



Issue Date: September 23, 2002
Audit Case Number: 2002-NY-1004

TO: Charles H. Williams, Director, HUD's Office of Multifamily Housing Assistance Restructuring, HY

Alexander C. Malloy

FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

SUBJECT: Ironbound Community Corporation
Outreach and Technical Assistance¹, and Public Entity Grants
Newark, New Jersey

INTRODUCTION

We completed an audit of the Ironbound Community Corporation's (herein referred to as Grantee) Outreach and Technical Assistance Grants (OTAG) and Public Entity Grant (PEG). We performed the review at the direction of Congress.² The primary objective of our review was to determine whether the Grantee expended grant funds for only eligible activities as identified in the OTAG/PEG agreements and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. Also, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities.

To accomplish our objectives, we interviewed members of the Grantee's staff who are responsible for the administration of OTAG/PEG funded activities. Also, we reviewed the Grantee's accounting records, and other documents that support the expenditures of the OTAG and PEG funds. This included review of the Grantee's monthly board minutes, telephone records, and employee timesheets for events that would indicate lobbying

¹ OTAG Nos. FFOT98019NJ and FFOT00027NJ

² The 2002 Defense Appropriation Act (Public Law 107-17) Section 1303 requires the U.S. Department of HUD, Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA).

activities. Additionally, we reviewed the requirements in the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), the Notice of Fund Availability, the OTAG/PEG agreements, and the Office of Management and Budget's (OMB) guidance on allowable cost for nonprofit grantees. We tested six of the Grantee's 11 OTAG vouchers that were paid by HUD. Those vouchers contain costs of \$93,027.27, and represent 58.26 percent of the Grantee's total OTAG expenditures of \$159,673.26, that were incurred during the period we reviewed. There were no PEG activities to review since the Grantee neither incurred any costs nor requisitioned any PEG funds during the period reviewed.

The audit covered the period between January 1998, and April 2002. The audit fieldwork was performed during the months of June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the courtesies and assistance extended by the personnel of the Ironbound Community Corporation during our review. Should you or your staff have any questions, please contact Edgar Moore, Assistant Regional Inspector General for Audit or me at (212) 264-8000, extension 3976.

SUMMARY

Our review disclosed that the Grantee did not always comply with HUD and/or Federal requirements pertaining to support for costs charged to the grant and allocated among prescribed activities. More specifically, the review disclosed that the Grantee was unable to: a) provide adequate documentation to support rental expenses of \$18,600 that were charged to the OTAG; and b) support the pre-determined percentages used to allocate total cost of \$159,673.26 among the four HUD prescribed activities of the OTAG. In this regard, the Grantee did not comply with provisions of OMB Circular A-122, which provide that cost must be adequately documented and commensurate with the benefits derived when allocated to benefiting functions. Consequently, the Grantee paid rental expenses with HUD funds that are unsupported, and reported costs to HUD by activity that may not be accurate. This occurred because Grantee officials believe that a rental agreement is not necessary and are apparently unfamiliar with Federal requirements pertaining to selecting a supportable base to allocate costs among activities benefited. Thus, we recommend that HUD require the Grantee to obtain and maintain a rental agreement/lease to support the rental expenses charged to the grant, and to develop and maintain supporting documentation for the

percentages used to allocate costs among the four HUD prescribed activities (see Appendix A for total questioned cost).

Regarding lobbying activities, the review did not disclose any instances where the Grantee expended grant funds on such activities.

On September 4, 2002, we held an exit conference with officials of the Grantee to discuss the results of our draft finding and recommendations. The officials provided us with a written response to the finding, which we included in its entirety as Appendix B of this report. We also provided a summary and an evaluation of the Grantee's responses at the end of the finding.

BACKGROUND

The 2002 Defense Appropriation Act (Public Law 107-17) Section 1303 requires the U.S. Department of Housing and Urban Development, Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997. The directive includes the Outreach and Technical Assistance Grants (OTAG) and Intermediary Technical Assistance Grants (ITAG) administered by the Office of Multifamily Housing Assistance Restructuring.

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) established the Office of Multifamily Housing Assistance Restructuring (OMHAR) within HUD. Utilizing the authority and guidelines under the MAHRA, OMHAR's responsibility include the administration of the Mark-to-Market Program, which include the awarding and oversight of the Section 514 Outreach and Technical Assistance and Intermediary Technical Assistance Grants. The objective of the Mark-to-Market Program is to reduce rents to market levels and restructure existing debt to levels supportable by the reduced rents for thousands of privately owned multifamily properties with federally insured mortgages and rent subsidies. Congress recognized, in Section 514 of the MAHRA, that the Mark-to-Market Program would affect tenants of the project, residents of the neighborhood, the local government, and other parties; accordingly, Section 514 of the MAHRA authorized the Secretary to provide up to \$10 million annually (\$40 million total) for resident participation, for the period 1998 through 2001.

HUD issued NOFAs in Fiscal Years 1998 and 2000, to provide opportunities for nonprofit organizations to participate in the Section 514 programs. Through NOFAs, HUD provided two types of grants, the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Technical Assistance Grants (OTAG). The ITAG program provides technical assistance grants through intermediaries to sub-recipients to include tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market Program to help tenants participate meaningfully in the Mark-to-Market process. These ITAG grantees use Section 514 funds to provide Public Entity Grants (PEG) to sub-recipients, including OTAG grantees, and other public entities. The OTAG program provides technical assistance to tenants of eligible Mark-to-Market properties so that the

tenants can participate meaningfully in the Mark-to-Market Program, and affect decisions about the future of their housing.

Ironbound Community Corporation

The Ironbound Community Corporation (Grantee) is a resident controlled coalition of tenant groups from 22 privately owned government assisted complexes, representing approximately 25,000 residents, and is one of the oldest resident coalitions in the country.

The Grantee received two OTAGs, as follows:

<u>Fiscal</u> <u>Year</u>	<u>Grant No.</u>	<u>Amount</u>
1998	FFOT98019NJ	\$210,000
2000	FFOT00027NJ	\$400,000

The Grantee expended \$159,673.26 of the \$210,000 Fiscal Year 1998 grant during the period between January 1998, and April 2002; and is currently carrying out grant activities related to Mark-to-Market eligible properties throughout the state of New Jersey.

For the period reviewed, we noted that an Independent Public Accountant (IPA) audited the Grantee in accordance with OMB Circular A-133. The IPA’s audit report does not contain any findings. We also noted that the Grantee did not receive any on-site monitoring from HUD’s Office of Multifamily Housing Assistance Restructuring. Nevertheless, the Grantee identified 22 and assisted 8 projects that qualified for assistance under the OTAG during our audit period. Regarding Fiscal Year 2000’s OTAG in the amount of \$400,000, the Grantee had not incurred any costs; therefore, no funds had been requisitioned during the period we reviewed.

Additionally, we noted that the Grantee has been approved to receive a Public Entity Grant (PEG) in the amount of \$20,000, from the Intermediary Technical Assistance Grantee (ITAG) “Georgetown University” doing business as the “National Center for Tenant Ownership”. However, the Grantee has not incurred any costs or requisitioned for any PEG funds during the period we reviewed.

In addition to the OTAG/PEG funds, the Grantee received funds from non-Federal sources. During calendar year 2001, the Grantee received over \$1.7 million from non-Federal sources.

The Grantee has a separate accounting and reporting system for each OTAG/PEG. The Grantee maintains its accounting records at its office, which is located at 51 McWhorter Street, Newark, New Jersey.

FINDING

The Grantee Did Not Always Comply With HUD and Federal OTAG Requirements

Our review disclosed that the Grantee did not always comply with HUD and/or Federal requirements pertaining to support for costs charged to the grant and allocated among prescribed activities. More specifically, the review disclosed that the Grantee was unable to: a) provide adequate documentation to support rental expenses of \$18,600 that were charged to the OTAG; and b) support the pre-determined percentages used to allocate total cost of \$159,673.26 among the four HUD prescribed activities of the OTAG. In this regard, the Grantee did not comply with provisions of OMB Circular A-122, which provide that cost must be adequately documented and commensurate with the benefits derived when allocated to benefiting functions. Consequently, the Grantee paid rental expenses with HUD funds that are unsupported, and reported costs to HUD by activity that may not be accurate. This occurred because Grantee officials believe that a rental agreement is not necessary and are apparently unfamiliar with Federal requirements pertaining to selecting a supportable base to allocate costs among activities benefited. Thus, we recommend that HUD require the Grantee to obtain and maintain a rental agreement/lease to support the rental expenses charged to the grant, and to develop and maintain supporting documentation for the percentages used to allocate costs among the four HUD prescribed activities.

OMB Circular A-122, Attachment A, Paragraph 2(g) provides that costs “must be adequately documented”. In addition, OMB Circular A-122, Attachment A, Paragraph D (3)(c), entitled “Allocation Bases” provides that “actual conditions shall be taken into account in selecting the base to be used in allocating the expenses in each grouping of benefiting functions. The essential consideration in selecting a method or base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived...”

A. Unsupported Rental Expenses

Our review disclosed that the Grantee included expenses for rental space on vouchers submitted to HUD under the OTAG without adequate documentation to support those expenses. The Grantee provided cancelled checks in the amount of \$600.00 a month to an organization, as part of the support for rental expenses vouchered; however, no rental agreement was provided. Grantee officials told us that they do not have a written rental agreement and that the charges for rent were based on a “handshake”. Accordingly, Grantee officials do not consider it necessary to obtain a rental agreement. However, we believe that a written rental agreement or lease is needed to support the amount of the monthly rental payments. The document will also ensure that the Grantee is in compliance with OMB Circular A-122, Attachment A, Paragraph 2(g), which requires costs to be adequately documented.

The total rent charged to the OTAG during the period we reviewed was \$18,600. Accordingly, we consider the \$18,600 as unsupported rental expenses pending HUD’s determination of the reasonableness and allowability of these costs.

B. Unsupported Pre-Determined Percentages

HUD requires Grantees to classify eligible costs incurred with grant funds into four activities as shown on the payment voucher (HUD form 50080-OTA) that is used to draw down OTAG funds from HUD. Our review disclosed that the Grantee submitted vouchers to HUD using pre-determined percentages to allocate costs to the four HUD prescribed activities, which are: Regional OTAG and Clearing House Activities (Account 6010), Project Specific Activities (Account 6020), Administrative Expenses (Account 6030), and Audit Costs (Account 6040). According to Grantee officials, total cost, as submitted on the voucher, were allocated as follows: 45 percent to Regional OTAG and Clearinghouse Activities; 50 percent to Project Specific Activities; and 5 percent to Administrative Activities. In this regard, the Grantee allocated the costs incurred, which totaled \$159,673.26, with OTAG funds as follows:

<u>Activity</u>	<u>Percentage</u>	<u>Amount</u>
Regional OTAG & Clearinghouse Activities	45%	\$71,852.97
Project Specific Activities	50%	79,836.64
Administrative Activities	05%	7,983.65
Audit Costs	<u>0%</u>	<u>0.00</u>
Total	100%	\$159,673.26
	=====	=====

Except for rental expenses, the Grantee was able to support that the total cost is chargeable against the OTAG. However, Grantee officials were unable to provide documentary support showing how the percentages that were used to allocate costs to the various HUD prescribed activities were determined. As a consequence, the Grantee was unable to support that costs allocated to the various activities are commensurate with the time and efforts Grantee employees spent performing the HUD described work under each activity. Since the allocated amounts were reported to HUD, HUD may not have accurate amounts by each activity to evaluate the effectiveness of the OTAG on the Mark-to-Market Program. In connection with the above, we attempted to determine how employees of the Grantee allocated their time to various activities; however, we were unable to make the determination because the records showing the time each employee worked do not reflect the activities to which an employee charged his/her time. Thus, the Grantee failed to develop documentation to support an allocation base, as required by OMB Circular A-122 that could have been used for allocating eligible OTAG costs among the four HUD prescribed activities.

Grantee Comments

The Grantee agreed with the finding in that a written lease for the use of the office space at 944 Broad Street, Newark, New Jersey is needed. The Grantee also stated that it is anticipated that a written lease would be obtained within two weeks, as well as a request from the lessor of a written verification of the rent amount and past payments. The

Grantee also stated that the rent that has been paid (\$600 per month) is reasonable and below the market value for rent in the Newark area. The Grantee did not make any comments on the unsupported pre-determined percentages.

OIG Evaluation of Grantee Comments

We agree with the Grantee decision of obtaining a written lease for the office space at 944 Broad Street, Newark, NJ, as well as obtaining written verification from the lessor of the rent amount and past rent payments.

RECOMMENDATIONS

We recommended that the HUD, OMHAR:

- 1A. Instruct the Grantee to develop procedures to ensure compliance with OMB Circular A-122 as it pertains to maintaining adequate supporting documentation for all costs charged against the grant and allocated among the grant activities.
- 1B. Instruct the Grantee to obtain and provide to HUD a rental agreement or lease that supports the rental expenses charged to the Grant of \$18,600. If such an agreement is not provided, the Grantee should be instructed to reimburse the total amount of the expenses to HUD from non-Federal funds, and discontinue charging rental expenses to the Grant.
- 1C. Instruct the Grantee to develop and submit, for HUD's review and/or approval, adequate documentation showing that the predetermined percentages used to allocate costs among the HUD prescribed activities of the OTAG produced allocated amounts to each activity that were commensurate with the benefits derived. If the Grantee is unable to support the percentages used, the Grantee is to be instructed to develop a supportable allocation plan in accordance with the requirements of OMB Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to the Grantee's Section 514 programs to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our audit objectives:

- Controls Over Allocating of Costs and Reporting of Activities
- Controls over Cash Receipts and Cash Disbursements
- Controls over Payroll

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on the results of our review, we determined that management control weaknesses exist in the following areas:

Controls over Cash Disbursements

The Grantee did not provide adequate supporting documentation for rental expenses charged to the grant. (See Finding Part A).

Controls over Allocating Costs

The Grantee was unable to provide adequate documentation to support pre-determined percentages used to allocate costs among the four activities of the OTAG. (See Finding Part B).

FOLLOW-UP ON PRIOR AUDITS

This is the initial HUD-OIG audit performed on the Ironbound Community Corporation.

SCHEDULE OF QUESTIONED COSTS

FINDING NUMBER	TYPE OF QUESTIONED COSTS	
1		\$18,600.00

- 1/** Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

Ironbound Community Corporation

Serving Our Community Since 1969
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Sirviendo Nuestra Comunidad Desde 1969

September 4, 2002

Edgar Moore
Assistant District Inspector General for Audit
26 Federal Plaza
Room 3430
New York, NY 10278

Dear Mr. Moore:

We respectfully offer these comments in regard to your Audit Report for our U.S. Department of Housing and Urban Development grants # FFOT98019NJ and grant # FFOT00027NJ.

Regarding Unsupported Rental Expenses:

- Your finding that there has not been a written lease for use of the full office space at 944 Broad St., Newark, NJ by the HUD Tenants' Coalition is accurate. This is not an unusual situation in Newark. Nonetheless, we agree a written lease is best for the purpose of accountability, and we anticipate securing one within the next two weeks. We will also request from the lessor a written verification of the rent amount and payments of the past.
- In addition to the cancelled checks for rent that you verified in your audit, we also offer the following to justify the rental amount. The office space is approximately 1,000 square feet (or greater). At \$600 per month, the square footage cost is \$7.20. The market rate for downtown Newark office space is much higher. By any measure, this is a reasonable amount, if not a bargain.

We appreciate the cordiality of your audit staff and the ease we had in working with everyone. Please feel free to call me with any questions you may have.

Sincerely,


Joseph Della Fave
Executive Director

51 McWhorter Street • Newark, NJ 07105 • (973) 589-3353 • Fax (973) 589-3637

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