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AUDIT MEMORANDUM
2002-CH-1803

September 24, 2002

MEMORANDUM FOR: Charles H. Williams, Director of Multifamily Housing Assistance
Restructuring, HY


FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Congressionally Requested Audit of Section 514 Outreach and Training Assistance Grant Awarded to HOME Line; Minneapolis, Minnesota; Grant Number FFOT00044MN

INTRODUCTION

We completed an audit of HOME Line's Section 514 Outreach and Training Assistance Grant awarded under the Multifamily Assisted Housing Reform and Affordability Act of 1997. The objectives of the audit were to determine whether HOME Line had: management controls in place to ensure that Section 514 Grant funds were used for eligible activities; and expended the Grant funds for any lobbying activities.

METHODOLOGY AND SCOPE

We reviewed HOME Line's policies and procedures as they pertained to our audit objectives for the period January 1, 2000 through June 30, 2002. We accomplished the objectives by reviewing and evaluating HOME Line's: management controls over the Outreach and Training Assistance Grant; reliability of computer-processed data; organizational structure; Board of Directors' meeting minutes; property files; and the method used for allocating costs. In addition, we reviewed bank statements, cancelled checks, and cash receipts and disbursements journals. We tested 36 of the 37 financial transactions totaling \$140,594 and all 21 properties that HOME Line charged to the Grant. We also reviewed staff time sheets for hours charged to the Grant compared to their actual hours worked.

We reviewed HOME Line's records, and HUD's records and files for HOME Line. We interviewed HOME Line's staff and key staff from HUD's Office of Multifamily Housing Assistance Restructuring. We performed our on-site audit work between July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

BACKGROUND

The Multifamily Assisted Housing Reform and Affordability Act of 1997 authorized HUD's Secretary to establish procedures to provide an opportunity for tenants of projects and other affected parties to participate effectively and on a timely basis in the restructuring process established by the Act. Section 514(f)(3)(A) of Multifamily Assisted Housing Reform and Affordability Act of 1997 states in part that the Secretary may make obligations to tenant groups, nonprofit organizations, and public entities for building the capacity of tenant organizations for technical assistance in furthering any of the purposes of the Act and for tenant services.

The Multifamily Assisted Housing Reform and Affordability Act of 1997 established HUD's Office of Multifamily Housing Assistance Restructuring to administer the Mark-to-Market Program. The Office of Multifamily Housing Assistance Restructuring works with property owners, participating administrative entities, tenants, lenders, and others with a stake in the future of affordable housing.

HUD issued Notices of Funding Availability in Fiscal Years 1998 and 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 Grants program. HUD provided two types of Grants—the Intermediary Technical Assistance Grant and the Outreach and Training Assistance Grant. The Notice of Funding Availability for the Intermediary Technical Assistance Grant program states that the program provides funds 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 eligible projects throughout its jurisdiction. The Notices of Funding Availability for the Outreach and Training Assistance Grant program states that the program is to provide technical assistance to tenants of eligible Mark-to-Market properties so that tenants can: (1) participate meaningfully in the Mark-to-Market Program; and (2) affect decisions about the future of their housing.

HOME Line is a non-profit tenant advocacy organization. HOME Line began in 1992 as a program of the Community Action Agency operating in suburban Hennepin County, which is located near Minneapolis, Minnesota. HOME Line became an independent entity in 1999 and its Executive Director is Charlie Warner. HOME Line is located at 3455 Bloomington Avenue South, Minneapolis, Minnesota.

There are about 127 properties with approximately 12,500 units providing affordable housing for some of the State of Minnesota's lowest income households. The 20-year Section 8 Program contracts on these properties began to expire or will expire over the next few years. Most of these properties are owned by for-profit businesses and have few incentives to renew their Section 8 contracts. These owners may opt-out of the Section 8 Program and rent their units at market rates or choose to sell the properties. The Outreach and Training Assistance Grant program provides for outreach and training in the area of those properties with expiring Section 8 Program contracts in which rents are above the fair market rent, and therefore eligible for the Mark-to-Market Program.

The Outreach and Training Assistance Grant Agreement for Fiscal Years 2000 and 2001, between HOME Line and HUD, for \$450,000 was signed on January 9, 2001. On March 18, 2002, HUD's Office of Multifamily Housing Assistance Restructuring notified the Coalition that the authorized amount for the Grant was reduced from \$450,000 to \$310,000. As of June 30, 2002, HOME Line expended \$82,051 of the Fiscal Years 2000 and 2001 Grant. The first financial audit of HOME Line's Grant was in process as required by Office of Management Budget Circular A-133 as of August 30, 2002.

RESULTS OF REVIEW

We found no material reportable conditions based upon our audit objectives. HOME Line properly managed the Outreach and Training Assistance Grant and assured that Grant funds were generally used for eligible purposes. HOME Line had adequate controls in place to preclude paying lobbying expenses with Grant monies. An in-house system was developed by HOME Line to track employees' time spent on each activity, including lobbying. HOME Line set up its accounting system to identify each grant with an account number, thus enabling reports detailing how funds were spent.

We discussed our audit results with the key staff from HUD's Office of Multifamily Housing Assistance Restructuring on September 20, 2002. A copy of this memorandum was provided to HOME Line's Executive Director. We appreciate the courtesies and assistance extended by HOME Line's personnel during our audit.

Should you or your staff have any questions, please have them contact Thomas Towers, Assistant Regional Inspector General for Audit, at (313) 226-6280 extension 8062 or me at (312) 353-7832.

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The Honorable Christopher S. Bond, Ranking Member, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 274 Russell Senate Office Building, United States Senate, Washington, DC 20510

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

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George Reeb, Assistant Inspector General for Health Care Financing Audits

Charlie Warner, Executive Director of HOME Line