expense are allowable for tenant projects and activities, office supplies, dues and subscriptions, resident staff training, or small office purchases.

The lack of sufficient guidance for grant spending makes it challenging for HomeRise to ensure it incurs and charges only allowable expenses under its City grants. For example, HSH grant budgets had a line item for approximately \$4,500 in “tenant projects and activities,” but it was unclear what types of expenses were allowable in that category. In its January 2023 reimbursement request to the City for the Island Bay Homes grant, HomeRise requested a \$73 reimbursement in this category for items including candles and books that it purchased as part of a library program for residents. Although the amounts were small and candles or books may reasonably be part of activities for tenants, there were no guidelines to help staff know what was allowable and no requirements to ensure purchases were for tenants and not for HomeRise staff.

Moreover, several HomeRise employees we interviewed stated there were internal disagreements—between staff within the Resident Services Department, as well as between staff in the Resident Services Department and staff in the Finance Department—on what was considered allowable and who must make the final determination of allowability before requesting City reimbursement.

HomeRise's Grant Budgets Were Not Always Based on Solid Rationale and Its Budget Monitoring Was Poor

The budgets for HomeRise's grants from HSH, especially the budget line items for salaries and operating expenses, were not developed based on solid rationale. Further, HomeRise's tracking of expenses was insufficient to ensure it complied with the grants' intent.

Insufficient Support for the Basis of Grant Budgets HomeRise Developed for Its HSH Grants

Although the scope of each grant agreement between HomeRise and HSH differs, each agreement has the same budget format and is subject to the same rules on the use of grant funds. To ensure its grant spending is appropriate, HomeRise must establish budgets that align with City requirements. These budgets are to be supported with rationale for the amounts in each cost category. However, while HomeRise had some basis for its budget development methodology such as number of units to estimate quantity, its overall calculations and approach were not well supported to show how it developed grant budgets for salary and operating expenses.

HomeRise provided a spreadsheet with calculations that showed how line-item operating expense categories were determined, but could not provide support, such as historical data, which would be adequate to justify the operating budgets used for its HSH grant agreements. For instance, the office supplies line-item amount was based on \$38 multiplied by the number of housing units at the site but there was no explanation of the \$38 basis for this calculation. Similarly, the cost for tenant/resident services and activities was estimated to be \$228 multiplied by the numbers of units, again with no support for why \$228 was used. Moreover, the spreadsheet was disorganized and informal.

Although the cause of this was unknown, several factors may have contributed to the problem. First, for several years HomeRise had a high rate of significant management and staff turnover and a resulting lack of clear direction (and/or changes in direction) from leadership, as discussed in more depth in Chapter 5. Lacking an appropriate basis for how it established its grant budgets, HomeRise was at increased risk of misspending City grant funds. That is, if grant budgets are unjustifiably high, allowed spending could represent wasteful spending.

HomeRise's lack of adequate budget development was even more concerning given the cash flow issues described in Chapter 4. If HomeRise had developed grant agreement budgets with sound methodologies that reflected expenditure levels the organization could afford, and if it had adhered to such budgets, its cash flow and noncompliance issues may have been less severe.

Contrary to City Guidelines, at Least Two HomeRise Corporate Positions Were Partially Paid for as Direct Costs Under HSH Grants

As shown in Exhibit 16, staff salaries were the largest element of each grant agreement budget: in six of eight reviewed budgets, HomeRise staff salaries made up 65 percent or more of the total planned expenses. Four of the eight reviewed budgets estimated salaries to be more than 70 percent of the total planned expenses.

EXHIBIT 16. SALARIES ARE THE LARGEST EXPENSE IN MOST BUDGETS FOR HOMERISE’S HSH GRANT AGREEMENTS

	Grant	Period	Total Budget ^a	Salaries Line Item	Salaries as Percent of Total ^b	Operating Budget
1	Arnett Watson Apartments	7/1/2020 - 6/30/2023	\$1.8M	\$1.2M	68.2%	\$313K
2	Hotel Essex and Zygmunt Arendt House	7/1/2020 - 6/30/2023	\$2.2M	\$1.6M	73.6%	\$249K
3	Island Bay Homes	7/1/2020 - 6/30/2023	\$1.6M	\$1.2M	70.6%	\$221K
4	Prop 63 MHSA G-100	7/1/2020 - 6/30/2023	\$1.9M	\$0.5M	25.3%	\$700K
5	5th Street Apartments	7/1/2019 - 6/30/2023	\$7.7M	\$3.2M	42.3%	\$3.2M
6	Tenant Services & HUD	7/1/2020 - 12/31/2023	\$4.5M	\$2.9M	65.4%	\$875K
7	Jazzie Collins Apartments	6/1/2022 - 6/30/2027	\$3.2M	\$2.5M	76.7%	\$316K
8	Mission Bay	7/1/2022 - 6/30/2027	\$4.6M	\$3.5M	76.8%	\$464K

Source: Appendix B Grant agreements provided by HSH

Note ^a: Each agreement’s budget may be modified during the term of the agreement. The amounts were from the versions provided to auditors at the time of our fieldwork. Although different versions of these budgets may exist, the versions we relied on adequately reflect high-level budget breakdowns.

Note ^b: Total percentages of salaries and operating expenses do not total 100 percent because there are indirect expenses and minor non-operating expenses are part of each budget.

It is proper that the salaries of HomeRise direct services staff, such as the salaries of Resident Service Managers, were funded by City grant agreements because these positions are filled by HomeRise employees who work at the sites associated with the agreements. In addition, we found that both HomeRise’s Chief Strategy and Operating Officer and HomeRise’s Director of Impact were also partially funded by grant agreements, which should mean that a corresponding part of the direct time worked by the employees in these positions is spent at—or at least on the operations of—these sites.⁵⁰ However, HomeRise could not provide time studies or activity logs to show how the employees in these corporate positions spent their time, including whether any of it was spent at specific sites, so it was unclear how HomeRise determined that it was legitimate to charge part of the time worked by these corporate employees to HSH grants.

HomeRise did not use staff timesheets to support the salary and labor distribution reflected in the budgets for its HSH grant agreements. Rather, according to HomeRise Resident Services staff we spoke with, the percentages of staff (and staff expenses) charged for each grant were based on informal estimates. The City will fund indirect expenses on its grants up to a maximum of 15 percent of direct costs, and the City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants further clarify that executive salaries should be considered indirect costs.⁵¹ Yet, HomeRise charged part of these expenses as direct salaries in addition to claiming the indirect cost percentage.

⁵⁰ Based on the grant agreement budgets we reviewed, 40 percent of the Chief Strategy and Operating Officer position and 25 percent of the Director of Impact position is funded from HSH grant agreements. However, due to the condition of records and resources, we could not review each of the HSH grants active during our audit period to reconcile or confirm each individual staff budgeted against their position titles, timesheets, and payroll records to identify direct and indirect staff.

⁵¹ The City Controller’s Guidelines for Cost Categorization in Nonprofit Contracts and Grants states that only salaries of staff that “work directly on programs” are allowed as direct expenses while executive level salaries are permissible as indirect expenses.

Without a formal staffing allocation analysis or time studies to demonstrate which positions should be directly charged to specific grants, there is no guarantee that HomeRise correctly allocated its salary charges. This increases the risk that money paid to HomeRise for salaries under a given HSH grant was for work not directly related to that grant. In the absence of a data-driven salary expense allocation, neither HomeRise nor HSH can be sure that the salary expenses made under each of HomeRise's grant agreements complies with the intent of the grant, which is that direct services costs must be for services to resident at that grant site.

In contrast to HomeRise's practice of partially funding corporate positions as direct costs under its HSH grants, the City Controller's Guidelines state that costs for corporate positions and activities should be treated as indirect costs. Despite this noncompliant practice by HomeRise, HSH approved HomeRise's grant agreement budgets. Before (or instead of) giving its approval, HSH could have asked HomeRise for its rationale for including specific corporate positions in grant agreement budgets as partial direct costs and should have asked for documentation supporting how HomeRise developed its grant budgets in general.

HomeRise Inadequately Tracked Its Grant Budget-to-Actual Expenses, Which Increased the Risk of It Incurring Unallowable City Funds

HomeRise did not comprehensively or adequately track its expenses against its HSH grant agreement budgets to ensure its spending does not exceed budgeted amount limits. HomeRise program staff partially blamed the organization's real estate and financial system, Yardi, for the lack of expenditure tracking. According to the program staff, Yardi was difficult to use for this purpose. Although this may be true, program staff could have consistently used spreadsheets or another method to regularly track its actual expenses and compare them to budgeted amounts. Though staff had provided examples of expense trackers, they were incomplete and insufficient to keep record of budget to actual expenses.

For example, as a sample test, we reviewed HomeRise's expense trackers for two of its HSH grants—for services under the Hotel Essex & Zygmunt Arendt House properties grant and the Arnett Watson Apartments property grant—as of February 14, 2023, and found that the amount of the actual expenses shown on the trackers did not agree with the amounts invoiced to the City for the same period.⁵² Also, the grant expenditure amounts HomeRise submitted to the City for reimbursement did not consistently match data recorded in Yardi. Without accurate expense records, HomeRise cannot be a responsible steward of the City's grant money.

Further, because it did not exercise due diligence to track how it spends City grant money, HomeRise had no timely, reliable way to ensure spending complied grant agreement requirements. This practice heightened the risk that any pattern of significant overspending—expenses that consistently or repeatedly exceed budgeted amounts by large margins—may only be detected long after they began occurring.

HomeRise Did Not Adequately Inventory Assets It Purchased with City Grant Funds

HomeRise did not appropriately track or maintain an inventory of assets it purchased using grant funds and had no appropriate framework or protocols to do so. Consequently, HomeRise had no records to show how

⁵² Amounts invoiced to the City are input into the City's CARBON system.

it dispersed or where it stored those purchases.⁵³ Although the outdated Resident Services Manual required staff to keep electronic logs of inventory, such as gift card distribution sheets, the Resident Services Director could not provide any such logs to auditors but stated HomeRise would reset expectations for staff to keep such logs in the future.⁵⁴ Several employees we interviewed alleged that gift cards HomeRise bought with City grant funds were missing, but due to HomeRise's poor record keeping and weak underlying data systems, we could not determine whether these allegations are factual.

Some grant-funded purchases, such as snacks purchased for residents may not require detailed location tracking. However, when grant funds are used to buy valuable tangible items and/or items that could easily be lost or stolen if not properly safeguarded, such as gift cards, it is important for HomeRise to keep track of the distribution or location of such items. Some notes to this effect were included in HomeRise's credit card processing system when staff uploaded receipts for purchases; yet, having this information outside its Yardi accounting records with no ability to summarize the inventoried items, made efficient inventory tracking impractical and did not adhere to standard inventory control practices. Because HomeRise did not sufficiently or uniformly track inventory, it increased the risk that goods purchased with City grant funds may be misused, wasted, lost, or stolen.

HomeRise Used Unstructured, Informal Practices to Prepare Grant Reimbursement Requests, Leading to Errors in Its Bills to the City

HomeRise lacked adequate procedures for preparing, reviewing, and submitting grant reimbursement requests to the City. HomeRise had a grant invoice policy issued in 2019, but it did not contain details to guide the process. As such, program employees operated outside this policy, using their own judgment to determine how to prepare an invoice, which data queries to use, and how to ensure reimbursement requests are accurate and timely. HomeRise staff acknowledged that this led to errors in reimbursement requests HomeRise sent to the City, although the scope and magnitude of errors during the audit period are unknown due to the poor condition of HomeRise's records.

Each month for each HSH grant, HomeRise's former Grants Manager would download expense information from Yardi to prepare the reimbursement requests that HomeRise submitted to the City. As required, HomeRise made the requests, though the web-based Contracts Administration, Reporting, and Billing Online system (CARBON) for invoicing. According to the former Grants Manager, before submitting the requests, in general, the manager reviewed the highest expenses, looked for supporting documentation such as invoices and receipts, and asked Resident Services Department staff for any needed clarification or additional information. However, HomeRise had no formal protocols to guide this review; instead, the manager relied on interpretation of the Controller's Guidelines.

Although the reimbursement request review and submittal process appeared to be straightforward, there were several touchpoints where missteps may occur that could lead to inaccurate reimbursement requests

⁵³ Standards for Internal Control in the Federal Government (GAO-14-704G) Principle 10.03 lists common categories of controls activities that include physical control and safeguarding of assets such as inventory that might be vulnerable to risk of loss or unauthorized use.

⁵⁴ In an April 2023 update to providers, HSH stated that agencies providing gift cards are subject to eligibility criteria and gift card record retention requirements in the Controller's Accounting Policies & Procedures.

because no formal standardized procedures existed. The flaws in this process included, but were not limited to, the following.

- **No Designated Procedure to Extract Grant Expenditure Data from Yardi.** Both staff and the external Yardi consultant stated that multiple queries could be used to access grant expense information, resulting in the possibility of pulling different, incomplete, or incorrect data for a given grant. Yet, HomeRise had no formal, agreed-upon procedures—or even an informal understanding of which query should be used—to obtain the accurate expense data needed for monthly grant invoices. Consequently, different employees used different queries to pull grant expenses data, resulting in different expense amounts for the same grant during the same period. This practice increased the risk that incorrect data is pulled, and incorrect amounts are invoiced to the City.
- **Underlying Salary Expense Data in Yardi Was Insufficient and Not Easily Available.** Most of the expenses HomeRise charged to the HSH grants were for staff salaries. However, HomeRise could not provide support for labor charges in Yardi for management or supervisory employees who split their time among properties or grants. For these staff expenses, a HomeRise consultant entered staffing allocation percentages in Yardi, with the goal of allocating the correct amount of salary expenses to each grant. However, we found that allocations in Yardi were not current as they were not in line with corresponding agreement grant budgets approved and supported by timesheets, time studies, or other rationale.⁵⁵ According to HomeRise, this occurred because of miscommunication between the Finance Department and Resident Services Department.
- **Disagreement Among Staff on Which Expenses Can Be Billed to the City.** Because HomeRise did not have policies and procedures for grant spending or grant reimbursement preparation, it should not be surprising that different employees could have different understandings of any element of this process, including which expenses are reimbursable. In fact, this is the case, as we were informed of internal disagreements among HomeRise staff on final determinations of whether an expense was allowable and should be charged to the City. Further, HomeRise had no procedure for determining the allowability of an expense nor a policy that would designate a particular HomeRise employee to make these determinations. Some HomeRise staff alleged that employees other than the former Grant Manager, who was the grant biller, would alter reimbursement data in draft form before final submission into CARBON, unbeknownst to staff. Because modifications (as opposed to formal submissions) made in CARBON did not indicate when or by whom they were made, we could not determine whether any such data was altered.
- **Unpaid Expenses Included in Reimbursement Requests.** In one example, HomeRise included a \$3,250 staff training expense on a reimbursement request to the City in June 2021. At the time of this request, HomeRise had not paid the vendor. In fact, HomeRise did not pay the vendor until February 2022—or eight months later. HomeRise's agreements with the City are silent on whether HomeRise must have actually paid out an expense claimed before making its reimbursement request for that expense. However, based on the definition of reimbursement, there is an implied responsibility that a grantee will have spent money for the expense before submitting a request for

⁵⁵ HomeRise staff informed us the allocations were inaccurate. Upon our cursory review of the Yardi allocations, we verified that the few allocations we reviewed were not correct. Staff were in-process of conducting a reconciliation to fix past City invoices. Because the HomeRise staff had not finished the review by the end of our audit fieldwork and given the condition of HomeRise records, we were not to determine the magnitude of the cost allocation errors.

reimbursement. According to HSH, it expects grantees to stay current in paying their accrued expenses, and on July 1, 2023, modified its grant agreement to explicitly require grantees to pay accrued expenses before reimbursement by HSH.

- **Invoices Submitted to City for Reimbursement Without Adequate Supervisory Review.** Although several HomeRise employees told us that they reviewed invoices and related data before submitting them to the City, errors were not always caught, suggesting that whatever review took place was insufficient. We were informed that the Interim CFO who was in place during our 2023 fieldwork was the final approver of reimbursement request submitted to the City. However, the Interim CFO described to us a review consisting of a high-level check of amounts with no details of which specific data, if any, was reviewed.

According to HomeRise employees, these issues caused incorrect billings to the City—although they could not identify all invoices that include incorrect charges. We attempted to review supporting information for grant charges but could not determine with certainty the accuracy of specific reimbursement invoices HomeRise submitted to the City due to the generally poor condition of HomeRise’s records. According to HomeRise, after the end of fieldwork, staff was in the process of reviewing and fixing known deficiencies on past invoices and creating an improved process to use in the future. However, auditors did not validate the corrections.

Its Programmatic Framework Helped HomeRise to Comply with Program Requirements in City Agreements

Although HSH has recommended specific ways for HomeRise to better comply with City requirements for programmatic reporting and other areas, HomeRise appeared to have a sufficient programmatic framework to provide contracted program services to its intended recipients.

Because the audit primarily focused on fiscal issues, we only conducted a high-level review of HomeRise’s programmatic framework. The audit did not address whether HomeRise complied with the program and outcome requirements in ten HSH grant agreements that were provided to us. However, we found that:

- HomeRise used an electronic system to track its case management efforts, to capture metrics required by the agreements, and to log its program work.
- According to HomeRise, managers trained resident services staff on the case management system, and corporate staff was available to support data management as needed.
- Data from the system was used to track and report on the service and outcome objectives in grant agreements.
- Protocols existed for monthly, quarterly, and annual programmatic reporting in the City’s systems.

Thus, based on our high-level review, HomeRise’s programmatic framework helped ensure program compliance. HSH also conducted its own monitoring of HomeRise, which was done through annual site visits. In 2022, HSH notified HomeRise of some of its identified deficiencies. However, not until this audit began did HomeRise comprehensively track, follow up on, and begin resolving HSH findings.

Chapter 3: Inadequate Financial Environment and Controls Contributed to HomeRise’s Noncompliance with City Funding Agreements

HomeRise’s agreements with the City require accurate financial books, files, and records of services provided under grant agreements and all aspects of property operating expenses, income, and matters funded by the grant funds.⁵⁶ Those records must be built on sufficient internal controls to ensure financial data is reliable, accurate, and compliant.⁵⁷ Yet, HomeRise lacked an adequate control framework to manage City funds and control spending, which likely caused noncompliance, waste, and misuse of City funds identified in the preceding chapters. HomeRise’s fiscal environment had multiple problems including unreliable records, missing internal controls that should be standard, and questionable financial practices. These problems were compounded by HomeRise’s transition to a new real estate and financial system, Yardi in 2020, and financial staff vacancies.

During briefings with the auditors, HomeRise’s new leadership and remaining staff recognized these issues and stated they were updating or establishing policies and procedures in addition to training staff on the revised protocols. Although these positive efforts are needed to strengthen HomeRise’s fiscal environment, HomeRise will continue to have difficulty complying with its City grant agreements until its real estate and financial system, as well as the framework in which the system exists, are remediated.

Financial Data Related to City Agreements in HomeRise’s Financial System Was Unreliable; Practices Must Change to Ensure the Data Is Dependable

Before 2020, HomeRise used separate systems to account for and manage its housing property activities and to record related financial transactions.⁵⁸ Then, in January 2020, HomeRise implemented a new software system—a Salesforce product known as Yardi—that was intended to facilitate real estate property management and integrate accounting and financial reporting features.⁵⁹ However, several issues resulting

⁵⁶ HSH Grant Agreement Section 5.2 and 6.5 Books and Records require maintenance of “accurate files and accounting records including invoices, documents, payrolls, time records and other data in a readily accessible location.” Similarly, MOHCD’s loan agreements and LOSP Agreement Section 6.5 Books and Records requires “accurate files and records of all aspects of Operating Expenses and Project Income and the matters funded in whole or in part” including “all invoices, documents, payrolls, time records and other data.”

⁵⁷ Given our focus on financial compliance with City funding agreements involving HomeRise revenues and expenses as well as our application and adherence to Generally Accepted Government Auditing Standards, we were required to assess HomeRise’s internal control framework and analyze the root cause of any internal control deficiencies. A control framework is a documented set of structured guidelines, procedures, principles, and protocols designed to maintain an effective internal control system to manage risk including fraud, ensure reliability of financial reporting, and promote compliance with laws and binding agreements such as the most widely recognized internal control framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Not only is GAGAS consistent with concepts defined by the COSO Internal Control—Integrated Framework (GAGAS paragraph 8.39 to 8.67) and the United States Government Accountability Office’s Standard for Internal Control in the Federal Government (GAO-14-704G), but the Code of Federal Regulations Title 2 Part 200 Subpart D, Section 200.303 states that recipients of federal funds (in this case HomeRise) must comply with the COSO Internal Control Framework or the Green Book as a recipient of federal funds.

⁵⁸ Before 2020, HomeRise used Boston Post affordable housing property management software to help manage compliance with funding programs and regulations and to record property-related financial activity. HomeRise used the MIP Fund Accounting system to record and track all the organization’s accounting activity.

⁵⁹ HomeRise sought to integrate all its functions using one system. Yardi is a well-known property management software that also has features for accounting, financial reporting, inventory, purchasing, and fixed assets accounting.

from Yardi's implementation put the reliability of HomeRise's financial data in question, as shown in the bullets that follow:⁶⁰

- **Legacy System Data Transferred to Yardi Without Being Reconciled.**
HomeRise did not reconcile its other management systems before transferring data into Yardi, so pre-2020 data was difficult to obtain from the legacy system and may not be correctly reflected in Yardi. Moreover, it was difficult or impossible to identify and fix data in the system that may be incorrect because HomeRise did not have sufficient supporting documents for transactions made before 2020. Further, in many cases, transactions made during 2020 were equally challenging for auditors to locate underlying support. City agreements require files and supporting documents to be maintained for at least five years after final payment.⁶¹
- **Standard Report Queries Produced Different Results, Casting Doubt on Their Accuracy.**
Although Yardi provided several options for generating financial and grant reports, depending on user roles and other factors, these similar queries caused different results to be delivered from what should be the same data. This led us to doubt whether data in the reports generated by Yardi was comprehensive and accurate. When we queried the system, with the help of HomeRise staff, to capture income statement data, we found that two reports generated from the system for the same purpose presented dissimilar information, with several pieces of revenue or expense data missing from the two reports. This indicated an increased risk that transactional financial information in Yardi is incorrect and unreliable.
- **System Budget Information Not Uploaded Accurately or in a Timely Manner.**
When staff developed budget information outside of Yardi, the information must be manually entered. However, we found that HomeRise staff did not always do so accurately or in a timely manner. Consequently, HomeRise cannot rely on system-generated budget-to-actual revenue and expenditure reports to monitor program activity, and HomeRise executives cannot depend on the fiscal system data to monitor the organization's cash flow.
- **No Supporting Detail for Many Automatic Transaction Accruals.**
Many system revenue and expense transactions—such as payroll distribution, journal entries, audit adjustments, transfers, indirect costs, allowances for bad debts, and vacancy losses—were automatically recorded and allocated to various accounts or grants based on rules programmed into the system.⁶² However, no details or support existed for the allocation of these expenses. This made it difficult for us—and, more importantly, makes it difficult for HomeRise staff—to review charges or find any explanations for the transactions.

⁶⁰ GAO-14-704G Principle 11.09 describes that management should have controls over information technology infrastructure to support the completeness, accuracy, and validity of information technology data.

⁶¹ HSH Grant Agreement Section 5.2 and 6.5 Books and Records require maintenance of "accurate files and accounting records including invoices, documents, payrolls, time records and other data in a readily accessible location and condition for at least five (5) years after final payment." Similarly, MOHCD's loan agreements and LOSP Agreements Section 6.5 Books and Records requires "accurate files and records of all aspects of Operating Expenses and Project Income and the matters funded in whole or in part" including "all invoices, documents, payrolls, time records and other data" in a readily accessible location and condition for a period of not less than five (5) years after final payment under this agreement or until any final audits has been fully completed."

⁶² "Indirect Costs" refer to costs from central activities, such as human resources or accounting, that benefit many departments or programs. Cost allocation is the process used to distribute those costs to all departments or programs that benefit from those functions. Entities that receive federal funds typically must provide a cost allocation plan, compliant with federal requirements, when applying for a federal award and can only charge indirect costs based on an approved cost allocation plan.

Not only was the support we sought not located in system folders or other accessible folders, but HomeRise could not provide any cost distribution rules.

- **Revenue Subsidies Automatically Recorded Without Funds Being Received.**

Transactions for certain revenue subsidies appear to have been automatically recorded in the system as available revenue although HomeRise had not yet received the subsidy funds. For example, as we discussed in Chapter 1, in 2022, MOHCD withheld over \$500 million in a LOSP subsidy on its Richardson property because of HomeRise’s noncompliance related to timely submission of monitoring reports and did not provide the funds to HomeRise until 2023. However, an income statement for 2022 generated from Yardi showed that the LOSP subsidy was received monthly in that year. This resulted from automatic and erroneous accrual entries in each month of 2022. Due to this error, managers relying on system-generated reports to monitor budgets could have mistakenly reached the conclusion that HomeRise was receiving subsidies as expected and that the organization could continue spending money that, in fact, it did not have. That is, the system-generated reports for 2022 were flawed because they did not indicate the cash flow problems caused by the subsidy funds that MOHCD withheld or other rent subsidies as well.

- **Rent Collections Posted in Month Due Instead of When Received.**

HomeRise posted in Yardi rent collections in the month due even though some rents may not have been received or that the amounts received may differed from what was owed. This results in unreliable system-generated reports that could lead managers to believe HomeRise had more revenue available to pay expenses than it actually did and prevented system users from correctly identifying if rent collections were late, preventing adequate follow-up on the delinquent amounts.

- **System Data Can Be Altered Without Oversight.**

HomeRise informed us that it did not perform a “hard close,” in which all transactions for a period are processed and reconciled at some point after the period ends. In contrast, typical accounting practice is to “lock” accounting records soon after the period of activity to ensure the financial activity recorded cannot be inappropriately changed. Typically, this process would occur monthly, but it should occur no less often than annually. Even after HomeRise’s financial statements were prepared and audited, HomeRise staff could change records in the system from prior years, which is inadvisable. Further, many entries in Yardi that we examined showed no sign of having been reviewed by management as they lacked indication of management approvals. After the end of our fieldwork, HomeRise leadership informed us they are now conducting a “hard close” of their financial activity monthly.

Too Many People Had Access to HomeRise’s Real Estate and Financial System, and Users Lacked Sufficient Knowledge of the System’s Functionality

Strong financial system controls include requiring transaction approvals and controlling access to automated systems.⁶³ Yet, at HomeRise, 220 people—that is, nearly all the organization’s staff—had access to Yardi with varying permissions, and 18 of those categorized as superusers with full access to

⁶³ GAO-14-704G Principle 10.03 describes common categories of control activities including controlling access to data, files, and programs.

view and edit system data across functional areas.⁶⁴ Superusers included some HomeRise program employees and consultants. Although some HomeRise program employees and certain consultants needed limited access to Yardi, we question why program employees would need full access which enabled them to make changes outside their area of authority. We also question why consultants needed full access, which enabled them to modify HomeRise's proprietary and confidential data. Not only as the count of 18 superusers at or beyond the high end of a reasonable range for an entity like HomeRise, but superuser status gave certain employees access to areas they did not need to use to perform their job duties.

Also, at least one superuser was a HomeRise volunteer. We were informed that the volunteer created budget documents for both housing and residential services, among other tasks. The volunteer had access to proprietary HomeRise information and confidential, personally identifiable information about tenants that could unnecessarily expose the organization to increased liability. Although the volunteer recently retired, HomeRise should not have given a volunteer access to all aspects of its real estate and financial system or to confidential records.

HomeRise's Yardi system consultant stated the roles and access were programmed based on instructions from upper management on which staff should get specific permissions and superuser status. This practice heightens risk that restricted information is not appropriately guarded or limited to relevant users and that financial data could be inappropriately altered in Yardi—though the consultant noted that any such changes would be automatically tracked with the time and user's name recorded.⁶⁵

Although many employees had access to Yardi, at the time of our audit, many at HomeRise may not have been fully trained on the system or possessed knowledge of the functionality of the system.⁶⁶ Thus, HomeRise relied on a consultant who served as the organization's trainer, database administrator, and programmer. After the end of fieldwork, HomeRise indicated that it had hired a Yardi site administrator as well as assigned a knowledgeable employee to review and fix the data in Yardi. Also, HomeRise stated that they were working on providing more training to staff and implementing additional procedures to monitor Yardi activity as well as addressed issues we brought to their attention during audit briefings including reducing the number of superusers. Because these reported improvements occurred after the end of our audit fieldwork, we did not confirm they were in place to address issues noted.

HomeRise's Absence of a Sound Financial Control Framework and Procedural Integrity Increases Noncompliance Risk and Reduces Accountability Over City Funds

Industry leading practices support a strong control framework that includes a control environment, risk assessment, control activities, information and communication protocols, and regular monitoring.⁶⁷

⁶⁴ Superuser listing provided by Nims & Associates, HomeRise's Yardi consultant, as of January 2023.

⁶⁵ GAO-14-704G Principle 11.11 and 11.12 describe information system security management as safeguarding data and reports to protect confidentiality and control access rights.

⁶⁶ As of January 2023, Yardi had 220 unique users, including consultants. An employee roster provided by the Human Resources Department in March 2023 showed 214 active employees. We did not cross reference the two data sources due to limited audit resources.

⁶⁷ Best practices were compiled from a variety of sources including the COSO Internal Control Integrated Framework, GAO-14-704G (Green Book), Sarbanes-Oxley (SOX) Act of 2002, American Institute of Certified Public Accountants Audit and Accounting Manual, and National Council of Nonprofits.

According to the California Attorney General’s Guide for Charities, an “effective internal control system includes budgets, segregation of duties, policy and procedures manual, clear definition of and adherence to set procedures for management authority and control, and periodic review of the control system.”⁶⁸ Moreover, as a recipient of federal funds, HomeRise must establish and maintain effective internal controls and should comply with the guidance in the “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).⁶⁹

However, as described in the sections that follow, we found that HomeRise did not comply with that guidance and lacked sound overarching financial controls and procedural integrity to appropriately initiate transactions, separate conflicting duties, comply with grants and agreements and ensure that transactions are appropriately processed and approved. In fact, the informal nature of HomeRise’s processes and lack of nearly all expected financial controls led to fragmented, inconsistent, and incomplete records. Without a foundation of essential tools and controls, HomeRise cannot ensure accountability; minimize risk and protect the City’s investments from risk of fraud, waste, or abuse; or fulfill its fiduciary responsibilities in general or those specific to its City agreements.

Documents and Official Files Were Poorly Maintained and Supported and Not Easily Retrievable

Maintaining documents and files supporting transactions and decisions made is critical to ensure the accuracy and completeness of transactions and to demonstrate compliance.⁷⁰ Such files are intended to justify, support, and hold staff and leadership accountable. Yet, HomeRise had no policies and procedures for maintaining, safeguarding, retaining, or destroying official records nor did it designate a set of central or official files that would serve as authoritative documentation for its staff to rely on.

Throughout the audit, HomeRise found it challenging to locate and/or access the information we requested. For instance, HomeRise could not even provide a full list of its City grants and agreements. No department or unit of the organization—not the program or property staff managing the funding agreements, not the fiscal staff, and not the executives ultimately responsible for the grants and agreements—could provide such a list to us. In other instances, HomeRise could not locate or provide accurate or updated budgets, City-required annual monitoring reports, or other documents needed to determine the compliance of the organization’s asset management practices. It took HomeRise more than six months to provide all available board and committee meeting minutes to us, and it took many weeks and several different employees to provide us with the financial expenses for the development of the Jazzie Collins property.

Many documents appear to be kept on personal drives, not shared HomeRise drives. Even HomeRise’s in-house Information Technology employee lacked access to folders containing the property information we requested for the audit. Instead, another employee had to grant access to the folders.

⁶⁸ Attorney General’s Guide for Charities, Chapter 5, Exercising Fiscal Management

⁶⁹ According to 2 CFR 200.303.

⁷⁰ GAO-14-704G Section OV 4.08 states that documentation is needed as part of an effective internal control system. Principle 10.03 control categories include having appropriate documentation and internal control including that management should document controls and all transactions in a manner readily available for examination, and properly managed and maintained.

HomeRise heavily relied on its consultants to maintain documentation on its behalf. We found that consultants held files relating to fiscal cost allocation methodologies, asset management, and critical property development information used by general contractors and construction management firms needed to track expenses, request draws or reimbursements for expenses, and eventually complete final reports and tax forms. Without central or official files and records maintained in-house, staff may not have access to all data needed to effectively do their jobs.

Financial Policies and Procedures for Internal Controls Were Nonexistent, Incomplete, or Outdated

In addition to those controls discussed in other chapters that were specific to activities and provisions in City agreements, HomeRise policies and procedures for its fiscal operations are outdated and/or incomplete. We found several policies lacked the steps needed to assign responsibility for performing and reviewing work and ensuring protocols are followed. Also, these policies have not been communicated throughout the organization. Moreover, it took months for HomeRise to locate and provide the few policies and procedures we received, indicating either that the policies and procedures did not exist at the time of our request or that staff was unaware that a policy or procedure existed and/or was unaware of where it could be found. Both HomeRise staff and executives complained to us about the lack of written procedures, clear guidance, and training on required protocols to establish expectations and clearly define roles and responsibilities.

Many industry-recognized standards and requirements state that financial policies and procedures as part of effective controls that any entity must have in place. For instance, the “Standards for Internal Control in the Federal Government (GAO-14-704G)” Principle 12.01 and 12.04 state that management should implement controls through policies and that they may be further defined through day-to-day procedures. Also, the San Francisco Controller’s Office Finance Guide for Nonprofit Organizations (Controller’s Finance Guide) states that procedures should document steps for “approving and recording transactions such as paying bills, depositing cash, and transferring money between funds, and who is responsible for what.” At a minimum, the guide recommends procedures for budget control, internal controls, cash management, and financial reporting. The City guidance further emphasizes how important procedures are when there is financial management and staff turnover, such as that experienced by HomeRise and discussed in Chapter 5 which causes newer or remaining personnel to have to quickly learn accounting functions outside of their span of responsibility that had to be performed. Moreover, according to the California Attorney General’s Guide for Charities and industry best practices, written policies and procedures are critical to clearly define expectations, describe steps to ensure accuracy of transactions, and best mitigate risks to the successful achievement of entity objectives or the purpose of grants and agreements under which the entity delivers services.

Exhibit 17 lists the problems we found with HomeRise’s financial policies and procedures, by area.

EXHIBIT 17. PROBLEMS WITH HOMERISE’S FINANCIAL POLICIES AND PROCEDURES NOT ALREADY NOTED IN REPORT

Area	Last Updated	Problems Noted with Policies & Procedures
Accounting	2018	<ul style="list-style-type: none"> • Outdated • Include protocols related to a financial system that was no longer used • Needed more development; missing elements include clear responsibilities for reviewing work and ensuring policies and procedures are followed • Did not clearly clarify expectations for how procedures should be performed. • Transaction authorization matrices were outdated, referring to positions that no longer exist or not clarifying all positions with authority
Purchasing	2017	<ul style="list-style-type: none"> • Outdated • Refer to positions that no longer exist • Did not make levels of purchasing authority clear, with only a high-level authorization matrix • Needed more development; missing practices include responsibilities for reviewing work and ensuring policies and procedures are followed • Did not address purchasing at the property level or inventory of stealable items under the \$2,500 fixed asset threshold
Credit Cards	2019	<ul style="list-style-type: none"> • Outdated • See issues noted in separate credit card discussion
Contract Management	2011	<ul style="list-style-type: none"> • Outdated • Insufficient procedures; only a two-page document • Needed more development; missing practices include responsibilities for reviewing work and ensuring policies and procedures are followed • Did not address purchasing at the property level or inventory of stealable items under the \$2,500 fixed asset threshold • Did not adequately state specific control steps, who is responsible for each, what type of review is needed, or who is designated to approve

Source: Policies and procedures provided by HomeRise staff

The absence of rules over its general business cycle practices in addition to practices related to City funding agreements allows for wide variations in approach and creates an environment where staff could not easily support its activities and related transactions, nor be held accountable. Moreover, the lack of policies and procedures increases the opportunity for errors and irregularities to occur and remain undetected.

HomeRise employees indicated they follow informal protocols communicated to them through “word of mouth” from direction by supervisors or based on their understanding and historical knowledge of practices. Multiple employees told us that each time new leadership arrived, financial processes and practices changed, and most of the changes were informally communicated. This added to the chaotic environment and implied a shared responsibility for a process or transaction rather than each belonging to an accountable owner. This overreliance on the institutional memory and knowledge of a few employees is problematic, especially because HomeRise failed to distinguish between the expectations of leadership and the requirements of City agreements. In such an environment, leaders cannot ensure that their directions, if any are given, are followed, that staff is (and can be held) accountable, or that City requirements are met.

After the end of our fieldwork, HomeRise indicated that it was drafting updated policies and procedures for purchasing and accounts payable in addition to working with a consultant to assist with other fiscal policies and procedures.

Many Standard Fiscal Control Activities Were Not Performed

We found that many standard control activities needed for a solid fiscal and business environment and to ensure compliance with City grant agreements, loan, and LOSP provisions for fiscal performance and cost containment, were missing or had not been performed by HomeRise—further increasing the risk that loss or theft of assets could occur and remain undetected.⁷¹

The Controller’s Finance Guide states that internal controls promote and protect sound general and financial practices because financial information must be reliable so that an organization’s managers and board can make decisions based on accurate data. Control activities are those actions described in policies and procedures and implemented through practice to best mitigate risks to the successful achievement of entity objectives or of the purpose of City agreements. In contrast, many controls were missing at HomeRise, as shown in Exhibit 18.⁷² After the end of our fieldwork, HomeRise indicated that it was working on implementing controls over purchasing, disbursements, approval processes, and Yardi fiscal system controls.

EXHIBIT 18. EXAMPLES OF RECOMMENDED FISCAL CONTROLS THAT ARE MISSING AT HOMERISE

Control Activity Area	Indications of Missing Financial Controls
Cash/Receipts	<ul style="list-style-type: none"> Rent collections were not always processed in a timely manner or adequately secured. Rental subsidies were not always billed in a timely manner.
Disbursements/Expenses	<ul style="list-style-type: none"> Some expenses—grant or other—lack prior approval; money was spent before approval No evidence of monitoring invoices or individual expenses for irregular volume, abnormal patterns, or unfamiliar addresses Bills were not always paid when due; in March 2023 HomeRise had nearly \$1.2 million in unpaid invoices (accounts payable), most of which were at least 90 days overdue and incurring late fees.
Purchasing	<ul style="list-style-type: none"> Requested need for purchases was not appropriately established and authorized No list of all agreements obligating the corporation
Payroll	<ul style="list-style-type: none"> Labor distributions were not reviewed and were incorrect because consultant-prepared allocations lacked current information on labor assignments at properties and HomeRise staff did not check the allocations accuracy

Source: Auditor-generated based on audit observations made during fieldwork

Note: HomeRise contracts for annual audits of its financial statements for the corporation and its federal funds received as part of required federal Single Audit requirements. Further, as the general manager in its 11 limited partnerships, HomeRise has independent financial audits of many of its properties. These audits were conducted annually as required, and there were no material or significant deficiencies noted in its financial reporting of the properties. According to the California Attorney General, annual independent audits can “help protect against internal fraud and fiscal mismanagement.”

⁷¹ MOHCD LOSP Policies and Procedures Manual 2022, stipulates that the City expects LOSP Grantees to maximize revenue and contain costs.

⁷² Attorney General’s Guide for Charities, Chapter 5, Exercising Fiscal Management.

Further, throughout most of the financial areas and activities, there was a general lack of review, monitoring, and supervision. We found no evidence of independent checks or reviews of transactions or activities to ensure accuracy, appropriateness, or compliance with City agreements. For instance, as discussed in Chapters 1 and 2, property site managers collected rent and processed collections without supervisory review and HomeRise staff made purchases which management did not review or approve until after the fact.

Also, there was no indication that HomeRise management reviewed financial statement entries in addition to the entries containing supporting documentation that would allow us to confirm that transactions were appropriate. Finally, HomeRise management did not monitor its financial processes to ensure planned controls are working as designed and financial risks are being appropriately managed.

HomeRise Used Credit Cards to Pay for Expenses Without Approval Controls or Restrictions, Increasing Opportunities for Fraud

Although many organizations issue credit cards to employees so that they may make purchases conveniently and efficiently, credit cards should not be the primary method of purchasing because they function outside the typical procurement channels. In fact, credit cards should only be used, when necessary, which is when other more regulated purchasing methods are impractical. Any organization that allows its employees to use credit cards should have clear rules and restrictions on the number, control, and usage of credit cards to ensure expenses can be appropriately monitored and controlled.

We found that HomeRise paid for most non-labor operational expenses related to its City agreements through credit cards without sufficient controls increasing the risk of fraud, waste, or abuse occurring and remaining undetected. Specifically, HomeRise charged a large volume of individual expense transactions to credit cards without prior authorization or verification that activities were allowable, charges were within budget, and money was available to spend. Based on our analysis of expenses charged to City agreements as described in Chapter 2, staff appeared to keep receipts and complete forms when a receipt was lost, but we could not determine with certainty what expenses were for, who they were for, or whether they were reasonable and allowable costs. For each charge, the business purpose (or grant or other agreement related to) of the expense should be documented.

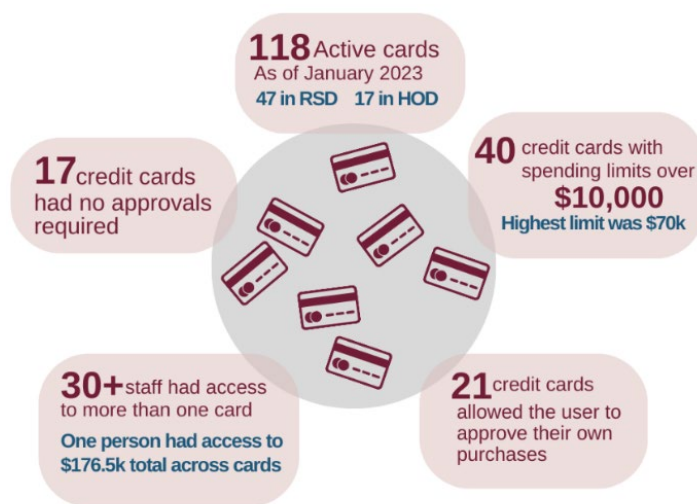
Finance Department employees reviewed expenses paid via credit card after the purchases were made as part of an informal monthly review to determine whether expenses could be charged to a City grant or property. However, with little or no detail on exactly what these expenses related to, it would be difficult for Finance Department staff to know whether a charge was allowable or inappropriate, such as an employee's personal expense. Furthermore, by the time the review occurred, the credit card expenses had already been incurred and, thus, had already become a liability for HomeRise regardless of whether they are reimbursable by the City.

HomeRise's overreliance on credit card purchasing was compounded by the fact that it did not sufficiently restrict or monitor the use of its credit cards. Instead, it issued to its staff an unrestricted number of credit cards, allowed some employees to have more than one credit card each, authorized high spending limits

for its cards, allowed staff to review and approve their own spending, and did not establish automated controls such as daily spending limits or payment stops for purchases made from unallowable vendors.

As of January 2023, HomeRise had 118 active credit cards in use, of which more than one-third, or 40, had credit limits of \$10,000 or higher. Of these 40 credit cards, 21 had limits ranging from \$15,000 to \$70,000. Further, 17 (nearly 15 percent) of these credit cards did not require approval, with another 21 (18 percent) having the user assigned as the approver of their own purchases. The combined lack of approvals with high charging limits heightens the risk that uncontrolled, inappropriate, and potentially fraudulent purchases could be made without oversight. Some of the weak or missing controls over HomeRise's credit cards are summarized in Exhibit 19.

EXHIBIT 19. CREDIT CARD CONTROL PROBLEMS AT HOMERISE, AS OF JANUARY 2023



Source: Export of HomeRise credit card registries from Wells Fargo Bank and RAMP, an expense management platform used to track credit card charges, as of January 2023

Other standard controls over the use of credit cards were missing at HomeRise. For instance:

- **Lack of Protocols for Distributing Credit Cards.**
HomeRise had no protocols, written or informal, for distributing credit cards or establishing spending rules. These could include limiting card issuance to only a few employees who need them for corporate uses and requiring employees to acknowledge in writing their responsibility for the card issued to them and their commitment to adhere to the card issuer's agreement and/or a HomeRise credit card usage policy, which would indicate that they agreed to only use the card for legitimate business purposes.
- **Insufficient Restrictions on Credit Card Charges.**
HomeRise did not establish or control preauthorization of charges, spending limits by position, automatic daily limits, or prohibited types of vendors, such as casinos, bars, or community clubs. According to HomeRise, once charged, any such prohibited transaction would get flagged to supervisors. Although this may be true, a prohibited transaction could still be charged and become a liability for HomeRise because no preventive control existed.

- **Outdated Credit Card Policy.**

HomeRise’s credit card policy in effect during our audit period was outdated. It included accounting steps that reference HomeRise’s prior financial system and does not address a credit card issuer now used by HomeRise. Further, although the outdated policy discussed expense codes cardholders were to use after charges were made, it did not include steps and pre-approval for supervisors and directors of planned expenses and coding of those expenses that should occur before an expense is incurred.⁷³

The combination of many cards issued to staff, high spending limits, and a lack of controls over cards usage creates greater risk for misspending in general—not only for HomeRise’s City grants, but for the organization in general—as well as allows unallowable or potential fraudulent purchases to occur and remain undetected. According to a discussion with HomeRise leadership in September 2023, the organization began implementing controls around credit card usage, including reducing the number of credit cards in use, restricting the number of employees with access to the credit cards, lowering credit limits, and drafting credit card usage policies and procedures. However, since these reported changes were made after the end of our audit fieldwork, auditors did not confirm the reported improvements.

HomeRise’s Finance Department Experienced Near-Constant Change and Was Excluded From Participating in Certain Property-Related Financial Activities, Leading to Instances of Noncompliance

Instability in HomeRise’s Finance Department staff caused by vacancies, including the fact that the Chief Financial Officer (CFO) position turned over four times from 2019 through 2022, exemplified the continual changes that occurred in HomeRise’s Finance Department over the audit period. These changes and vacancies led to functional challenges for HomeRise and contributed to its noncompliance issues. Also, Finance Department employees were often excluded from involvement in important fiscal activities at the property level, to the organization’s detriment. Yet, if HomeRise had effective controls and structure in place, the noncompliance issues would likely have been minimized.

Instability in Finance Increased Staff Confusion on Roles and Reporting Relationships

In 2019, HomeRise’s Finance Department had a full complement of 14 staff and a Director of Finance to support the organization’s operations, all overseen by a CFO. In addition to the high turnover in HomeRise’s CFO position as discussed in Chapter 5, by February 2023, only 5 (36 percent) of the 14 Finance Department employees remained. Of the nine Finance Department employees who departed, many left between September 2022 and February 2023, as shown in Exhibit 20.

⁷³ In March 2023, HomeRise created an updated policy that, although we did not audit it, includes updated protocols with improved rules prohibiting certain unallowable purchases (e.g., alcohol), states the types of purchases that should be invoiced versus charged to a credit card, and states what constitutes a policy violation (e.g., charging personal transactions) that could result in termination of employment.

EXHIBIT 20. MANY FINANCE POSITIONS WERE VACANT DURING 2019 THROUGH 2023

	Position	Status of Position as of February 2023
1	Director of Finance/Controller	Vacant as of November 2022
2	Staff Accountant	Vacant as of February 2022
3	Properties: Senior Accountant	Vacant as of April 2022
4	Properties: Staff Accountant I	Vacant as of August 2022
5	Corporate: Staff Accountant II	Vacant as of September 2022
6	Portfolio: Senior Accountant	Vacant as of January 2021
7	Bank Accounts/Reconciliations: Staff Accountant II	Vacant as of February 2023
8	Grants Manager	Vacant as of February 2023
9	Corporate/Treasury: Staff Accountant II	Still employed
10	Corporate: Staff Accountant II	Still employed
11	Accounts Payable: Staff Accountant	Still employed
12	Affordable Housing: Asset Management Lead	Still employed
13	Affordable Housing: Asset Management Analyst Staff	Still employed
14	Portfolio: Lead Accountant	Vacant as of January 2023

Source: Employee rosters and termination data provided by HomeRise’s Human Resources Department, organization charts, and staff interviews

Note: Position titles differed between HomeRise documents such as organization charts, duty statements, and Human Resource documents.

With the staff of the Finance Department reduced by nearly 65 percent versus its 2019 level, it was likely that certain functions were not being performed and that work was not properly supervised, including accounting entries not being reviewed. With this skeletal staffing, it is not surprising that challenges arose in documenting work and obtaining approvals. Remaining staff was forced to assume the extra workload and fulfill responsibilities outside of their assigned roles as well as to assume asset management responsibilities previously performed by external consultants who were no longer available to contract with HomeRise or train staff. As of September 2023, HomeRise leadership informed us that they have filled several positions, including the Director of Finance, a property accountant, and a staff accountant. As these actions occurred after the end of our audit fieldwork, auditors did not confirm the new hires or that they received training on their roles and responsibilities.

Although Integral to Compliant Operations, the Finance Department Was Excluded From Fiscal Activity at the Property Level

A team of finance experts should be involved in anything that can affect financial reporting, compliance, and processing of the recording of activities. This would include setting policies and procedures, being aware of all financial related activities such as revenue or expense transactions, and monitoring and reviewing of transactions to ensure proper recording and mitigating risk for errors and irregularities. Yet, we found instances in which HomeRise’s Finance Department was excluded from key fiscal activities and transactions at HomeRise’s properties that related to MOHCD loan agreements and subsidies.

For instance, non-finance property desk clerks collected, recorded, and deposited rent, although property managers or compliance managers handled the receipt of rent subsidies. However, HomeRise had not given its Finance Department the opportunity to weigh in on protocols and to properly train property staff in performing these functions. Such training would help them understand the fiscal impact of not recording rent correctly and not ensuring subsidies are received and recorded in a timely manner.

Additionally, the Finance Department did not have the opportunity to train or monitor property staff who used credit cards for inventory purchases to show non-finance property staff how to properly track these items by creating and maintaining a record of where each item is located. Property staff did not tag purchased assets as HomeRise property, making it easier for these items to be stolen without management's knowledge. Because these types of transactions impact financial recording and compliance with the City agreements, HomeRise's Finance Department should be an integral part of developing practices to safeguard assets.

Moreover, communication and relationships between the Finance Department and other HomeRise departments, such as development and housing, were uncoordinated. For example, when the Jazzie Collins property was being developed, HomeRise's Chief Strategy and Operations Officer contracted out construction accounting activities for the project, including tracking development and construction expenses, preparing draws, determining timing for City reimbursements, preparing related financial reports, and other related tasks. However, the Finance staff was unaware of the external contract and had no knowledge of the in-process transactions, which should be recorded in Yardi, until much later, after the contracts were finalized and the money spent.

Chapter 4. Certain HomeRise Financial Decisions and Practices Exacerbated its Cash Flow Problems and Impacted its Adherence to City Agreements

Both industry best practices and the Controller's Finance Guide suggest the need for cash flow management to ensure funds are available when needed to pay expenses. Although a budget may project whether forecasted revenues will be sufficient to cover expected expense, the inability to pay expenses as they become due because of a deficient cash position can disrupt operations and an organization's ability to accomplish its mission or comply with funding agreements.

Yet, HomeRise's past fiscal decisions did not always ensure it maintained sufficient assets and unrestricted reserves to pay bills, monitored worsening cash flow, or made prudent fiscal decisions. Further, leadership relied too heavily on subsidies, grants, and other City funds to pay for uncontrolled operational expenses and salary expenses. This led to an improper reliance on City restricted reserves or other property operating funds to plug the gap between revenues and expenses, as described in Chapter 1.

HomeRise's reliance on City and other government grants and subsidies resulted in cash flow issues when receivable payments were held up due to HomeRise's noncompliance issues, when subsidies were not billed and received timely, units became vacant for too long, and when expenses were incurred but had not been reimbursed through a grant or funding mechanism. These cash flow problems were compounded by HomeRise's decisions to increase its staff compensation, create additional corporate positions, and provide bonuses without ensuring it had sufficient revenue or reserves to cover expenses—actions that added costs to positions that were partially charged to City agreements or charged to properties thereby increasing property costs and reducing surpluses.

Organizations that follow industry best practices maintain sufficient reserves for sustainable operations and match business expenses with available revenues. Also, organizations must monitor their cash flow monthly and have strategies to address cash flow problems, such as reducing operating or program expenses, postponing salary increases or hiring of new employees, scheduling additional fundraisers seeking donations, and negotiating extended payment terms on debt owed.

HomeRise is aware of its fiscal challenges and reported to us in September 2023 that they were working on them. HomeRise has brought on a new CEO, who started in June 2023, and a new interim CFO, who started in May 2023.

Financial Results Revealed Cash Flow Issues That Threaten Compliance and Fiscal Stability

As described earlier in this report, financial analysis of HomeRise's activities was complicated by the transition to Yardi without migrating prior financial information.⁷⁴ Nonetheless, its financial statements

⁷⁴ Audited statements for financial analysis were available for fiscal year 2017/18 and fiscal year 2018/19 until HomeRise changed its reporting period in 2019 from a fiscal year from July 1 through June 30th to a calendar year. A modified 6-month financial statement was audited for July 1, 2019, and December 31, 2019, and audited statements were available for calendar year 2020 and 2021.

revealed cash flow concerns across the HomeRise entity—not just at the property level—that impacted its fiscal stability and fiscal compliance with City agreements creating an environment where HomeRise used City funds to cover corporate costs as discussed in Chapter 1 of this report.

HomeRise’s Inability to Use Assets and Reserves to Cover Its Corporate Liabilities Created an Environment Where It Inappropriately Used City Funds

Based on HomeRise’s externally audited financial statements from 2021, HomeRise assets were insufficient to pay its liabilities on time, compounding its cash flow problems and increasing risk of using City funds to plug fiscal gaps.

Looking at HomeRise’s most recent audited financial statements, for the calendar years 2020 and 2021, we calculated the organization’s working capital, which represents its ability to pay its current liabilities with its current assets. In 2020, HomeRise’s working capital was just \$441,000, which was insufficient to pay its average operating expenses for one month, but it had a line of credit to help if needed. Although by December 31, 2021, HomeRise’s working capital had increased to \$2.7 million, this amount was just enough to cover its average monthly operating expenses for one month and its line of credit matured on February 15, 2022.

One widely known source of financial guidance for the public sector, the Government Finance Officers Association, recommends that entities maintain no less than two months of regular unrestricted funds to cover two months of operating expenditures. This should allow an entity to weather unexpected expenses, drops in revenues, or delays in funding in the public sector. Other industry experts recommend even larger cash reserves to provide enough readily available funds to cover three to six months of operating expenses. Given its heavy reliance on subsidies and government funds that reimburse it for allowable expenses after they are paid, HomeRise needs to bolster its working capital level and/or its unrestricted reserves to have funds available to cover more than two months of expenses and better prevent situations where they inappropriately use money from City funding arrangements to cover corporate costs.

Although HomeRise’s financial statements for the four fiscal years we reviewed showed reserves for various HomeRise properties, without prior approval those reserves can only be used for those properties and for authorized expenses as discussed in Chapter 1. Thus, HomeRise cannot use restricted reserves or property operating accounts if it needs additional money to cover general expenses.

With insufficient working capital, lack of unrestricted reserves, and no line of credit, HomeRise found itself in a vulnerable position as it headed into the 2022 year that created an opportunity to improperly use City funds.

Many Assets Were Restricted or Cannot Quickly Be Converted to Cash to Help Pay Bills

HomeRise’s working capital challenges were compounded by its large amount of restricted and fixed assets. For instance, although HomeRise’s audited financial statements for 2021 showed \$9.6 million in cash and cash equivalents and another \$7 million in receivables that could potentially be converted to cash

and be used to pay the \$16.6 million current liabilities, most of the receivables were earmarked for specific uses related to grant-restricted or property-related purposes.⁷⁵

Also, most of HomeRise's other assets were tied up with fixed property assets representing \$209 million of its \$268 million in longer-term available assets. Of those remaining non-current assets, \$18 million were restricted deposits and \$37.5 million were tied to development. Thus, this money cannot be used to cover operating expenses. Also, HomeRise had nearly \$190 million in notes payable or loans for those properties. Many of the loans have requirements and restrictions for payment. Of the nearly \$190 million in loans for various HomeRise properties, 73 percent were from the City and the State of California—at approximately \$84 million, or 44 percent, and \$55 million, or 29 percent, respectively. Although the loans may be forgiven at maturity, they become due if the properties are sold and/or are not used for the specified purposes of providing housing and services to low-income or homeless individuals. Further, although City loans are generally granted for a term of 50 years or longer, loan agreements state that the loans will remain outstanding if the organization does not stay fiscally viable.

Unrestricted Corporate Revenues Were Inadequate to Help HomeRise Cover Unexpected Expenses and Revenue Shortfalls at Its Properties and its Own Operations

Like similar organizations, HomeRise needs ample levels of unrestricted revenues available to cover unexpected expenses or funding shortfalls to maintain healthy operations. HomeRise's unrestricted revenues primarily related to fundraising and developer fees as discussed in the bullets that follow:

- **Fundraising Revenue.** Some of HomeRise's unrestricted revenue was derived from its fundraising activities, which can cover corporate expenses—such as salaries, equipment, rent, and other expenses—that are outside restricted City grant or property purposes. When City revenues fall short of resident and property needs or corporate expenses increase, private contributions or fundraising money can be available to pay expenses. Yet, HomeRise's fundraising results fell short of the nonprofit industry standard of 15 percent in private contributions.⁷⁶ Given HomeRise's cash flow problem, the fundraising revenue it generated was insufficient to help with its corporate needs and may have caused it to borrow from property accounts to cover its gap —actions which did not comply with City funding agreements. Both HomeRise leadership and its Board discussed fundraising in meetings over a two-year period between January 2020 and 2021, but its fundraising revenue remained generally static over the period under audit.
- **Developer Fees.** Other unrestricted HomeRise revenue was available to offset unreimbursed expenses derived from developer fees that were only earned during a project's development phase. These fees were primarily used to offset the cost of building, but HomeRise can use any excess for any expenses it incurs, without restriction. However, because developer fees were not ongoing revenue sources, they should not be relied on to fund ongoing operating expenses like

⁷⁵ The total \$9.7 million in other receivables is comprised of \$2.8 million related to government grants and other grants with restrictions on uses for allowable purposes, \$3.5 million related to rent/subsidy which is to be used for property expenses only, and \$2.7 million in prepaid expenses and deposits which are also earmarked.

⁷⁶ School of Social Policy and Practice, University of Pennsylvania, Philadelphia, USA; School of Public and Administration, University of Central Florida, Orlando, USA, "Estimated Revenue of the Nonprofit Homeless Shelter Industry in the United States: Implications for a More Comprehensive Approach to Unmet Shelter Demand" by Dennis P. Culhane and Seongho An, 2021.

salary increases, although they could be used to build reserves. In 2020, HomeRise's then-CEO emphasized challenges with its operational reserves and noted that the Finance Department wanted to better estimate developer fees.

Cash Flow Problems Continued to Adversely Affect Operations as HomeRise Incurred Tens of Thousands of Dollars in Late Fees

HomeRise's cash flow problems continued into 2023. In fact, as of March 31, 2023, HomeRise owed more than \$1.2 million in payables that were more than 90 days late, with some overdue amounts incurring significant late fees that further exacerbate its fiscal issues.

We did not audit the nature of HomeRise's liabilities, but some of the amounts due were for rent, supplies, consulting services, and insurance. The largest amount due was over \$230,000 for an unpaid balance for the cost of repairs at the Rene Cazenave Apartments due to flooding in August 2022. By the time HomeRise paid this invoice in March 2023, it had incurred \$21,600 in late fees which were charged to the property and, thus, increased operating expenses.

HomeRise owed other vendors for several months' worth of bills. For instance, HomeRise did not pay rent for its corporate headquarters for four months, causing it to owe \$136,000, and, as of March 31, 2023, owed more than \$500,000 in employer health care-related obligations as part of the mandatory SF Health Care Security Ordinance.

HomeRise Did Not Formally Monitor Corporate Budgets or Cash Flow

We found HomeRise did not formally monitor its corporate budgets or cash flow although it was facing a difficult financial situation in which it "borrowed" funds from its properties, as described in Chapter 1.⁷⁷ Industry leading practices include budget monitoring, which is crucial to enforce accountability relating to spending.⁷⁸ Comprehensive monitoring of actual revenues and expenses versus what was budgeted helps ensure an organization is making progress toward its own goals and the purpose of its grant and contract provisions.

HomeRise's informal corporate budget monitoring process was to enter budget information into its Yardi real estate and financial system to allow staff to generate budget-to-actual reports showing variances. However, staff did not always enter the budget information in a timely manner. For instance, for the 2023 calendar year, HomeRise did not upload budget details into Yardi until May 2023. Thus, staff could not track actual expenses to date against budgeted amounts to know much of their budget was exhausted for almost half the year.

According to staff, they did not review the variance reports or analyze specific variances because Yardi reports did not always reflect actual transaction activity, so may be inaccurate. It is understandable that

⁷⁷ A former CFO presented plans in December 2021 to the Board Finance Committee to have a continuous focus on financial health that included monitoring of weekly cash flow and review of quarterly financial results with the senior leadership team. The former CFO left HomeRise three months later in March 2022, and those plans did not come to fruition.

⁷⁸ Best practices sources include Association of Nonprofit Accountants and Finance Professionals, Government Finance Officers Association, AICPA Audit and Accounting Manual Nonauthoritative Practice Aids, among other sources listed in Appendix A.

employees did not want to waste time looking at unreliable reports. This is another indicator that HomeRise needs to make system changes or establish other tools to monitor actual revenues and expenses against budgets. Due to the unreliable budget-to-actual data in (and unreliable reports generated from) Yardi, HomeRise financial staff was left to monitor corporate cash flow by reviewing bank balances and bank statements. Although these efforts are better than nothing, staff only saw transactions after they occurred, and the practice was ineffective to inform real-time financial decisions.

Although the Attorney General's Guide for Charities states that effective controls include budgets and that management should provide budget status in a timely manner ahead of board meetings, we only found a few documented instances in which HomeRise brought its budget-to-actual expense information to the Board or Finance Committee for review. Documents show that corporate budget-to-actual status for a particular year was only provided to the Board or its Finance Committee as part of the subsequent year's budget approval process. Without monthly discussions of monthly budget status, neither HomeRise's leadership nor Board can appropriately monitor the organization's cash flow and ensure there is no inappropriate impact to the City agreements and its compliance with agreement provisions.

Cash Flow Problems May Be Partially Caused by Questionable Fiscal Decisions, Leading to Noncompliance with City Agreements

In addition to its uncontrolled spending practices and unusually heavy reliance on credit cards to pay operating expenses without preapproval, as discussed earlier in this report, HomeRise made questionable decisions to raise salaries, created additional executive positions with higher pay, and gave bonuses although it faced serious fiscal challenges. HomeRise charged some of these additional and sometimes unbudgeted personnel expenses to City agreements, risking noncompliance with their provisions, or as property operating expenses as discussed in Chapter 1, which would impact the amount needed for LOSP subsidy or possible payments on a loan.

Past Leadership Did Not Exercise Fiscal Restraint When Warranted, as Demonstrated by Its Granting of Compensation Increases Charged to City Agreements When It Had Serious Cash Flow Problems

HomeRise's fiscal decisions did not appear focused on cutting costs, even when the organization faced dire cash flow issues. Board meeting minutes from 2020 and 2021 document conversations about the need for more revenue and fundraising, but not about what operational expenses or services might need to be cut or delayed for stabilizing cash flow and meeting its financial needs and City obligations.

In 2021, HomeRise contracted with a reputable consultant that recommended a minimum 20 percent pay difference between supervisors and direct reports and provided a new salary structure for HomeRise to remain competitive and internally equitable. In August 2021, based on the consultant's report, HomeRise implemented the salary structure recommendations and gave staff throughout the organization salary increases—many substantial—that were charged to properties or program services that impact funding under City agreements or increased property expenses that may inappropriately reduce debt payments to the City under loan agreements as described in Chapter 1. However, HomeRise also has fiduciary responsibilities to its stakeholders, donors, and the City to set compensation that is commensurate with its

financial resources, fiscal health, and ability to pay. Increases in market compensation offered by the job market do not necessarily correlate to increases in an employer’s compensation plan—especially if there is insufficient funding to pay for salary increases.

We selected a variety of position levels from the three largest departmental groupings of employees—Corporate, Housing Operations Department, and Resident Services Department—and compared these positions’ salaries in July 2021, before the consultant provided its compensation recommendations to HomeRise, against the salaries in December 2022, after the compensation report’s recommendations were implemented.⁷⁹ The salaries that increased during this period, and the amount of each, are shown in Exhibit 21.

EXHIBIT 21. SALARY INCREASES FROM JULY 2021 TO DECEMBER 2022; AMOUNTS 20% OR MORE HIGHLIGHTED IN RED

Department	Position Level	July 2021 Paystub ^a	December 2022 Paystub	Increase
Corporate	Manager	\$3,567.00	\$4,008	12.4%
	Manager	\$3,238.00	\$3,672	13.4%
	Manager	\$3,323.00	\$4,172	25.5%
	Accountant	\$2,763.00	\$3,333	20.6%
Housing Operations Department	Janitor	\$17.39 ^b	\$20.50	17.9%
	Front Desk	\$17.39 ^b	\$20.00	15.0%
	Manager	\$23.50 ^b	\$31.39	33.6%
	Manager	\$2,974.00	\$3,118	4.8%
	Lead Front Desk	\$17.91	\$21.50	20.0%
Resident Services Department	Counselor	\$20.40 ^b	\$25.50	25.0%
	Manager	\$2,633.00	\$3,246	23.3%
	Director	\$3,327.00	\$4,432	33.2%
	Director	\$3,969.00	\$5,355	34.9%
	Team Lead	\$20.08 ^b	\$30.00	49.4%

Source: Payroll register records provided by HomeRise Human Resources

Note^a: The July 2021 paystub was atypical, so the nearest paycheck date that reflected a standard pay cycle was used.

Note^b: Because employees’ salaries varied significantly among pay periods, reported hourly rates were used to calculate percentage change.

As shown in Exhibit 21, salary increases ranged from 4.8 percent to 49.4 percent. Although the increased compensation amounts were relatively low and staff may have needed or deserved the raises, HomeRise did not have ample cash flow to pay for them, as it had been operating at a deficit by the end of 2022.

Despite Its Financial Problems, HomeRise Promoted Employees Into Newly Created Corporate Positions Partially Charged to City Agreements, Resulting in Large Salary Increases and Adding Significant Cost to the Organization

Exacerbating the salary increases for existing positions, HomeRise leadership created at least three new

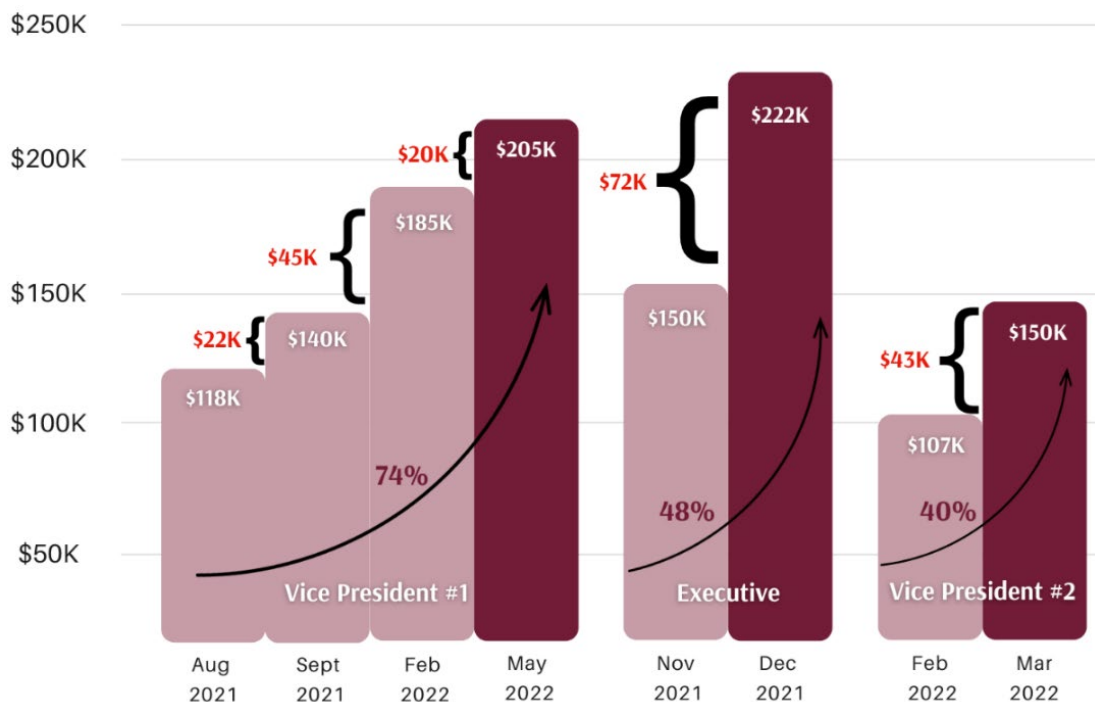
⁷⁹ For employees without a December 2022 paystub, auditors use the last available paystub closest to December 2022. Additionally, HomeRise’s payroll record data contained multiple salary differences across pay periods—such as paid time off, bonuses, or other exception-based pay—in addition to changing positions did not allow for a meaningful uniform analysis of salary increases across the organization given the limited audit resources in addition to this area not being a primary focus of the audit.

corporate positions and promoted staff to assume these positions, further increasing payroll expenses without demonstrated consideration of the organization’s known cash flow problems and the impact on City funding agreements. We attempted to determine whether HomeRise created these positions due to increased workload such as any new operational complexities or City agreement responsibilities or an increased number of properties or units in HomeRise’s portfolio that caused additional work. Our review found no documented analysis or rationale.

Exhibit 22 shows examples of three positions HomeRise created, and the associated salary increases for the employees who were promoted to fill the new positions. The increases in the annual salaries of these three positions ranged from \$22,000 to \$70,000, or 19 percent to 46 percent more than the previous annual salaries of the employees who were selected to fill the new positions. These would constitute significant increases at any time, but particularly at a time when HomeRise was experiencing fiscal issues, which were at least partially charged to City agreements and property operating expenses.

One of the HomeRise employees who was promoted into a new vice president position soon received an additional, temporary salary increase that, according to HomeRise, was due to the employee taking on an additional scope of work. The combined effect was that this employee received an annual salary jump of more than \$87,000, or 74 percent, in the span of just nine months.⁸⁰

EXHIBIT 22. EXAMPLES OF NEW CORPORATE POSITIONS HOMERISE CREATED AND THE SUBSTANTIAL SALARY INCREASES FOR THE EMPLOYEES WHO FILLED THEM



Source: ADP Payroll Registers from 2021 and 2022, Employee Status Change Forms, and promotion letters provided by Human Resources

⁸⁰ In June 2022, the temporary increase of \$20,000 was rescinded and vice president #1 salary was reduced back to the February 2022 level.

Upon receipt of a HomeRise Employee Action Change Notice personnel document, HomeRise Human Resources staff would enter the indicated change into its payroll provider’s system and the new salary would begin to be paid. Although an employee’s department manager and director may approve these forms, the personnel actions indicated on the forms were not always approved by anyone else—not the Chief Executive Officer, Chief Operating Officer, or, most importantly, the Chief Financial Officer. Requiring the approval of a top executive would be the critical internal control step to ensure the action is needed, appropriate, and consistent with the strategic vision of HomeRise as well as its external funding agreements, and that funds were (and would continue to be) available in the budget to cover any resulting increased obligations.

HomeRise Approved Employee Bonuses Without Regard to Its Policy or Their Fiscal Impact to City Agreements

HomeRise’s Employee Handbook provided for two types of discretionary pay increases—small anniversary awards based on the cumulative number of years an employee worked at HomeRise and small referral bonuses for staff who successfully recruit other candidates. Despite this, we found there were examples of former HomeRise leadership giving discretionary ad hoc pay to some employees outside of HomeRise’s stated policies, as shown in Exhibit 23, that were at least partially charged to City agreements or increased property expenses which impacted LOSP subsidy needs or could reduce any surplus on the property therefore impacting potential loan repayment.⁸¹

EXHIBIT 23. UNALLOWABLE DISCRETIONARY SIGNING BONUS EXAMPLES, APRIL 2022 THROUGH JUNE 2022

	Amount	Date	Unallowable Per Policy Because . . .
Employee 1	\$5,000	April 2022	Was an employee since May 2020
Employee 2	\$5,000	June 2022	Was an employee since August 2009
Employee 3	\$5,000	April 2022	Was an employee since October 2020
Employee 4	\$1,000	April 2022	Was an employee since June 2017
Employee 5	\$10,000	May 2022	Needed Board approval

Source: Employee Status Change forms, promotional letters, and other documents provided by HomeRise Human Resources

In one example, in May 2022 a HomeRise executive initiated a pay increase of \$20,000 and a \$10,000 bonus to an employee through a retirement contribution by signing all three authorizing signature lines of the Employee Status Change form, which were intended to be reviewed and approved by the manager recommending the status change, department director, and human resources director. Presumably, the form was designed this way to ensure checks and balances on any such approval of personnel actions. The form lacked any indication that the CFO reviewed and approved the action to ensure funds were available. Although the retirement contribution was later reported to be reversed, we could not verify this. Regardless, such a circumstance should not be able to occur in an organization with appropriate controls.

Finally, in another example noted in Exhibit 23 for employee 2, a HomeRise employee signed off on the discretionary pay for another employee’s signing bonus although employee 2 had been working with HomeRise for 13 years.

⁸¹ Allowed anniversary awards were small, ranging from \$250 for 5 years at HomeRise to \$1000 for 20 years employed at HomeRise.

Chapter 5: Insufficient Oversight by Past Executive Leadership and Board Contributed to HomeRise’s Noncompliance and Fiscal Control Problems

Under the terms and conditions of its funding agreements, the City assigns fiduciary responsibilities to the HomeRise Board of Directors (Board) to be fiscally responsible, exercise oversight over City agreement obligations, and adhere to federal, state, and local laws.⁸² Required internal controls place additional expectations and responsibility on HomeRise’s Board and executives it hires to establish the proper tone at the top regarding the importance of internal control and expected standards of conduct.⁸³ Yet, we found HomeRise’s leadership and Board did not establish an accountable tone at the top to instill a strong fiscal control environment, monitor and remediate cash flow issues, or ensure compliance with City agreements. This absence of sufficient oversight created a weak operational environment at HomeRise that heightened the risk of fraud, waste, and abuse, as well as contributed to HomeRise’s inability to fully comply with certain City agreement financial requirements.

HomeRise Leaders Did Not Establish an Appropriate Tone at the Top As Part of an Effective Control Environment

In accordance with widely recognized internal control frameworks, HomeRise must establish a strong control environment composed of standards, processes, and structures that provide the basis for carrying out internal control across the organization.⁸⁴ It is the responsibility of HomeRise’s Board and executives to set a proper tone at the top and expected standards of conduct. However, the audit found that both the Board and its executives could not demonstrate that they had provided adequate oversight of the entity’s compliance with certain provisions, as discussed in prior chapters, contained in City grants, subsidy, and loan agreements.

Tone at the top is a key tenet of a well-functioning organizational control environment. It reflects the attitudes toward and awareness of those at the top regarding the importance of doing things the right way. To make tone at the top have integrity, leadership must assign responsibility to staff to conduct the organization’s day-to-day activities in an honest and ethical manner.

⁸² HSH Grant, Article 6.8 “Grantee’s Board of Directors” states that the “Grantee shall at all times be governed by a legally constituted and fiscally responsible board of directors. Such board of directors shall meet regularly and maintain appropriate membership, as established in Grantee’s bylaws and other governing documents and shall adhere to applicable provisions of federal, state and local laws governing nonprofit corporations.”

⁸³ COSO principles 1 through 5 are fundamental concepts necessary for an effective control environment. Specifically, Principle 2 states the board of directors “exercises oversight of the development and performance of internal control;” Principle 3 states that “management establishes with board oversight, structures, reporting lines, and appropriate authorities and responsibilities;” Principle 4 describes that organizations are committed to “attract, develop, and retain competent individuals;” and Principle 5 talks about holding “individuals accountable for their internal control responsibilities.”

⁸⁴ Issued by the U.S. Comptroller General, the Standards for Internal Control in the Federal Government (known as the Green Book), provide the overall framework for establishing and maintaining an effective internal control system.

HomeRise leadership is ultimately responsible for staff's actions and decisions relating to City grants and agreements. However, given the organization's lax practices as described throughout this report, its leaders cannot ensure that the organization's actions are appropriate and accountable or that staff was provided appropriate direction and guidance. Past leadership seemed to operate in an informal, unstructured environment without many typical and critical internal controls. We found that past HomeRise leadership had not:

- Prioritized the establishment of formal, updated policies and procedures, including scant guidance on handling City funds. We found outdated policies and procedures from 2011 for many key functions.⁸⁵
- Instituted other key controls. For example, HomeRise leadership never demonstrated that it monitors business risk or insisted that key fiscal controls were implemented and followed.⁸⁶
- Clearly defined or assigned roles, responsibilities, reporting relationships, or the authority to ensure controls were in place or followed.⁸⁷
- Ensured that staff actions related to City grants and agreements were appropriate or defensible, although leadership was and is ultimately responsible for staff's activities and decisions.⁸⁸
- Exercised the authority needed to hold employees accountable for their actions or inaction. Rather, multiple employees cited past examples of a certain HomeRise staff operating with little direction or oversight from leadership. Emails provided to us documented examples of the employee making unilateral decisions, outside of executive leadership's direction, and taking insubordinate, unauthorized actions—without consequences. Yet, in none of these instances did there seem to be any response from management to hold the employees accountable.⁸⁹

HomeRise Leaders Did Not Emphasize the Need for Detailed Roles and Responsibilities or Clear Assignments Among Staff to Guide Accountability

Industry recognized internal control frameworks and leading human resources management practices recommend that each employee have and understand detailed descriptions of what is expected of them or

⁸⁵ COSO Principle 14 speaks to how an "organization internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control." Also, the "Standards for Internal Control in the Federal Government (GAO-14-704G) Principle 12.04 states that management should communicate policies and procedures to personnel so staff can implement their assigned duties and responsibilities.

⁸⁶ COSO Principles 6 through 9 discuss risk assessment needed for an effective system of control including Principle 8 on how "the organization considers the potential for fraud in assessing risk" and Principle 9 that identifies changes that could impact internal control.

⁸⁷ COSO Principle 3 states that "management establishes with board oversight, structures, reporting lines, and appropriate authorities and responsibilities."

⁸⁸ COSO Principle 1 states an "organization demonstrates a commitment to integrity and ethical values." Organization is used collectively by COSO to capture the board, management, and other personnel.

⁸⁹ COSO Principle 5 states an organization should hold "individuals accountable for their internal control responsibilities in the pursuit of objectives." COSO also states the board of directors and executives establish the tone at the top and set expected standards of conduct. Also, GAO-14-704G Principle 1.09 says management should use established standards of conduct as the basis for its ethical values and Appendix I Principle 5 says that management should hold individuals accountable for their internal control responsibilities.

what job activities they must conduct to carry out management’s direction.⁹⁰ Although HomeRise had job description statements with “essential functions” for its corporate and financial staff, these statements did not always sufficiently or clearly distinguish among certain positions or have ample reporting relationship information and span of control explanations to guide the activities of those in certain jobs.

Job classification descriptions typically define where in the organizational structure a position is placed, including the position that supervises it, and whether the position has supervisory responsibilities. This information sets parameters regarding the scope of authority and responsibility incumbents are expected to exercise in the position. However, HomeRise’s position descriptions did not always include this type of clarity—especially for the supervisory and management levels—where the distinctions between positions’ duties, responsibilities, and qualifications were often somewhat blurred. Thus, employees may not have had the information needed to perform their responsibilities, and their managers may not have had the information needed to assess the performance of their staff.

Combined with the lack of policies and procedures and high staff turnover at the corporate level and in the Finance Department, these inadequate position descriptions may have contributed to a situation in which employees could not fully understand what they were supposed to be doing, how they were supposed to do it, or who decided on the outputs of their work. With limited information on individual roles and responsibilities, guidance on how to do a job, and who directs work, employees can struggle to figure out how to do their job to the best of their ability.

High Turnover at the Corporate Level Made HomeRise’s Leadership and Operations Inconsistent, Impacting Oversight and Compliance with City Agreements

HomeRise faced many challenges in recent years, including significant changes in its management and staff due to a high turnover rate. The personnel changes resulting from so many management employees leaving the organization since 2019—in addition to the high finance staff vacancies discussed in Chapter 3 and shown in Exhibit 20—made it difficult for HomeRise to maintain the needed bandwidth to ensure accountability to the City and its funded agreements. Turnover is expensive, wastes staff time that would be better spent elsewhere, and makes it more difficult to fulfill HomeRise’s mission. High turnover at the corporate level, like that at HomeRise, can cause fluctuating leadership styles and priorities with significant operational impacts.

Much of HomeRise’s Turnover Was at the Corporate Level

Turnover in nonprofit organizations is not new and is expected as part of typical business operations, with the low-income housing industry facing higher turnover than is standard. At HomeRise, we found that significant levels of turnover occurred at its corporate level, particularly including its chief executives and critical finance staff. This adversely impacted its ability to demonstrate oversight, comply with City grants and agreements, and be accountable through an effective control system. Had an effective control

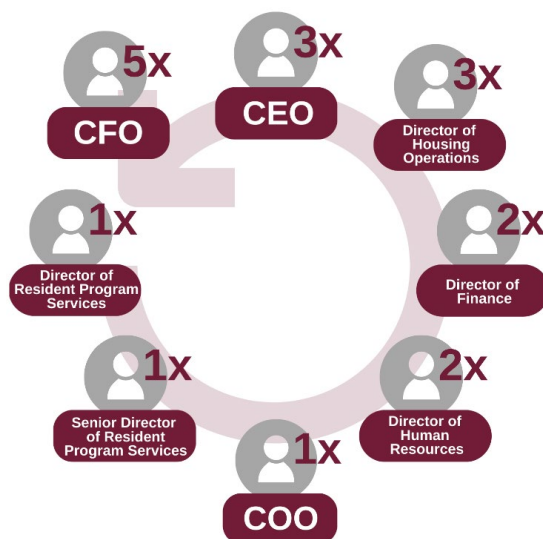
⁹⁰ Practices drawn from various sources such as GAO-14-704G Section 5.05 and the Society for Human Resources Management.

framework been in place as required prior to the increased corporate turnover, negative impacts such as those noted throughout this report may have been minimized.

We attempted to quantify the turnover rate for the entire organization, but reports provided by HomeRise were not always complete or consistently structured to enable such an analysis. However, according to one report HomeRise provided to us, HomeRise’s average annualized turnover was 44 percent in 2022. According to the Society for Human Resource Management’s Benchmarking Human Capital Report for the nonprofit sector, issued in 2022, the average annual overall turnover rate for nonprofits was 30 percent, with the voluntary turnover rate being 25 percent. Another source cited that average turnover in social impact organizations was approximately 14 percent in 2020. HomeRise’s reported average annualized turnover rate of 44 percent was significantly higher than both benchmarks.

Although we could not determine its overall turnover with certainty, HomeRise experienced significant turnover in several corporate executive positions between 2019 and 2022, as shown in Exhibit 24.

EXHIBIT 24. TURNOVER IN HOMERISE’S KEY CORPORATE POSITIONS



Source: Auditor-generated based on employee rosters and termination data from 2019 to 2023 provided by Human Resources

For instance, two of HomeRise’s top leadership positions, the CEO and CFO, turned over three and five times, respectively, during our four-year audit period, with several individuals serving as interim CFO for periods of six months. Other key positions with high turnover were the Directors of Housing Operations, Finance, and Human Resources. Such high turnover in key leadership positions can cause significant disruptions in operations and controls, loss of stability in vision and direction, deemphasis on accountability, confusion related to processes and responsibilities of staff, and a decrease in employee morale.

During this period of nearly constant change in leadership and personnel, key internal controls were absent, and critical reviews, approvals, and checks were not documented as being done.

HomeRise Relied on Former Employees and Consultants to Fill Vacancies Caused by Turnover, but That Did Not Prevent the Loss of Historical Knowledge

To combat its excessive turnover, HomeRise relied on external consultants, often engaging past employees as consultants. For instance, when at least two known corporate employees resigned, HomeRise arranged to have them stay on in interim positions or consulting roles to help get needed work completed. According to one corporate employee interviewed, the purpose of using the former employees as consultants was to help the loss of organizational knowledge. Although contracting with former employees may have addressed the workload, no one at HomeRise was strengthening the organizational foundation through internal controls, such as policies, procedures, training, or other forms of direction and knowledge transfer.

HomeRise also relied on a series of consultants to serve critical functions, including asset management, payroll and other cost allocation, executive management, database programming and management, and human resources. As with the former employees functioning in interim roles, these consultants may have helped the organization handle its workload, but HomeRise did not use all of them to build up HomeRise staff's knowledge or to strengthen its operations, which needed repair, as part of the ongoing work. Thus, when the interim employees and consultants no longer work for HomeRise, it could be in the same predicament unless it solidifies its fiscal and operational foundation.

Board Meeting Minutes Did Not Demonstrate It Provided Sufficient Oversight of HomeRise's Financial Operations to Comply With City Funding Agreements

As of March 2023, HomeRise was overseen by a Board of Directors (Board) with 14 members at that time. HomeRise's funding agreements with the City placed responsibilities on the Board, namely that it be fiscally responsible, provide oversight to ensure "full and prompt performance" of HomeRise's obligations, and adhere to applicable provisions of federal, state, and local laws governing nonprofit corporations.^{91, 92} Moreover, as stated in Chapter 3, HomeRise must have effective internal controls and should comply with recognized internal control guidance that includes fiscal and compliance oversight.⁹³

However, the board's meeting minutes did not demonstrate that it exercised appropriate oversight to ensure HomeRise had a strong control foundation to help ensure the proper, efficient, and compliant use of City funds.

Specifically, we found the Board and its committees:

⁹¹ HSH Grant, Article 6.8 "Grantee's Board of Directors" states that the "Grantee shall at all times be governed by a legally constituted and fiscally responsible board of directors. Such board of directors shall meet regularly and maintain appropriate membership, as established in Grantee's bylaws and other governing documents and shall adhere to applicable provisions of federal, state and local laws governing nonprofit corporations. Grantee's board of directors shall exercise such oversight responsibility with regard to this Agreement as is necessary to ensure full and prompt performance by Grantee of its obligations under this Agreement."

⁹² LOSP Agreement, Section 4.6 Grantee's Board of Directors.

⁹³ In accordance with 2 CFR Part 200.303, recipients of federal funds are required to establish and maintain internal controls in compliance with the guidance in the "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

- Could not demonstrate that they exercised proper financial oversight over internal controls or certain provisions within the City agreements as discussed in previous chapters.⁹⁴
- Did not act on HomeRise’s cash flow or control problems that resulted in City funds being inappropriately diverted from property accounts to fund HomeRise corporate payroll as discussed in Chapter 1.⁹⁵
- May need additional financial knowledge to oversee the organization’s ability to meet the commitments it made under City funding agreements and more fully understand financial and internal controls that need to be in place.⁹⁶
- Did not ensure their meeting minutes aligned and complied with board policy and bylaws, the City’s requirements, and best practices. Meeting minutes of the Board and its committees should clearly note decisions made, reflect the rationale for the body’s actions and decisions, document that members formally approved the minutes, and should be maintained in good condition.

Given the organization’s inconsistent executive leadership due to high turnover and serious fiscal compliance issues, the level of oversight exercised or documented by the Board was insufficient and caused concern, as described in the sections that follow.

Meeting Minutes Did Not Indicate that the Board Adequately Oversaw Property Fiscal Performance and the Expenditure of City Funds

In addition to what is required by the Bylaws of HomeRise’s Board and the California Attorney General’s Office, City agreements require a “fiscally responsible board of directors” that meets regularly and “adhere[s] to applicable provision of federal state, and local laws” as part of its oversight responsibility to “ensure full and prompt performance” of HomeRise’s obligations under the agreements.⁹⁷ Further, best practices for nonprofits from the California Attorney General’s Office include that organizations not only maintain adequate and correct financial records, but also that organizations’ boards should vigorously promote fiscal management practices and actively engage in board and committee meetings.^{98,99} However, the HomeRise Board did not demonstrate that it exercised appropriate oversight of the City requirements or over internal controls in meeting minutes provided.

⁹⁴ GAO-14-704G “Standards for Internal Control in the Federal Government” sets forth oversight body responsibilities “for overseeing management’s design, implementation, and operation of an internal control system.” Principle 5.03 states oversight bodies are responsible for holding management accountable as well as the whole organization for control responsibilities, and Section OV 2.14 assigns responsibility to oversight bodies for obligations related to accountability including internal controls.

⁹⁵ COSO Internal Control – Integrated Framework, May 2013, page 9 states that “the board should challenge management and ask the tough questions, as necessary.”

⁹⁶ HSH Grant, Article 6, “Reporting Requirements; Audits; Penalties for False Claims” requires maintenance of accurate financial and accounting records and statements, protocols for submission of inadvertent or knowingly presented false claims, and notification to the City of any change in organizational circumstance that would cause any representations of the organization to be false or misleading.

⁹⁷ MOHCD Loan Agreement Example from McCallister (RTA) Section 24.20 Borrower’s Board of Directors.

⁹⁸ According to the Attorney General’s Guide for Charities Best Practices for nonprofits that operate or fundraise in California, although daily operations can be delegated to reliable and competent staff, the Board must make certain the entity operates in a fiscally sound manner and is properly using any restricted funds. Board Directors “may be accountable for the misappropriation, waste, or misuse of charitable assets if the loss was the result of deficient or nonexistent internal controls, lack of due care, or reasonable inquiry.”

⁹⁹ The Attorney General also requires board members to make reasonable inquiries of the charitable organizations activities as needed.

Meeting minutes primarily listed topics of discussion and action pertaining to other HomeRise or board activities, with fewer topics related to the entity's City grant or property spending, City agreement budget status, related cash flow, or fiscal controls needed to comply with City agreements. The minutes we were provided indicated that board members asked very few questions related to the fiscal or compliance aspects of the City agreements; thus, the Board did not demonstrate that they exercised much oversight regarding fiscal matters.

In fact, of the 32 board meetings held during 2019 through 2022, minutes for only 7 meetings (22 percent) reflected any fiscal questions or deliberations from board members and none were related to HomeRise's compliance with its City grants or agreements—although we could not determine from the meeting minutes whether HomeRise staff sufficiently emphasized the organization's property cash flow problems that partially caused some of its noncompliance with City agreements, or the urgency of its fiscal issues, which needed prompt attention.

Without a demonstrated record of questions from and discussion among the Board or committee members, the Board cannot demonstrate that it adequately oversaw HomeRise's internal controls, fiscal activities, or HomeRise's performance to comply with its City agreements.

Board and Committee Minutes Did Not Reflect the Board Took Strong Enough Action on HomeRise's Cash Flow Problems That Affected Compliance with City Agreements

Beginning as early as 2019, staff reported to the Board on the challenges associated with HomeRise's reliance on government funding and its fiscal condition. Board meeting minutes reflected that staff described the organization's cash reserves and delays in government funding as well as borrowing from property funds. Yet, given these opportunities to step in with needed oversight, the board meeting minutes did not indicate board action to address the problems, nor did they demonstrate any actions taken based on the limited presentations documented as provided to the Finance Committee.

Based on our review of board meeting minutes and Finance Committee presentations provided, we noted the following opportunities where financial issues were raised to the Board without documented oversight actions or deliberations:

- Starting as early as January 2019, board meeting minutes described HomeRise leaders discussing cash shortages at the properties that were attributed to delays in reimbursements from the City—but did not document any board discussion. Despite receiving this notice of HomeRise's cash shortages, the Board voted five months later, in May 2019, for a new salary plan without any board material or discussion documented in the minutes describing the salary increases' impact on HomeRise's property finances or questions from the Board.
- Minutes from other 2019 board meeting minutes mentioned the Board receiving financial (information) packets, reserve analysis, and property finances; yet there was no indication that the Board asked questions or discussed property cash flow or compliance status.¹⁰⁰

¹⁰⁰ Our review of board meeting minutes provided from December 2020 through April 2021 did not reflect discussion of the organization's cash flow, compliance, or its properties' fiscal condition.

- At a May 2021 board meeting, the then-CFO again reported on the delays in payments from the City and their near-term impact on operational finances. However, the minutes did not describe any discussion of quantifying those impacts and/or questions from the Board about the CFO's report.
- Later that year, at the September 2021 board meeting, the Finance Committee gave a financial update for the second quarter of the year, reporting continued delays in getting reimbursed by the City that were cited as being caused by a combination of a cumbersome City billing process and the impacts of HomeRise's conversion to the Yardi accounting system, which included making it more difficult to bill in the manner required by the City.
- The next time the board minutes noted financial items as discussed was December 2022, when it was reported that HomeRise had to borrow money from property reserve funds to make payroll. Although reasons were offered, there was no documented discussion in the board minutes provided of the inappropriateness of using the City property reserve funds to pay expenses for noncompliant corporate activities unrelated to the property. The minutes did not indicate that the Board asked any questions or took any action to address the organization's apparent cash struggles that resulted in using funds designated for different purposes.¹⁰¹
- Board meeting minutes from January and February 2023 did not document discussions of the continued noncompliant and inappropriate transfers of more than \$2 million to cover additional corporate expenses from property funds which is discussed in Chapter 1.

Throughout the board meeting minutes, there was little indication documented that the Board requested sufficient financial information about HomeRise's City agreements and related activities, questioned the extent of HomeRise's fiscal challenges at the property level, or took strong enough action to compel management to address the organization's ongoing financial and compliance problems even though concerns in this area had been raised to the Board since at least 2019 before the COVID-19 pandemic.

Moreover, we could not determine whether the Board's Finance Committee provided additional attention or oversight into HomeRise's financial compliance and condition as part of its tasks to review compliance with external funding. Although the Board's charter requires committees to maintain minutes of its meetings, there were no board Finance Committee meeting minutes or other documentation provided to auditors that demonstrated the committee's oversight from 2019 through 2022.¹⁰² Without Finance Committee meeting minutes, we could not determine what budget or financial information was discussed or vetted.

Board May Need Additional Financial Expertise to Oversee HomeRise's Commitments Under Its City Agreements

The Board Bylaws, Section 6.10, establish a Board Treasurer who is to lead the Board's oversight of HomeRise's "budgeting and planning process, financial performance, and financial condition."¹⁰³ Yet,

¹⁰¹ GAO-14-704G Section 2.08 says that members of an oversight body scrutinize and question management activities.

¹⁰² The only documentation received relating to the proposed 2021 budget packet, proposed 2022 budget and cash flow update memo, and memos on financial results for 2020 and 2021.

¹⁰³ According to its Board Member Job Description, members of the Board are responsible for governance of the organization with a focus on agency policy, financial management, and supervision of the CEO and CFO. Among other items, duties include participating in monthly board meetings and committees as well as ensure the agency is both carrying out its mission and its fiduciary responsibilities.

neither the Board Treasurer nor other board members demonstrated they exercised the needed level of financial inquiries or requested additional financial information required to fulfill these oversight responsibilities as there were no meeting minutes provided. Moreover, a Finance Committee should be formed by individuals with fiscal knowledge and expertise in organizational budgeting, financial performance, and financial condition among other areas. In fact, leading internal control practices discuss specialized skills that board members should have including financial expertise in accounting, financial reporting, and budgets.¹⁰⁴

To fulfill a board's fiscal responsibilities, industry best practices guidance suggests that board members must have the knowledge and experience needed to properly understand financial activity, financial records and statements, and financial audit reports and to be able to recognize warning signs in the overall health of the organization. Without the requisite minimum knowledge of nonprofit budgeting and financial accounting, board members tasked with treasurer or fiscal oversight responsibilities may be unable to comprehensively understand financial risks facing the organization, review bank accounts activity and details, or understand cash flow and patterns that are financial red flags. Possession of these abilities would greatly help board members to recognize and act on serious problems with an organization's financial condition and compliance with funding agreements.

Board and Committee Meeting Minutes Did Not Demonstrate Alignment with Board Policy or Best Practices for Supporting Board Actions Taken or Decisions Made

City agreements require the Board to meet regularly and maintain appropriate membership as established by its bylaws and other governing documents.¹⁰⁵ Consistent with best practices, HomeRise's board policy requires that the Board document how it reached its decisions, including the data on which it relied, and board members who were present during meetings and voted.

However, board minutes did not always clearly note the Board's decisions made. In some cases, the minutes' lack of clarity makes it challenging to identify what matters were called for a vote, although the minutes from board meetings in 2022 were notably better and clearly identify key votes and decisions. Further, board members did not approve all its meeting minutes and the minutes were not in a standardized format.

As detailed in Exhibit 25 and summarized in the bullets that follow, we found:

- The Board's minutes did not indicate Board approval of nearly 20 percent of its meeting minutes.
- Meeting minutes did not follow a standardized format and were at times difficult to follow with some minutes containing misspelled words, incomplete thoughts, and illogical wording or notes.
- Many of the committee meeting minutes were unavailable or were not provided when requested although committee charters require meeting minutes to be kept. Of the 200 expected committee meetings per committee charters during the audit period, we only received minutes for 49 (nearly

¹⁰⁴ GAO-14-704G Principle 2.07.

¹⁰⁵ Various sections in City agreements speak to Board of Director responsibilities such as LOSP Agreement for Island Bay Homes Treasure Island, Section 4.6 and MOHCD Loan Agreement for McAllister (RTA) Section 24.20.

25 percent) of the meetings. Only the Housing Committee and Governance Committee reviewed and approved, or partially reviewed and approved, its meeting minutes.

- The minutes did not demonstrate that the Board voted on four (57 percent) of the seven new members who joined the Board from 2019 through 2022 as is required by Board Bylaws, Section 3.5. Although votes could have been taken but not recorded in meeting minutes, without records of board motions and voting actions in board meeting minutes, we could not determine whether the required votes took place and actions complied with Section 3.5 of its bylaws and its City agreements.

EXHIBIT 25. SUMMARY ANALYSIS OF BOARD & COMMITTEE MEETING MINUTES

Board or Committee	Number of Meetings Expected Annually	Number of Meeting Minutes				Adequate Minutes	Voting Documented	Discussion & Decisions Clear
		2019	2020	2021	2022			
Board	8	8	8	7	8	Partial	Partial	No
Executive	As needed	6	0	2	5	No	UTD	UTD
Finance	12	0	0	1	0	No	No	No
Governance	UTD	0	0	1	9	Yes	Yes	Yes
Housing	As needed	3	6	8	5	Partial	Partial	Partial
Development	UTD	0	0	0	3	No	No	No
Operations	12	0	0	0	0	No	No	No
Membership	As needed	0	0	0	0	No	No	No
Advancement	12	0	0	0	0	No	No	No
Audit	2	0	0	0	0	No	No	No
Public Policy	12	NA	NA	NA	0	No	No	No

Source: Meeting minutes provided by HomeRise, committee charters, and board calendars

Notes:

- NA = Not applicable
- UTD = Unable to Determine
- The Board established the Public Policy Committee in 2022

Furthermore, committee decisions were not always clearly noted. Many meeting minutes did not state what motions were made, what committee business was voted on (the results of which are “for” or “against” recommendations to be taken to the full Board), or what matters needed an action or vote of the committee. The minutes did not always indicate that formal motions were made before actions were taken, including motions for roll-call votes, nor which board members voted for, and which voted against any item.

Chapter 6: Conclusions and Recommendations

Community-based organizations such as HomeRise provide valuable services to the San Francisco community and rely on funding provided by governments and others to provide those services. Government funding agreements contain provisions to ensure the community-based organizations comply with financial requirements and protect the taxpayer money that is provided.

HomeRise’s Many Fundamental Problems Resulted in Noncompliance and Poor Financial Practices

As discussed throughout this report, HomeRise lacked the fiscal control foundation to comply with City grant and loan agreements, which provided millions of dollars in funding to HomeRise during our audit period. Further, HomeRise did not have:

- An adequate control framework to ensure reliable data, comply with City agreements, and guard against fraud, waste, and abuse.
- Sufficient corporate financial staffing to implement needed foundational fiscal activities and controls.
- Appropriate past fiscal strategies and decision-making to withstand short-term revenue shortfalls.
- Practices to monitor cash flow for compliance with City funding agreements.
- Adequate oversight to adhere to City requirements and provide direction to staff amid its many challenges.

HomeRise must change the way it operates to ensure that it can comply with City funding agreements, continue to house tenants, and provide cost-effective needed supportive services to them.

HomeRise Provides a Critical Service and Safety Net to Vulnerable Residents, so Changes in Fiscal Support Could Have Unintended Consequences

Although HomeRise provides about 6 percent of affordable units and 18 percent of the number of supportive housing units in the City that MOHCD funds, according to MOHCD, HomeRise is one of the entities that contributes significantly to serving the formerly homeless through operating 30 percent of MOHCD-funded housing units. Thus, the City has a vested interest in HomeRise remaining a viable housing operator for its existing tenants and a developer of low-income housing in the future.

At this point, changing the funding given to HomeRise through City grant and loan agreements to develop housing is moot—HomeRise has received all the funds, developed the housing units, and is unlikely to be required to repay the loans to the City. If the City were to suspend or eliminate its annual operating subsidy to HomeRise, it could be fiscally and programmatically devastated because, like similar community-based organizations in the housing industry, it needs help to pay the costs of operating the buildings, such as utilities, maintenance, and insurance. The non-City investors have tenants they are subsidizing who also

include vulnerable clients. Moreover, according to HSH, it would be extremely difficult to cut off funding for HomeRise's resident services given its programmatic performance and deep ties with the community.

The City Must Decide How to Balance the Critical Need for HomeRise's Services with the Substantial Work Required of HomeRise to Become Accountable and Compliant With Funding Agreements

The City must consider HomeRise's critical role in providing supportive housing in the City against its egregious noncompliance with City agreements and potentially debilitating structural financial issues identified by this audit, which threaten HomeRise if they are not corrected. In doing so, the City should consider various options, including the following:

- **Engage Multiple City Departments in Collaboration With HomeRise to Rectify Issues and Monitor Improvement Efforts**

Given HomeRise's key role as part of the City's safety net and the breadth of problems identified with HomeRise's fiscal practices, one option could be for HSH, MOHCD, the Controller, and HomeRise to work collaboratively toward a collective solution. The goal would be for HomeRise to obtain the requisite technical assistance needed to implement a solid framework, implement standard internal controls, improve Board and management oversight over budget and financial matters, and rectify the systemic issues discussed in this report that have led to HomeRise's noncompliance.

This will require significant time, fiscal and technical expertise, and likely funding from the City, with efforts diligently coordinated and overseen by one of these City departments or other designated resource. Fixing HomeRise's problems in the long term will require an overhaul of many of its key financial operations and monitoring of HomeRise improvement efforts. This would include, but not be limited to, establishing a core fiscal structure with designated roles, responsibilities, and power of authority; dedicating resources to ensure the real estate and financial system in addition to associated data are reliable and reconciled; and developing and implementing financial policies and procedures that comply with best practices.

- **Bring in a Fiscal Agent to Help HomeRise**

Another option for the City to consider is requiring HomeRise to enter a fiscal agent or fiscal sponsorship arrangement whereby a third party is brought in to assist with fiscal and recordkeeping responsibilities and improve compliance with important City funding requirements. Other similar City fiscal arrangements assign a third party to be responsible for ensuring expenses are legitimate, supported, and accurate and to correct internal control deficiencies. However, these arrangements require administration fees and could place additional stress on HomeRise's financial condition.

A key goal of sponsorship is to help a sponsored entity to become a stronger stand-alone organization. Some fiscal sponsor contracts require mentorship and guidance for the organization being sponsored. This could help HomeRise create a sustainable foundation for the fiscal and operational improvements it needs to make. If HomeRise could do this, it could become independent of its fiscal sponsor. Such a

sponsor could hire, train, and develop managers and staff so HomeRise can again operate in compliance with the requirements of its funders.¹⁰⁶

This could involve implementing policies and procedures for payroll and accounts payable, tracking operating expenses against budget, maintaining backup documents for audit purposes, and billing the City. The fiscal sponsor would provide oversight by having full access to financial records, bank statements, contract documents, board meeting minutes, and key fiscal operations. The fiscal sponsor also would be responsible for managing HomeRise's funds, assets, and other resources, and be responsible for HomeRise's financial solvency.¹⁰⁷

- **Reduce Funding or Rescind HomeRise's Agreements**

If the City chooses to reduce or rescind HomeRise's City grants and agreements, there is much at stake. As stated, HomeRise has a critical role as part of San Francisco's safety net for formerly homeless residents as well as providing affordable and supportive housing units. This option might be difficult, time-consuming, and complicated to undertake given the intertwined relationships between HomeRise's other investors, other grant providers, and MOHCD. According to MOHCD, the City could partner with a different organization(s) to split up HomeRise's housing portfolio, thereby allowing staff to stay on the job and tenants to stay in their housing. This option would be challenging with buildings owned by HomeRise and its LLP partners.

Alternately, the City could work toward relocating tenants or transitioning services to another provider. HSH says that there are approximately 20 other entities that could provide supportive services to residents of HomeRise's permanent supportive housing (or any such housing in San Francisco). Although it may be feasible to engage a new service provider, such a move is complicated by the fact that HomeRise owns its buildings. Regardless of its feasibility or difficulty, this option may be costly.

- **Require HomeRise to Make Wholesale Changes and Implement Necessary Controls**

Given the significant, fundamental issues, HomeRise needs to act in the short term to fortify its financial backbone and immediately equip the remaining staff with tools and training to perform their responsibilities properly. Critical changes are needed to address these issues along with its financial constraints. In the longer term, HomeRise needs to pursue structural and financial changes to ensure it is a sustainable organization. We recommend that the City require HomeRise's leadership and Board to ensure the organization makes wholesale changes to its business foundation, practices, controls, and operations to ensure it is not only a compliant City grantee, but that it also has effective financial controls to stay compliant. We detail suggested control recommendations for HomeRise in Appendix B.

Each of these options has costs and complexities—and may have unintended impacts—in addition to the substantial effort that would be needed from both the City and HomeRise. Regardless of the solutions implemented, at a minimum, HSH and MOHCD should instruct HomeRise to improve its internal controls and implement a strong budget and financial framework.

¹⁰⁶ Office of the Controller, City Services Auditor Report, "Increased Oversight, Fiscal Sponsorship Controls and Accountability Are Needed to Improve UCHS's Operations," dated August 28, 2017, page 34.

¹⁰⁷ Office of the Controller, City Services Auditor Report, "Increased Oversight, Fiscal Sponsorship Controls and Accountability Are Needed to Improve UCHS's Operations," dated August 28, 2017, page 18, footnote 13.

Audit Recommendations

To remediate the significant and pervasive financial issues with HomeRise and its noncompliance with City grants and agreements, we recommend that HSH and MOHCD consider doing the following:

1. Collaborate with HomeRise and other key City departments to explore options and determine the best course of action to remediate HomeRise's issues and help it move forward as a continued and viable City partner delivering permanent supportive housing. For the option selected, consider:
 - a. Creating a road map with detailed strategies, tasks for implementation, and alternate courses of action.
 - b. Ensuring action owners are assigned to tasks in the road map with timelines for completion or next steps.
 - c. Providing technical expertise to navigate the individual control issues and fundamental structural needs in addition to finding potential funding for that needed expertise.
2. Strengthen City oversight of HomeRise's (and other like entities') MOHCD agreements by:
 - a. Ensuring annual monitoring reports are received on time. Understandably, MOHCD will need sufficient time to review the reports, but at minimum, immediately contact the entity when reports are not received on time.
 - b. Enforcing timely submission of required reports by suspending 1/12 of LOSP for each month the reports are late.
 - c. Verifying that submitted annual monitoring reports provide information on all required bank accounts—reserves and restricted accounts as well as operating information. Currently, the reports require operating information and balances and changes for only the replacement and operating reserve accounts.
 - Require a copy of bank statements at least two times in the year—at 6 months and end of year—to proactively identify and monitor any movement of funds from account to account without approval.
 - Carefully review the reports to ensure the reports have been properly completed and that the information provided sums correctly and beginning balances agree with previous annual monitoring report.
 - d. Requiring a capital repairs list and copies of any required approvals for use of replacement reserves. Ensure that the monitoring reports are fully completed including the narrative information that provides details into how the reserves are used.
 - e. Requiring quarterly budget-to-actual monitoring reports with detailed notes and explanations for overages and plans for curbing expenses or increasing revenue when needed.
 - f. Meeting with HomeRise management quarterly to discuss the budget-to-actual monitoring reports to carefully interpret the information and timely apply cost containment strategies.

- g. Considering monitoring additional HomeRise risk areas that were outside the scope of this audit, including real estate development practices, construction activities and costs, and related accounting and reporting of those activities.
3. Strengthen City oversight of HomeRise's (and other like entities') HSH grant agreements by:
 - a. Clarifying the spend down provisions in its grant agreements to ensure rules and expectations are clear.
 - b. Revisiting reimbursement documentation requirements to support additional items submitted for reimbursement, or certain items under the existing \$10,000 threshold.
 - c. Streamlining grant agreements so they are easier for community-based organizations to understand, implement, and comply with the needed terms while still demonstrating transparency and accountability.
 4. Direct HomeRise to remedy its noncompliance with the requirements of MOHCD loan and grant agreements by:
 - a. Repaying \$2.1 million to Villages Property Account that was improperly transferred out to pay for operating expenses and payroll salary costs.
 - b. Investigating and correcting inappropriate and questionable costs identified by the audit that were charged to property operations as needed.
 - c. Developing policies and procedures pertaining to managing and monitoring its properties that are consistent with best practices.
 - d. Training site managers on their duties and responsibilities and ensuring proper review of the work as it relates to areas such as rent collections, subsidy collections, follow-up with tenants when rent is late, developing payment plans, and monitoring vacancies.
 - e. Strengthening its asset management capacity by hiring and/or retaining sufficiently skilled finance and asset management staff to track, analyze, and report to management on all properties and operations.
 - f. Taking a more active role in shaping the contents of monthly management reports of its properties to effectively monitor its assets, and ensuring the information is communicated to leadership and the Board.
 5. Instruct HomeRise to strengthen compliance protocols over HSH grants by:
 - a. Investigating and correcting unallowable and questionable costs identified by the audit that were charged to HSH grants as needed.
 - b. Establishing specific HSH grant-cost allowability guidelines supplementing the City Controller's payment guidelines to better define eligible expense.
 - c. Developing policies and procedures pertaining to budgeting and monitoring services provided to property residents that are consistent with the intent of HSH grants.

- d. Emphasizing to all HomeRise staff that expenses should be related to residents only and not corporate staff or expenses (other than allowed by the maximum 15 percent indirect cost threshold) and monitoring spending practices.
 - e. Revamping grant reimbursement procedures for capturing allowable costs and timely submitting reimbursement claims to HSH.
6. Direct HomeRise to fix Yardi data reliability issues by:
- a. Working with a Yardi expert in addition to key HomeRise staff in the Housing Operations Division, Resident Services Division, and Finance Division to recraft the system's financial structure and coding in addition to developing inhouse system expertise at HomeRise.
 - b. Developing a customized Yardi system manual to provide proper protocols for access, data entry, reviews and approvals, and report generation. The manual should be specific to HomeRise's operations and activities to help ensure the integrity and reliability of data.
 - c. Remediating Yardi functionality to ensure accurate, complete, and reliable data is input, secured, and monitored.
7. Instruct HomeRise to implement a strong financial framework that addresses internal control weaknesses noted by:
- a. Documenting a strong set of financial activities and controls in the form of updated policies and procedures to guide staff on their roles and responsibilities.
 - b. Implementing review and approvals to ensure activities and controls are authorized.
 - c. Revamping and/or establishing adequate financial processes and internal controls in all areas, including those shown in Appendix B.
8. Direct HomeRise to focus on fundamental cash flow concerns by:
- a. Using reliable financial reports to monitor and report on HomeRise's financial condition, variances from planned forecasts, and status of financial condition.
 - b. Modifying financial model and practices to match business expenses with available revenues and create strategies to address cash flow problems as needed including considerations such as:
 - Reducing operating or program expenses
 - Postponing salary increases or hiring of new employees
 - Reducing reliance on external funding
 - Scheduling additional fundraisers seeking donations
 - Fortifying reserves to sufficiently cover amounts owed
 - Negotiating extended payment terms on debt owed

9. Require HomeRise's leadership and the Board to be more involved and demonstrate oversight and accountability related to City agreements by:
 - a. Insisting on and prioritizing the requirement for HomeRise leadership to develop, implement, and follow sound fiscal policies and procedures, key internal controls, and clear assignment of responsibilities and authorities.
 - b. Holding management and employees accountable for adherence to policies and procedures, City grant requirements, and sufficient internal controls.
 - c. Adopting board changes to provide stronger fiscal oversight of City agreements that could include:
 - Requiring HomeRise leadership to regularly report on financial activities relevant to the City agreements and document deliberation of board members in meeting minutes.
 - Having at least one board member with the requisite financial knowledge and/or some background in finance or accounting.

Appendix A: Audit Scope and Methodology

The City and County of San Francisco (City), Office of the Controller's City Services Auditor engaged Sjoberg Evashenk Consulting, Inc. to conduct an independent audit of the agreement(s) between the City and Community Housing Partnership, d/b/a HomeRise. The Department of Homeless and Supportive Housing (HSH) and Mayor's Office of Housing and Community Development administer these agreements, which require HomeRise to provide supportive housing and related services to San Francisco residents experiencing homelessness, including but not limited to navigation centers, transitional housing, support services, property management, and rental assistance.

Though our initial audit period was meant to be a five-year period between 2018 to 2022, we primarily focused on the four-year period from calendar year 2019 to 2022 given the lack of data available from HomeRise for 2018 after numerous requests for information that spanned an initial six-month period. We also reviewed certain transactions in 2023 as warranted.

The audit's objective is to determine whether HomeRise has complied with the requirements of the City agreements. Given the difficulty in obtaining documentation and emerging issues, we primarily focused on fiscal areas with only limited efforts on programmatic compliance. Also, we did not review HomeRise's real estate development or construction activities.

To meet the audit's objectives, Sjoberg Evashenk Consulting, Inc. performed the following audit steps:

1. Interviewed HomeRise executives, management, and staff in place during our audit fieldwork conducted in 2022 and 2023 including:
 - a. Executive and Leadership Team: former Chief Executive Officer (CEO), Interim CEO, two Interim Chief Financial Officers, the Chief Strategy and Operating Officer, Vice President of Programs, Vice President of Fund Development, Vice President of Impact, Director of Public Funding, Director of Employment Opportunities and Solutions SF, Director of Housing Operations, and Director of Resident Services
 - b. Finance: Finance Director, Grants Manager, and Accounts Payable, Treasury, and Asset Management staff
 - c. Human Resources: Director of Human Resources, Payroll and Benefits Manager
 - d. Resident Services and Housing Operations: Resident Service Managers, Compliance Managers, and Facilities Director
 - e. Consultants and other non-permanent staff such as HomeRise's Yardi consultant, external financial auditors, and asset management firm.
2. Interviewed the HomeRise Board of Directors President and Board Treasurer in addition to management and staff from HSH and MOHCD.
3. Conducted two site visits to the HomeRise corporate office in January and March 2023 to interview staff and obtain access to files and ad hoc documentation.

4. Reviewed external guides available to HomeRise to apply to City agreements such as the Office of the Controller's Guidelines for Cost Categorization in Nonprofit Contracts and Grants, and Continuum of Care and Emergency Solutions Grants Desk Guide, MOHCD Housing Development Process, MOHCD policies on Residual Receipts and Ground Leases amongst others, MOHCD's LOSP Policies and Procedures Manual, Low-Income Housing Tax Credit policies, and various other applicable information and policies.
5. Evaluated available internal policies, procedures, protocols, desk guides, and manuals used by staff to operate the organization such as the HomeRise Employee Handbook, Accounting Procedures, Resident Services Department Manual, HOD-RSD Coordination Manual, Compliance and Asset Management Tools, Instructions and Guides for Property Staff, and Draft HOD Compliance Manual.
6. Obtained access to HomeRise's real estate and financial system (Yardi) to query financial data, run reports, locate source documentation, and analyze activity including reviewing the coding structure, access, and extent of data reliability testing conducted by external auditors. Also, reviewed list of users with access to Yardi and associated user permissions.
7. Reviewed HomeRise's external financial audits and related financial activities at both the corporate level and the individual property level for calendar years 2019, 2020, and 2021—the most recent years audited—and used unaudited information from Yardi for 2022.
8. Examined organizational charts and employee rosters for trends in staffing, including turnover, terminations, and role reorganizations.
9. Identified the universe of available grant and loan agreements between HomeRise and HSH and MOHCD during the audit period to identify contractual obligations that HomeRise is obligated to fulfill in exchange for City funding.
10. Selected a sample of MOHCD loan agreements and subsidy agreements to conduct further review of regulatory requirements, fiscal requirements, and other requirements and compared with any available documents to determine compliance including annual monitoring reports, marketing plans, budgets, vacancy and rent reports, and general ledger and transactions from Yardi.
11. Examined revenue and expenses charged to properties to test whether charges were appropriate and correctly recorded or attributed to the property.
12. Reviewed property bank accounts, statements, and reconciliations to identify any significant fluctuations and review for proper use.
13. Conducted a high-level assessment of the programmatic framework in place that HomeRise used to comply with HSH grants.
14. Evaluated how budgets for HSH grants were developed, expenditures were tracked, and status was monitored, as well as what protocols, policies, or tools were used to manage and controls spending against grants.

15. Assessed protocols in place to prepare reimbursement requests to the City for expenses incurred on HSH grants, and invoices in the City's grant invoicing and contracts system (CARBON).
16. Conducted high-level process walk-throughs with staff such as, but not limited to, preparing financial reports in Yardi, budget preparation, grant invoice submission in City's CARBON system, and credit card reporting in HomeRise's various Wells Fargo and RAMP systems.
17. Assessed the organizational and fiscal control environment and activities against a variety of best practices including the Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control Integrated Framework, United States Government Accountability Office's "Standards for Internal Controls for Federal Government" (GAO-14-704G), AICPA Audit and Accounting Manual Nonauthoritative Practice Aids, National Council of Nonprofits, Association of Nonprofit Accountants and Finance Professional, and the Government Finance Officers Association.
18. Reviewed documentation available related to HomeRise spend down practices.
19. Examined credit card charges in Wells Fargo and RAMP from calendar years 2021 and 2022 and tracked sample expenses in Yardi and CARBON to determine if expenses were incurred, paid in full and timely by HomeRise to the vendor, supported and allowable, and appropriately coded.
 - a. We were not able to test every expense within an invoice or grant, each grant agreement provision, or the same types of issues across each agreement due to data reliability challenges and limited resources against the breadth of issues.
20. Reviewed credit card users and permissions such as purchase limits and approval roles and assessed number of existing cards by categories such as department and individual user.
21. Analyzed a sample of promotion letters, employee status change forms, and payroll registers from calendar years 2019, 2020, 2021, and 2022 to identify HomeRise staff salary trends, including salary increases and other discretionary pay, as well as Prop C Bonus Pandemic Pay provided by the City, for employees charged to City agreements.
22. Assessed employee rosters, employee action change notices, and personnel listings to evaluate staff turnover, use of interim positions, and changes in position structure.
23. Reviewed Board of Directors' public bylaws and charters in addition to confidential Board and committee meeting minutes available for calendar years 2019, 2020, 2021, 2022 as well as board meeting minutes from January 2023 and February 2023.

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

Appendix B: Suggested Control Recommendations for HomeRise

While the City contemplates what long-term solutions it might implement to address HomeRise noncompliance, there are many controls that HomeRise should put in place to establish an appropriate framework in general for its organization as well as to comply with City funded agreements. Suggested control recommendations for HomeRise are described in Exhibit 28 that follows:

EXHIBIT 26. SUGGESTED FISCAL CONTROL FEATURES THAT HOMERISE SHOULD IMPLEMENT

	Category	Recommendation
General		
1	Org Charts	Create a Board-approved updated, functional organizational chart that reflects clear roles, responsibilities, and specific lines of authority between departments, and between positions.
2	Document Management	Implement an organization-wide filing and document management system that will allow for creating, storing, managing, and sharing documents and files across the organization with appropriate restrictions and access to the documents depending on roles and responsibilities.
Policies and Procedures		
3	Overarching	Update existing internal manuals, policies, procedures, desk guides, and protocols and develop a plan with specific timelines on how staff will be trained on latest expectations and monitoring processes to ensure compliance with policies and procedures.
4	Credit Cards	Develop new or strengthen existing credit card policies and procedures including considerations such as, but not limited to, the following: <ul style="list-style-type: none"> • Guidelines on acceptable and non-acceptable use of cards and types of purchases • Automated card controls such as declining purchases above a certain dollar threshold, daily spending limits, or stop purchases from specific vendors such as casinos • Detailed rules on approval authority • Limits on the number of cards in use and assigned to an employee • Card spending limit amounts by position and person with justification on specific limit amounts • What to do with a lost or stolen card • What to do if an erroneous purchase is made • Consequences for misuse • Use and management of temporary cards • Proper card discontinuation
5	Property Development and Construction	Establish policies and procedures for property or real estate development and during construction that describes steps involved, roles and responsibilities, stakeholders, and requirements to ensure staff is aware of needed tasks and timelines for action.
Financial Activities		
6	Purchasing	Limit the number of staff who can make purchases and implement an approval process that includes the reason for the purchase, the cost, and cost center or property for charges to be applied to.
7	Credit Cards	Review existing list of credit card holders and reduce and revise approved users based on new issuance policies.

	Category	Recommendation
8	Human Resources & Payroll	To ensure funds are available, require coordination and approval from Finance before: <ul style="list-style-type: none"> • Discretionary pay (including raises, bonuses, and other pay) is provided to staff • Hiring decisions are made for all staff (permanent and temporary) and consultants
9	Human Resources & Payroll	Require executive and financial approval for all position status changes such as promotions or salary adjustments to ensure position change is approved and budgeted in addition to funds being available to pay for additional salaries expenses.
10	Labor Allocation	Conduct time studies to determine how staff time should be allocated to specific grants and properties.
11	Record Retention	Establish and identify which depositories are the official systems of record for files, data, and documentation and ensure all staff is trained to use, save, and manage data in designated depositories.
Fiscal System		
12	Access	Limit superuser and regular user access by carefully reviewing roles and responsibilities to appropriately assign and restricting access to only what is needed to successfully perform functions assigned.
13	Accounting—Properties	Establish processes and procedures for property accounting—involve Finance, Housing Operations and Asset and Compliance managers to ensure various aspects are considered.
14	Accuracy	Develop process and take corrective action to ensure fiscal system data in Yardi is accurate, complete, and reliable including, but not limited to, the following: <ul style="list-style-type: none"> • Implementing a regular data reconciliation process between Yardi and other systems such as RAMP, CARBON, and ADP. • Coordinate with program departments to ensure staffing allocations are accurate and updated. • Review the various options in select departments and cost centers within Yardi and streamline options to reduce confusion in using the system. • Analyze Yardi report queries that result in different information to determine its cause(s) and deactivate any query option that allows erroneous information. • Develop instruction manuals to guide staff in generating complete and reliable data and should train staff on consistent use of proper queries. • Ensure proper reviews of transactions posted and properly document charges to ensure any charges made are appropriate and approved. Journal entries made should have at least one additional review to ensure the journal entry is needed, adequately supported and justified, and recorded to the appropriate property or job cost center.
Property Management		
15	Budget Development and Monitoring	Develop clear guidelines for building annual budgets that include specific information as to department and staff involved, roles and responsibilities, timelines, assumptions, and approval process. Further, establish a process for monitoring the budget throughout the year to ensure budgets are adhered to and costs contained if revenues do not materialize.
16	Inventory	Establish protocols for tracking purchases made for properties, appropriately tagging items purchased for the property (that include appliances, furniture, computers, etc.), maintaining logs of items, and other steps to ensure items are safeguarded.
17	Property Bank Accounts	Correct all bank account information to ensure names on the accounts are appropriate. Further, establish a process to ensure funds are not transferred between properties without appropriate approval.

	Category	Recommendation
18	Rent and Subsidy Collections	Establish formal protocols for rent collections that include collection, review, monitoring, and ensuring transactions are properly recorded. Train site managers and on their duties and conduct timely reviews to ensure rent is collected, timely deposited, and correctly recorded on tenant ledgers. Actively monitor all rental subsidies to ensure subsidizing entities are billed timely, payment collected and recorded, and follow-up with subsidizing entities is immediate to ensure HomeRise receives subsidies.
19	Real Estate Owned Schedules	Include information about all reserve accounts for each property to ensure staff is aware of the reserves required for each property (currently only the operating and replacement reserves are indicated).
20	Vacancies	Actively monitor all vacancies. Follow-up with subsidizing agency and conduct affirmative marketing if allowed in the agreements to attempt to fill vacancies in a timelier manner.
Resident Services		
21	Grant Budget Development	Develop a formal process for creating agreement budgets including but not limited to: <ul style="list-style-type: none"> Retaining and using underlying historical data to justify operational expense categories, including specific quantities of requested items and funds. For instance, if a line item is for \$10,000 based on \$100 per person x 100 units, demonstrate where that \$100 basis and 100-unit basis came from and why that is the appropriate quantity Creating clear, structured templates that can be update and re-used annually
22	Grant Monitoring	Establish a formal process for tracking budget to actuals for each agreement including but not limited to: <ul style="list-style-type: none"> Setting regular timelines for when actuals must be updated Requiring staff to use budget to actual reports to inform spending limitations Coordinating with Finance to ensure budget to actual data is accurate in Yardi
23	Grant Expenses	Develop protocols for grant spending and management such as but not limited to: <ul style="list-style-type: none"> Defining what qualifies as appropriate underlying documentation; and how and where to save Linking individual expenses to tenant profiles to show who received services and benefits Creating a comprehensive, updated guide to job costing and coding
24	Grant Expenses	Maintain a formal record of all lessons learned shared from City partners and incorporate into guidelines to be used on existing and future agreements such as examples of allowable or unallowable expenses. Include details such as: <ul style="list-style-type: none"> Date when City provided information Name and position of City representative and corresponding record if available (e.g., email, memo)
25	Grant Invoicing & Reimbursement Requests	Establish a formal process for invoice preparation and submission for City reimbursement requests such as but not limited to: <ul style="list-style-type: none"> Determining Yardi system queries that should be used for each type of invoice Detailing what specifically should be reviewed internally by required parties before submission to the City and how that confirmation of review is documented
26	Inventory	Track and maintain updated inventory of physical grant purchases such as furniture, gift cards, and other tangible items. Ensure tracking includes details such as: <ul style="list-style-type: none"> Quantities of items received Site at which items are located Date of receipt

Appendix C: Department Responses

Department of Homelessness and Supportive Housing

DocuSign Envelope ID: FF662D1A-9756-47E4-B45D-C6F6B502E74B



DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

Shireen McSpadden, Executive Director



London Breed, Mayor

December 22, 2023

Mr. Mark de la Rosa, Director of Audits
Office of the Controller
1 Dr. Carlton B. Goodlett Place, Room 476
San Francisco, CA 94102

Re: Response to HomeRise Audit

Dear Mr. de la Rosa,

Thank you for the opportunity to review and respond to the audit titled *HomeRise Mismanaged Financial Activities and Misused City Funds Related to Supportive Housing Efforts*, conducted by your office and Sjoberg Evashenk Consulting, Inc. (SEC). The Department has reviewed the report and enclosed its response to the audit recommendations.

As you are aware, the Department of Homelessness and Supportive Housing and Mayor's Office of Housing and Community Development (MOHCD) requested the Office of the Controller's assistance in commissioning an external audit of HomeRise, due to many deficiencies, now detailed in the report, and growing concerns about HomeRise's financial stability. HSH and MOHCD took this unusual step after its own efforts to conduct oversight proved insufficient to compel corrective action. If possible, we would like to request that the final document recognizes that HSH and MOHCD took preventive steps before requesting the intervention of the Controller's Office. As the audit notes, the City has invested hundreds of millions of dollars in HomeRise's projects and operations over its many years of operation. HomeRise manages 19 properties that permanently house approximately 1,500 low-income and formerly homeless individuals and families. HSH and MOHCD could not simply cut off HomeRise's funding without displacing or harming thousands of tenants and permanently destabilizing the agency's ability to deliver property management and supportive services. The Departments required the evaluation of a third-party auditing firm to understand the scope of HomeRise's financial and operational issues and recommend solutions.

HSH began noticing discrepancies in HomeRise's invoicing in January 2021. HSH contract's division contacted HomeRise, then doing business as Community Housing Partnership (CHP), requesting its latest year-end financial audits, copies of its internal accounting policies and procedures, and additional documentation regarding purchasing approvals, gift cards, reimbursements, and receipts of goods purchased. Documentation and policies were incomplete or outdated. Invoicing discrepancies again appeared in June 2021. In August 2021, HSH issued a corrective action letter identifying ineligible expenses and costs not yet incurred, and questioning invoices where HSH grant funds were used for corporate clothing and swag. HSH met with HomeRise's CEO and CFO several times in the fall of 2021 instructing HomeRise to provide clear documentation that grant funds were spent on legitimate, eligible costs and to document improvements in the agency's fiscal oversight practices. Similar concerns were being raised by MOHCD staff and both leadership teams coordinated to share information and additional monitoring.

440 Turk Street
San Francisco, CA 94102

628.652.7700
hsh.sfgov.org

By the end of 2021, HSH and MOHCD staff started receiving urgent requests from HomeRise leadership for large cash advances on agreements and began to have growing concerns that HomeRise was in financial trouble, hiding these issues from its City funders, and mismanaging City funding. Lacking our own in-housing auditors and expertise to conduct the kind of rigorous discovery needed to understand how City funds and projects were being managed, HSH alerted the Office of the Controller in 2021. In early 2022, HSH met with the Controller and his senior staff to seek assistance and request an external audit of City agreements related to permanent supportive housing. On June 8, 2022, MOHCD also issued a notice of default related to the Local Operating Subsidy Program at the Richardson Apartments.

The City Services Auditor notified HomeRise of its forthcoming audit in July 2022. However, HomeRise delayed its compliance with the audit team's requests for several months. On November 18, 2022, HSH and MOHCD jointly sent a letter to HomeRise's Board of Directors asking for HomeRise to immediately comply with all requests from the external auditing firm. On December 12, 2022, the City Controller placed HomeRise on "elevated concern status" due to risk of instability and to be able to provide additional technical assistance. HomeRise remains on elevated status in Fiscal Year 2023-24. These efforts demonstrate that HSH and MOHCD staff worked diligently to provide departmental oversight and departmental leadership escalated concerns to the City's Controller Office and other City departments in a timely manner.

On a positive note, HomeRise hired a new Chief Executive Officer in spring 2023 who has demonstrated a strong commitment to stabilizing the organization and taken concrete steps to remediate these deficiencies and restore its status as a trusted City partner. HSH is committed to working with MOHCD and HomeRise leadership to determine the best course of action going forward to preserve more than 1,500 units of permanent affordable housing.

The department would like to thank the City Services Auditor team and Sjoberg Evashenk Consulting, Inc. for its work and transparency throughout the auditing process. We greatly appreciate your team's time and effort as well as your partnership and recommendations.

If you require further information from HSH, please contact HSH's Chief of Finance and Administration Gigi Whitley at gigi.whitley@sfgov.org.

Sincerely,

DocuSigned by:

CAD7B781896B449...
Shireen McSpadden
Executive Director



DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

Mayor's Office of Housing and Community Development
City and County of San Francisco



London N. Breed
Mayor

Eric D. Shaw
Director

December 22, 2023

Mark de la Rosa
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: HomeRise Mismanaged Financial Activities and Misused City Funds Related to Supportive Housing Efforts - requested MOHCD response

Mr. de la Rosa,

I am writing in response to your request in the letter that accompanied the HomeRise Financial Activities and City Funds Assessment (Audit) performed by the Controller's City Services Auditor (CSA). The Mayor's Office of Housing and Community Development (MOHCD) appreciates the rigor and thoroughness CSA put into this effort to make the specific findings contained in the Audit. As you know, MOHCD had significant concerns regarding HomeRise's organizational management and financial operations for some time. Leading up to the CSA audit, MOHCD had:

1. Ongoing communications with HomeRise staff related to consistently late and poor annual reporting.
2. Issued a Notice of Default on terms of the Local Operating Subsidy Program (LOSP) Grant Agreement for Richardson Apartments on June 5, 2022.
3. Met with then CEO, Rick Aubry, Board President Gregg Miller and then Treasurer Patrick Valentino, to discuss MOHCD's concerns on September 15, 2022. As a result, MOHCD pulled them as a co-developer from a development project at Treasure Island.
4. Authored a joint letter with the Department of Homeless and Supportive Housing (HSH) to urge compliance with CSA's audit, and even provided documentation directly to the auditor when HomeRise staff were not able to do so.

The context in which the CSA's Audit was performed would be important to relay, and MOHCD encourages your office to incorporate this history into the cover letter of the audit.

MOHCD agrees with many of the recommendations of the Controller's City Services Auditor, especially those concerning financial controls and systems. MOHCD is deeply concerned that as grave as the audit findings are, HomeRise board and auditor had not previously noted any concerns or findings. MOHCD has been working with the new team under Janea Jackson's leadership over

One South Van Ness Avenue, Fifth Floor, San Francisco, CA 94103
Phone: 415.701.5500 Fax: 415.701.5501 TDD: 415.701.5503 www.sfmohcd.org

the last 6 months and have found her team to be responsive and capable. As MOHCD would operate in more of a monitoring capacity for many of the recommendations, we would support a City response that provides Ms. Jackson's team with the third party and/or board member expertise necessary to fully implement the recommendations provided in the CSA audit.

Thank you for the work of your team during this complex engagement. Please let me know if you have any questions or additional concerns.

Sincerely,



Eric D. Shaw
Director

cc: Benjamin McCloskey, Andrea Gremer, Lydia Ely, Jackie Tsou, Mike McLoone, Shireen McSpadden, Gigi Whitley, Marion Sanders, Salvador Menjivar, Lisa Agustin

RECOMMENDATIONS AND RESPONSES

For each recommendation, the responsible agency should indicate in the column labeled *Agency Response* whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>1. Collaborate with HomeRise and other key City departments to explore options and determine the best course of action to remediate HomeRise’s issues and help it move forward as a continued and viable City partner delivering permanent supportive housing. For the option selected, consider:</p> <ul style="list-style-type: none"> a. Creating a road map with detailed strategies, tasks for implementation, and alternate courses of action. b. Ensuring action owners are assigned to tasks in the road map with timelines for completion or next steps. c. Providing technical expertise to navigate the individual control issues and fundamental structural needs in addition to finding potential funding for that needed expertise. 	<p>Department of Homelessness and Supportive Housing</p>	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>The Department of Homelessness and Supportive Housing (HSH) agrees that HomeRise will need to explore options and determine the best course of action to remediate the wide-ranging and systemic deficiencies identified in the audit. HSH concurs that HomeRise should create a road map with detailed strategies, tasks for implementation and alternatives courses of actions for the City’s review and approval. This road map should include benchmarks for HomeRise to meet and with timelines for implementation as a condition for continued City funding. However, HSH is not equipped or sufficiently staffed to provide the level of technical expertise and financial support to address the organizational, financial, and structural deficiencies identified in this audit. HSH recommends that HomeRise engage financial and nonprofit experts to help remediate these deficiencies. Additionally, HSH expects HomeRise’s Board of Directors to demonstrate oversight and accountability for any remediation plan as a condition of continued City funding.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
	<p>Mayor’s Office of Housing and Community Development</p>	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>The Mayor’s Office of Housing and Community Development (MOHCD) agrees that HomeRise will need to create a road map with detailed strategies and tasks for implementation</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
		<p>that are assigned to specific individuals. However, MOHCD is not appropriately equipped or sufficiently staffed to provide technical expertise regarding structural issues around cash flow or controls for our CBO partners, nor does MOHCD have financial resources available to develop additional expertise. MOHCD recommends that HomeRise employ or contract with relevant experts to ensure technical issues are addressed in a way which meets their organizational needs.</p> <p>MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	
<p>2. Strengthen City oversight of HomeRise’s (and other like entities’) MOHCD agreements by:</p> <ol style="list-style-type: none"> a. Ensuring annual monitoring reports are received on time. Understandably, MOHCD will need sufficient time to review the reports, but at minimum, immediately contact the entity when reports are not received on time. b. Enforcing timely submission of required reports by suspending 1/12 of LOSP for each month the reports are late. c. Verifying that submitted annual monitoring reports provide information on all required bank accounts—reserves and restricted accounts as well as operating information. Currently, the reports require operating information and balances and changes for only the replacement and operating reserve accounts. <ul style="list-style-type: none"> • Require a copy of bank statements at least two times in the year—at 6 months and end of year—to 	<p>Mayor’s Office of Housing and Community Development</p>	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>MOHCD has an existing process in place to notify and follow up with the entity when annual monitoring reports are not received on time, and we have been following this process with HomeRise. Additionally, submission is currently enforced by partial temporary suspension of LOSP payments as deemed appropriate.</p> <p>Given the large number of bank accounts required by HomeRise for segregation of their various properties, performing a detailed review of bank statements is unrealistic for MOHCD. However, MOHCD does expect the HomeRise Board (ideally a finance committee of at least two members with financial expertise) to review the bank statements on at least a quarterly basis. MOHCD will require documentation that the HomeRise Board has done so, along with a summary of any particular concerns or issues identified. MOHCD will also require any bank statements be provided to MOHCD upon request.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>proactively identify and monitor any movement of funds from account to account without approval.</p> <ul style="list-style-type: none"> Carefully review the reports to ensure the reports have been properly completed and that the information provided sums correctly and beginning balances agree with previous annual monitoring report. <p>d. Requiring a capital repairs list and copies of any required approvals for use of replacement reserves. Ensure that the monitoring reports are fully completed including the narrative information that provides details into how the reserves are used.</p> <p>e. Requiring quarterly budget-to-actual monitoring reports with detailed notes and explanations for overages and plans for curbing expenses or increasing revenue when needed.</p> <p>f. Meeting with HomeRise management quarterly to discuss the budget-to-actual monitoring reports to carefully interpret the information and timely apply cost containment strategies.</p> <p>g. Considering monitoring additional HomeRise risk areas that were outside the scope of this audit, including real estate development practices, construction activities and costs, and related accounting and reporting of those activities.</p>		<p>MOHCD leadership is currently meeting with the HomeRise executive team on a regular basis. In those meetings cash flow issues are discussed, including any emergency, unfunded capital repairs and any significant, unexpected expenditures. Additionally, MOHCD agrees to require regular budget versus actual monitoring reports in advance of these meetings.</p> <p>As operations continue, MOHCD will monitor all risk areas on an ongoing basis and determine if additional oversight appears necessary.</p> <p>MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>3. Strengthen City oversight of HomeRise’s (and other like entities’) HSH grant agreements by:</p> <ul style="list-style-type: none"> a. Clarifying the spend down provisions in its grant agreements to ensure rules and expectations are clear. b. Revisiting reimbursement documentation requirements to support additional items submitted for reimbursement, or certain items under the existing \$10,000 threshold. c. Streamlining grant agreements so they are easier for community-based organizations to understand, implement, and comply with the needed terms while still demonstrating transparency and accountability. 	<p>Department of Homelessness and Supportive Housing</p>	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>HSH partially concurs with the recommendation. HSH began raising concerns with HomeRise in 2021, issuing a corrective action letter in August 2021 and meeting with HomeRise executive leadership to address its concerns with HomeRise’s financial health and use of City funds. Similarly, MOHCD issued a notice of default and convened meetings with HomeRise leadership on corrective action. Without results or progress, HSH and MOHCD escalated its concerns to the Controller’s Office and requested an external, third-party audit be conducted to safeguard the City’s long-term investments in affordable housing projects and existing services to formerly homeless tenants. Prior to the start of the external audit, HSH worked with its Deputy City Attorney to clarify provisions in HomeRise’s agreements to require additional documentation of eligible costs regardless of dollar amount, clarify eligible costs, and limit the use of cash advances and corporate credit cards, including the following language:</p> <p><i>“I. Actual Costs: In accordance with Article 5 Use and Disbursement of Grant Funds of the Grant Agreement, payments shall be made for actual costs incurred and reported for each month within the budget term (e.g., Fiscal Year or Project Term). Under no circumstances shall payment exceed the amount set forth in Appendix B, Budget(s) of the Agreement. Grantee will only be reimbursed for charges on agency credit cards for expenditures directly related to budget line items.”</i></p> <p>In FY23-24, HSH added language under Section II. E. 4 to its grant agreements stating:</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
		<p><i>"HSH will conduct regular monitoring of provider operating expenses under \$10,000 including, but not limited to requesting supporting documentation showing invoices were paid. Grantees shall provide requested information within specified timelines. HSH reserves the right to require full documentation of invoice submission regardless of amount to ensure the Grantee ' s compliance with HSH ' s invoicing requirements. "</i></p> <p>HSH will begin desk auditing a random sampling of all grantees' invoices that meet this threshold starting in late FY2023-24 to provide clearer guidelines to all HSH grantees.</p> <p>HSH will continue to instruct all of its nonprofit grantees to submit grant budgets that conform with the Office of Controller's <i>Guidelines for Cost Categorization in Nonprofit Contracts and Grants</i>. Starting in 2024, HSH plans to update its grant budget templates and is implementing a new grants management system that will allow for more streamlining. In addition, HSH will be issuing new guidelines to HSH grantees on acceptable supporting documentation for invoice reimbursement requests and policies and procedures for gift card use.</p>	
<p>4. Direct HomeRise to remedy its noncompliance with the requirements of MOHCD loan and grant agreements by:</p> <ul style="list-style-type: none"> a. Repaying \$2.1 million to Villages Property Account that was improperly transferred out to pay for operating expenses and payroll salary costs. b. Investigating and correcting inappropriate and questionable costs identified by the 	<p>Mayor's Office of Housing and Community Development</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD agrees to direct HomeRise to remedy its noncompliance with loan and grant agreements. By March 1, 2024, HomeRise should additionally develop a repayment plan, to be approved by MOHCD, for the \$2.1 million owed to the Villages Property Account.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>audit that were charged to property operations as needed.</p> <p>c. Developing policies and procedures pertaining to managing and monitoring its properties that are consistent with best practices.</p> <p>d. Training site managers on their duties and responsibilities and ensuring proper review of the work as it relates to areas such as rent collections, subsidy collections, follow-up with tenants when rent is late, developing payment plans, and monitoring vacancies.</p> <p>e. Strengthening its asset management capacity by hiring and/or retaining sufficiently skilled finance and asset management staff to track, analyze, and report to management on all properties and operations.</p> <p>f. Taking a more active role in shaping the contents of monthly management reports of its properties to effectively monitor its assets, and ensuring the information is communicated to leadership and the Board.</p>		<p>MOHCD further agrees that it is a best practice to investigate and correct inappropriate and questionable costs identified by the audit but recognizes the challenging nature of that task due to high HomeRise staff turnover during the period under audit.</p> <p>Specific attention should be paid to developing policies and procedures related to property management best practices. Final policies and procedures should be approved by the Board. Site managers should additionally be trained based on those policies and procedures.</p> <p>MOHCD also agrees to direct HomeRise to strengthen its asset management capacity, coaching HomeRise leadership to train and retain skilled staff or by hiring. Part of strengthening capacity includes recognizing property issues and when issues need to be escalated to management in addition to determining appropriate monthly reporting to leadership. In addition, HomeRise should be regularly communicating and coordinating amount asset management, property management and finance teams.</p> <p>MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	
<p>5. Instruct HomeRise to strengthen compliance protocols over HSH grants by:</p> <p>a. Investigating and correcting unallowable and questionable costs identified by the audit that were charged to HSH grants as needed.</p> <p>b. Establishing specific HSH grant-cost allowability guidelines supplementing the</p>	<p>Department of Homelessness and Supportive Housing</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>HSH agrees to direct HomeRise to strengthen its compliance protocols and will instruct HomeRise's as recommended as a condition of HSH funding.</p> <p>HSH further concurs that HomeRise should investigate and correct unallowable and questionable costs identified by the</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>City Controller’s payment guidelines to better define eligible expense.</p> <p>c. Developing policies and procedures pertaining to budgeting and monitoring services provided to property residents that are consistent with the intent of HSH grants.</p> <p>d. Emphasizing to all HomeRise staff that expenses should be related to residents only and not corporate staff or expenses (other than allowed by the maximum 15 percent indirect cost threshold) and monitoring spending practices.</p> <p>e. Revamping grant reimbursement procedures for capturing allowable costs and timely submitting reimbursement claims to HSH.</p>		<p>audit. As the auditors discovered, HomeRise has not been able to produce consistently reliable information from its financial system or document expenditure eligibility. Based on the audit findings, HSH will instruct HomeRise to repay the City for unallowable costs charged to HSH grants, if cost eligibility cannot be documented.</p> <p>Furthermore, HSH will require HomeRise to provide a new cost allocation methodology for HSH grants and develop new policies and procedures for budgeting and monitoring cost. Final policies and procedures should be approved by the HomeRise Board of Directors and require that direct grant expenditures be spent on expenses that benefit formerly homeless residents, rather than HomeRise’s corporate staff or corporate operations.</p> <p>Finally, HSH will clearly delineate its expectations and deadlines for HomeRise to comply as a condition of continued HSH funding.</p>	
<p>6. Direct HomeRise to fix Yardi data reliability issues by:</p> <p>a. Working with a Yardi expert in addition to key HomeRise staff in the Housing Operations Division, Resident Services Division, and Finance Division to recraft the system’s financial structure and coding in addition to developing inhouse system expertise at HomeRise.</p> <p>b. Developing a customized Yardi system manual to provide proper protocols for access, data entry, reviews and approvals, and report generation. The manual should</p>	<p>Department of Homelessness and Supportive Housing</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>HSH concurs and will partner with MOHCD to direct HomeRise to fix Yardi’s data reliability issues and data structure and implement protocols for allowable access, data entry, review and reporting functions. HomeRise will need to develop a plan of action to support the improvement of its financial systems and develop in-house expertise on the functioning and operations of the system. Part of this process should include creating a system manual that responds to the activities and reporting needs of HomeRise as well as its City funders.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>be specific to HomeRise’s operations and activities to help ensure the integrity and reliability of data.</p> <p>c. Remediating Yardi functionality to ensure accurate, complete, and reliable data is input, secured, and monitored.</p>	<p>Mayor’s Office of Housing and Community Development</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD agrees to direct HomeRise to fix Yardi data reliability issues by working with an expert to remediate and develop customized processes and reporting to respond to funders’ reporting requirements, including LO SP. MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>7. Instruct HomeRise to implement a strong financial framework that addresses internal control weaknesses noted by:</p> <p>a. Documenting a strong set of financial activities and controls in the form of updated policies and procedures to guide staff on their roles and responsibilities.</p> <p>b. Implementing review and approvals to ensure activities and controls are authorized.</p> <p>c. Revamping and/or establishing adequate financial processes and internal controls in all areas, including those shown in Appendix B.</p>	<p>Department of Homelessness and Supportive Housing</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD and HSH agree to direct HomeRise to implement a strong financial framework including updating finance and accounting policies and procedures to assist in implementation of appropriate internal controls. HSH recommends HomeRise engage services of a certified public accounting firm to develop these tools. Final policies and procedures should be approved by the Board of Directors. MOHCD and HSH will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
	<p>Mayor’s Office of Housing and Community Development</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD agrees to direct HomeRise to implement a strong financial framework including updating finance and accounting policies and procedures to assist in implementation of appropriate internal controls. Final policies and procedures should be approved by the Board. The Board may consider annual auditing by a new third-party auditor that thoroughly tests the effectiveness of the revamped and/or new financial process, Yardi reporting, and internal controls. MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>8. Direct HomeRise to focus on fundamental cash flow by:</p> <p>a. Using reliable financial reports to monitor and report on HomeRise’s financial condition, variances from planned forecasts, and status of financial condition.</p> <p>b. Modifying financial model and practices to match business expenses with available revenues and create strategies to address cash flow problems as needed including considerations such as:</p> <ul style="list-style-type: none"> • Reducing operating or program expenses. • Postponing salary increases or hiring of new employees. • Reducing reliance on external funding. • Scheduling additional fundraisers seeking donations. • Fortifying reserves to sufficiently cover amounts owed. • Negotiating extended payment terms on debt owed. 	<p>Department of Homelessness and Supportive Housing</p>	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>MOHCD and HSH agree to direct HomeRise to focus on creating a financial model that fosters sustainable cash flow and the other strategies recommended by the audit.</p> <p>In addition to considering the recommendations noted here, HomeRise should further examine, in partnership with the City, possible structural changes including potential reorganization or disposition of assets if such measures appear necessary and/or reasonable. MOHCD and HSH will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
	<p>Mayor’s Office of Housing and Community Development</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD agrees to direct HomeRise to focus on creating a financial model that fosters sustainable cash flows. In addition to considering the recommendations noted here, HomeRise should further examine possible structural changes in partnership with MOHCD, including potential reorganization or disposition of assets if such measures appear necessary and/or reasonable. MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>9. Require HomeRise’s leadership and the Board to be more involved and demonstrate oversight and accountability related to City agreements by:</p> <p>a. Insisting on and prioritizing the requirement for HomeRise leadership to develop, implement, and follow sound fiscal policies and procedures, key internal</p>	<p>Department of Homelessness and Supportive Housing</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>HSH agrees with the auditor’s assessment that HomeRise Board of Directors and its prior executive leadership failed their fiduciary obligations to the organization and mismanaged and misused taxpayer funds for affordable and supportive housing.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team’s review of the agency’s response and proposed corrective action.

Recommendation	Responsible Agency	Agency Response	CSA Use Only Status Determination*
<p>controls, and clear assignment of responsibilities and authorities.</p> <p>b. Holding management and employees accountable for adherence to policies and procedures, City grant requirements, and sufficient internal controls.</p> <p>c. Adopting board changes to provide stronger fiscal oversight of City agreements that could include:</p> <ul style="list-style-type: none"> Requiring HomeRise leadership to regularly report on financial activities relevant to the City agreements and document deliberation of board members in meeting minutes. Having at least one board member with the requisite financial knowledge and/or some background in finance or accounting. 		<p>HSH recommends HomeRise reconstitute its Board of Directors and Board charter, overhaul its current Board membership to provide new leadership and accountability, and ensure at least two Board members possess the financial knowledge and expertise needed to conduct rigorous oversight of the organization.</p>	
	<p>Mayor's Office of Housing and Community Development</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MOHCD agrees that HomeRise's leadership must be more involved in the daily activities of the organization, in particular but not exclusively the financial activities of the organization. Policies and procedures documents discussed herein should include clear assignment of responsibility to leadership including the executive team and the Board. In addition to recommendations elsewhere in this document, the Board should approve the annual budget and review budget to actual reports on a regular basis. Given the size of the Board, at least two members should have appropriate financial knowledge for oversight. MOHCD will work with HomeRise to determine a reasonable expected implementation date.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Appendix D: Contractor Response



March 15, 2024

via Email

Mark de la Rosa
Director of Audits - Office of the Controller
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

Re: Report on the Audit of HomeRise's Compliance with HSH and MOHCD Grant Agreements prepared by Sjoberg Evashenk Consulting, Inc. (the "Report")

Dear Mr. de la Rosa:

HomeRise recognizes and appreciates the efforts of the Controller's Office in undertaking the preparation of the Report. We would like to take this opportunity to assure you of HomeRise's commitment to addressing the City's concerns.

In fact, under the new leadership of Janéa Jackson, CEO, and Sergio Perez, CFO, HomeRise has already remedied many of the items of concern in the report. Specifically:

①

- On October 2, 2023, HomeRise reimbursed CHP Villages the remaining \$2.1 million.
- In December 2023, HomeRise reduced the number of active credit card users to thirty, of which five have a credit limit of \$5,000 and twenty-five have a credit limit of \$2,500.
- HomeRise has improved its annual budgeting process, particularly at the property level. All property budgets reflect realistic vacancy rates, necessary staffing levels, and anticipated business spending. Of the sixteen properties in the HomeRise portfolio, all but one are budgeted to positively cash flow in FY24.
- The organization has improved its monthly budget vs. actual reporting process. The Finance Department is providing monthly financial reports to all corporate departments and properties on a consistent basis to ensure business spending is within the strict confines of approved annual budgets. This will prevent corporate from having to subsidize underperforming properties leading to cash flow issues.
- The CFO is presenting year to date financials to the Board monthly along with a monthly Board Report that provides updates on cash flow, outstanding accounts payable, budget(s), audit(s), staffing, and other financial matters.
- HomeRise is working on the implementation of a centralized purchasing process to control costs, reduce spending, and ensure compliance with approved budgets. The centralized

HomeRise (formerly Community Housing Partnership)
251 Post Street, Suite 200 San Francisco, CA 94108 | Phone 415 409 4179 | HomeRiseSF.org

Note: The circled number(s) correspond with auditor comments to contractor's response in Appendix E.



purchasing function, coupled with an efficient A/P function, will work to further reduce credit card spending to incidental purchases and travel expenses only.

- HomeRise meets on a bi-weekly basis with SFHA and HSH to coordinate filling vacancies. Over the past nine months, vacancies have improved 33%.
- HomeRise has improved oversight of its housing subsidies and is in the process of hiring a Senior Occupancy and Leasing Manager to improve its management of housing subsidies.
- HomeRise is using the Emergency Rent Assistance Program (ERAP).
- HomeRise has updated its policies and procedures for evicting tenants for non-payment of rent.
- The Finance Department now performs its duties within a well-defined Financial Roles & Responsibilities process in which everyone's roles and responsibilities within the fiscal function of the organization and the month-end close process are identified. The formalized and streamlined month-end close process will allow for efficient, accurate, complete, and consistent YTD financial reporting.
- HomeRise has implemented a new credit card policy for each user and their supervisor, including guidelines that will be applied to, and enforced against, any person issued access to company credit. The policy conveys expectations and procedures for the issuance, application, use, safeguarding, suspension, and termination of the credit facility. Users with access to credit, and their supervisors, are responsible for ensuring that they adhere to this policy, while taking appropriate measures to minimize the risk of inappropriate or unauthorized credit use or access.
- HomeRise is updating the organization's Fiscal Policies & Procedures Manual. HomeRise will review and update the Manual each year.
- HomeRise is implementing a revised document management and record retention plan, including an annual audit for adherence to the plan.

HomeRise is working to complete the remaining items and will continue those efforts until completion.

Many of the findings in the Report are, however, factually incorrect, and others are misleading by the lack of relevant context. The Report all but completely ignores the immense operational challenges that HomeRise faced in 2019-2022 and the fact that, despite such headwinds, HomeRise continued to fulfill its mission by providing housing and services to more than 1,600 residents. The Report also fails to acknowledge the millions of dollars that HomeRise has saved taxpayers by keeping our most vulnerable residents off the streets and supporting them with medical and

- 2
- 3
- 4
- 5

Note: The circled number(s) correspond with auditor comments to contractor's response in Appendix E.



mental health services, job training, and other services. HomeRise, in short, is playing a critical role in confronting one of the City’s most pressing civic and human challenges, and it is doing so with an elevated level of success despite a lack of resources. It deserves recognition for its work, and the support necessary to its mission.

HomeRise’s operating budget over the four-year period covered by the Report totals more than \$130 million. Although the Report found some instances of non-compliance with the invoicing and reimbursement provisions of its agreements, including improper billing of certain costs, the amounts noted represent less than 1.3% of HomeRise’s total operating budget during the period. Any inappropriate or unauthorized use of funds is unacceptable to HomeRise. Considering the number of agreements, the complexity of HomeRise’s business, the overall size of its budgets during the audit period, the value of HomeRise’s fixed assets, and the considerable external challenges that HomeRise faced over most of the audit period, no one could reasonably conclude that HomeRise had acted in bad faith, had failed to substantially and materially comply with its obligations under those the agreements, or acted in a manner inconsistent with industry norms. Indeed, HomeRise has clean, independent audits from its outside auditors for all the years in the Report period.

6

4

7

8

The Report notes a revenue shortfall. Much of that shortfall was the result of rent forgiveness/eviction protection laws enacted during the pandemic, and that remained in place for a considerable period thereafter. HomeRise is not a for-profit residential housing operator. Its mission is to get individuals and families off the streets, not to evict them back onto the streets. And, purely from a fiscal perspective, it would be senseless to do so. The direct cost to the city from such a cycle is greater than the lost rent, not to mention the human cost. HomeRise has experienced persistent high vacancies, exacerbating its financial squeeze, but that has been the result of backlogs in the City’s referral system. The Report’s suggestion that providers should market vacant units via various media sources is contrary to industry standards, could potentially mislead prospective residents, and represents an unwarranted financial burden, given the structured procedures of the City’s existing referral programs. As with many other aspects of the Report, this “suggestion” reflects the Authors’ lack of knowledge of the realities of HomeRise’s business, and of the complexity of the challenges the city faces with respect to its unhoused residents.

9

10

The Report glosses over the unique challenges that existed from 2019-2022. HomeRise underwent a momentous change in leadership in mid-2019. New leadership’s priorities included improving HomeRise’s internal controls. Four months after hiring a new CEO, the Covid-19 pandemic resulted in stay-at-home orders, and required HomeRise to expend significant additional efforts to continue providing housing and services to its residents, many of whom were at significantly heightened risk from Covid, in terms of both transmission and vulnerability to severe impacts.

11

To fulfill its mission, HomeRise is dependent on front-line staff who had to continue to report for work, despite the significant risk of exposure to Covid. As HomeRise shifted resources to its front-line staff and other efforts aimed at protecting its residents, remaining staff were forced to assume the extra workload and fulfill responsibilities outside of their assigned roles. In addition, HomeRise was committed to two new supportive housing projects – the Mission Bay Parcel 9 project and 53 Colton Street -- and a major RAD conversion/rehabilitation project. These projects created 236

Note: The circled number(s) correspond with auditor comments to contractor’s response in Appendix E.



new units for formerly homeless individuals and renovated fifty-eight single room occupancy (SRO) units.

More than 82% of HomeRise’s residents are BIPOC or Latino. Currently, HomeRise has approximately 193 employees, more than 72% of whom are BIPOC or Latino. More than 63% of HomeRise’s leadership team is BIPOC or Latino. In keeping with HomeRise’s mission to provide employment and pathways to success for the most vulnerable and disadvantaged members of society, many of HomeRise’s staff were formerly homeless or incarcerated themselves or have prior criminal records. Many are recovered substance over-users. The murders of Ahmaud Arbery, Breonna Taylor and George Floyd in February, March and May 2020 were particularly saddening and demoralizing for HomeRise staff and residents. The ensuing civil unrest, combined with the pull-back of SFPD following the “defund the police” movement, significantly affected HomeRise’s operations. All but one of HomeRise’s properties are located outside of affluent San Francisco neighborhoods, with most of HomeRise’s properties located in the Tenderloin or Western Addition.

The significant headwinds continued in 2022, with the Federal Reserve beginning a series of historic interest rate increases that would raise rates from approximately 0.25 percent to 5.25 percent in a sixteen-month period. HomeRise’s Collective Bargaining Agreement with its union employees had to be negotiated in mid-2022 amidst historic inflation and wage increases. From 2019-2022, San Francisco’s drug overdoses remained extremely high, with between 640 and 800 annual deaths, many of them occurring in the neighborhoods in which HomeRise’s buildings are located.

While confronting these extraordinary challenges, HomeRise steadfastly prioritized the health and safety of its residents and staff, demonstrating a responsive and responsible approach to navigating the complexities of one of the most difficult operating environments in more than 75 years.

Finally, the Report contains gross misstatements regarding HomeRise’s Board of Directors, manifesting a complete lack of understanding of the responsibilities of a non-profit organization’s all-volunteer board. For example, the Report incorrectly states that the Board met twelve times per year, and then criticizes the Board for missing meeting packets and minutes. Per the bylaws, the Board meets eight times per year, with Board committees meeting with similar frequency consistent with the committees’ guidelines. For every Board meeting, there is a packet with a detailed agenda and extensive attachments (reports, financial statements, draft resolutions, minutes, etc.). The Board reviewed and discussed financial matters at all but one of the thirty-two meetings during the Report’s period. Every new board member was installed following a documented Board vote. In addition, the Board commissioned independent studies of HomeRise’s salaries and benefits to assist leadership’s decision-making, provided an executive/leadership coach to senior management, and arranged for a number of independent reviews of HomeRise’s operations. In short, the Board performed in an exemplary fashion during an extremely challenging time, and we are perplexed by the inclusion of such blatantly false and harmful information in the Report. Citizens who give of their time and resources to help lead an organization like HomeRise do not expect acclaim, but neither do they deserve this sort of baseless disparagement.


12

13

14

12

Note: The circled number(s) correspond with auditor comments to contractor’s response in Appendix E.



The Report suffers from deep flaws. It presents a false picture of HomeRise, its operations, its staff, and its Board, and we fear that it threatens to inflict considerable damage on the organization. But the fault for all that lies with the Report's authors, not the City, and we welcome the City's assistance in helping us to improve, so that we can continue to provide the vitally important services that have been HomeRise's hallmark for over thirty years. 15

Respectfully submitted,



Janéa Jackson
Chief Executive Officer



Gregg Miller
President, Board of Directors

Note: The circled number(s) correspond with auditor comments to contractor's response in Appendix E.

Appendix E: Auditor Comments to Contractor Response

To provide clarity and perspective, we are commenting on HomeRise’s response to our audit report. (Unless noted otherwise, page numbers below refer to our audit report.) The circled numbers below correspond with those we have placed in the margin of the response.

- ① We appreciate that HomeRise acknowledges the items of concern we note in the report. Because the remedies HomeRise reports were made after the audit fieldwork period, which spanned 2019 through 2022 and into 2023 where needed, we did not verify the reported corrective actions.
- ② On multiple occasions, we vetted the findings noted in the report with HomeRise. Specifically, we held five meetings to formally brief executive leadership and staff during which we presented our audit observations, conclusions, and recommendations. We also formally briefed the Board President and Interim Chief Executive Officer. We also had informal discussions while on site at HomeRise and by email and telephone. On no occasion during any of these meetings or discussions did HomeRise raise concerns about perceived inaccuracies in the findings or a lack of relevant context for the findings. Also, HomeRise has not—during these discussions or since—provided evidence to refute any of our findings. Further, the validity of our findings is supported by the fact that HomeRise, as it notes on page 1 of its response, has remedied many of the items of concern stated in the report.
- ③ Generally accepted government auditing standards (GAGAS), paragraphs 8.90 and 8.91, require that an audit report’s findings must be based on evidence that is sufficient and appropriate. Consistent with GAGAS, we used our professional judgement to assess the collective evidence we obtained to support our findings and conclusions. Our assessment led us to conclude that the evidence is valid and reliable, allowing us to meet the audit objectives, as required by GAGAS, paragraphs 8.95 and 8.107. Further, consistent with GAGAS, paragraphs 8.132 through 8.139 and 9.17, the statements and findings in our report are supported by underlying evidence documented in workpapers. This evidence has been reviewed by an audit manager, and the report has been fact-checked by an independent reviewer. None of our findings are factually incorrect or misleading. We stand by the evidence we obtained for this audit and the findings and conclusions we drew from it.
- ④ As we repeatedly state (see pages 3, 34, 36, 66, 79, and 80), we recognize that HomeRise was operationally challenged by the COVID-19 pandemic, staff turnover, and other events. Although these challenges could be partially responsible for the issues we note in the report, we found that HomeRise had compliance and control issues and high staff turnover before the pandemic, as discussed throughout the audit report. Regardless, recipients of City funds must be accountable for the use of those funds and ensure compliance with City agreements.

- 5 As we repeatedly state (see pages 4, 87, 88, and 89), we recognize that HomeRise serves a vital function in the City's system of permanent supportive housing by providing a safety net for vulnerable residents. However, because the audit's focus was on HomeRise's financial compliance with its City agreements, the report does not address the amount of money HomeRise has saved taxpayers or similar statements supporting its valuable work. Not only would such statements exceed the audit scope, we cannot include them in the report because we did not confirm them.
- 6 We appreciate that HomeRise acknowledges the instances of noncompliance and improper billings we note in the report relating to the reimbursement-based grants from the Department of Homelessness and Supportive Housing. As we note (on pages 56 through 59), because of the poor condition of HomeRise's records and its missing internal controls over data, we could not conclusively identify the total magnitude of the potentially inappropriate charges. Because of these problems, as we state (on page 43), the grant transactions we tested do not represent a statistical sample. Further, as we note (on pages 21 through 24), in addition to the charges it made without sufficient explanation, HomeRise charged other questionable costs to properties. These include payroll and other cost allocations (described on pages 23 and 24). Thus, we cannot confirm HomeRise's statements in this regard.
- 7 Throughout the report (such as on pages 11, 13-17, 20, 21, 29, and 42), we comment on the complexity of HomeRise's activities and the number of City agreements in effect during the audit period. Although all recipients of City funds must be accountable for the use of those funds and ensure compliance with City agreements, the magnitude of HomeRise's budget and the millions of dollars it receives from the City raise particular concern. An organization of HomeRise's size and complexity cannot lack effective controls to ensure compliance, monitor fiscal activity, and provide sufficient oversight. As noted throughout the report, we found HomeRise had significant issues that caused it not to comply with City agreements and/or industry internal control frameworks. We state that these issues included inappropriate transfers of City funds for property activity to pay for unallowable corporate cash shortfalls (on pages 27 through 29) and patterns of inappropriate spending (on pages 43 through 49).
- 8 Although the annual independent audits HomeRise refers to provide some assurance about its year-end financial statements, the purpose of these audits is quite narrow. That is, the independent auditors are required only to express an opinion on whether HomeRise's financial statements present fairly, in all material respects, the organization's financial position at a point in time. In contrast, our audit was a performance audit, which provides objective analysis, findings, and conclusions to decisionmakers for improving performance and providing accountability and transparency over government programs. Performance audits' objectives vary widely and, by their nature, are different than the objectives of financial statement audits. Thus, "clean" financial statement audits do not necessarily indicate that all (or even most) of an organization's financial activities are satisfactory, let alone that an organization is complying with its grant agreements.

- 9 We discuss HomeRise’s revenue shortfall (on pages 30 through 39) because it contributed to the concerns about the financial condition of HomeRise properties and the corporate borrowing of property funds to cover its cash flow problems (on pages 28, and 69 through 73). Regardless of whether an organization is nonprofit or for-profit, when a revenue shortfall exists, the organization must make appropriate financial decisions to reduce expenses. When an organization has no money to cover additional costs, it should not increase expenses, including by granting bonuses, salary increases, or staff promotions. Further, we note (on page 63, footnote 71) that the Mayor’s Office of Housing and Community Development expects its grantees to maximize revenue and contain costs. Because repayments under City loan agreements are often based on how well a property financially performs in terms of “cash surplus” in a given year and LOSP subsidies are calculated based on property revenues and expenses, HomeRise’s property revenue shortfall and increased spending could impact its subsidies and payments to the City.
- 10 As we note (on page 36), the City’s loan agreement, Section 6.2, contains affirmative marketing elements and requires the borrower to advertise vacant units and notify the San Francisco Housing Authority and other organizations of vacancies. Thus, this is not an auditor suggestion. It is required by some of HomeRise’s city loan agreements and annual monitoring reports ask about it.
- 11 We understand the complexity of HomeRise’s business and recognize that HomeRise faced challenges due to its leadership changes and the COVID-19 pandemic in addition to other events—as did most other organizations in the City, state, country, and world. However, unless it is formally exempted by the City, HomeRise must comply with its City agreements at all times, even when faced with challenges. As we state (on pages 3, 34, and 36), we understand that the pandemic and stay-at-home orders required HomeRise to undertake additional efforts for housing and services at the resident level and that front-line staff assumed significant risk. However, the audit’s focus was not on those programmatic efforts related to resident services. Rather, the audit focused on HomeRise’s corporate and property financial control framework and activities related to adherence to its City agreements in addition to the revenues and expenses at the properties.
- 12 We understand that individuals volunteer to serve on boards of nonprofit organizations and agree that such service is commendable. The report does not disparage HomeRise’s board members. However, much responsibility comes with board service at an organization such as HomeRise, which involves additional responsibilities because the organization receives funding from the City. As we note (on pages 81 through 85), HomeRise’s City agreements require the Board to provide oversight to ensure “full and prompt performance” of HomeRise’s obligations. Also, in accordance with internal control frameworks and California Attorney General guidelines, oversight bodies must hold management accountable and make certain that its entity operates in a fiscally sound manner and properly uses restricted funds.

- 13 According to the Board’s Bylaws, Section 4.2, “regular meetings of the Board shall be held at such dates, times, and places as determined by the Executive Committee of the Board, unless otherwise specified by the Board.” As we state (in Exhibit 25 on page 86), HomeRise gave us board minutes for eight meetings each year, except for 2021, and the report does not take issue with the number of meetings held or state that board meeting minutes were missing. However, we reported that we did not receive board *committee* meeting minutes although the Board’s Bylaws, Section 5.2, require “minutes of each meeting of any Board committee.” To better clarify our point, we have revised text in the bullets preceding Exhibit 25 on page 86 and modified a column heading and entry in Exhibit 25.
- 14 The board meeting minutes HomeRise provided to us reflect that some financial matters, such as fundraising, bank accounts, and reserves, were discussed. However, as we note (on pages 82 through 85), the minutes do not indicate that the Board reviewed or discussed the financial noncompliance or related cash flow affecting the property activities. Such review or discussion could have demonstrated the oversight required of the Board. Also, as we note (on page 86), the minutes do not document a board vote or board approval on the appointment of four of the seven members who joined the Board during the audit period. If the Board acted on the appointments of these members, its actions in this regard are not reflected in the minutes.
- 15 The audit focused on HomeRise’s financial adherence to its City agreements, and the report identifies significant issues related to noncompliance, supporting each with evidence. Moreover, as stated above, we vetted our findings with HomeRise on multiple occasions, and HomeRise never raised a concern that a finding was flawed or that we were presenting a false picture of the organization. HomeRise’s written response disparages our report and findings yet acknowledges “the City’s concerns” and reports that it has already remedied many of the “items of concern” while it continues to address those that remain. Thus, its response implies that HomeRise agrees with the issues we note in the report because HomeRise leadership states that it has taken and is taking action to address them. Although many of HomeRise’s reported corrective actions began after or were not completed before the audit fieldwork period ended, we note them throughout the report, including on pages 3, 5, 7, 8, 20, 24, 29, 32, 42, 55, 56, 58, 59, 63, 66, 67, and 69.