Issue Date: September 30, 2002
Audit Case Number: 2002-DE-1002

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

FROM: Robert C. Gwin, Regional Inspector General for Audit, 8AGA

SUBJECT: Congressionally Requested Audit of the Outreach and Training Assistance Grant Awarded to the Affordable Housing and Homeless Alliance, Honolulu, Hawaii, Grant Number FFOT00011HI

INTRODUCTION

We completed an audit of the Affordable Housing and Homeless Alliance's (grantee) Outreach and Training Assistance Grant (OTAG) and three Intermediary Technical Assistance Public Entity Grants (PEG) administered by the Amador-Tuolumne Community Action Agency, an Intermediary Technical Assistance Grantee (ITAG). The audit identified that the grantee overcharged the grant at least $12,242.19 for salaries, had questioned costs of $2,650.32, unsupported costs of $1,738.32, duplicate billings of $236.44, and did not comply with Title 24 CFR Part 84 and other requirements under the Office of Management and Budget's Circular A-122, Cost Principles for Non-Profit Organizations. We did not identify any instances where grant funds were expended in support of lobbying activities. Our report contains six recommendations to address the issues identified in the report and to strengthen management controls over the grantee.

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 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, documents supporting grant activities, and interviewed responsible staff. We also reviewed the requirements in

MAHRA, the Notices of Funding Availability, the grant agreements, HUD requirements for nonprofit entities, and the Office of Management and Budget's (OMB) guidance on allowable costs for nonprofit grantees.

The audit period covered HUD funded activities between April 2000 and September 2001. Where necessary, the audit period was expanded to facilitate the completion of the review. We performed the fieldwork at the Affordable Housing and Homeless Alliance, located at 810 N. Vineyard Blvd., Suite 212, Honolulu, HI 96817 during August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We appreciate the courtesies and assistance extended by the personnel of the Affordable Housing and Homeless Alliance during our review.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please give us, for each recommendation in this report, 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 me at (303) 672-5452.

SUMMARY

The Affordable Housing and Homeless Alliance (grantee) submitted a grant application for an Outreach and Training Assistance Grant (OTAG) and grant applications for three Intermediary Technical Assistance Public Entity Grants (PEG). Our audit identified that the grantee over charged the OTAG at least $12,242.19 for project supervision and administration. The grantee did not maintain salary records in accordance with OMB Circular A-122 Attachment B, paragraph 7. The grantee had questioned costs of at least $2,650.32 for telephone and fax, and supplies, $1,738.32 in unsupported costs and had duplicated billings of $236.44. The grantee also did not prepare a cost allocation plan per the guidance in OMB Circular A-122, Attachment A. Instead, the grantee either charged the entire cost or used a percentage for the allocation of the cost. Due to the lack of adequate records for salary, telephone and fax, and supplies, we could not determine the appropriateness of these allocated charges. Our report contains recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grant.

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 projects, 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 Funding 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 Grant (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 Funding 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.

The HUD regulations at 24 Code of Federal Regulation 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 Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organization, in determining the allowability of cost 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).

The Affordable Housing and Homeless Alliance (grantee) was established as a domestic nonprofit organization in the State of Hawaii on October 14, 1988. The grantee's primary mission is "…to promote housing which is decent, affordable and appropriate. The [grantee]… is a statewide coalition of organizations, concerned individuals, and people who are homeless, have low incomes or special housing needs." The grantee received its 501(c)(3) status on June 27, 1994, retroactive to October 14, 1988.

The grantee was awarded an Outreach and Training Assistance Grant (OTAG), number FFOT00011HI, for $300,000 in January 2001. The grantee expended $34,562.01 of the $300,000 grant during the period January through September 2001. The grantee was also the subrecipient to the Legal Aid Society of Hawaii's OTAG, number FFOT98006HI, during the period October 1998 through December 2000. The grantee received a total of $22,157.08 in reimbursement for expenditures incurred relating to the Legal Aid Society of Hawaii's OTAG. A report based on review of the Legal Aid Society of Hawaii's OTAG will be issued under separate cover by the OIG.

The grantee also applied for three Intermediary Technical Assistance Public Entity Grants (PEG) administered by Amador-Tuolumne Community Action Agency, an Intermediary Technical Assistance Grant (ITAG) recipient. The grantee was awarded the following PEGs: (1) grant number MTMHIPEG00018 for $19,997 in July 2000; (2) grant number MTMHIPEG00024 for $19,473 in December 2000; and (3) grant number MTMHIPEG01026 for $19,627 in September 2001. The grantee requested $12,250 from PEG MTMHIPEG00018, but was approved to expend only $9,911.52 of the $19,997 grant covering the period January 2000 through December 2000. The grantee has yet to request reimbursement for expenditures relating to the PEGs awarded in December 2000 and September 2001.

The grantee assisted a total of 19 projects using Section 514 grant funds. The grantee did not receive a financial audit, nor was one required.

In addition to the OTAG and three PEGs, the grantee received funds from other Federal and non-Federal sources. The grantee was awarded a HUD Community Planning and Development Technical Assistance Award for Homeless Assistance in FY 2000 totaling $10,000. They also assisted a subrecipient of a HUD grant to perform a housing discrimination study in Hawaii. The grantee received at total of $112,603.59 from March 2001 to December 2001 for work performed in association with the housing discrimination study. As for non-Federal grants, the grantee received a total of $110,300 from various foundations between 1998 and 2002.

FINDING
The Grantee Did Not Comply With HUD and OMB Requirements

The Affordable Housing and Homeless Alliance (grantee) charged project supervision and administration in excess of actual costs, did not maintain adequate salary records, and did not adequately support the cost allocation method for charging indirect costs. As a result, the grantee charged at least $12,242.19 in excessive project supervision and administration expenses, charged $2,650.32 in questioned costs for telephone and fax charges, and supplies, charged $1,738.32 in unsupported costs and had duplicate billings of $236.44. The grantee neither read nor had a copy of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) and relied on HUD to provide detailed guidance on program requirements. The grantee believed that the activities and records maintained for OTAG and ITAG related activities complied with HUD's requirements.

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. The grantee must maintain reports that account for the total activity for which an employee is compensated for in fulfillment of their obligations to the organization. The reports must reflect an after the fact determination of actual activity for each employee. Budget estimates do not qualify as support for charges to the grant. Grantees must also maintain reports reflecting the distribution of activity of each employee (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. OMB also requires that the report be signed by the employee or a reasonable supervisor. 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.

The grantee did not maintain supporting employment records per the OMB Guidance. Instead, employees prepared time sheets of only the hours chargeable to the grant. For example, a grantee employee who charged time for project supervision and administration to the OTAG prepared a time sheet of day and hours chargeable to the grant. The time sheet did not account for the total activities of the employee on a daily basis. Therefore, we could not determine what other activities the employee performed or which grant to charge for those activities.

The grantee compensated its employees based on a salary basis but charged the OTAG based on an hourly wage. The grantee used the time sheets to determine the number of hours to charge the grant. We reviewed the hourly wage charged to the grant to the employee's hourly wage. Since the employee received a flat monthly salary, we estimated the hourly wage based on a 160 hours per month. Based on the estimate, we determined that the grantee charged the grant hourly wages in excess of the amount actually paid. For example, we estimated that the employee received an hourly wage of $18.75[1]. However, the grantee charged $50 per hour to the grant. The grantee charged the overage to the HUD funded OTAG grant. We estimated that the grantee over charged about $12,242.19.

When preparing the budget for the OTAG, the grantee was not aware of indirect costs or formulas used for determining an hourly rate. The grantee sought advice from other OTAG program directors and the National Alliance of HUD Tenants (NAHT) members on how to determine an hourly rate for project supervision and administration. The other OTAG program directors and NAHT members had been charging between $50 to $57 an hour for project supervision and administration. The grantee thought the $50 hourly rate to be reasonable. Therefore, the grantee submitted a budget reflecting the $50 hourly rate, which was approved by OMHAR.

During a NAHT conference call, the grantee realized that they had been over billing project supervision and administration. The grantee had not received any instructions on how to amend a budget or how to make corrections to prior billings from OMHAR staff. The grantee left voicemails, sent emails, and other correspondence to various staff of OMHAR requesting assistance. After receiving no response from OMHAR staff, the grantee contacted the Director of NAHT. The Director of NAHT advised the grantee to hire a local CPA firm to assist with amending the budget and prior billings for the over billing of project supervision and administration.

The grantee enlisted the services of a local CPA firm to perform a pre-audit in preparation for the HUD OIG review. The local CPA firm determined the total amount of the over billing for project supervision and administration to be $10,411.75. In addition to determining the amount of over billing, the local CPA firm amended prior billings and the budget submitted to OMHAR for the grant. We were unable to determine the accuracy of the local CPA firm's calculation of the amount of over billing of project supervision and administration given the supporting records maintained by the grantee.

The grantee adjusted its last Line of Credit Control System (LOCCS) request covering the period October through December 2001 for the over billing to $482.25, which represents total expenses for the period ($10,894) less the amount of over billing ($10,411.75) determined by the local CPA firm. The grantee advised an OMHAR staff member of the over billing and the process used to amend the prior billings and the budget for the OTAG. According to the grantee, the OMHAR staff member agreed with the grantee's amendment process, but did not specifically request that the grant be reimbursed for the over billing. At the close of our on-site review, August 21, 2002, the grantee had yet to be approved to draw down the $482.25 from LOCCS.

The grantee advised that they were not aware of the requirements nor did HUD notify them of the personnel and compensation requirements of OMB Circular A-122. The grantee advised that the OMHAR had not provided any training on administering the grant. For example, the grantee

[1] Given the condition of the grantee's accounting records, we used the Board approved salary of $36,000 per year to calculate the hourly wage rate of $18.75.

did not know how to draw down funds from LOCCS as they had not received instructions from OMHAR on how the system operates. Again, the grantee made repeated attempts to contact OMHAR staff for instructions on how to draw down funds from LOCCS, with no response. The grantee eventually received instructions from another OTAG program director and was able to draw down funds.

Allocation of Direct and Indirect Costs to the Grant

The grantee also allocated certain costs to the grant to include telephone and fax charges, and supplies. OMB Circular A-122 Attachment A provides guidance on the basic considerations for grant fundable costs and allocation of indirect cost. The guidance provides that the grantee shall support a cost allocation taking into account all activities of the organization. If the grantee does not have an approved cost allocation plan, the grantee shall submit an initial cost allocation plan within three months of receiving the award.

The grantee neither prepared nor submitted to OMHAR a cost allocation plan after receiving the grant. Instead, the grantee either charged the entire cost or used a percentage for the allocation of the cost. In some cases, the grantee records indicated a split of costs between the OTAG and other activities. However, the entire cost was either charged to the OTAG, or the allocation of the cost was changed when entered into the grantee's accounting system. Based on available records, we could not determine the appropriateness or reasonableness of the cost allocations. The grantee has prepared subsequent billings using the same techniques, where funds requests have yet to be submitted and/or approved.

We identified that the grantee charged the grant at least $2,650.32 in questioned costs for telephone and fax charges, and supplies, without a cost allocation plan.

The grantee advised that they were not aware of the requirements nor did OMHAR notify them of the requirements of OMB Circular A-122. The grantee also advised that OMHAR had not performed an onsite review of their activities or methods for charging the grant.

Unsupported Costs and Duplicate Billings

Our audit identified unsupported costs and duplicate billings that were reimbursed to the grantee from OTAG and PEG funds. Title 24 CFR 84.21 requires grantees to maintain records that adequately identify the source and application of funds, and maintain accounting records that are supported by source documentation. Per Title 24 CFR 84.85, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report.

We identified a total of $1,738.32 in unsupported costs and $236.44 of duplicate billings by the grantee to its OTAG and PEG.

The grantee acknowledged that at one point in time they had the support for all OTAG and PEG expenditures. However, due to multiple bookkeepers and the adjustments made to prior billings by a local CPA firm, the supporting documentation may have been misfiled and/or misplaced. In regards to the duplicate billings, the grantee advised the duplicate billings of the OTAG and PEG funds was not intentional, but an error. The grantee has applied for a non-Federal grant from a local nonprofit agency whose purpose is to assist other nonprofits in capacity building. If awarded the grant, the grantee plans to use the funds to hire a grants manager.

AUDITEE COMMENTS AND OIG EVALUATION OF AUDITEE COMMENTS

We provided a copy of our draft report to the grantee for their comments on September 4, 2002. The grantee provided comments on September 15, 2002 that indicated they agreed with the facts presented in the report. The grantee provided an update on their progress of locating support for unsupported costs as well as presenting their cost allocation plan. The grantee approved the inclusion of these comments as their response to our draft report. On September 17, 2002, we communicated the addition of recommendation 1F. to the grantee.

On September 20, 2002, the grantee requested that we: (1) place a temporary hold on our report and other materials, (2) provide an extension for an another reply, and (3) exclude the grantee's previous comments from the report. On September 23, 2002, we granted the grantee an extension to September 25, 2002 for submitting another response to the draft report.

We received the grantee’s September 22, 2002 response on September 25, 2002. The grantee’s formal response, even though it has not been signed by a grantee official, is included in Appendix B.

The grantee does not agree with the report and our finding. Our review and evaluation of the grantee’s formal response is broken down into the following points of discussion:

- Objectivity of the OIG Auditors,
- Costs charged to Section 514 Funded Grants,
- Direct Cost System,
- Under Billing of Section 514 Funded Grants,
- Adjustments Made to Billings,
- Lack of Training and Information provided by OMHAR, and
- Freezing of Section 514 Funds.

Objectivity of the OIG Auditors

The grantee's formal response to the draft report inferred the auditors were not objective in their review of the grantee's Section 514 grant activities. Specifically, "...the Office of Inspector General was looking for some way to discredit the…[grantee] rather than to do an objective review of...[the grantee’s] work and…compliance with the overall program as funded by the OTAG and ITAG grants." The grantee's assertion is incorrect. The objectives of our review were to (1) determine whether the grantee used Section 514 grant funds for only eligible activities as identified in MAHRA, the Notices of Funding Availability, their grant agreements, or other requirements to further the Mark-to-Market Program, and (2) determine if the grantee expended Section 514 funds for any lobbying activities.

Congress specifically directed the OIG to review the eligibility of costs with particular emphasis on identifying ineligible lobbying activities. We were not directed to review the performance of the grantee's Section 514 activities. The objectives were communicated to the grantee in our engagement letter dated July 22, 2002 as well as during the entrance conference on August 5, 2002. The facts presented in the report were based on sufficient, competent and relevant evidential matter obtained during the review of the grantee's accounting records, documents supporting grant activities, and interviews with responsible staff.

Costs Charged to Grants

The grantee does not agree with statements made in the report and the finding concerning the costs charged to their Section 514 grants. The grantee states that they charged indirect costs under "Salaries and Administration (aka Project Supervision)" without a cost formula. The grantee further defines the costs as rent, bookkeeping, printing, and equipment, etc. were charged to the "Salaries and Administration." In addition the grantee states, "The agency at no time considered the amount to be a $50 per hour wage as direct compensation for personal services but as a billing rate for professional services by the Alliance, which incorporated administrative overhead and salary costs."

At the time of our onsite review the grantee had no basis to support the $50 hourly rate. As explained to us by the grantee and discussed in the report, the grantee chose to charge their OTAG the $50 hourly rate based on advice from other OTAG program directors and NAHT members. Advice from other OTAG program directors and NAHT members does not suffice as support for the $50 hourly rate. As such, the $50 hourly rate was based on an arbitrary amount and not supported by actual costs.

The formal response also includes a statement that the auditor did not ask the Executive Director for an explanation as to how funds in question were allocated. Contrary to this statement, the auditors held an entrance conference with the Executive Director and inquired whether a cost allocation plan had been established. The Executive Director informed the auditors they did not have a cost allocation plan. The auditors then inquired how OTAG and PEG expenditures are isolated in the grantee's accounting system. Per the Executive Director they assign a class to the activities in their accounting system.

Due to the lack of a cost allocation plan, we focused our review efforts on the costs the grantee had received reimbursement from Section 514 funds. We reviewed the eligibility of the costs with regards to HUD and OMB requirements and verified whether the costs were supported.

Direct Cost System

The grantee disputes the finding that they did not have a cost allocation plan. The grantee believes they are in compliance with OMB Circular A-122, Attachment A, Section D, Paragraph 4 Direct Allocation Method. According to the grantee, they prorated telephone, fax and supplies individually using “a base most appropriate to the particular cost being prorated.”

At the time of our review the grantee did not have a cost allocation plan in place as required that explained their usage of the direct allocation method. A cost allocation method would have been needed since the grantee was also administering several other Federal and non-Federal programs. As such, the grantee would have needed an allocation system to allocate direct and joint costs. We noted in the report the grantee either charged the entire cost or used a percentage for the allocation of the cost. In some cases, the grantee records indicated a split of costs between the OTAG and other activities. However, our review disclosed the entire cost was charged as an expense to the OTAG program in the grantee’s accounting system. We could not determine the appropriateness of the telephone and fax charges, and supplies charged to the OTAG grant without a cost allocation plan. As a result, we are questioning as eligible program costs the $2,650.32 identified in our review.

Under Billing of Grants

The grantee takes “strong issue” with the conclusions made in the report that they over billed their OTAG, as they feel they have under billed the grant. Again to reiterate, our objectives were to review the eligibility of costs with particular emphasis on identifying ineligible lobbying activities as mandated by Congress. Therefore, we focused on those costs that had been reimbursed with Section 514 funds. The fact still remains the same, the grantee over billed its OTAG grant and had unsupported costs and duplicate billings of both its OTAG and PEG grants. Any under billing of the OTAG program by the grantee stems from the fact that the grantee has not requested reimbursement from HUD for such costs nor clearly reflected such amounts as OTAG costs in its accounting records. Accordingly, these unreimbursed costs were not reviewed.

Adjustments Made to Billings

The grantee made the assertion that the auditors failed to give credit for adjustments made to an OTAG billing for overcharging the OTAG grant for project supervision and administration. Specifically, the grantee makes the following statements:

> "The auditor is aware that the Alliance deducted $12,017.59 from the Oct-Dec.2001 [sic] to clear up any confusion about the method of billing. The auditor is also aware that this deduction was made prior to the audit.
>
> No mention of the repayment, or that it was made before the inspection by the auditor or of intent in the way the bills were charged, was made in the Introduction or the Summary. The omission of these facts and intentions in the Summary and Introduction is very misleading and leaves the motivation of the Alliance unfairly in question."

We disagree with the assertions made by the grantee. First of all, the grantee fails to acknowledge that the reported $12,017.59 was offset by the reallocation and addition of expenditures (direct and indirect) resulting in an over billing of $10,411.75. The grantee continued to identify and resolve the over billing subsequent to our site review. We were unable to determine the validity of the calculation of the amount of over billing of project supervision and administration given the supporting records maintained by the grantee. Secondly, upon completion of our site work on August 21, 2002, the grantee did not have evidence (e.g., LOCCS draw down form, bank statements) that supported the grant had been made whole for the over billing that occurred. Finally, our report includes a discussion on the grantee's enlistment of the services of a local CPA firm to perform a pre-audit and assist with the amendment of their budget and prior billings for the over billing of project supervision and administration.

Lack of Training and Information provided by OMHAR

The grantee attributes the lack of training and information provided by OMHAR as a cause for their noncompliance with HUD and OMB requirements. We have acknowledged in the report the lack of training and oversight provided by OMHAR. However, the grant agreements executed by the grantee with OMHAR and the Amador-Tuolumne Community Action Agency included references to applicable Federal Laws and Regulations. These included MAHRA, 24 CFR Parts 84 and 85, various OMB Circulars, and the Notices of Funding Availability. Accordingly, the grantee was obligated to comply with these Federal requirements.

Freezing of Section 514 Funds

The grantee believes the intention of the finding and recommendations is to freeze Section 514 funds, which would result in the grantee going out of business. Contrary to the grantee's belief, our finding identifies areas of noncompliance with HUD and OMB requirements. The recommendations are made within the report to assist the grantee in establishing proper procedures that will ensure the grantee is operating in accordance with HUD and OMB requirements.

The grantee has acknowledged while onsite and in its various responses that they were not aware of the personnel and compensation requirements and grant fundable costs and allocation of indirect costs of OMB Circular A-122. The grantee has also acknowledged that it had overcharged their OTAG for project supervision and administration as validated by the local CPA firm and the OIG's review. The grantee even remarked to the auditor that the process of locating missing records for unsupported costs identified by the OIG, made her realize how important it is to have a system in place. We agree that the grantee has undertaken action to help bring its operation into compliance with HUD and OMB requirements.

We commend the grantee for its prompt response and efforts to resolve the concerns of noncompliance with HUD and OMB requirements. The grantee has gathered additional supporting documentation for unsupported costs and has retained the services of a local CPA firm to assist in the development and implementation of a cost allocation plan. These steps will aid the grantee in improving its administrative procedures and to bring them into harmony with the necessary Federal requirements.

In addition to the original comments received, the grantee provided various supplemental documents. The supplemental documents are being provided separately to the Director of OMHAR.

RECOMMENDATIONS

We recommend that the Director of OMHAR:

1A. Require the Affordable Housing and Homeless Alliance to repay the $12,478.63 in excess salary for project supervision and administration ($12,242.19) and duplicate billings ($236.44).
1B. Require the Affordable Housing and Homeless Alliance to maintain time records according to OMB Circular A-122.
1C. Require the Affordable Housing and Homeless Alliance to submit a cost allocation plan and based on the plan adjust the $2,650.32 for telephone and fax charges, and supplies and repay any overcharges.
1D. Require the Affordable Housing and Homeless Alliance to adjust subsequent billings for OTAG and PEG expenditures, which have yet to be submitted for approval and reimbursement, in accordance with the cost allocation plan.
1E. Require the Affordable Housing and Homeless Alliance to support or repay the $1,738.32 in unsupported costs.
1F. Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditure complies with OMB Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to the Affordable Housing and Homeless Alliance'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:

- 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 polices and procedures to ensure that salaries and time records met the standards of OMB Circular A-122,
- Lack of a cost allocation plan to charge shared costs, and
- Lack of a system to ensure costs incurred and reimbursed with Section 514 funds are fully supported and not duplicated when reimbursed.

FOLLOW-UP ON PRIOR AUDITS

The Office of Inspector General has not performed any previous audits of the Affordable Housing and Homeless Alliance.

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation Number	Type of Questioned Costs	
	Ineligible 1/	**Unsupported 2/**
1A	$12,478.63	
1C & 1E		$4,388.64

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.

Appendix B

AUDITEE COMMENTS

AFFORDABLE HOUSING AND HOMELESS ALLIANCE
810 N. Vineyard Boulevard, Suite 212 Telephone (808) 845-4565
Honolulu, Hawaii 96817 Fax (808) 843-2445

September 22, 2002
Jennifer Sorenson, Auditor
633 17th Street, 14th Floor
Denver, CO 80202-3607

Dear Ms. Sorenson,

Thank you for the extension in dates, which enabled us to submit the following formal response to the draft audit issued by the Office of Inspector General.

The Affordable Housing Alliance is a small and dedicated agency with a staff, which generally consists of the Executive Director, who also does much of the program work, and four VISTA volunteers. Our work has always been done on a lean budget and we have an excellent reputation in Hawaii.

While they were here the auditors made statements several times about the good work we are doing. In fact we have done outstanding work, providing training, education and technical assistance to tenants living in 18 projects across three islands. All of this work has been done on less than $50,000 from an OTAG and a PEG grant over the nine-month period in question. This is out of more than $300,000 dollars in OTAG and ITAG grants for the project.

The small amount of expenditures from the grants has leveraged a very impressive amount of work. It has a staff of four VISTA volunteers and 20% time of a director. It has provided funds for organizers to fly on a monthly basis to the outer islands and work with tenant groups on the islands of Kauai and Hawaii in addition to ongoing work on Oahu, where Honolulu is located. It has covered expenses of staff and tenants to attend trainings at the NAHT Conference and Training Institute and it has made possible a large SAVE OUR HOMES workshop for tenant leaders in at-risk buildings and for community people to become educated about the problem of expiring project-based Sec 8 housing.

We were therefore very surprised by the tone of the draft audit. None of this work was reflected in the findings. Nor was our good stewardship of HUD funds. Nor was the fact that the director was not paid for several months due to HUD's inability to adequately administrate and honor its contract with OTAG grantees.

Furthermore, we take strong issue with the auditor's conclusion that we over billed the OTAG grant when the reality is that **we under billed the grant** due to lack of training on the part of OHMAR and lack of a book keeper due to HUD freezing OTAG funds. These are facts, which should have been evident to any objective auditor.

Most disturbing is the fact that the auditor did not give the Affordable Housing Alliance (Alliance) credit in the introduction and the summary for an adjustment of $12,017.59

it made to its OTAG billings prior to the audit. The result of this and other allegations, which we will dispute below is to characterize the Alliance in an unfair light and one which could even jeopardize the future of this agency and that of other OTAG grantees.

Because of this we must again insist upon a face-to-face meeting with the auditor before the IG report is completed to be sure that all of the issues are fairly and adequately resolved.

Introduction and Summary: In both the introduction and the summary, which are the parts of this report most likely to be read by the public, by staff at OMHAR and other interested parties, the auditor stated that " The audit identified that the grantee overcharged the grant at least $12,242.19 for salaries" and "the grantee over charged the OTAG at least $12,242.19 for project supervision and administration." This is extraordinarily misleading.

The auditor is aware that the Alliance deducted $12,017.59 from the Oct-Dec.2001 billing to clear up any confusion about the method of billing. The auditor is also aware that this deduction was made prior to the audit.

No mention of the repayment, or that it was made before the inspection by the auditor or of intent in the way the bills were charged, was made in the Introduction or the Summary. The omission of these facts and intentions in the Summary and Introduction is very misleading and leaves the motivation of the Alliance unfairly in question.

The following headers are those used by the auditor. Below the header is the response by the Alliance.

<u>The Grantee Did Not Comply With HUD and OMB Requirements</u>

The Affordable Housing Alliance disputes the introductory paragraph to this finding, which includes allegations of overcharges, questionable charges and unsupported costs. These will be dealt with under the header Unsupported Costs and Duplicate Billings below.

- As the auditor knows the Affordable Housing Alliance originally charged indirect costs under Salaries and Administration (aka Project Supervision) without a formula for doing so. Costs, such as rent, bookkeeping, printing, equipment etc. were charged to this category only and were not charged elsewhere in the grant. The agency at <u>no time</u> considered the amount to be a $50 per hour wage as direct compensation for personal services but as a billing rate for professional services by the Alliance, which incorporated administrative overhead and salary costs.

- We believe this allocation method is reasonable and appropriate under OMB Circular A-122.

- The Alliance was following a methodology used by several other PEG grantees, including the National Housing Law Project. Under this method, personnel and certain other expenses are charged at a consultant rate and may not be charged again under another heading.

- Unfortunately the Alliance, did not receive training from OMHAR regarding OMB Circulars, methodologies of accounting or even that book keeping was an allowable expense. Also, because of not being able to have a bookkeeper for some months due to HUD having frozen OTAG funds the Alliance was unable to have assistance to adequately prepare for the audit and to defend its billing method.

- The Alliance did, however, make a correction in its billing to OMHAR. The Alliance removed the Adminisration billings from the Salary and Aministration line and billed only for a salary of $36,000 a year with a 37 hour work week This correction resulted in a an adjustment of $12,017.59 to the October 2001 OTAG billing. This billing has been approved.

- This adjustment further meant that the Alliance has not been reimbursed expenses such as rent, bookkeeping, equipment etc., which had previously been assumed under professional services billed as Project Supervision.

- The fact is that the Alliance has under billed, not over billed, the OTAG program and will soon be billing OMHAR for rent and other expenses which were previously considered covered under the original admin calculations. Suggestions that the Alliance should repay $12,242.19 to OMHAR are ludicrous given that the auditor knows that the sums were already repaid. And that the auditor should know that the Alliance has seriously under billed the grant.

- The fact is that the OIG auditor did not give the Alliance credit for that adjustment in the Introduction, the Summary or the Recommendations which was grossly unfair.

- The Alliance contends that all references to the sum of $12,242.19 should be struck from the audit as the deduction in the billing had already been made on the part of the Alliance. At the most there is a simple contention of $224 which is the difference found between the Alliance's accountant of $12,017.59 and $12,242.19 found by the OIG auditor.

- Regarding timesheets, it is true that the Alliance did not keep "reports which reflected the <u>total</u> activity for which an employee is compensated for in fulfillment of their obligations to the organization." The lack of timesheets, which reflect <u>all</u> aspects of work on all grants and contributions, was an error, which reflected the lack of training by OMHAR. The organization conscientiously kept time sheets on a day-to-day basis. However, they only reflected the hours spent on specific contracts. Having been advised by the auditor that OMB Circular A-122 requires a timesheet which backs up all working hours (including those not covered by OTAG2) the Alliance has changed its timesheets to reflect all of the hours of the working day.

Allocation of Direct and Indirect Costs to the Grant

- The Affordable Housing Alliance disputes the finding that it did not have a cost allocation plan and that $2,650.32 is therefore in question.

- The Alliance's billing method of telephone, fax and supplies is consistent with OMB A122- D, 4, #4 Direct Allocation Method.

- Under the Direct Allocation Method used by the Alliance joint costs such as telephone, fax and supplies expenses are prorated individually as direct costs using a base most appropriate to the particular cost being prorated. These costs make up the $2,650.32, which the auditor questions because the grantee was unable to explain the prorating within the context of a cost allocation plan. Costs were prorated based upon usage as determined by the director's intimate knowledge of each program.

- Each of these billings is individually defensible under the above method.

- The cost allocation method used by the Alliance was a very conscientious one which was much more rigorous and labor intensive than is usual in a cost allocation plan. All direct program costs, which were directly related to the activities under OTAG were billed to OTAG in their entirety. Examples are salaries and the cost of travel to neighbor islands to organize. Costs, which were not 100% attributable to the grant, such as use of the fax line, were billed according to the percentage of each item's usage attributable to the program. As the number of programs and staff changed so did the % billed to costs.

- At the same time, certain costs such as rent, printing and copying, postage and book keeping were assumed to be covered under the general admin part of salary and administration. These costs are approximately equal to the costs the auditor considers "over billing".

- The above method was an honest and conscientious method of billing which worked and which was reflected in each billing to HUD, where it was approved. According to the OMB Circular A 122 this direct allocation method is used by some non-profit organizations. As a cost allocation plan it could be seen as antiquated and laborious, but it was also a very precise method of billing. It most certainly was honest. Everything we billed to OTAG was directly and precisely attributable to the OTAG2 grant.

- It appears that the Affordable Housing Alliance is being penalized for the lack training and information. The usage of this rather archaic method of cost allocation was directly attributable to the lack of training from OMHAR not to questionable practices by our agency!

- Unfortunately, not being familiar with the term Cost Allocation Plan the director did not know how to explain it to the auditor in relationship to OMB Circular A-122. Nor did the auditor ask the director to sit with her and explain how the funds in question were allocated.

- In response to the draft audit the Alliance sent another cost allocation plan based upon the Simple method with a base related to staff and space usage to the auditor to see if it was acceptable. The director of the Alliance was informed that such a judgment would be up to OMHAR. The draft audit does not reflect the fact that the Alliance had a cost allocation method nor that the Alliance has more recent sent a written cost allocation plan to the auditor.

- The Alliance has sent the same cost allocation plan to OMHAR requesting its approval. Once approved all OTAG expenses from the beginning will be billed utilizing that plan. See attached draft of cost allocation plan sent to OHMAR on 9/22/02. Using this method the accountant has recalculated Alliance OTAG costs For the 9 months in question.

- **The result of this recalculation is to find that the Alliance has under billed the OTAG grant a total of $12,023.09 which is slightly more than the $12,017.59 the Alliance returned in the Oct.-December billing to OTAG.**

- In other words, the amount that the Alliance calculated as reasonable in the administration part of salary and admin (Project Supervision) is almost exactly the same as the amount the Alliance is entitled to under the new Cost Allocation Plan.

- The entire suggestion of over billing has been incorrect all along. Rather the problem was that without adequate training the Alliance didn't know how to verbalize its own cost allocation method. Because it could not articulate this method the Alliance cautiously returned almost the exact sum as it has underbilled.

- The auditor questions costs of $2,650.32 due to the lack of a cost allocation plan.

- The Alliance contests that allegation. The auditor also refers to a discrepancy in the breakout and what was entered into the computer. These joint costs were carefully broken out by program and prorated individually. However, prior to the audit our new accountant broke out some of the costs in a way that would make them each have the same proportion. Due to that change it is likely that the entry in the computer and the disbursement request form could have a slight variance in % between the two.

- If there was an error in recording in the computer as compared to the breakout on the billing request form that should be attributed to error in a manner that will allow it to be corrected. It should not be confused with the cost allocation method.

- The Alliance did not have a written cost allocation plan and so was not prepared to present it to the auditor. The absence of a written cost allocation plan is a direct result of the lack of training by OMHAR for OTAG2 recipients. HUD never asked for a Cost Allocation Plan nor did it provide any training on how to prepare one. Without training it was very difficult to understand what the requirements and procedures of the program were. Over the two years the director of the Alliance emailed many questions to HUD staff and to the staff of NAHT and then to the Directors of other OTAG programs. HUD rarely answered. Other directors were very helpful. Unfortunately, due to lack of training the director didn't know many of the questions, which needed to be asked. For example, there was a period when we didn't have a bookkeeper because we didn't know that the OTAG related hours of bookkeeping could be attributed to the grant.

Unsupported Costs and Duplicate Billings

Due to a time problem on the part of the auditors they came during at the start of a 10-day family vacation on the part of the director. This family vacation had been planned and paid for many months before. The auditors were very kind about the time conflict and the director made extra effort to return from the vacation 3 times and met with the auditors 2 of those times. As a result not as much attention and time was paid to the issue of unsupported documents as might have been had the director or bookkeeper been present at all times.

When the auditor completed her task in Hawaii the director understood that any remaining unsupported documents could be found and submitted. However, when the director informed the auditor that most of the supports had been found and that she would soon be faxing them the auditor said that the "draft audit" could not be changed. That it would be up to OMHAR to rule on the support documents.

This response on the part of the auditor calls into question why the "draft audit" is so labeled. Why was the director given the impression that she should send any support she found to the auditor? Why should the "draft audit" be sent to OMHAR and posted on the website with incorrect information when the auditor has access to the answers she was looking for?

The fact is that the director found support for almost all of those costs, a total of $1,569.88 of $1,738.32 and has sent a request to the auditor that they be included in the report. The director does not believe the remaining sum in question is large enough to include in the report. However, if it is included a correction should also appear in the Introduction and Summary to the audit. With less than $200 in unsupported costs this could hardly be considered worthy of a finding.

Unfortunately the Alliance did have $236.44 in duplicate billings to the PEG grants and takes full responsibility for the error. In her memo to the auditor regarding the supportive documents and duplicate billings the director also stated corrective action she would take on the remaining unsupported or duplicated billed items.

RECOMMENDATIONS:

1.A. The Alliance does not understand why the auditor recommends that the grantee "repay the excess salary" when the auditor is aware that it was already paid through the Oct-Dec. 2001 billing. To leave the prior payment out of the recommendation means that the grantee could conceivably have to pay the amount twice!

1.B. The Alliance has already begun maintaining time records according to OMB Circular A-122.

1.C. The new cost allocation plan has been submitted to both the auditor and OMHAR. The Alliance is confident that once the plan is used on the expenses from this period it will be clear that the Alliance was under-billing expenses rather than over-billing expenses.

1D. The Alliance will use the new cost allocation plan, once approved, to adjust subsequent billings to the OTAG grant. Expenses in the PEG grant are 100% directly attributable to the PEG approved program, therefore the cost allocation plan is not relevant to PEG expenses.

1.E. The Alliance has found almost all of the unsupported costs. Those supports should be acknowledged by the auditor. If any adjustment is required it will be paid as part of a billing to the OTAG grant.

1.F. The recommendation (1F) that all funds be held was not made until after the draft audit was received and discussed. It could have the result of further delaying already much delayed billings to the Alliance and possibly putting the organization out of business. The Alliance believes it is inappropriate given the above information, which shows that the Alliance has under billed this grant.

MANAGEMENT CONTROLS

- The Alliance disputes any insinuation that the director's salary did not meet the standards of OMB Circular A-122. At no time did the director's salary or billing of salary exceed the amount of $36,000 as set by the board of directors. In fact the director received less than her salary primarily due to the freezes in OTAG funds and the Lead Organizer had to be laid off.

- The organization used proportional billing of shared costs as a cost allocation method. However, since we were not familiar with the term we did not describe it to the auditor as such. In recent weeks the Alliance has sent a suggested cost allocation plan to both the auditor and OMHAR.

- During the year 2001, the Alliance hired a bookkeeper to set up a system, which reflected both OTAG and ITAG expenditures by category. The system also includes a check request form to which documentation must be attached. Unfortunately the organization had to operate for a number of months without a bookkeeper due to the fact that OTAG funds were gotten out late in 2001 and then followed by a lengthy freeze. During this time there was no bookkeeper to monitor the controls. This April the Alliance hired a part-time bookkeeper .The Alliance had good controls in place again before the auditor arrived. However, there were still a number of costs, which needed to be researched to find supportive documents for the period in 2001 when there wasn't a bookkeeper.

  The Alliance bookkeeper will not process any check until supportive documents are attached. She uses a system set up in Quick Books99 and backs it up with a spreadsheet in Excel. In addition, in months prior to the audit the Alliance retained and continues to retain the firm of Allen M. Arakaki CPA, Inc.

In conclusion:

The auditor did not give fair credit to the Affordable Housing Alliance for having made an adjustment in its OTAG billing to correct any perception of incorrect billing.

The auditor did not take into consideration that the Alliance had thereby under billed $12,023.09 rather than over billed the OTAG grant.

The auditor did not consider that the method of bookkeeping by the Alliance fell within the Direct Allocation Method found in OMB Circular A 122.

The auditor has considered individually prorated costs as unsupported documents when they follow the Direct Allocation Method, which is sometimes used by non-profits.

The combined weight of the findings and recommendations is to freeze all funding to the organization including funds that were under billed. This is an outcome, which would surely put the Alliance out of business.

On the balance it appears that the Office of Inspector General was looking for some way to discredit the Alliance rather than to do an objective review of our work and our compliance with the overall program as funded by OTAG and ITAG grants.

Appendix C

EXTERNAL REPORT DISTRIBUTION

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

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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

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