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# AUDIT REPORT



CONGRESSIONALLY REQUESTED AUDIT OF THE  
OUTREACH AND TRAINING ASSISTANCE GRANT  
AWARDED TO THE PEOPLE TO END HOMELESSNESS  
PROVIDENCE, RHODE ISLAND

GRANT NUMBER: FFOT00034RI

2003-BO-1002

March 31, 2003

OFFICE OF AUDIT, NEW ENGLAND  
BOSTON, MASSACHUSETTS

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Issue Date	March 31, 2003
Audit Case Number	2003-BO-1002

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

FROM: Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: Congressionally Requested Audit of the Outreach and Training Assistance  
Grant Awarded to the People to End Homelessness  
Providence, Rhode Island  
Grant Number: FFOT00034RI

We completed an audit of the Outreach and Training Assistance Grant (OTAG) awarded to the People to End Homelessness (Grantee). The review was performed at the request of Congress. The audit objective was to determine if the Grantee used Section 514 grant funds for only eligible activities as identified in the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), Notice of Funds Availability (NOFA) and the OTAG agreement between HUD and the Grantee to further the Mark-to-Market Program. We also determined if the Grantee expended Section 514 funds for any lobbying activities. Congress specifically identified lobbying as an ineligible activity under MAHRA.

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 MAHRA. The directive would include the 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.

On September 30, 2002, we issued an interim report, numbered 2002-BO-1006, which disclosed that the Grantee did not have adequate internal controls to ensure: (1) grant funds are used properly and (2) costs are reasonable and properly documented. Our Interim Report made two recommendations to the Director of OMHAR: (1) deny the Grantee's drawdown requests until the Grantee hires an Executive Director who does not have a relationship to its contractors, the Grantee develops and implements internal control procedures, and OMHAR verifies that the

control procedures are implemented and effective; and (2) require the Grantee to maintain adequate salary records and supporting documentation for salaries and other expenditures. Since this time, the Grantee has initiated actions to strengthen its management policies and procedures. However, effective October 10, 2002, OMHAR suspended funding to Grant FFOT00034RI until the findings of the interim report are addressed and satisfactorily resolved. As of March 21, 2003, OMHAR is working on these two recommendations. In addition to the unresolved recommendations from the Interim Report, we have made an additional seven recommendations to recover ineligible and unsupported costs, track and document expenditures, and resolve organizational conflicts.

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

We appreciate the courtesies and assistance extended by the Grantee during our review. Should you or your staff have any questions, please contact Cristine M. O'Rourke, Assistant Regional Inspector General for Audit, or me at (617) 994-8380.

# Executive Summary

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We completed an audit of the Outreach and Training Assistance Grant (OTAG) and the Intermediary Technical Assistance Grant (ITAG) awarded to People to End Homelessness (Grantee). Our audit objectives were to: (1) determine if the Grantee used Section 514 grant funds for only eligible activities as identified in the Multifamily Assisted Housing Reform and Affordability Act (MAHRA), Notice of Funds Availability (NOFA), and grant agreements to further the Mark-to-Market Program and (2) ensure that the Grantee did not expend Section 514 funds for any lobbying activities.


## Audit Results

The audit identified that OMHAR should require the Grantee to:

- Repay \$3,804 in ineligible costs.
- Repay \$4,041 in unsupported costs or provide adequate supporting documentation from independent third parties showing the eligibility and reasonableness of these costs.
- Provide supporting documentation for any additional expenditures from independent third parties prior to OMHAR distributing any additional grant funds.
- Implement a system, in accordance with OMB Circular A-122, which separates costs for eligible and ineligible activities and maintain adequate records to support costs and their allocation.
- Identify and track in-kind services and donations.
- Discontinue noncompetitive practices and take steps necessary to prevent any conflicts of interest in the selection, award, and administration of Consultant Contracts.
- Evaluate the reasonableness and necessity of payments to affiliates.

Results of our Interim Report

Our Interim Report numbered 2002-BO-1006 issued September 30, 2002 identified that the Grantee did not have adequate internal controls to ensure that:

- Grant funds were used properly.
- Costs were reasonable and properly documented.

As a result of the interim report, effective October 10, 2002, OMHAR suspended funding to the Grantee under OTAG grant FFOT00034RI until the audit findings are addressed and satisfactorily resolved.

On September 24, 2002, the Grantee stated that their accounting records were complete and reliable. OIG agreed to evaluate additional post-interim documentation provided by the Grantee. Based on our review of the additional documentation and other initiatives instituted by the Grantee, we modified our findings accordingly. The Grantee has instituted the following corrective actions:

- Appointed a Board Member as the new acting Executive Director.
- Revised internal control procedures and documented them in writing.
- Redesigned employee timesheets to make the documentation clearer.
- Established a cost allocation plan.

Recommendations

Our report contains recommendations to address the two issues identified in this report. OMHAR should require the Grantee to:

- Repay \$3,804 in ineligible costs charged to the OTAG program.
- Repay \$4,041 in unsupported costs if the Grantee cannot provide adequate independent third party documentation.
- Provide supporting documentation for expenditures to independent third parties prior to OMHAR distributing any additional grant funds.

- Implement a system, in accordance with OMB Circular A-122, which separates costs for eligible and ineligible activities and maintain adequate records to support costs and their allocation.
- Identify and track in-kind services and donations.
- Resolve all organizational conflicts and discontinue all noncompetitive practices in the selection, award, or administration of any contract supported by Federal funds.

Additionally, OMHAR needs to evaluate the reasonableness and necessity of the Grantee's payments to affiliates.

Our findings were discussed with the Grantee during the course of the audit. We provided the Grantee a copy of our Interim Report on September 12, 2002. The Grantee responded to our Interim Report on September 24, 2002. We provided the Grantee a copy of our Draft Report on February 19, 2003. The Grantee responded to our Draft Report on March 10, 2003. We incorporated the Grantee's response into our report (See Appendix B).





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Abbreviations

HUD	Housing and Urban Development
ITAG	Intermediary Technical Assistance Grant
LOCCS	Line of Credit Control System
MAHRA	Multifamily Assisted Housing Reform and Affordability Act
MHA	Mental Health Association of Rhode Island
NOFA	Notice of Funds Availability
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMHAR	Office of Multifamily Housing Assistance Restructuring
OTAG	Outreach and Training Assistance Grant
PEG	Public Entity Grant

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# Introduction

People to End Homelessness (Grantee) is a non-profit corporation that operates throughout the State of Rhode Island. The Grantee is concerned with the preservation and improvement of privately owned multifamily housing. The Grantee's Board of Directors is made up of eight members. The Grantee's Program Coordinator acted as the Executive Director and handled the administration of daily operations. The Grantee is located at 807 Broad Street Providence, Rhode Island. Since receiving its Outreach and Training Assistance Grants (OTAG), the Grantee has worked 20 HUD assisted projects in Rhode Island.

The Grantee applied for the OTAG grant in fiscal year 2000. The Grantee received an OTAG of \$400,000. The Grantee expended \$44,835 from this grant as of June 30, 2002.

Pursuant to MAHRA and 24 CFR Parts 401 and 402, the Grantee applied for and received a \$2,243 Public Entity Grant (PEG) which is a Section 514 grant received from the National Center for Tenant Ownership who is an Intermediate Technical Assistance Grantee. The Grantee used this PEG for conference-related expenses on September 26, 2001.

In addition to these grants, the Grantee has received other funding totaling \$158,910 from various Federal, State, and Nonprofits including:

Type	Amount	Source
Community Development Block Grant	\$18,000	HUD (passed through the City of Providence, RI)
Family Emergency Apartment Program	\$119,160	State of Rhode Island
Nonprofit grants	\$21,750	Various Private Foundations
<b>Total</b>	<b>\$158,910</b>	

The Grantee did not receive a financial audit, nor was one required. Under OMB Circular A-133, Subpart B, Paragraph 200(d), grantees that expend less than \$300,000 in Federal awards are exempt from the Federal requirement of an annual audit.

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 HUD-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 Funds Availability (NOFA) in fiscal year 1998 and a second NOFA in fiscal year 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants: the ITAG and the OTAG. The NOFA 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 Funds 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 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 84.27) require that nonprofit grantees utilize the Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, 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).

### Audit Objectives

The purpose of our audit was to determine whether the Grantee:

- Expended Section 514 grant funds for only eligible activities as identified in MAHRA, the NOFAs, their grant agreements, or other requirements to further the Mark-to-Market Program.
- Expended Section 514 funds for any lobbying activities.

Congress specifically identified lobbying as an ineligible activity under MAHRA.

### Scope and Methodology

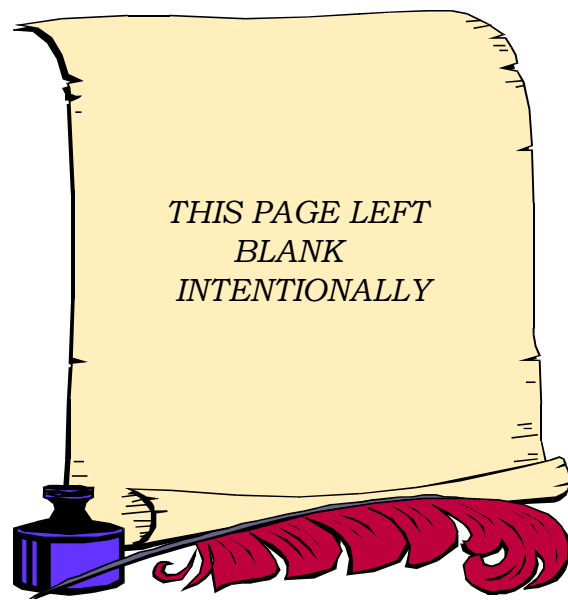
To accomplish the audit objectives, we:

- Reviewed the requirements in MAHRA, the OTAG Notice of Funds 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 costs for nonprofit grantees.
- Interviewed the Grantee's Program Coordinator, who was the Acting Executive Director, to determine how the Grantee records and segregates OTAG/ITAG funds.
- Interviewed the Grantee's staff to determine their roles and responsibilities in regards to ITAG and OTAG grant funded activities.
- Reviewed 100 percent of the OTAG funds drawn down through LOCCS for January 9, 2001 through June 30, 2002 to determine if the drawdowns were supported by documentation and were used for eligible OTAG activities.
- Reviewed the Post-Interim documentation provided by Grantee to support LOCCS drawdowns and the eligibility of costs.

- Reviewed \$2,243 of travel funds awarded through a PEG in fiscal year 2001 to determine if the costs were segregated between ITAG and non-ITAG (lobbying) activities.
- Reviewed the OTAG Consultant contracts to determine if activities were related to OTAG and non-OTAG (lobbying) activities.
- Reviewed the Grantee's and their affiliate's accounting records and other documents supporting expenditures of the PEG and OTAG grant funds to determine the reason that the Grantee was not reconciling to these records before drawing funds from LOCCS.
- Reviewed the Grantee's cost allocation plan to determine if expenses were allocated to OTAG on a consistent basis.
- Traced the LOCCS drawdowns to bank statements to verify that all grant funds disbursed during the audit period by HUD were deposited into the Grantee's bank account.
- Reviewed 100 percent of Grantee's staff time sheets, supporting LOCCs drawdowns from January 9, 2001 through June 30, 2002 to determine if the time sheets contain a detailed accounting of daily routines for both OTAG and non-OTAG (lobbying) activities.
- Reviewed the Grantee's organizational chart, key position descriptions, and board minutes to determine the lines of authority.
- Reviewed telephone charges for the period April 1, 2001 through June 30, 2002 to determine if the charges related specifically to any lobbying activities.
- Reviewed the Quarterly Performance Reports submitted to the OMHAR to determine if activities actually took place and were eligible.

The audit covered the period January 9, 2001 through June 30, 2002 for the OTAG grant and the PEG. We performed the fieldwork in the Grantee's office at

807 Broad Street, Providence, Rhode Island from June 25, 2002 to October 21, 2002. We conducted the audit in accordance with generally accepted government auditing standards.





## Grantee Did Not Maintain Internal Controls Necessary to Support Cost Charged to OTAG

People to End Homelessness (Grantee) cannot assure that costs charged to the OTAG are eligible and adequately supported. Nor can the Grantee assure that in-kind contributions as required by the grant have taken place. These conditions exist because the Grantee did not establish effective systems of financial reporting and internal controls. We are questioning \$3,804 spent by the Grantee on ineligible expenditures and \$4,041 on costs that are unsupported.

### Ineligible Costs

The Grantee did not maintain adequate controls and procedures to assure that costs to OTAG were eligible. OMB Circular A-110 requires financial and program management systems that provide for: accurate, current, and complete disclosure of financial results for each federally sponsored program; and, effective control of, and accountability for all funds.

The Grantee expends funds for its OTAG program and then withdraws grant funds through the Line of Credit Control System (LOCCS). As of June 30 2002, the Grantee had withdrawn \$44,835 from LOCCS. The Grantee expended \$3,804 on ineligible expenditures consisting of \$1,865 in duplicate claims for expenditures on insurance, utilities and telephone, \$1,887 in overcharges for salary expenses, and \$52 in accounting and rounding errors.

The Grantee has acknowledged that the duplicate billings for insurance, utilities, and telephone expenses occurred and they plan to take action to correct the drawdown amounts, accordingly.

As stated, the Grantee has overcharged the OTAG grant for \$1,887 in salaries. This condition occurred when the Grantee drew down \$25,039 in salaries and related expenditures for the period April 14, 2001 to September 30, 2001, but only incurred \$23,152 in employee salaries and related expenses.

The Grantee made a series of mathematical errors in preparing its requisitions. The Grantee also rounded its requisitions to the nearest whole dollar. Some of these

errors and rounding resulted in over-requisitioning HUD funds while other errors and rounding resulted in the Grantee not requisitioning sufficient funding. The net total of these actions is an over-requisition of \$52. The Grantee did not identify these errors until it evaluated its accounting after OIG issued its Interim Report.

Unsupported Costs

The Grantee cannot support \$4,041 in expenditures requisitioned for its OTAG grant as shown below:

<i>Expenditure</i>	<i>Amount</i>
Copier	\$ 534
Equipment	\$ 250
Mileage	\$ 916
Parking	\$ 1,125
Postage	\$ 192
Supplies	\$ 563
Telephone	\$ 250
Utilities	\$ 211
<b>Total</b>	<b>\$ 4,041</b>

The Grantee did not maintain supporting documentation such as copier and equipment leases, mileage logs, receipts, or invoices.

In-kind Services and Donations not Tracked

In its grant application and agreement, the Grantee identified in-kind services of staffing, cash contributions, and donations valued at \$78,262 for the first year—\$63,000 in personnel costs and \$15,262 in working capital, services, and equipment. The Grantee has not developed a system for tracking and distributing in-kind services and donations. OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart A, paragraph 2 (kk) states in-kind contributions means the value of non-cash contributions provided by non-Federal third parties. Third party in-kind contributions may be in the form of real property, equipment, supplies, and other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program.

Our review disclosed that the Grantee only documented employee hours charged to the OTAG grants. Volunteer hours committed to OTAG in the grant application and grant agreement were not tracked. As a result, HUD has no assurance that volunteer services identified in the grant application were provided. The Grantee has drawn funds through LOCCS for salaries, services, and equipment, which resemble the donations outlined in the Grantee's application. Some, but not all, of the Grantee's unbilled costs mirror donations listed in the Grantee's application.

The Grantee also believes that OMHAR should recognize that the Grantee has unbilled expenditures that OIG did not include in its Interim Report. Subsequent to OIG's interim report, the Grantee had its bookkeeper reconcile the LOCCS drawdowns to its expenditures. The bookkeeper identified over \$4,109 related to unbilled expenses from 2001 and 2002. The existence of unbilled expenditures confirms that the Grantee financial management system did not provide complete disclosure as required by OMB Circular 110, Subpart C, Section 21 (b)(1).

Grantee did not reconcile expenditures to LOCCS

The Grantee hired its affiliate to maintain its checkbook using a computerized accounting package. The affiliate did not prepare the LOCCS drawdowns; instead, the Acting Executive Director prepared the LOCCS drawdowns. The data used to prepare the LOCCS vouchers did not match the data input into the accounting software. The Grantee also did not reconcile its accounting and financial records to its LOCCS vouchers. Omission of this reconciliation contributed to the Grantee submitting unsupported costs and duplicate requisitions.

Standards for Financial Management System

OMB Circular 110, Subpart C, Section 21 (b)(1) through (3) *Uniform Post-Grant Award Administrative Requirements* specifies that grant recipients' financial management systems shall provide:

1. Accurate, current, and complete disclosure of financial results for each federally sponsored program,
2. Records that identify the source and application of funds and accounting records that are supported by source documentation, and

3. Effective control over and accountability for all funds, property, and other assets.

In its LOCCS drawdowns, the Grantee did not identify the accurate application of funds due to its mathematical errors, its duplication of expenses, its apportionment of expenditures, and its failure to maintain independent third party supporting documentation for all expenditures.

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Auditee Comments

The Grantee, in a lengthy rebuttal, took exception with the competency of the audit staff originally assigned to the project.

The Grantee concurs that it has \$6,720 in ineligible and unsupported expenditures. The Grantee advises that it has taken steps to prevent re-occurrence. The Grantee believes that these ineligible expenditures should be offset from future drawdowns from the OTAG once HUD lifts the funding suspension. The Grantee also believes that cancelled checks for \$1,125 are adequate to support its expenditures for parking.

The Grantee states that it should not be required to document volunteer services and in-kind contributions because HUD does not require a match to its funding under the OTAG program.

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OIG Evaluation of Auditee Comments

The staff assigned to this review were fully qualified and the audit was conducted in accordance with Government Auditing Standards. The conclusions made in our report are thoroughly supported, and we do not feel that personalizing these issues is a productive method of dealing with the corrective actions needed to strengthen the financial accountability of the Grantee.

Ineligible and unsupported expenditures should be repaid to the program regardless of whether HUD lifts the funding suspension. Additionally, cancelled checks do not identify how an expenditure relates to the OTAG program and do not identify who received the benefit of the parking.

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HUD should not allow the Grantee to bill the OTAG for services and equipment that were listed as donations and in-kind services in the Grantee's application. The Grantee identified unbilled expenditures that it believes should be paid by OTAG for expenditures related to photocopiers, computers, and other equipment. The Grantee's application identifies donations of photocopiers, computers, and other equipment.

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## Recommendations

We recommend that the Director of OMHAR require the Grantee to:

- 1A. Repay \$3,804 in ineligible costs.
- 1B. Repay \$4,041 in unsupported costs or provide adequate supporting documentation from independent third parties showing the eligibility and reasonableness of these costs.
- 1C. Provide supporting documentation for expenditures to independent third parties prior to OMHAR distributing any additional grant funds.
- 1D. Implement a system, in accordance with OMB Circular A-122, which separates costs for eligible and ineligible activities and maintain adequate records to support costs, and their allocation.
- 1E. Identify and track in-kind services and donations.



## Grantee Entered into Improper Business Relationships

The People to End Homelessness (Grantee) entered into an improper business relationship. Under a contractual arrangement, the Grantee paid an employee of their affiliate, the Mental Health Association (MHA) of Rhode Island, for services as a research consultant while at the same time this person was performing duties as the Grantee's Acting Executive Director. These duties included authorizing payments to MHA. Under the terms of the OTAG application, the duties of the Executive Director were to be donated by the Grantee. The payment to the Acting Executive Director for consulting fees begs the question as to whether these services were, in fact, donated. It also calls into question the \$6,534 billed to the OTAG for these consultant services. Subsequent to raising this issue with the Grantee in our Interim Report dated September 30, 2002, the Acting Executive Director provided a signed letter donating to the Grantee the total consulting contract of \$7,000. We, therefore, have no recommendation concerning this consultant fee. But the conflict of interest inherent in this business relationship is in violation of OMB circular A-110 and the OTAG agreement and is a concern.

### Procurement and Conflict of Interest Criteria

OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Subpart C, paragraph 42 requires that nonprofit grantees:

*maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to subagreements. However, recipients may set standards for situations in which the financial*

*interest is not substantial or the gift is an unsolicited item of nominal value.*

Improper Signatory on Applications and Grants

The Grantee's Board did not appoint an Executive Director. When interviewed, the person who signed the OTAG application and grant advised that she is the Program Coordinator and only "acted" as Executive Director. It was noted that, during our review, this person handled the day-to-day management of the Grantee's operations. It was also revealed that this person was a full time employee of Mental Health Associates of Rhode Island (MHA) through June 2002.

Research Contract awarded to Grantee's signatory

Our review of consultant contracts revealed that the Grantee awarded a research contract for \$7,000 to the aforementioned Acting Executive Director. This person is named in the application as: (1) the Executive Director and (2) the key staff person overseeing the project. The Grantee did not maintain documentation to support the sole source award to the Acting Executive Director. As a result, the Grantee cannot assure HUD that the contract was properly procured. As of September 22, 2001, the Grantee withdrew \$6,534 from LOCCS for payments for this research contract. This Acting Executive Director advised that she did not receive any funds from the Grantee because she donated her time. The Grantee did not identify this donation in its records prior to issuance of our interim report dated September 30, 2002. On October 16, 2002, the Acting Executive Director provided a signed letter donating the total sum \$7,000 which is the sum that she asserts the Grantee owes her for services performed.

Consultant Contract awarded to affiliate

In July 2001, the Grantee hired MHA for Contract Management of the HUD OTAG Program. Under this agreement, the MHA established and maintained the Grantee's accounting system; paid employees and vendors on behalf of the Grantee; and terminated employees of the Grantee. This contract states that the Grantee will pay MHA \$20 per hour not to exceed \$2,000 per year. The Acting Executive Director is employed by MHA. The Acting Executive Director advised that she resigned as Director to become a paid Program Coordinator for the Grantee effective July 1, 2002. Together, the Grantee and MHA operate a transitional housing program separate and distinct from its OTAG program.



MHA's contract provides the Grantee with payroll services and health insurance providers. The Grantee also bundles expenditures for office supplies with MOA. As discussed in finding one, *Grantee Did Not Maintain Internal Controls Necessary to Support Cost Charged to OTAG*, the Grantee's payments contained \$1,887 in duplicate salaries, \$1,484 duplicate insurance payments, and \$563 in unsupported supplies. In the interests of efficiency, the Grantee made one combined payment to MHA for these elements. We were unable to separate the payments to MHA into its requisite accounts to trace expenditures to adequate supporting documentation.

In its response to our Interim Report issued September 30, 2002, the Grantee addressed this matter and appointed a Board Member as the new Acting Executive Director. However, during the period that the MHA employee was acting as Executive Director (January 9, 2001 to September 24, 2002); HUD did not have assurance that the grant was being managed in a proper fiscal manner.

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## Auditee Comments

The Grantee asserts that its Executive Director was not acting, but was, in fact, the Executive Director for the program. The Grantee contends that the Executive Director's employment with its contractor, MHA, is not a conflict of interest because the Executive Director is a program employee and not a manager at MHA. The Grantee states that OMB Circular A-110 is misquoted and that no conflict of interest exists.

The Grantee states that this report unfairly castigates the Executive Director. The Grantee identifies the Executive Director as the founder and leader of the project who is essential to in a coordination and management role. The Grantee plans to hire a paid Executive Director to manage its OTAG. The Grantee also asserts that HUD has increased its funding from \$266,000 to \$356,000.

OIG Evaluation of  
Auditee Comments

In interviews and discussions with various OIG staff, the Executive Director stated that she was only acting as the Executive Director. The Acting Executive Director's service in *a management role at the Grantee* while simultaneously employed by MHA is the conflict of interest.

We have corrected the error in the quotation of OMB Circular A-110, Subpart C, paragraph 42. The corrected passage allows recipients to set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The Acting Executive Director was a paid full time employee of a contractor to the Grantee. Paid full time employment is not an insubstantial financial interest. The Grantee valued the donation of an Executive Director's services at \$9,000—which is not a nominal value.

The Grantee's plan to hire a paid Executive Director represents a fundamental change in its operations as its application identifies a volunteer Executive Director. This change should be submitted to HUD for approval.

According to LOCCS accessed March 25, 2003, the Grantee's OTAG grant is authorized at \$400,000 and we have amended our report to reflect the change in the grant.

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Recommendations

We recommend that the Director of OMHAR:

- 2A. Require the Grantee to resolve all organizational conflicts and discontinue all noncompetitive practices in the selection, award, or administration of any contract supported by federal funds where a conflict of interest could exist.
- 2B. Evaluate the reasonableness and necessity of payments to affiliates.

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# Management Controls

In planning and performing our audit, we considered the management controls relevant to the Grantee'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. This includes the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

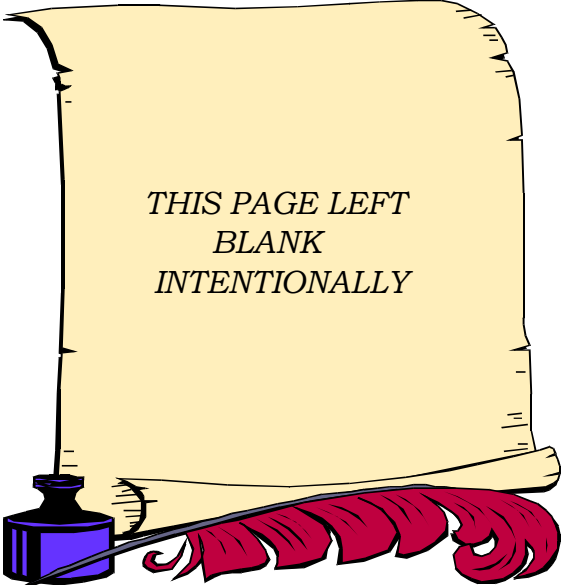
- Identification of projects and activities eligible for assistance.
- Controls and documents to support grant expenditures, and
- Controls and procedures over the reporting of activities and expenditures.

## Significant Weaknesses

A significant weakness exists 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:

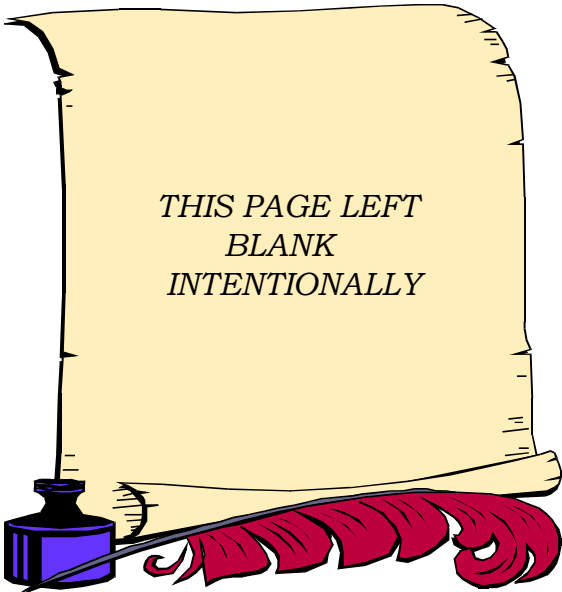
- Lack of procedures to ensure existence, accuracy, and completeness of funds to be drawn down from the grant.
- Lack of policies and procedures to ensure that funds are spent in accordance with Multifamily Assisted Housing Reform and Affordability Act, Notices of Funds Availability, and Grant agreements.
- Lack of policies and procedures to ensure that in-kind services and donations are identified and tracked.



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# Follow Up On Prior Audits

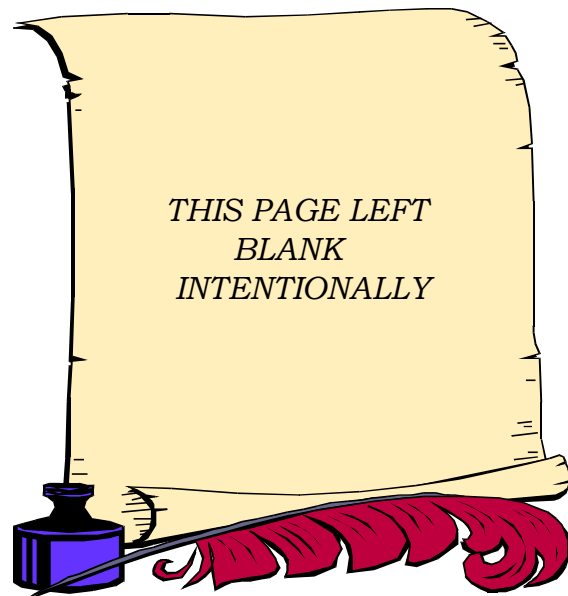
The Office of Inspector General has not performed any previous audits of the People to End Homelessness.



## Schedule of Questioned Costs

	Ineligible Costs 1/	Unsupported Costs 2/	Unnecessary Costs 3/
Grantee Did Not Maintain Internal Controls Necessary to Support Cost Charged to OTAG	\$3,804	\$4,041	--
Grantee Entered Into Business Relationships Which Created Conflicts Of Interest	--	--	\$8,654

- 1/ Ineligible costs are those costs that are questioned because of an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.
- 2/ Unsupported Costs are those costs whose eligibility cannot be clearly determined because they were not supported by adequate documentation.
- 3/ Unnecessary costs are those costs, which are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices.





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# Auditee Comments

The Grantee's response included names of individuals and third parties who were not being audited. We have redacted the names of individuals and third parties who were not being audited.

**People To End Homelessness**  
Outreach and Technical Assistance to HUD Tenants

March 3, 2003

Barry L. Savill  
Regional Inspector General of Audit  
U.S. Department of Housing and Urban Development  
Thomas P. O'Neil, Jr. Federal Building, Room 370  
10 Causeway Street  
Boston, Massachusetts 02222-1092

Dear Mr. Savill,

We are writing in response to the January 31 Discussion Draft Report (hereinafter "Draft Report") by your office based on the activities of People to End Homelessness (PTEH). The Draft Report concerns the work of PTEH on the Outreach and Technical Assistance Grant (OTAG) Number FFT00034RI. Our response to the Draft Report is attached. These comments are in addition to, and incorporate by reference, the comments we submitted on September 24, 2002 to the IG's office in response to the earlier Interim Report on PTEH, and which are posted on the IG's website.

As we indicated to you in our exit meeting with you and \_\_\_\_\_ on February 26, 2003, we are distressed that HUD completely suspended funding in September 2002 to PTEH based on an Interim Report, which, we believe, was biased and full of errors. Although the January 31 Discussion Draft Report corrects for some of these errors, acknowledges that alleged conflicts have been resolved in any case, and credits PTEH for strengthening its financial controls last fall (indeed, the Interim Report made this acknowledgement in September), we were distressed to learn that the funding suspension caused by the faulty Interim Report still stands.

As you could plainly see during your visit, this on-going suspension of funds has completely shut down the OTAG outreach program, forcing the layoff of all staff for a second time in a year, resulted in the loss of our office and fiscal agent, and threatens our small nonprofit organization with bankruptcy. Obviously, we have been unable to properly serve the tenants who are the intended beneficiaries of these funds since September 2002, despite the heroic efforts of PTEH volunteers. Moreover, HUD's punitive funding suspension prevents PTEH from making any funding adjustments for any financial errors identified by the IG, since PTEH cannot even file invoices to make corrections due to the suspensions.

This unprecedented funding suspension, even before issuance of a Draft Report, plainly violates HUD Handbook 2000.06 on audit resolution. Nor can it be justified on any reading of Section 1303 of the Defense Appropriations Act of FY 02 (which mandated the audits) or Section 514, since the IG made no findings of either inappropriate "lobbying" activities or assistance to "ineligible" properties or ineligible activities with OTAG funds by our organization which alone would trigger the "sanctions" identified in the Act. This draconian punishment of our small nonprofit organization stands in stark contrast with HUD's normal procedure for IG audits of for-profit owners or housing authorities with far larger negative findings; HUD does not cut off funds while allowing these HUD contractors to dispute and "work out" problems cited by IG audits. This disparate treatment of our organization has fueled the impression that HUD's funding suspension is in retaliation to PTEH's effective assistance to tenants who successfully fought HUD's violation of its own rules, for example at the Properties in our state.

We urge your Final Audit Report to explicitly correct this injustice by reversing the funding suspension recommendation in the Interim Report, and affirming OMHAR's duty to follow the normal audit resolution process for any issues identified in the Final Report.

Thank you for consideration of this request. We appreciate the time and attention you and \_\_\_\_\_ have given to

this matter, and look forward to working with your office to restore this program and serve the tenants who are the intended beneficiaries of the OTAG program.

Sincerely,

A handwritten signature in cursive script that reads "Richard Fontaine".

Richard Fontaine  
Acting-Executive Director  
People To End Homelessness  
33 Chestnut Street  
Providence, RI 02903

**RESPONSE TO JANUARY 31, 2003 DRAFT AUDIT REPORT**

**Comparison of January Draft Report to September 2002 "Interim" Report.** While the January 31 Draft Report presents preliminary findings with which we take issue below, we note the dramatic improvement in professional tone and the elimination of "findings" in the Interim Report, which were clearly erroneous.

For example, the Interim Report (p. 6) alleges that "payroll charges reimbursed by the Grant exceeded paychecks to employees by \$10,498," suggesting that PTEH was somehow embezzling funds. The Interim Report alleges that PTEH's fiscal agent charged audit costs to the OTAG grant. These allegations have been removed in the Draft Report.

The Interim Report somewhat bizarrely questions the start date and term of the OTAG grant, as if that were an issue. Like all other OTAG contracts issued by OMHAR, OMHAR's letter forwarding the contract (attached to PTEH's response) is dated January 9, 2001 and clearly states that the OTAG award is for a three-year performance period. Despite the plain language of this letter and the ease with which the IG could verify this with OMHAR, the Interim Report appears to question PTEH's billing of costs for the first six months of 2001 and states that "OIG will be performing additional work to determine the correct term of the grant and will address the issue in our final report." Although these OTAG contract features were identical for all 32 of the 2001 OTAG grantees, apparently this is the only audit report, which questions the start date and term of the contract and grantee expenditures from early 2001 on this basis. This issue is wisely dropped in the January Draft Report.

**Original IG auditor was biased and lacked competence.** These examples illustrate our contention that the original auditor assigned to PTEH, \_\_\_\_\_ did not conduct himself in a professional or competent manner. From the very beginning, PTEH staff, as well as staff from the Mental Health Association of Rhode Island where PTEH was housed during the audit, and which served as PTEH's fiscal agent, were put off by his unpleasant, unprofessional and confrontational manner. From the outset, \_\_\_\_\_ questioned these staff's integrity, made disparaging remarks, and badgered them when they attempted to respond to questions.

Although PTEH had expended only \$44,835, which was subject to audit, and only a few draws from the LOCCS system had been made, \_\_\_\_\_ appeared completely confused and unable to understand the records and information presented to him. His inability to understand the basic OTAG award letter is but one example. He appeared completely at a loss to understand that PTEH had an Executive Director, \_\_\_\_\_, who actually donated her time to the organization, and was unable to grasp the basic below-market "fiscal agent" relationship between PTEH and MHA, which is very common in the nonprofit world. He seemed unable to grasp that there are dedicated volunteers, staff and agencies in the nonprofit world who care about improving the lives of the poor, and treated their selflessness and commitment with suspicion and mistrust.

\_\_\_\_\_ was on site for a total of eight weeks throughout the summer of 2002. His presence and manner was extremely disruptive to our organization throughout this time. Because the audit occurred during a time following the protracted first shut-down of the OTAG program by unrelated snafus at OMHAR, and our office had only recently moved, we acknowledge that our records were in boxes in different locations and not readily accessible.<sup>1</sup> Still, we note that after eight weeks, \_\_\_\_\_ remained clueless about the basic term, amount and duration of the grant, made wildly inaccurate allegations regarding payroll expenditures, and was unable to understand or make any accurate financial determinations regarding only \$44,835 in expenditures subject to audit by the time of the Interim Report.

Apparently, the IG office shared our concern about lack of progress during the summer when it assigned a second auditor, \_\_\_\_\_, to assist \_\_\_\_\_. We found \_\_\_\_\_ to be serious, professional and pleasant in his manner. Unfortunately, his brief presence was insufficient to improve the situation. When

<sup>1</sup>The Interim Report cites as an example of "inadequate internal controls" that "information is fragmented between the computer hard drive, the administrative contractor's filing cabinets, and storage units." It is difficult to envision how a computer hard drive and filing cabinets could be consolidated in one place.

engaged in a loud heated debate with his fellow auditor, which was very disruptive to the MAHRI office, MAHRI protested \_\_\_\_\_ conduct to the Regional IG Office (letter attached).

We appreciate that the Regional IG office sought to remedy this situation by assigning \_\_\_\_\_ to the PTEH audit in September. Although we dispute some of the findings in the January Draft Report, PTEH and MAHRI staff have found her nothing but pleasant, professional, and helpful in her review. We also appreciate the personal attention of \_\_\_\_\_ and \_\_\_\_\_ Regional IG for Audit, and the evident steps they have taken to reassign \_\_\_\_\_ and professionalize the audit of our organization.

**Damage done to PTEH by Interim Report must be corrected.** Unfortunately, the Interim Report posted on HUD's website advised OMHAR to "deny draws" of funds until PTEH "hires an Executive Director who does not have a relationship with its contractor" and "develops and implements internal procedures." The report further advises OMHAR to verify that "the control procedures are implemented and effective." Although the Interim Report, based on PTEH's written response and on-site meeting in September with \_\_\_\_\_ and \_\_\_\_\_ acknowledged that PTEH: (1) no longer had an Executive Director \_\_\_\_\_ with an alleged conflict with its fiscal agent, and (2) had instituted written internal control procedures, the Interim Report did not credit PTEH in its recommendations and did not remove its recommendation to "deny draws."

We noted during the September on-site meeting that \_\_\_\_\_ seemed surprised that OMHAR had in fact suspended PTEH's funds on the basis of the earlier draft Interim Report, which had included the same language to "deny draws." Whether or not this language was inserted by IG Headquarters personnel and had not been sought by the Regional IG office, it was not removed in the Interim Report despite that report's own observation of responsiveness to the IG's recommendations by PTEH. Needless to say, the September shut down and ensuing six months of funding suspension have again forced the complete layoff of staff, loss of our office at MHA, and termination of outreach services to tenants.

We are not aware of any precedent for this type of suspension. Unless the ability to file for expense reimbursements is restored, PTEH will be unable to hire an Executive Director, which is one of the audit recommendations. Moreover, the recommendation to deny draws is unwarranted: it appears to be based on erroneous conclusions regarding financial mismanagement and a lack of controls by \_\_\_\_\_ such as "use of OTAG funds for expenditures that took place before the award of the Grant" (p. 5) that have been dropped in the January Draft. But as \_\_\_\_\_ was able to see in her subsequent review--reflected in the January Draft Report--MHA in fact has a very capable Finance Director, adequate financial controls, and organized records to facilitate IG review. Although some weaknesses and errors were noted and are discussed below, the actual situation is well within the normal range of problems encountered by IG audits and does not warrant the draconian funding suspension which has occurred. We believe that \_\_\_\_\_ inability to understand the same records presented to him, and the alarmist and inaccurate claims in the Interim Report, reflect confusion and incompetence on his part, not by MHA or PTEH.

The January Draft Report (p. iv) notes that PTEH had responded to issues raised in the Interim Report, including appointment of a Board Member as the new Acting Executive Director; revision of written internal control procedures; redesign of employee timesheets; and establishment of a cost allocation plan. These acknowledged improvements directly answer the reasons cited by the Interim Report for the recommendation to deny draws. Accordingly, the Final Report should explicitly reverse the unjust and unwarranted recommendation to "deny draws," so that PTEH can hire a paid Executive Director and resume the OTAG program.<sup>2</sup>

#### **Issues Raised by January Draft Report: Grantee Did Not Maintain Internal Controls**

<sup>2</sup>It is not enough to simply pass the buck to OMHAR, and expect it to "verify" that conflicts claimed in the audit have been resolved or "internal controls" strengthened. OMHAR has made it clear that it will not commence the normal audit resolution process until after all audits, including a "mega audit" of the entire Section 514 program, are concluded. So OMHAR has not begun and cannot be counted on to resolve these issues. Since the IG's Interim Report raised these issues in the first place, and the IG is the only agency with the resources "on the ground" to determine whether improvements have been made, the Final IG Report should make a determination regarding these issues and, we believe, lift the recommendation to "deny draws."

**Ineligible/unsupported costs.** PTEH acknowledges one major weakness in the organization's practice in the early months of the grant, identified by the January Draft Report. Apparently, vouchers were submitted by PTEH for draws into the LOCCS system with the "back-up" cost documentation prepared later, rather than the other way around. The PTEH Board, former volunteer Executive Director, and MHA acknowledge this mistake and have instituted controls to ensure that it does not recur. This commitment was shared with the IG in the September exit interview and our previous written comments.

In addition, PTEH and MHA acknowledge the duplicate billings totaling \$1,865 for insurance, utilities and telephone expenses, which occurred, in part, because of this erroneous practice.

**Repay \$3,804 in ineligible costs and \$4041 in unsupported costs:**

People To End Homelessness agrees to reimburse for all ineligible expenses of \$3804 and unsupported expenses of \$4041 except for parking expenses of \$1125 (discussed below) for a total of \$6720. We believe these amounts should be deducted from future draw downs due to People To End Homelessness funding being locked up. We however, do not agree that all figures are legitimate or fairly disclosed in the report.

**Disclosed as Unsupported:**

Certain cash receipts were not found. A former staff person maintained all petty cash records and turned in petty cash forms averaging \$200 per month. This staff member however did not turn in receipts upon their departure: copying expenses from [redacted] for \$534, mileage paid to staff for \$282, postage paid to [redacted] for \$192, and phone installation paid to a contractor for \$250. These expenses were incurred and services were performed; however our only recourse is to reimburse these amounts. When this situation was identified management put an end to all petty cash. All expenses are paid by check and invoices attached to an expense request. We believe we have no recourse but to reimburse for these amounts.

\$282 of the \$916 of Mileage was paid from petty cash. Of the remaining \$114 error was made with an incorrect bill from a different program. The remaining \$520 was paid to staff by check. In total the organization has been forced to move 3 times due to the constant discontinuation of funding. In one of the moves a staff member lost the mileage reports. We agree these reports should have been filed in the financial files and have since corrected this. We take responsibility and no one receives a check without backup. Our only recourse is to reimburse for this amount.

The \$1125 of parking expenses we disagree with. People To End Homelessness paid on a month to month with the company [redacted]. In our opinion the cancelled checks for \$125 per month are sufficient back up. This is an organization that has several downtown parking lots in downtown Providence. They were contacted and they stated they do not prepare invoices. They give tickets for day-to-day parking and for month to month the customer prepays on the first of the month to reserve the space for the parking places. We believe this is no different than an organization that rents office space on a month to month with no lease. The check serves as backup and believe we **should not have to reimburse for these amounts.**

The \$563 in supplies was supported by [redacted] receipts but People To End Homelessness agrees to disagree on this item. We believe we have no recourse but to reimburse for this amount.

The utilities amount of \$211 was an amount billed in duplicate, the amount would have been corrected but drawdowns have not been permitted. We agree this amount should be reimbursed.

**Provide supporting documentation for any additional expenditures from independent third parties.**

People To End Homelessness agrees to provide all invoices and supporting documentation for all future drawdowns in its entirety.

**Implement a system which separates costs.** This was addressed in the interim report response. We refer to that report. The accounting system will now track all costs by Class showing all allocations. Prior to the report, the Executive Director documented the allocations when billed. This has been in place since the interim report.

Regarding the remaining unsupported costs; PTEH and MHA believe that these were legitimate expenses incurred in carrying out the OTAG program in a highly cost-effective manner. However, given the current inaccessibility of the organizations files due to the forced moves and layoffs over the past six months, it would be



difficult to fully document these remaining expenses. In the interest of moving on, PTEH will gladly “pay back” these funds to HUD by making an adjustment to a future invoice, once its ability to draw down has been restored. Since PTEH is owed more than this amount in unbilled but legitimately incurred costs, this adjustment can be made without undue delay or hardship to the organization, as soon as we are allowed to file an invoice.

To minimize the risk of unsupported or ineligible costs in the future, PTEH has already instituted written internal control procedures, submitted to the IG in September 2002. Although MHA has indicated its intention to no longer serve as PTEH fiscal agent for the OTAG grant, due to its costly and unpleasant experience with HUD’s inability to honor its contracts and followed by the disruptions by the IG audit, fortunately \_\_\_\_\_, MHA’s highly competent Financial Director, is available to perform bookkeeping and financial management functions for PTEH on a private consultant basis, outside of her job at MHA. \_\_\_\_\_ experience and direct familiarity with the OTAG process, including the IG audit review, should provide the IG and OMHAR with assurance that PTEH will fully comply with OMB Circulars, OMHAR requirements, and IG audit directives.

**Finding regarding documentation of volunteer services should be dropped.** The January Draft Report cites PTEH for “not developing a system for tracking and distributing in-kind services and donations.” PTEH is cited for not tracking volunteer hours committed to OTAG in the grant application: “HUD has no assurance that volunteer services identified in the grant application were provided.”

As indicated in our exit interview on February 26, 2003, this is an erroneous finding. Although OMB Circular A-110 may require keeping track of volunteer in-kind contributions if this a “required match” in the federal grant program, in fact this is not a “required match” in the OTAG Notice of Funding Availability to which PTEH responded. Applicants were asked to identify “in-kind” services (which would neither be billed to the grant directly or counted in any indirect cost “overhead” charged to the grant) only as a way to garner additional “points” in OMHAR’s review of the application. PTEH, like other grantees, submitted this information to HUD indicating only that additional resources would be available to assist tenants.

The January Draft Report refers to the “in-kind” amounts valued at \$78,262 for the first year--\$63,000 in personnel and \$15,262 in equipment and other services. The \$63,000 was based on an assumption of VISTA Volunteer resources as well as donated staff time by the Executive Director.

Nowhere in the NOFA, PTEH application, Grant Agreement, or any subsequent communication from OMHAR were grantees required to measure and document precisely either volunteer “hours” or the dollar value of in-kind services not being billed, directly or indirectly, to the grant. Although no OTAG grantee in the country submitted this kind of documentation to OMHAR or the IG, no other IG audit has raised the failure to measure and document volunteer time or in-kind services as a “finding.”

OMHAR did require grantees to submit Narrative Reports identifying “General” outreach activities (such as regional trainings, area wide tenant meetings, contact with officials and other organizations working on the issues) and “Project-specific” outreach activities, including the identification of buildings aided and their eligibility for assistance under the program. These Reports were initially required monthly, and later quarterly, in order to get OMHAR approval for a LOCCS draw-down for that reporting period. PTEH’s Reports, like those of other OTAG grantees, typically detailed the accomplishments not only of the OTAG-funded staff, but of PTEH’s volunteer Executive Director, \_\_\_\_\_, and key PTEH Board members as well, who were volunteering their services to the program.

In addition, PTEH was the recipient of two VISTA Volunteers during the audit period. These are full-time workers supported directly by stipends paid to them by the \_\_\_\_\_, a federal agency (i.e., not paid through PTEH). These Volunteers were awarded PTEH through the program co-sponsored by \_\_\_\_\_ and the \_\_\_\_\_ from a contract, which HUD had with \_\_\_\_\_ for a national VISTA program in multi-family housing. The “value” of these workers is at least \$14,000 annually to the program, paid by CNCS. PTEH is responsible for supporting VISTA Volunteers with supervision, office space and phone, supplies, and travel reimbursement; these program costs are fully OTAG-reimbursable, since VISTA’s can only work in OTAG-eligible properties and are prohibited from lobby activities.

The OTAG Narrative Reports were previously made available to the IG for review. PTEH’s contract with

the state VISTA office was included in its OTAG application and was also reviewed by the IG. The Narrative Reports (and reports to the State VISTA Office) do report on activities and accomplishments of "in-kind" staff and VISTA Volunteers, though "volunteer" hours are not reported and measured in detail. However, these Reports should dispel any notion that OTAG services were not performed, or that these volunteer services were not provided.

In fact, PTEH was able to accomplish an enormous amount during the audit period, for a very small cost to HUD, in large part due to the dedication and commitment of these volunteer organizers. Several hundred units of at-risk housing were saved, and scores of tenants were organized into associations to save their housing and learn their rights. For example, PTEH was instrumental in the successful transfer of three controversial properties to a responsible nonprofit owner. At the 400 unit Properties, PTEH assisted residents who were able to preserve their Section 8 housing for a while, despite the local HUD offices illegal failure to follow HUD's own Section 8 Policy Guide and take into account Rhode Island's two-year Notice law when it approved the owner's illegal "opt out" of Section 8. (Interestingly, HUD Headquarters nullified this achievement last August--during the disruption caused by the IG audit in our offices--by a questionable sale of the to a well-connected Texas banker and major financial contributor to President Bush. Following the sale, HUD ruled that the "use restrictions" on the properties were nullified by the sale, dramatically increasing the value of the properties. The State has lost 400 units of affordable housing as a result.)

In any case, it is important to point out that the IG audits mandated by Section 1303 did *not* review grantee performance or accomplishments--i.e., whether or not HUD "got its money's worth" from the OTAG program. In fact, we are not aware of any IG auditor who asked any questions about what the program had accomplished anywhere in the country. Instead, the audit explicitly is focused solely on whether or not grantees had "violated Section 514" prohibitions against use of grant funds for lobbying Congress, and whether any ineligible properties were aided or ineligible activities performed. We are pleased that the IG made no negative findings of PTEH pursuant to this mandate.

In light of this information, the finding in the January Draft Report (pp. 8-9) relating to failure to document and measure volunteer time or in-kind donation of services should be completely dropped.

Similarly, the sentence "the existence of unbilled expenditures confirms that the Grantee financial management system did not provide complete disclosure as required by OMB Circular 110" (p. 9) should be dropped, or at least edited. It certainly seems anomalous that the IG is criticizing PTEH for saving HUD money, by not billing for legitimate expenses, which it could have billed, but didn't! At a minimum, the word "disclosure" implies that PTEH has something to hide. At most, we would agree that tighter financial controls would have captured these costs during this period. HUD and the IG can be assured that this mistake will not occur again; we fully intend to bill all legitimate costs to the grant as soon as funding access is restored.

Finally, we ask that finding I.C. on p. 10, "Provide supporting documentation for expenditures to independent third parties prior to OMHAR distributing any additional grant funds," be dropped in the Final Report. It is unclear what this is referring to. There appears to be nothing in the preceding section of the Draft Report to which this alludes. PTEH certainly agrees that expenditures to third parties should be fully documented and supported before being billed to OTAG or paid; the financial controls we have established and strengthened, and the proposed role for should provide the IG and OMHAR with this assurance.

**Grantee Entered into Improper Business Relationships**

PTEH vigorously denies ever having entered into any "improper business relationships." We believe that the origin of this allegation came from bias and hostility to PTEH from the outset of his visit, compounded by personality clashes with PTEH and MHA staff.

From the outset, seemed to PTEH to be determined to force PTEH to sever its relationship with PTEH's dedicated volunteer Executive Director. His disrespectful manner and comments questioning competence were noted from the outset by several observers, as the attached letter states. This bias was compounded by apparent inability to understand the concept of "fiscal agent."



For example, the Interim Report states, "the grantee does not have an Executive Director. The person acting in that capacity is an employee of the contractor hired by the Grantee in July 2001 to act as contract manager of the HUD OTAG program. The Grantee provided a grant agreement signed by the Director of OMHAR and the person acting as the Executive Director. The person acting as Executive Director is an employee of the Contract Manager."

In fact, PTEH did designate \_\_\_\_\_ the Executive Director of the OTAG project at the time of the OTAG grant application, as the application makes clear. Her signature on the application is thus not of the "Acting" but the actual Executive Director. At the time of the application, \_\_\_\_\_ was a program (not management) employee of the Mental Health Association of Rhode Island (MHA), performing unrelated program activities for 35 hours a week. Because PTEH had no funds to hire an Executive Director, and because of her unusual dedication to assisting the homeless and empowering low income people, \_\_\_\_\_ proposed to donate her time as a part-time Executive Director to the OTAG program, should it receive funds. This was fully disclosed in the application, including a cover letter estimating the value of her time as an in-kind donation, as noted in the Draft Report by the IG. There is absolutely nothing wrong in this arrangement; in fact, HUD should be pleased with this donation.

\_\_\_\_\_ first raised the alleged "conflict of interest" issue in PTEH's agreement to pay MHA a nominal amount (no more than \$2,000 annually) to provide bookkeeping/fiscal agent services to PTEH. This arrangement was made in July 2001, six months after the start of the grant, to improve fiscal controls and financial management of the grant--a step that HUD and the IG should applaud. In fact, the OTAG program encouraged applicants like PTEH, which might be skilled in tenant outreach but inexperienced in federal grant management in forming partnerships with fiscal agents to help administer grant funds. In the 1998 OTAG cycle, HUD explicitly encouraged such applications, and did so verbally in 2000 as well. OMHAR was concerned to encourage nonprofits experienced in tenant outreach to apply in small states like Rhode Island which had not been "covered" by the earlier OTAG round, and so encouraged them to apply and pair up with more experienced fiscal agent partners--a common arrangement in the nonprofit world.

Fiscal agent roles, like PTEH's with MAHRI, are typically restricted to bookkeeping support services and do not pertain to substantive program or service delivery, which are left to the primary grantee, in this case PTEH. We do not believe that \_\_\_\_\_ ever grasped this relationship. Perhaps misled by the designation "Contract Manager" to describe MAHRI's role, \_\_\_\_\_ appears to have seen a substantive, programmatic conflict, which would violate the standards of OMB Circular 110. It remains our view that \_\_\_\_\_ exaggerated this role and saw a conflict where none existed.

**OMB Circular 110 in the January Draft Report is misquoted; there is no "conflict of interest" issue.** The Draft Report attempts to sustain this view of a "conflict of interest" in MAHRI's role. As noted in our meeting on February 26, the corrected ending of Subpart C, paragraph 42 reads as follows:

*"The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub agreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value."*

As the Draft Report notes, MAHRI was retained in July 2001 to establish and maintain PTEH's accounting system and pay employees and vendors on PTEH's behalf--basic fiscal agent functions. MAHRI's contract states that the Grantee will pay MHA \$20/hour, not to exceed \$2,000 per year. Given that PTEH's OTAG award of \$400,000 averages \$133,000 annually, this would amount to less than 2% annually for fiscal agent services. The IG should be able to readily verify that this is well below the standard minimum rate of 5% for "pass-through" fiscal agents in the nonprofit world--larger "nonprofit" institutions, such as universities or hospitals, typically charge 15% or more for similar "pass through" functions for programs operating on their premises. In fact, MHA's well-below-market rate for these services constituted an effective in-kind donation, which, we maintain, is not "substantial" and hence exempt from the conflict of interest prohibition in paragraph 42 or requirements for public bidding in OMB Circular A-110. This is consistent with MHA's donation of other in-kind and/or below-market commitment of services to help support the PTEH OTAG project. In fact, MHA has surely donated far more than \$2,000 in its staff time to date merely in helping PTEH to respond to the IG audit.

In this regard, we should also note that \_\_\_\_\_ is not a management employee at MHA, and has or had no role there in awarding "contracts" other than perhaps negotiating this in-kind, below-market donation of services to PTEH.

PTEH disputes that the retention of MHA for fiscal agent services was a conflict of interest. In any case, the issue is moot: according to MAHRI, PTEH never paid any funds to MAHRI under this fiscal agent agreement. The statement in the Draft Report, that "Grantee paid MHA at least \$2,100 between April 2001 and September 2002," is erroneous. According to MHA, this payment was for reimbursement of salary expenses, not payment of a fiscal agent fee. And as stated in the February 26 "exit interview," MHA is not now willing to continue as PTEH fiscal agent for the OTAG grant. Even if the Draft Report's view that MHA's fiscal role constituted a conflict is upheld, no funds were paid and none will be in the future for this contract. This "conflict" allegation should be dropped in the Final Report, regardless of the Report's final determinations regarding the role of the Executive Director.

**IG Interim and Draft Reports unfairly castigate Executive Director.** In the Interim Report, the IG noted that the "Grantee agreed that they did not have an Executive Director, and has appointed a board member as Acting Executive Director." In response to what PTEH perceived as unfair hounding by the IG, \_\_\_\_\_ did resign from her unpaid, volunteer position as Executive Director of the OTAG project in September 2002 essentially to respond to the IG's recommendations and allow the project to move forward. In no way did either \_\_\_\_\_ or PTEH construe this resignation as an admission that we agreed with the IG's assessment of a "conflict of interest." After forcing this resignation, the IG then criticizes PTEH--on the same page--for not having an Executive Director!

Unfortunately, this negative and unfair tone carries over to the January Draft Report. There, the IG writes, "The Grantee's Board did not appoint an Executive Director. When interviewed, the person who signed the OTAG application and grant advised that she is the Program Coordinator and only "acted" as Executive Director. It was noted that, during our review, this person handled the day-to-day management of the Grantee's operations. It was also revealed that this person was a full time employee of Mental Health Associates of Rhode Island (MHA) through June 2002." (p. 14).

As indicated above, the PTEH Board did appoint an Executive Director at the time of the OTAG grant application: \_\_\_\_\_ She is identified as such in the application. That is why she signed it. Under persistent hounding by \_\_\_\_\_ and the Interim Report, \_\_\_\_\_ formally resigned from this position to allow the project to go forward. As the founder and leader of the project, it was natural--indeed, essential--for \_\_\_\_\_ to continue in a coordination and management role if the project was to go forward. While a PTEH Board member agreed to serve as the Acting Executive Director, and was in fact centrally involved in the direction of the project, the board approved \_\_\_\_\_ in the Program Coordinator role to ensure responsible program continuity for the brief period when funds were allowed to flow by OMHAR. Only PTEH Board members had check-signing authority to approve payments to MHA for fiscal services, which in fact have never been made.

While we dispute the need for these arrangements, the fact that \_\_\_\_\_ resigned from the Executive Director position should have satisfied the findings in the Interim Report and obviated the "deny draw" recommendation. Moreover, since September 2002, \_\_\_\_\_ is no longer employed by MHA, either, although she anticipates returning there shortly.

The Draft Report also questions \_\_\_\_\_ receipt of a \$7,000 contract for research on the OTAG program in 2001. This was during the period when \_\_\_\_\_ was not receiving payment for her services as Executive Director, which if compensated would surely have encompassed research functions, along with others. The IG apparently does not question whether the research services were performed, or the validity of the contract or time records supporting it. Instead, the Draft Report questions the documentation for the award of this contract on a sole source basis. However, it is not clear what the basis for this question is; why shouldn't an Executive Director be able to receive compensation for a portion of their services based on their job description (which would surely include research), which are otherwise not compensated or billed?

In any event, this question would appear to be moot, in light of \_\_\_\_\_ generous donation of this payment back to the project. Nonetheless, the IG's persistent questioning of both her competence and integrity appear to us as inappropriate and unwarranted pressure to sever all employment ties to PTEH and the OTAG

program.

**There is no "conflict" issue going forward; this finding should be lifted.** Whether or not the IG concurs with our view that there was never a "conflict of interest" involving and/or MHA, there is no conflict going forward. Although expects to resume work at MHA on an unrelated program soon, the fact that MHA is no longer willing to serve as fiscal agent for the PTEH OTAG grant makes the conflict interest moot. In addition, PTEH has moved out of the MHA offices, as the IG could attest in our February 26 exit interview, and does not plan to move back should funding resume. That should eliminate any concern that MHA's below-market donation of space, equipment and fiscal services somehow constitutes a "kickback" arrangement, or even the "appearance" of one.

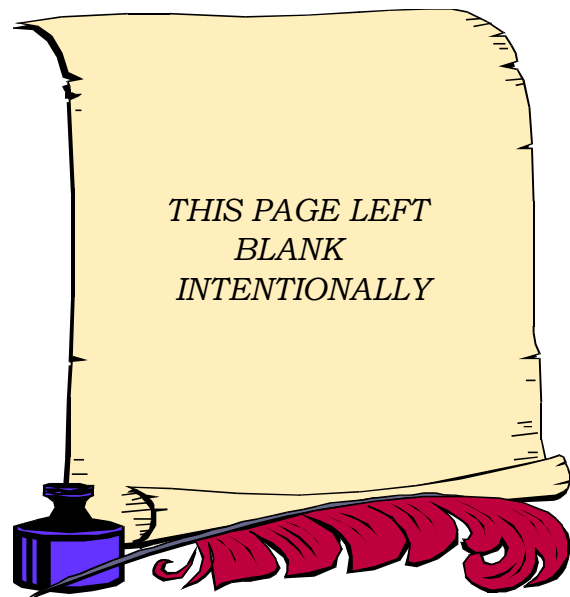
We were pleased with your statement in the February 26 meeting that the IG does not object to potential employment as Executive Director, full or part-time, with OTAG funds. You indicated that the only "conflict" problem had to do with her employment by MHA and PTEH's subcontract with MHA. Since the PTEH/MHA relationship is ending, then this "conflict" problem should be fully resolved.

Should OTAG funds be restored, PTEH proposes to retain as a private contractor, part-time bookkeeper/fiscal manager for the grant, to maintain continuity and fully implement our written fiscal management policies in a manner fully compliant with OMB, OMHAR and IG strictures. Restoration of these funds will also enable PTEH to hire a paid Executive Director to resume the program. Elimination of the "conflict" issue with MHA should remove any barrier to resuming this position, on a full or part-time, paid or unpaid basis, or for PTEH to hire another qualified person if she is not available if and when funds are allowed to flow.

Given the questions surrounding this audit, we would appreciate the Final Report specifically confirming these understandings. At a minimum, we urge the IG to acknowledge that the "conflict" issue has been addressed and reverse the funding suspension so we can resume this program as soon as possible.

**Miscellaneous comments.** The Draft Report incorrectly states that the OTAG award was originally \$400,000 but later reduced by OMHAR. In fact, the \$400,000 award has been recognized and funding-obligated by OMHAR. Initially, HUD obligated only \$266,000 toward the three-year grant total. OMHAR processed the remaining 1/3 of the grant amount in the PTEH LOCCS account in summer, 2002. Should the suspension be lifted, PTEH will be able to draw down \$356,000 through June 2004 under current OMHAR policies. (The IG can verify this with OMHAR.)

Finally, the introduction to the report repeats inaccurate language found in several IG audits about properties eligible for assistance with OTAG funds. An analysis of the correct reading of the MAHRAA statute and the 2000 OTAG NOFA can be found in NAHT's Analysis of the IG Audits, delivered to OMHAR on February 7, 2003.



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