Issue Date
September 19, 2002
Audit Case Number
2002-KC-1002

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

Roger E. Niesen

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: Congressionally Requested Audit of the Outreach and Training Assistance Grant awarded to the Housing & Credit Counseling, Inc., Topeka, Kansas, Grant Numbers FFOT98010KS and FFOT00015KS

INTRODUCTION

We have completed an audit of Housing & Credit Counseling, Inc.'s Outreach and Technical Assistance Grant. We determined the Grantee has an effective and well-run organization with the exception that the grantee could not demonstrate that the allocation plans used to distribute indirect costs and salaries to the grant are reasonable. Additionally, the Grantee did not have documentation to support the method of cost allocation used in their plans nor did they obtain HUD's approval for the plans. Our report contains three recommendations that should correct the cost allocation issues.

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 Housing & Credit Counseling, Inc.'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 April 2002 for the OTAG grant. We performed the fieldwork at Housing & Credit Counseling, Inc. located at 1195 SW Buchanan, Suite 101, Topeka, Kansas during May through July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We appreciate the courtesies and assistance extended by the personnel of Housing & Credit Counseling, Inc. 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 you staff have any questions please contact me at (913) 551-5870.

SUMMARY

The Grantee could not demonstrate the allocation plans used to distribute salaries and indirect costs to the grant are reasonable. The Grantee also did not have documentation to support the method of cost allocation used in their plans. Additionally, Housing & Credit Counseling, Inc. did not obtain approval from HUD for their allocation plans as required by an Office of Management and Budget Circular. The salaries are related to various administrative functions. The indirect costs included telephone charges, contracted services, supplies, postage and printing charges. Housing & Credit Counseling, Inc. believes its method for allocating salaries and calculating indirect costs is reasonable; however, without documentation to support the reasonableness of the methods and calculations, HUD lacks assurance that the grant is being properly charged for costs incurred.

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 38 grantees (a total for 81 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.

HUD's regulation, 24 Code of Federal Regulation Part 84, contains the uniform administrative requirements for grants between HUD and nonprofit organizations. The regulations (24 CFR 84.27) require that nonprofit grantees utilize the Office of Management and Budget (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 lobbying 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 enactment or modification of any actual or pending legislation by propaganda, demonstrations, fundraising drives, letter writing, or urging members of the general public either for or against the legislation (Grassroots Lobbying).

Housing & Credit Counseling, Inc. applied for OTAG grants in fiscal years 1998 and 2000. Housing & Credit Counseling, Inc. received $250,000 in HUD OTAG grants in October 1998, and $325,000 in January 2001. The grantee expended all $250,000 from the October 1998 grant and $102,936 of the $325,000 grant . Housing & Credit Counseling, Inc. received an annual financial audit of their activities for the three-year period ending December 31, 2001. The auditor provided an unqualified opinion for each of the three years.

In addition to the OTAG grant, Housing & Credit Counseling, Inc. received funding from various other sources. For example, Housing & Credit Counseling, Inc. received funds from the United Way, Cities of Topeka and Lawrence Kansas, Kansas Department of Commerce and Housing, and the Topeka Community Foundation.

FINDING
Grantee Could Not Demonstrate Cost Allocation Plans Are Reasonable

The Grantee could not demonstrate the allocation plans used to distribute salaries and indirect costs to the grant are reasonable. The Grantee also did not have documentation to support the method of cost allocation used in their plans. Additionally, Housing & Credit Counseling, Inc. did not obtain approval from HUD for the allocation plans as required by an Office of Management and Budget Circular. The Grantee believes its method for allocating salaries and calculating indirect costs is reasonable, however without documentation to support the reasonableness of the methods HUD lacks assurance that the grant is being properly charged for costs incurred.

Office of Management and Budget Circular A-122, Attachment B, Section m.(1). says the distribution of salaries and wages to awards must be supported by personnel activity reports. Section m.(2). states that reports reflecting the distribution of activity by each employee must be maintained for all staff members whose compensation is charged, in whole or in part directly to awards.

Office of Management and Budget Circular A-122, Attachment A, says the grantee must support a cost allocation by taking into account all activities of the organization. If the grantee does not have an approved cost allocation plan, the grantee must submit an initial cost allocation plan for approval within three months of receiving the award.

Office of Management and Budget Circular A-122, Attachment A, Section D. says actual conditions shall be taken into account in selecting the base to be used in allocating expenses. Additionally, it says the essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived; a traceable cause and effect relationship; or logic and reason, where neither the cause nor the effect of the relationship is determinable.

Allocating Salaries to the Grant

Housing & Credit Counseling, Inc.'s could not demonstrate the method of allocating various administrative salaries to the grant is reasonable. Although, the Grantee based its allocation plan on a two-week time study, it did not retain documentation to show the outcome of the study or why the time period picked was representative of an entire year. Additionally, the Grantee did not obtain HUD's approval for the allocation plan. Housing & Credit Counseling, Inc. said they conducted a two-week time study that served as the basis of its salary allocations charged to the grant. Each employee kept track of the amount of time and related duties they performed during the two-week period. The results were then evaluated and used to develop the allocation plan. The Grantee said all the time studies were discarded, since some of them were not correctly completed. Although the Grantee said the incorrect time studies did not affect the Outreach and Technical Assistance Grant, we have no way of determining that since all were disposed of.

Housing & Credit Counseling, Inc. believes that a two-week time study is extensive enough to represent an entire year of allocations because the grants and other program activities stay fairly static throughout the year. We believe that the amount of time charged to a grant will vary depending on the age of the grant. For example, we would expect more time would be required during the initial stages of a grant than after it is up and running. The validity of the allocation plan cannot be evaluated without documentation to show how the two-week period used is typical of a whole year.

Allocating Indirect Costs to the Grant

Housing & Credit Counseling, Inc. could not demonstrate the cost allocation plan for indirect costs is reasonable. The grantee used the direct costs included in annual budgets from prior years to develop the percentage of indirect costs that should be charged to the grant. Housing & Credit Counseling, Inc. did not have documentation to show that there was a valid relationship between direct costs as reflected in the budgets and the incurrence of indirect costs. Housing & Credit Counseling, Inc. also did not get HUD's approval for the plan. A proper cost allocation plan for indirect costs is necessary to provide assurance that the grant is correctly absorbing indirect charges.

Housing & Credit Counseling, Inc. allocated indirect costs to its grant that included telephone charges, contracted services, supplies, postage and printing charges. The Grantee's Outreach and Technical Assistance Grant is one of five programs that fall under its Housing division. The Grantee determines the percent of indirect costs it charges to each program area by totaling the budgeted direct costs for all five programs and dividing that total by the budgeted direct costs for each program area. They then adjust these amounts based on experience factors. For example, the percent charged to the Outreach and Technical Assistance Grant in 2002 was calculated as follows: Budgeted direct costs for all five program areas / budgeted direct costs for the Outreach and Technical Assistance Training Grant ($313,369 / $83,118) = 26.5 percent. This amount was then reduced to 25.5 percent based on experience factors. Although the Office of Management and Budget Circular requires grantees to maintain support for their cost allocation calculations, Housing & Credit Counseling, Inc. did not have any documentation other than copies of budgets to support their allocation method. There was no explanation for the 1 percent adjustment, nor any documentation to show allocating indirect costs on the basis of direct costs was reasonable.

Additionally, as previously mentioned, Housing & Credit Counseling did not obtain HUD's approval for the allocation plan.

Housing & Credit Counseling, Inc. believes their method of determining the indirect cost percentage is the most beneficial to every program. We believe the method is erroneous since there is no logical reason to assume that budgeted direct costs have a predictable relationship to actual indirect costs. Further, without supporting documentation, there is no way to validate this conclusion. The Grantee said they were not aware of the federal requirements that required obtaining approval for cost allocation plans. Additionally, they believed copies of their budgets were adequate documentation for the indirect cost allocation plan, since the plan was based on the budget. A proper cost allocation plan for indirect costs is necessary to provide assurance that the grant is correctly absorbing indirect charges.

AUDITEE COMMENTS AND OIG EVALUATION OF AUDITEE COMMENTS

We provided our draft report to Housing & Credit Counseling Inc. for their comments on August 29, 2002. The Grantee provided their comments dated September 6, 2002. We included the Grantee's complete comments in Appendix A. Excerpts from the Grantee's comments are included below.

Housing & Credit Counseling Inc. agreed with the recommendations in our draft report and has begun working with the Office of Multifamily Housing and Restructuring to address the recommendations. However the Grantee is concerned the draft report may be misleading because it says the OIG's opinion is that Housing and Credit Counseling, Inc.'s cost allocation plan is "not reasonable." The Grantee said the Auditor assured them the terminology refers only to the fact that the Grantee did not have its cost allocation plan formally approved by the Office of Multifamily Housing and Restructuring. We concur that the reference to the cost allocation plan not being reasonable could be misleading; therefore, we changed the language in the report to state the Grantee could not demonstrate that the cost allocation plan was reasonable. The Grantee not only needs to have the cost allocation plan approved by HUD, but they need to demonstrate that the plan is reasonable and maintain documentation to support that determination.

RECOMMENDATIONS

We recommended that the Director of the Office of Multifamily Housing and Restructuring requires Housing & Credit Counseling Inc. to:

1. Develop a cost allocation plan for salaries that is supported and can be shown to be an accurate representation for the salaries allocated to the grant.

2. Develop a cost allocation plan for indirect costs that is supported and demonstrates there is a valid relationship between indirect costs and the method used to allocate indirect costs to the grant.

3. Obtain HUD's approval for its cost allocation plans.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to Housing & Credit Counseling Inc. 's 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:

- Receipt of grant funds.
- Disbursement of grant funds.
- Allocation of common costs.
- Financial recording and reporting for grant funds.
- Selection and award of consulting and other service contracts.
- Administrative (HUD) reporting of grant uses and results.

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 did not find any significant weaknesses.

FOLLOW-UP ON PRIOR AUDITS

The Office of Inspector General performed no previous audit of Housing & Credit Counseling, Inc.

AUDITEE COMMENT

SEP 1 0 2002

HOUSING & CREDIT COUNSELING, INC.

1195 SW Buchanan
Suite 101
Topeka, Kansas
66604-1183
(785) 234-0217
FAX (785) 234-0237

CONSUMER CREDIT COUNSELING SERVICE

P.O. Box 4369
Topeka, Kansas
66604-0369
(Main Office)
(785) 234-0217

Lawrence, Kansas
(785) 749-4224

Manhattan, Kansas
(785) 539-6666

Emporia, Kansas
(620) 342-7788

MEMBER

ACCREDITED

HUD Comprehensive Counseling Agency

United Ways of Greater Topeka, Douglas, Flint Hills and Riley Counties

Email: hcci@hcci-ks.org
Web: hcci-ks.org
(800) 383-0217

September 6, 2002

Mr. Roger Niesen, Regional Inspector General for Audit
HUD
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, Kansas 66060-2406

Subject: Draft Audit Report Response, Audit Case #2002-KC-100X

Dear Mr. Niesen:

HCCI is in receipt of your letter of August 29, 2002 and your draft of the final audit report regarding OTAG grants #FFOT98010KS and FFOTOOO15KS.

HCCI has no problem with the recommendations in your letter, which were discussed with us a number of times by your field representative, Shanna Gulledge.

We were somewhat concerned that the letter says that the OIG's opinion is that HCCI's cost allocation plan is "not reasonable." Ms. Gulledge assures us that the terminology refers only to the fact that HCCI still needed to have its cost allocation plan formally approved by OMHAR. In fact, she reassured us that they found no expenses which they deemed inappropriate (not reasonable) during the course of the audit, and that if that were so there would have been a finding. If that is so, then even though the language sounds strong to us, we have no problem with the statement.

There are a couple of inaccuracies in the letter about HCCI's assertions and procedures, but they do not materially affect the recommendations.

HCCI has already begun work with OMHAR to address the recommendations.

We want to thank you for your hard and thorough work. Though the visit and audit were onerous for us and unbelievably detailed, if that's what you had to do, then that's what you had to do. Ms. Gulledge and the other auditors who occasionally accompanied her were unfailingly easy to work with and professional. And, the work of your office is very important.

Thank you.

Sincerely,

Karen A. Hiller

Karen A. Hiller
Executive Director

EXTERNAL REPORT DISTRIBUTION

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515

Stanley Czerwinski, Director, Housing and Telecommunications Issues, U.S. General Accounting Office, 441 G Street, NW, Room 2T23, Washington, DC 20548

Steve Redburn, Chief Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Bldg., Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Ave., NW, Washington, DC 20420

William Withrow (52KC), Department of Veterans Affairs, OIG Audit Operations Division, 1100 Main, Rm 1330, Kansas City, Missouri 64105-2112

The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

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

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515

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

Andy Cochran, House Committee on Financial Services, 2129 Rayburn H.O.B., Washington, DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, U.S. House of Representatives, B303 Rayburn H.O.B., Washington, DC 20515