



Issue Date September 30, 2002
Audit Case Number 2002-PH-1004

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

*Daniel G. Temme*

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: AUDIT MEMORANDUM – Congressionally Requested Audit of the Outreach and Training Assistance Grant awarded to the Tenants' Action Group of Philadelphia, Grant Number FFOT98025PA  
Philadelphia, Pennsylvania

### INTRODUCTION

We completed an audit of the Tenants' Action Group of Philadelphia's \$400,000 Outreach and Training Assistance Grant. The objectives of the review were to determine if the Tenants' Action Group of Philadelphia used Section 514 grant funds for only eligible activities as identified in the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), their agreements, and/or other requirements to further the Mark-to-Market Program. Also, we wanted to determine if the Tenants' Action Group of Philadelphia expended Section 514 funds for any lobbying activities. MAHRA specifically identified lobbying as an ineligible activity.

The audit identified that the Tenants' Action Group of Philadelphia assisted ineligible projects, and charged the grant at least \$133,269 in unsupported expenditures and \$13,719 in ineligible expenditures. In addition, the grantee did not comply with other requirements on the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, which prohibited using grant funds to participate in lobbying activities. Our report contains 11 recommendations to address the issues identified in this report.

Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117) requires the 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). The directive would include the Outreach and Training Assistance Grants (OTAG) and Intermediary Technical

Assistance Grants (ITAG) administered by the Office of Multifamily Housing Assistance Restructuring (OMHAR). Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities.

In conducting the audit, we reviewed the grantee's accounting records and interviewed responsible staff. We also reviewed the requirements in MAHRA, the OTAG Notice of Fund Availability, the OTAG grant agreement, HUD's requirements for grant agreements for nonprofit entities, and Office of Management and Budget's guidance on the allowability of cost for nonprofit grantees.

The audit covered the period September 1998 through October 2001. We performed the fieldwork at the Tenants' Action Group of Philadelphia located at 21 S. 12<sup>th</sup> Street, Philadelphia, PA 19107, during July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards. We held an exit conference with the Executive Director of the Tenants' Action Group of Philadelphia on September 16, 2002.

We appreciate the courtesies and assistance extended by the personnel of the Tenants' Action Group of Philadelphia during our review.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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.

Should you or your staff have any questions please contact Christine Begola at (410) 962-2520.

### **SUMMARY**

We found the Tenants' Action Group of Philadelphia (Tenants' Action Group) did not maintain adequate accountability over its OTAG funds in accordance with OMB Circular, A-122. Specifically, the Tenants' Action Group assisted ineligible projects, did not maintain personnel activity reports to support \$97,928 in salaries charged to the grant, lacked adequate documentation to support \$35,341 in other direct or indirect costs, and disbursed \$13,719 for ineligible expenditures. The ineligible expenditures included overcharges of \$11,747 for salaries and benefits, \$1,762 for indirect administrative costs, and \$210 for travel. Also, according to the grantee's reports to OMHAR, grantee staff attended and participated in a number of training conferences that included various lobbying related activities, which are ineligible under OMB Circular A-122. However, since the Tenants' Action Group did not maintain adequate travel and time records; we could not determine the actual costs associated with these activities. The Tenants' Action Group Controller attributed the problems to a lack of understanding of the requirements under the grant and related Federal Regulations due to the fact there has been a complete change over of personnel since the grant was awarded.

## **BACKGROUND**

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 MAHRA, OMHAR's responsibility included the administration of the Mark-to-Market Program, which included the awarding, and oversight of the Section 514 Outreach and Training Assistance and Intermediary Technical Assistance Grants. The objective of the Mark-to-Market Program was to reduce rents to market levels and restructure existing debt to levels supportable by these reduced rents for thousands of privately owned multifamily properties with Federally insured mortgages and rent subsidies. OMHAR worked with property owners, Participating Administrative Entities, tenants, lenders, and others to further the objectives of MAHRA.

Congress recognized, in Section 514 of MAHRA, that tenants of the project, residents of the neighborhood, the local government, and other parties would be affected by the Mark-to-Market Program. Accordingly, Section 514 of MAHRA authorized the Secretary to provide up to \$10 million annually (\$40 million total) for resident participation, for the period 1998 through 2001. The Secretary authorized \$40 million and HUD staff awarded about \$26.6 million to 40 grantees (a total for 83 grants awarded). Section 514 of MAHRA required that the Secretary establish procedures to provide an opportunity for tenants of the project and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 514 required the procedures to take into account the need to provide tenants of the project and other affected parties timely notice of proposed restructuring actions and appropriate access to relevant information about restructuring activities. Eligible projects are generally defined as HUD insured or held multifamily projects receiving project based rental assistance. Congress specifically prohibited using Section 514 grant funds for lobbying members of Congress.

HUD issued a Notice of Fund Availability in fiscal year 1998 and a second in fiscal year 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants, the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Training Assistance Grants (OTAG). The Notice of Fund Availability for the ITAG states that the program provides technical assistance grants through Intermediaries to sub-recipients consisting of: (1) resident groups or 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, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for Mark-to-Market-eligible projects throughout its jurisdiction. The OTAG Notices of Fund Availability states that the purpose of the OTAG program is to provide technical assistance to tenants of eligible Mark-to-Market properties so that the tenants can (1) participate meaningfully in the Mark-to-Market Program, and (2) affect decisions about the future of their housing.

OMHAR also issued a December 3, 1999 memorandum authorizing the use of OTAG and ITAG funds to assist at-risk projects. OMHAR identified these as non-Mark-to-Market projects where the owners were opting out of the HUD assistance or prepaying the mortgages.

Title 24 Code of Federal Regulation (CFR) Part 84 contain the uniform administrative requirements for grants between HUD and nonprofit organizations. The regulations (24 CFR Part 84.27) require that nonprofit grantees utilize the OMB Circular A-122, Cost Principles for Non-Profit Organization, in determining the allowability of costs incurred to the grant. OMB Circular A-122 outlines specific guidelines for allowability of charging salaries and related benefits to the grants and the records needed to support those salaries. For indirect costs charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and record keeping to support the allocation of costs.

The Circular also establishes the unallowability of costs associated with Federal and State lobbying activities. Simply stated, the use of Federal funds for any lobby activity is unallowable. OMB Circular A-122 identifies some examples of unallowable activities of lobbying. These include any attempt to influence an elected official or any Government official or employee (Direct Lobbying) or any attempt to influence the introduction, enactment or modification of any pending legislation by propaganda, demonstrations, fundraising drives, letter writing, or urging members of the general public either for or against the legislation (Grassroots Lobbying).

The Tenants' Action Group applied for and was awarded an OTAG grant in fiscal year 1998 for \$400,000. As of October 2001, the grant was fully expended. We reviewed \$240,734 or 60 percent of these expenditures, and our calculations and conclusions are based solely on the dollar amounts reviewed. The Tenants' Action Group received annual financial audits of their activities for the periods ending June 30, 1999, 2000 and 2001. All three reports include findings on the Tenants' Action Group's internal controls. Specifically, the findings recommend improving record keeping, ensuring separation of duties, obtaining training on handling significant cash balances and improving communications between departments. Overall, the audit reports provided an unqualified opinion for each of the three years.

In addition to the OTAG grant, the Tenants' Action Group received several other grants from HUD, under the Shelter Plus Care and Lead Safe House programs. The Tenants' Action Group also received grants from non-Federal sources. From fiscal year 1999 through fiscal year 2002, the Tenants' Action Group is expected to receive over \$3 million in funding from HUD. During fiscal year 2001 the Tenants' Action Group received a total of \$999,119 from all funding sources.

**FINDING: The Grantee Did Not Comply With HUD and OMB Requirements**

We found the Tenants' Action Group assisted ineligible projects, did not maintain adequate salary records to support salary and benefit costs charged to the grant, nor did they maintain adequate documentation to support the cost allocation method it used to charge indirect costs to the grant as was required under OMB Circular A-122. In addition, the grantee charged a number of ineligible lobbying expenditures to the grant. The Tenants' Action Group's Controller attributed the problems to a lack of understanding of the requirements under the grant and related Federal Regulations due to the fact there has been a complete change over in personnel since the grant was awarded. As a result, the Tenants' Action Group charged the grant \$97,928 in salaries

and benefits that are not supported, lacked adequate documentation to support \$35,341 in other direct or indirect costs, and disbursed \$13,719 for various ineligible expenditures. The ineligible expenditures included overcharges of \$11,747 for salaries and benefits, and \$1,762 for indirect administrative costs, and \$210 for travel. Also, according to the grantee's reports to OMHAR, grantee staff attended and participated in a number of training conferences that included various lobbying related activities, which are ineligible under OMB Circular A-122. However, since the Tenants' Action Group did not maintain adequate travel and time records, we could not determine the actual costs associated with these conferences.

### **Project Eligibility**

Section 514 (f) of the Multifamily Housing Assistance and Restructuring Act of 1997 provided funds to assist and provide an opportunity for tenants of the project, residents of the neighborhood, the local government, and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 512 of MAHRA defines the term eligible multifamily housing project to generally mean a property consisting of more than four dwelling units with rents that, on an average per unit or per room basis, exceed rent of comparable properties in the same market area. Section 512 also requires that the project be covered in whole or in part by a contract for HUD project-based assistance under one of a number of HUD programs and be financed by a mortgage insured or held by the Secretary under the National Housing Act. MAHRA also specifically excluded certain HUD projects, for example Section 202 projects.

Given the Section 512 definition of eligible projects, we obtained a listing from HUD of the possible eligible projects. According to HUD's records, approximately 24,525 projects receive project-based assistance and are HUD insured or held by the Department. Of those projects, 1,011 are located in Pennsylvania.

The Tenants' Action Group maintained a listing of projects assisted with the OTAG grant. We compared the identified assisted projects to the list provided by HUD. Based on that comparison, we identified the grantee assisted 78 projects in Philadelphia and noted 11 of the projects assisted were not eligible for assistance under MAHRA. Due to the lack of detailed salary records we could not determine the total amount of Section 514 assistance provided to these ineligible projects.

### **Compensation for Personal Services**

OMB Circular A-122, Attachment B, Paragraph 7, Compensation for Personal Services, states that reasonable compensation and fringe benefits to employees are grant fundable costs. The Circular also places specific salary record keeping requirements on the grantee. Specifically, the grantee must maintain reports that: (1) account for the total activity for which an employee is compensated for in fulfillment of their obligations to the organization; (2) reflect an after the fact determination of actual activity for each employee; and (3) reflect the distribution of activity of each employee (professionals and unprofessional) whose compensation is charged, in whole or in part, directly to awards and requires the employee or a responsible supervisor sign the report.

Further, the OMB Circular states, that budget estimates do not qualify as support for charges to the grant. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate.

We found the Tenants' Action Group did not follow OMB Circular A-122 guidance when maintaining their support for the compensation for personal services charged to the grant. For example, the grantee overcharged the grant when it used budgeted salary rates instead of the actual salary rates. To support a grant draw, Tenants' Action Group used the budgeted amount of \$17 per hour to calculate the salaries paid to their OTAG organizers; however the actual salaries paid to the organizers were between \$14 and \$16 per hour. Based upon our calculation, we estimate the grantee overcharged the grant \$11,747 in salaries. In addition, the grantee used the budget rate as the basis for allocating the administrative costs to the grant. (see Allocating Indirect Costs to the Grant).

We also question the eligibility of \$97,928 in salaries and benefits charged to the grant. As noted above, the grantee spent a portion of their time working on ineligible properties. However, due to the lack of detailed time reports, we could not determine the salary amount expended to provide assistance to the ineligible projects, nor could we determine the portion of this amount that was used for eligible activities. Thus, we consider these expenditures to be unsupported.

When we asked the grantee why they did not follow OMB Circular A-122 as required, they stated that they were not trained in HUD regulations and were just following actions taken by their predecessor.

### **Allocating Costs to the Grant**

The grantee also allocated certain costs to the grant that included administrative costs, training, telephone, rent and consumable supplies. OMB Circular A-122, Attachment A provides guidance on the basic considerations for grant fundable costs and allocation of indirect costs. The guidance provides that the grantee shall support a cost allocation taking into account all activities of the organization. Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates. A non-profit organization that does not have an approved cost allocation plan shall submit an initial cost allocation plan within three months of receiving the award.

The cognizant agency for Tenants' Action Group is the Department of HUD. When we requested a copy of the cost allocation plan, the grantee's Controller simply provided the flat rates that were used to calculate the indirect costs. When we asked the grantee if they had provided a copy of their rates and received approval for them from HUD, the Controller stated she was not the Controller for the Tenants' Action Group at the time the grant was awarded and did not know if a plan was ever submitted. OMHAR also could not verify if the Tenants' Action Group completed and submitted a cost allocation plan for approval.

The grantee used two different forms of allocations for the indirect costs. For the administrative indirect costs (i.e., bookkeeping, payroll and administrative functions) a set rate of 15 percent of the salaries charged against the grant was used. When we asked how these allocated rates were determined the controller stated she simply continued to use the calculations used by the previous administration. Since the controller could not explain how the 15 percent rate was determined, applied the rate against only budgeted salary rates, and did not maintain any detailed time records, we could not determine if the cost allocations were reasonable.

For the remaining costs, such as office supplies, materials and miscellaneous expenses the grantee said it charged a monthly flat dollar amount, based upon a predetermined budget estimate maintained on the Disbursement Listing. However, we found the grantee did not use the flat dollar allocation method when drawing funds and instead, charged different amounts each month. For example, the budgeted amount for meetings per the allocation Disbursement Listing was \$83.33 month. However, we found the grantee was actually charging up to \$280 per month.

We reviewed a total of \$78,296 of the \$85,688 in indirect and miscellaneous expenditures charged to the grant from September 1998 to October 2001. The majority of the miscellaneous expenditures were accounted for in travel, equipment, training, management and general type expenditures. Overall, we identified the grantee charged at least \$1,762 in ineligible indirect administrative costs for bookkeeping and other administrative functions charged against the grant based on the over inflated salaries identified above. In addition, the Tenants' Action Group could not support \$16,085 in supplies, materials and miscellaneous expenses and \$9,753 in travel expenses charged to the grant.

### **Consultants**

OMB Circular A-122, Attachment B, Paragraph 39, Professional Service Costs, states factors in determining allowability of consultant costs include (1) the nature and scope of the service rendered in relation to the service required, and (2) the adequacy of the contractual agreement for the service (e.g., description of the service, estimate time required, rate of compensation, and termination provision).

During the time period September 1998 to August 2001 the grantee contracted with the Pennsylvania Low Income Housing Coalition (Low Income Housing Coalition) to assist them in their OTAG mission. The Low Income Housing Coalition received \$204,639 of the \$400,000 OTAG grant awarded to the Tenants' Action Group. Overall the Low Income Housing Coalition performed in accordance with their contract, however, they could not provide support for \$9,503 in salaries and expenses charged to the Tenants' Action Group's OTAG grant. In addition, the Low Income Housing Coalition participated in a HUD Leadership conference where several attendees brought their children. The entire cost of the conference, including the costs associated with the children, was charged to the Tenants' Action Group's OTAG grant. Although the conference was an allowable event, paying for children to attend the conference is not a grant fundable activity, thus \$210 is considered ineligible.

## **Lobbying**

MAHRA specifically prohibits using Section 514 funds to lobby members of Congress or their staff. OMB Circular A-122, Attachment B, Paragraph 25, places additional limitations on the grantee's use of Federal funds for lobbying.

However, as we identified in the background section, the grantee also received non-Federal funds. The allowability and use of these funds for lobbying activities would not be restricted by the guidance in OMB Circular A-122.

We reviewed the grantee's monthly activity reports, travel vouchers and staff time sheets to identify meetings with legislative members or their staff. We also reviewed these reports for activities that did not meet the requirements of MAHRA or were considered Grassroots lobbying.

We noted the grantee participated in the 6<sup>th</sup> Annual Save Our Homes 2000 Conference sponsored by, the National Alliance of HUD Tenants (NAHT) in June 2000 and the "2000 Housing Policy Conference and Lobby Day" sponsored by the National Low Income Housing Coalition. Also, their paid consultant from the Low Income Housing Coalition attended the 2000 and 2001 NAHT conferences. All the conferences included ineligible lobbying activities. For example, the 2000 NAHT Conference included sessions entitled "How Congress Affects Us, and How We Affect Congress" which included a "How to Lobby Role-play" and had a session entitled "Meetings with Congress People from Your State/District" which allowed attendees time during the conference to meet with their Congress person.

Although the Tenants' Action Group charged the OTAG for salaries and travel related to these conferences, we could not determine the actual amount of unallowable lobbying related expenditures charged to the grant because the Tenants' Action Group did not maintain adequate travel and time records.

## **AUDITEE COMMENTS**

We provided our draft report to the grantee for their comments on September 6, 2002. We received the grantee's comments on September 20, 2002. We included the grantee's comments in Appendix B of the report.

The Tenants' Action Group did not fully concur with the conclusions reached during the review. Specifically, they believe they assisted only eligible properties, properly accounted for the compensation of personnel services and indirect costs and did not expend any grant funds for lobbying activities. In addition, the grantee stated they were unaware they needed to maintain detailed time records, as required in OMB Circular A-122. They also expressed concern of being penalized for the administrative costs charged to the project, when they were under the impression that even OMHAR itself did not understand the process. The Tenants' Action Group suggests that given the proper amount of time, they would be able to produce adequate documentation to support all the costs questioned during the review. The Tenants' Action Group also suggested that one reason the proper support for these expenditures may not be readily



available is because of the high turnover rate in staff in relation to the management of the OTAG grant.

### **OIG EVALUATION OF AUDITEE COMMENTS**

The grantee disagreed with our assessment that they assisted ineligible properties. As set forth in HUD's audit resolution procedures, OMHAR is responsible for reviewing the information and making a final determination on the properties' eligibility. In addition, while we acknowledge the Tenants' Action Group's situation with high staff turnover, it is still ultimately the responsibility of the grantee to be aware of and follow the Federal regulations on the administration of a Federal grant. This can be accomplished by documenting the policies and procedures to allow for proper transition when a staff member leaves the organization.

### **RECOMMENDATIONS**

We recommended that the Director of OMHAR require the Tenants' Action Group to:

- 1A. Provide detailed documentation to support the assistance the grantee provided to all projects (eligible and ineligible) and refund the grant all costs associated with assistance to the ineligible projects.
- 1B. Repay to HUD from non-Federal funds the \$11,747 for the ineligible salaries and benefits that were charged to the grant.
- 1C. Repay to HUD from non-Federal funds the \$1,762 in ineligible indirect administrative costs for the ineligible salaries and benefits.
- 1D. Provide adequate documentation to support all unsupported salary and benefit costs totaling \$97,928, and repay to HUD from non-Federal funds amounts it cannot adequately support.
- 1E. Provide adequate documentation to support all unsupported travel expenses totaling \$9,753 and repay to HUD from non-Federal funds amounts it cannot support.
- 1F. Repay to HUD from non-Federal funds \$210 in ineligible conference cost paid to the Low Income Housing Coalition for the cost of sending children to a HUD conference.
- 1G. Provide the proper support for unsupported salary and expenses totaling \$9,503 paid to Low Income Housing Coalition and repay to HUD from non-Federal funds amounts it cannot support.
- 1H. Provide the proper support for the materials and supplies totaling \$16,085 charged to the grant and repay to HUD from non-Federal funds amounts it cannot support.
- 1I. Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding source.

We recommend that the Director of OMHAR:

- 1J. Restrict all remaining grant distributions to the Tenants' Action Group for any current and future HUD grants until the grantee demonstrates they have established the necessary policies and procedures to administer its HUD grants in accordance with OMB guidance and HUD regulations.

1K. Make a determination on the lobbying issues presented, to determine if sanctions should be imposed as provided for in the 2002 Defense Appropriations Act.

### **MANAGEMENT CONTROLS**

In planning and performing our audit, we considered the management controls relevant to the Tenants' Action Group, Section 514 program 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:

- Identification of projects and activities eligible for assistance,
- Controls and documents to support costs of assistance provided, and
- Controls and procedures over the reporting of activities and cost.

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 our review, we believe the following items are significant weaknesses:

- Lack of a system to fully support that only eligible projects were assisted with Section 514 funds,
- Lack of policies and procedures to ensure that allocation rates meet the standards of OMB Circular A-122,
- Lack of policies and procedures to ensure that salaries and time records meet the standards of OMB Circular A-122,
- Lack of policies and procedures to ensure that lobbying activities are not directly or indirectly funded by Federal sources.

### **FOLLOW-UP ON PRIOR AUDITS**

The Office of Inspector General completed an audit of the Tenants' Action Group of Philadelphia Shelter Plus Care Grant in 2001 and issued an audit report on the results on August 24, 2001 (2001-PH-1802). The report had two findings with many of the same concerns expressed in our current report. The recommendations are all closed. The full report can be viewed from our website at <http://www.hud.gov/oig/state/pa.html>.

**SCHEDULE OF QUESTIONED COSTS**

Recommendation Number	Type of Questioned Costs	
	Ineligible 1/	Unsupported 2/
1B	\$11,747	
1C	\$1,762	
1D		\$97,928
1E		\$9,753
1F	\$210	
1G		\$9,503
1H		\$16,085

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ 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.

**AUDITEE COMMENTS**



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September 18, 2002

U. S. Department of Housing and Urban Development  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, PA 19107-3380  
Attention: Daniel G. Temme

Dear Mr. Temme:

I am writing this letter in response to the draft audit memorandum that was sent to our former Executive Director, John Rowe, but the current Executive Director is Anthony R. Henry. As per your request, I am providing you with my comments and suggested corrective action plan regarding HUD's suggested findings.

I would like to state for the record that the Tenants' Action Group (TAG) went through several personnel changes while overseeing this grant. This is not an excuse for any wrongdoing, but HUD should be aware that while this grant was being administered the Executive Director that sought after this grant left and was replaced, the Organizing Director, who ensured that the grant was being administered correctly was replaced twice, the Program Coordinator, who worked on this project with 100% of her time resigned and was replaced twice, the Executive Assistant to the Executive Director was replaced, and the Controller left and was replaced by me. With all of these changes it was hard to keep totally accurate records because most people keep things in their head and once they are gone the new person comes in and tries to follow the previous setup. Now the only person left that actually worked on this project is me and I was not one of the direct personnel allocated towards this project, therefore, I am relying on my memory and paper trails from those who have left TAG's employ.

First, I would like to address HUD's comment about TAG assisting with ineligible projects. TAG was informed by HUD according to the Organizing Director and Program Coordinator that they could reach out to buildings that were not Mark-to-Market buildings. As I have previously stated to the auditors performing this audit there are no employees here who actively worked on this project, therefore, I have no specific proof except the word of prior staff. However, I am willing to try to go to archives and pull the boxes for this project and see if there is supporting documentation regarding HUD's approval of servicing other buildings beside Mark-to-Market buildings.

Second, TAG was not aware that the direct personnel activity and indirect personnel activity had to be supported with other reports than what we have. TAG maintained timesheets for each employee showing the hours that the employee worked. TAG maintained copies of the payroll



reports as well as copies of all of the benefits. TAG is able to provide HUD with supporting documentation for personnel and benefits for each individual that was allocated towards this project. The supporting documentation includes salary sheets, timesheets, and copies of the benefit bills (health, disability, life insurance, pension, and workmen's compensation). TAG was not aware that the administrative staff timesheets had to show a breakdown of how they spent their time towards this project. TAG used a budgeted percentage according to the HUD approved budget, but the budgeted percentage was based on the actual salaries incurred. The only supporting documentation that I may have for administrative cost are memos that preceded or followed behind meetings that took place regarding this project. The time allocated to this project by each administrative person was 3.1%. However, at times the administrative staff spent way more than 3.1% of their time toward this project. After speaking with the auditors they informed me the total administrative cost allocated to this project was approximately 15%. If you calculate the total administrative salary for one month and divide it by the total administrative salary budget the percentage works out to be 2%. TAG charged 3.1% towards each administrative person's actual salary plus benefits. HUD is interpreting because there were several administrative employees allocated to this project that each percentage used for their salary is the total amount of administrative cost charged. I believe my spreadsheet with salary allocations on it would clarify that TAG charged 3.1% towards administrative cost. Again, if TAG is allowed adequate time to research these cost we are confident that we can provide HUD with adequate documentation supporting these cost. Also, I was informed by HUD that HUD was not enforcing the administrative cost because HUD was not sure of the process for these cost. I believe since HUD was not sure how to enforce this cost TAG should not be penalized for the administrative cost charged towards this project. TAG is willing to provide you with any specific documentation that you may request to support these cost.

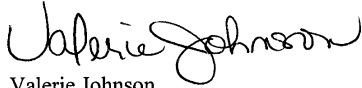
Third, TAG is fully aware that HUD based on the OMB Circular A-122 does not support lobbying activities. TAG is aware that our employees and subcontractors attended many NAHT Conferences that included lobbying. TAG only allocated prorated funds to cover the number of days the conference took place, the cost of the non-lobbying days of conferences attended. The cost allocated towards this project are all eligible cost. If TAG is given the time we can provide you with these documents. TAG did not support any lobbying activities.

Fourth, in order for TAG to respond to costs that are in question it would be helpful if HUD could provide specific dates or a specific year and month in order to look up the cost in question. It is hard to review the cost for this project that took place for a three year period without being a little more specific about the cost in question. TAG is asking that HUD give us enough time to try to locate files from previous employees in archives and allow us the opportunity to provide you with whatever supporting documentation needed to clear up the questions about the cost allocated to this project. Of course, we will need to address cost incurred by our subcontractor, Pennsylvania Low Income Housing Coalition (PALIHC) before we can respond to their findings. As of now, the only item TAG is willing to repay is the \$210 for a child attending the conference, which was charged by our subcontractor PALIHC.

Finally, I am providing you with a copy of our response to the Management Letter dated October 23, 2001 regarding our annual financial audit for the period ending June 30, 2001.

I thank you in advance for your time and consideration regarding this matter. I am asking that HUD give TAG adequate time to produce supporting documentation for costs that are in question before rendering a final decision. Please feel free to contact me at (215) 575-0797 if you should have any further questions.

Cordially,

A handwritten signature in cursive script that reads "Valerie Johnson".

Valerie Johnson  
Controller

Cc: Anthony R. Henry, Executive Director  
Nicole White, Director of Operations



Philadelphia, Pennsylvania 19107-3612  
215.575.0700  
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E-mail: tagtrac@critpath.org

April 4, 2002

Snyder, Daitz & Company  
1617 John F. Kennedy Blvd. Suite 1035  
Philadelphia, PA 19103  
Attention: Joe Leonard

Dear Mr. Leonard:

I am responding to your letter addressed to the Board of Directors of the Tenants' Action Group dated October 23, 2001 regarding various matters that came to your attention.

1. We are fully aware that we need to increase our administrative budget for the organization in order to avoid operating at a deficit. This has been an ongoing issue for TAG for sometime. When we make our proposals for grants we naturally try to pick up the administrative overhead cost, but most funders are more concerned with the direct program cost than the indirect cost. Hopefully, our new Executive Director will be seeking additional funds for administrative costs and exploring with funders of our major contracts the feasibility of increasing the amounts allocated to overhead costs.
2. We are currently addressing our lack of communication and coordination amongst the various departments. The Office of Housing and Community Development (OHCD) has engaged Lamar Wilson, a private consultant, to assist us in this process. We have already incorporated semi-monthly Managers Meetings of the heads of our units and monthly all staff meetings. We are revising our computer systems to fully integrate all of our clients in the various units into one easily accessible database, while maintaining client confidentiality.
3. We are currently working on a procedure to address the cash balances regarding client rents. This policy has not gone into effect yet, but we hope that we will have this resolved before next year's audit. Currently, a list of all outstanding checks have been given to the appropriate Program Directors and they are researching the reason these checks are outstanding, voided, or being returned. Once they respond to the Fiscal Department the Controller can take appropriate action to clear this up with the City. The issues pertaining to Shelter Plus Care have been rectified and cleared up with the City (see attached). Also, the City issued a memo to us regarding the procedures for handling administrative cost going forward (see attached).
4. We are aware with the loss of funding that it is hard to have segregation of duties within the Fiscal Department. It is not wise to have employees from different departments handling fiscal responsibilities, because that department handles a lot of confidential information. The Board has recently approved a new policy regarding the handling of checks and new purchasing guidelines have just been developed (see attached). Other

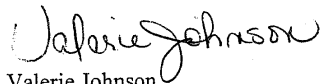


similar guidelines are being considered. In regards to the specific issues raised in your letter, we currently feel that we have segregated the duties adequately. We are open to all suggestions that you may have regarding this issue.

Please find attached a letter addressed to OHCD pertaining to these findings.

We would like the opportunity to discuss these findings with you. Please contact me at your earliest convenience. I can be reached at (215) 575-0797.

Cordially,



Valerie Johnson  
Controller

Cc: Anthony R. Henry, Executive Director  
Linda Ware Johnson, Board Chair



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The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Bldg., United States Senate, Washington, DC 20510

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The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515

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