Issue Date	October 29, 2002
Audit Case Number	2003-CH-1003

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

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

SUBJECT: Congressionally Requested Audit of Section 514 Outreach and Training Assistance Grants Awarded to Tenants United For Housing, Inc.; Chicago, Illinois; Grant Numbers FFOT00013IL and FFOT98007IL

INTRODUCTION

We completed an audit of Tenants United for Housing, Inc.'s Section 514 Outreach and Training Assistance Grants. The audit identified that Tenants United for Housing: (1) did not establish a cost allocation plan to allocate costs to the Grants; (2) failed to maintain time records for staff that specifically show the time they spent working on the Grants' activities; and (3) needed to return $6,900 in Grant funds to pay for two meetings that were canceled. Our report contains four recommendations to address the issues identified in this audit.

Section 1303 of the 2002 Defense Appropriation Act, Public Law 107-117, directed HUD's Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997. The directive included the Outreach and Training Assistance Grants and Intermediary Technical Assistance Grants administered by HUD's Office of Multifamily Housing Assistance Restructuring. 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 Tenants United for Housing's policies and procedures for the period October 1, 1998 through April 1, 2002. We also reviewed and evaluated Tenants': management controls over the Outreach and Training Assistance Grants; reliability of computer-processed data; organizational structure; Board of Directors' meeting minutes; property files; the method used for allocating costs; and the Independent Auditor's Report for July 1, 1999 to June 30,

Exit

2001. In addition, we reviewed bank statements, cancelled checks, cash receipts and disbursements journals, the Multifamily Assisted Housing Reform and Affordability Act's requirements, HUD's Notices of Funding Availability and Grant Agreements for the Outreach and Training Assistance Grants, 24 CFR Part 84, and Office of Management and Budget Circular A-122. We tested 208 of the 597 (35 percent) financial transactions totaling $148,682 that Tenants' charged to the Grants.

We reviewed Tenants United for Housing's records and HUD's records for Tenants. We interviewed Tenants' staff and key staff from HUD's Office of Multifamily Housing Assistance Restructuring. Our audit covered the period October 1998 through April 2002 for the two Outreach and Training Assistance Grants that Tenants received. We performed our on-site audit work between June and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

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

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

SUMMARY

Tenants United for Housing, Inc. did not administer its Outreach and Training Assistance Grants in full compliance with Federal requirements. Specifically, Tenants United for Housing needed to:

- Prepare a cost allocation plan in accordance with Office of Management and Budget Circular A-122;
- Maintain time records that specifically cite charges to the Outreach and Training Assistance Grants; and
- Return to HUD unused Outreach and Training Assistance Grant funds.

The Executive Director for Tenants United for Housing said HUD's Office of Multifamily Housing Assistance Restructuring did not provide guidance on the proper allocation of costs or specific record keeping requirements for the Outreach and Training Assistance Grants. As a result, Tenants could not directly support all charges made to the Grants and needed to return $6,900 in unused Grant funds. Our report contains recommendations to address these issues and to strengthen Tenants' management controls over the Grants.

BACKGROUND

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

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

HUD issued Notices of Funding Availability in Fiscal Years 1998 and 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 Grants program. HUD awarded two types of Grants—the Intermediary Technical Assistance Grant and the Outreach and Training Assistance Grant. The Notices of Funding Availability for the Intermediary Technical Assistance Grant program states that the program provides funds through intermediaries to sub-recipients consisting of: (1) resident groups or tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market Program to help tenants participate meaningfully in the Mark-to-Market process, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for eligible projects throughout its jurisdiction. The Notices of Funding Availability for the Outreach and Training Assistance Grant program states that the program is to provide technical assistance to tenants of eligible Mark-to-Market properties so that tenants can: (1) participate meaningfully in the Mark-to-Market Program; and (2) affect decisions about the future of their housing.

Tenants United for Housing incorporated in February 1998 as a nonprofit tenant advocacy organization. Tenants works in collaboration with the Chicago Rehab Network and the National Housing Law Project for the preservation of expiring project-based Section 8 housing stock in the City of Chicago, Illinois. Tenants' Executive Director is Denice Irwin and its offices are located at 10 West 35th Street, Chicago, Illinois.

There are about 137 properties with approximately 14,359 units providing affordable housing for some of the State of Illinois' lowest income households. The 20-year Section 8 Program contracts on these properties began to expire, or will expire, over the next few years. Most of these properties are owned by for-profit businesses and have few incentives to renew their Section 8 contracts. These owners may opt-out of the Section 8 Program and rent their units at market rates or choose to sell the properties. The Outreach and Training Assistance Grant program provides for outreach and training in the area of those properties with expiring Section 8 Program contracts in which rents are above the fair market rent and eligible for the Mark-to-Market Program.

The Outreach and Training Assistance Grant Agreement for Fiscal Year 1998, between Tenants United for Housing and HUD, for $350,000 was signed on October 1, 1998. On January 9, 2001, the Outreach and Training Assistance Grant Agreement for Fiscal Year 2000 in the amount of $450,000 was signed. On March 18, 2002, HUD's Office of Multifamily Housing Assistance Restructuring notified Tenants that the authorized amount for the Fiscal Year 2000 Grant was reduced from $450,000 to $270,000. As of January 23, 2002, Tenants expended $349,780 and $84,643 of the Fiscal Years 1998 and 2000 Grants, respectively.

The Outreach and Training Assistance Grants represented 43 percent of the total funding received by Tenants United for Housing. In addition to the funds received from the Outreach and Training Assistance Grants, Tenants received $527,738 from non-Federal sources as of June 30, 2001. As required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Tenants received an annual financial audit of its activities for the two-year period ending June 30, 2001. The audit report contained an unqualified opinion and did not identify that Tenants lacked a cost allocation plan to allocate indirect costs to the Grants.

FINDING

Management Over The Outreach And Training Assistance Grants Needs Improvement

Tenants United for Housing, Inc.'s administration of its Outreach and Training Assistance Grants needs to be improved. Specifically, Tenants United for Housing did not: (1) prepare a cost allocation plan to allocate costs to the Grants; (2) annotate on its employees' time records to show their time spent working on the Grants; and (3) return unused Grant funds in the amount of $6,900. As a result, Tenants could not be assured that all legitimate costs attributed to the Grants were claimed for reimbursement.

Instead of relying on the provisions of the Multifamily Assisted Housing Reform and Affordability Act of 1997, Tenants' Executive Director relied on HUD to provide detailed guidance on program requirements that included how to establish a cost allocation plan for the Outreach and Training Assistance Grants. The Executive Director said she believed the Mark-to-Market Activity Reports that Tenants maintained satisfactorily met Federal record keeping requirements and claimed that HUD's Office of Multifamily Housing Assistance Restructuring did not provide any other guidance. We could not determine if any lobbying activities by Tenants' staff occurred since time records did not categorize this as a cost, but nothing came to our attention that indicated any lobbying expenses were paid with Grant funds. Tenants' Executive Director said she was aware of the prohibition against lobbying activities and disallowed a portion of travel expenses from the Grant funds to attend a National Alliance for HUD Tenants conference in 2001.

Federal Requirements

24 CFR Part 84.27 states for each kind of recipient, there is a set of Federal principles for determining allowable costs. Allowability of costs will be determined in accordance with the cost principles applicable to the entity incurring the costs. The allowability of costs incurred

by nonprofit organizations is determined in accordance with Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations.

Attachment A of Office of Management and Budget Circular A-122, paragraph 4, states that costs are allocable to a particular cost objective, such as a grant, contract, project, service, or other activity in accordance with the relative benefits received. Costs are allocable to a Federal award if they are treated consistently with other costs incurred for the same purpose in like circumstances and if they: (1) are incurred specifically for the award; (2) benefit both the award and other work; (3) can be distributed in reasonable proportion to the benefits received; and (4) are necessary to the overall operation of the organization although a direct relationship to any particular cost objective cannot be shown. Any costs allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

Circular A-122, paragraph 25 of Attachment B, states that lobbying places additional limitations on the use of Federal funds. The Circular states that grant recipients may not use Federal funds to: (1) attempt to influence any Federal or State legislation through an effort to affect the opinions of the general public or any segment thereof. This includes the introduction of Federal or State legislation; or the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign (Grassroots lobbying); (2) attempt to influence any legislation through communication with any member or employee of a legislative body or with any government official or employee who may participate in the formulation of legislation (direct lobbying); and (3) provide a technical and factual presentation of information on a topic directly related to the performance of a grant, contract, or other agreement through hearings, testimony, statements, or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, except in response to a documented request made by the recipient member, legislative body, or subdivision.

Cost Allocation Plan Was Not Prepared

Tenants United for Housing did not prepare a cost allocation plan to support costs charged to the Outreach and Training Assistance Grants program. Monthly the Executive Director of Tenants calculated how much to charge the Grants from Mark-to-Market Activity Reports submitted to HUD's Office of Multifamily Housing Assistance Restructuring with each voucher claim request. However, the method used was not consistent and time records were not maintained to indicate the number of hours charged to the Outreach Grants. Furthermore, Tenants did not have a policy or procedures for allocating costs. Instead, Tenant's Executive Director wrote comments on each check stub to identify the funding sources to be charged. As a result, Tenants' accounting system did not clearly identify those expenditures to be charged to the Outreach Grants.

Tenants United for Housing received funding from both private and Federal agencies. For example, Tenants received $150,000 from the MacArthur Foundation in 2001. Like the Outreach and Training Assistance Grants program, funds from the MacArthur Foundation could be used to fund Mark-to-Market activities. Together, the MacArthur Foundation and the Outreach and Training Assistance Grants accounted for 62 percent of the funds received by Tenants. Therefore, it was imperative that expenditures related to all funding sources be separately identified. Eligible Outreach Grant activities were different from the activities allowed by other grantors, especially on lobbying activities. Tenants failure to segregate costs made it difficult to determine which funding source paid any lobbying costs and the eligibility of other costs. Tenant's Executive Director said Tenants lacked the specific accounting expertise necessary to prepare a cost allocation plan. In addition, the Executive Director said Tenants was not provided proper guidance from HUD's Office of Multifamily Housing Assistance Restructuring regarding the allocation of costs and specific record keeping requirements of the Grants.

Records Did Not Show Staff's Time Spent Working On The Grants

Tenants United for Housing's staff time sheets did not identify time spent on the Outreach and Training Assistance Grants. Therefore, we were unable to identify specific salary charges to the Grants. The Executive Director of Tenants said she used estimates in lieu of actual documented time charges to submit monthly voucher claims to HUD for reimbursement. The Director derived total expenses for work done on all grants[1] from Mark-to-Market Activity Reports that gave details on the number of hours of worked by the different staff members on four listed activities. The activities included Mark-to-Market, other programs, administration, and the clearinghouse. Tenants' Executive Director then computed a percentage applicable to the Outreach and Training Assistance Grants and applied this to the individual's salary. The Director annotated on monthly invoices for all other expenses to determine the amounts eligible as Grant expenses and added the two costs together. Since Tenants failed to maintain time sheets to document the exact number of hours spent by its staff on the Outreach Grants, we were unable to determine the actual amount of salary to be allocated.

Tenants' Executive Director said she did not get any specific guidance or training regarding the proper segregation of costs pertaining to the Outreach and Training Assistance Grants from HUD's Office of Multifamily Housing Assistance Restructuring. She said she planned to recruit a part-time accountant to take care of the accounting issues on a regular basis. In addition, Tenants was in the process of having a consultant develop a system that will allow the Executive Director to code expenses that are allocable to the Grants.

Unused Grant Funds Were Not Returned

Tenants United for Housing received $8,000 in Outreach and Training Assistance Grant funds to conduct town hall meetings that were originally scheduled for September 15 and 22, 2001 in Springfield, Illinois. For these meetings, the Executive Director for Tenants

[1] We identified seven non-Federal grants and other miscellaneous grants and contributions received by Tenants in addition to the Outreach and Training Assistance Grants.

estimated the monthly expenses applicable to the Grants and submitted these to HUD's Office of Multifamily Housing Assistance Restructuring prior to incurring the expenses. The meetings were subsequently cancelled due to a lack of interested parties after the September 11, 2001 terrorist attacks. However, Tenants had already incurred $1,100 in nonrefundable hotel deposits. HUD's Office of Multifamily Housing Assistance Restructuring instructed Tenants' Executive Director to make adjustments by reducing future voucher claims by $6,900 ($8,000 less $1,100).

Attendance At National Alliance For HUD Tenants' Conferences

Tenants United for Housing sent tenant representatives to attend two national conferences in June 2000 and June 2001 organized by the National Alliance for HUD Tenants in Washington, DC. The National Alliance for HUD Tenants is an organization involved in helping tenants and lobbying Congress. The two conferences each covered a four-day period with the last day devoted to lobbying activities that included meeting members of Congress to advocate tenant issues. Tenants took the initiative to disallow one-day in travel costs for the 2001 conference because one of the conference days had lobbying activities scheduled. However, Tenants lacked documentation to determine whether any lobbying activities actually took place or the amount attributed to those activities. As a result, we did not question any of the Outreach and Training Assistance Grant funds used to attend the two conferences. HUD's Office of Multifamily Housing Assistance Restructuring did not question the funding requests, perform any on-site reviews of Tenants' activities, or review Tenants' methods used for charging the Grants.

AUDITEE COMMENTS

We provided our draft audit memorandum report to Tenants United for Housing's Executive Director and HUD's staff during the audit. Tenants' Executive Director provided her comments on the draft report on October 14, 2002. The Executive Director for Tenants declined our offer to hold an exit conference. We included the comments from Tenant's Executive Director in Appendix B of this report. Tenants' Executive Director was provided with copies of the audit memorandum report.

[Excerpts paraphrased from the comments provided by Tenants United for Housing's Executive Director on our draft audit memorandum report follow. Appendix B, pages 15 to 17, contains the complete text of the comments for the draft report.]

OIG's draft audit memorandum report suggests that Tenants United for Housing did not administer or use its Outreach and Training Assistance Grant funds for only eligible purposes. Tenants' finds this misleading and untrue, and believes the Grant funds were used for only eligible items.

Tenants' partially disagrees with the finding regarding the cost allocation plan in the draft report. Tenants always had a cost allocation plan to assure only proper costs were charged to the Outreach and Training Assistance Grants. Tenants' agrees that its cost allocation plan should be more formalized and documented. However, Tenants' disagrees that it did not have an adequate plan in place. The effectiveness of Tenants United for Housing's system is evident in the fact that the OIG auditors spent eight weeks at Tenants' offices and only noted one $6,900 exception that Tenants brought to the auditors' attention.

As noted in OIG's draft audit report, Tenants had only 597 Grant transactions. That equals about 120 per year or 10 per month. Consequently, Tenants made a conscious decision to not spend very limited resources on developing a detailed accounting procedures manual because the volume and complexity of Tenants' transactions could not be any simpler. However, in response to OIG's concerns, Tenants developed and documented a formalized cost allocation plan to ensure direct and indirect costs are properly charged to the Grants. The plan, which was never requested by HUD, is being submitted to HUD's Office of Multifamily Housing Assistance Restructuring for approval. Hopefully, this will avoid further suspension of funds that would only delay reimbursing the $6,900 in unspent funds, continue to take away tenants' voices, and impede Tenants' ability to do its job.

Tenants strongly disagrees that unused Outreach and Training Assistance Grant funds were not returned to HUD because the facts are not clearly stated and subsequently misleading. Tenants had valid cost proposal estimates for the town hall meetings and submitted the quotes for payment. With the September 11, 2001 crisis, the town hall meetings were cancelled. Tenants United for Housing asked HUD's Office of Multifamily Housing Assistance Restructuring how to handle the reimbursement of these funds and were told to subtract the balance from Tenants' next voucher request. The next voucher request would have been attached to Tenants' October 2001 report. Subsequently, HUD placed a hold on all Grant funding and Tenants never had the opportunity to submit another payment voucher to offset the reimbursement. Tenants is owed thousands more under the terms of the Grants than the $6,900 cited in OIG's report.

Tenants brought the $6,900 reimbursement to the attention of the OIG auditors. The auditors did not find the reimbursement. The $6,900 reimbursement has nothing to do with the adequacy of Tenants' accounting system or the concerns over its cost allocation plan. If Grant funding was not postponed for seven months, Tenants' Executive Director had not become seriously ill, and Tenants' staff was not required to spend most of their time preparing and being available for the OIG audit, the reimbursement would have been settled months ago and not been an issue in OIG's audit.

OIG's draft report states that Tenants' Executive Director said she uses estimates in lieu of actual expenses to submit monthly voucher claims to HUD. This is not true. What the Director said was Tenants had estimates and quotes for the town hall meetings that were submitted to HUD for funding. The Executive Director never said Tenants only used estimates for each monthly voucher claim. Tenants always had actual invoices for its activities charged to the Outreach and Training Assistance Grants. OIG's auditors saw the invoices, contracts, and/or bills. The only time Tenants ever used estimates or quotes were for the town hall meetings and HUD approved them. Tenants' monthly report also stated the costs were estimated.

Tenants strongly disagrees with OIG's finding regarding salary and time records in the draft audit report. The statement that Tenants failed to maintain salary and time records is simply not true. Tenants' has extensive salary and time records. Tenants' staff hours were also recorded in the monthly reports submitted to HUD.

OIG's draft report indicates that its auditors had difficulty identifying time spent on lobbying activities. As Tenants United for Housing explained during the audit, it is Tenants' policy to not perform any type of lobbying activities under the Outreach and Training Assistance Grants program. Consequently, Tenants' disagrees with the finding. In an effort to respond to OIG's concern, Tenants reviewed its policies and procedures for keeping time sheets and will emphasize the importance to all personnel in keeping detailed and thorough time sheets. Tenants also added a lobbying activity code on its time sheet.

OIG EVALUATION OF AUDITEE COMMENTS

Based upon the comments from Tenants United for Housing's Executive Director, we modified our audit memorandum report to indicate that Tenants needs to make improvements to its Grants administration. Tenants should implement the recommendations cited in this audit memorandum report to ensure that it follows Federal requirements regarding the use of Outreach and Training Assistance Grant funds.

Tenants did not establish a cost allocation plan as required by Office of Management and Budget Circular A-122. Tenants' actions to implement a formal cost allocation should improve its Grants administration, if the plan meets the Circular's requirements.

Tenants did not return the $6,900 in unused Outreach and Training Assistance Grant funds to HUD. While HUD's Office of Multifamily Housing Assistance Restructuring suspended Grant funding from October 2001 to March 2002, Tenants failed to take the necessary steps to return the unused Grant funds once funding was reinstated. Tenants should immediately return the unused Grant funds to HUD.

We clarified the audit memorandum report to specify that Tenants' time records did not show the amount of time its staff spent on the Outreach and Training Assistance Grants. Tenants' actions to emphasize the importance that its staff keeps detailed and thorough time sheets should improve its administration of the Grants, if the sheets identify the specific time spent by the staff on Grant activities.

RECOMMENDATIONS

We recommend that HUD's Director of Multifamily Housing Assistance Restructuring require Tenants United for Housing, Incorporated to:

1A. Implement a cost allocation plan to properly identify Outreach and Training Assistance Grant costs through its accounting system.

1B. Implement procedures and controls to follow HUD's regulation and/or Office of Management and Budget Circular A-122 regarding: maintaining a cost allocation plan to allocate costs; keeping time records to show the specific time staff spent working on the Outreach and Training Assistance Grants; and returning unused Grant funds promptly to HUD.

1C. Reimburse HUD $6,900 from Federal funds for the Outreach and Training Assistance Grant funds not used for the town hall meetings.

We also recommend that HUD's Director of Multifamily Housing Assistance Restructuring:

1D. Consider suspending funding until Tenants United for Housing, Inc. implements a cost allocation plan to ensure that only eligible costs receive funding and the documentation for each expenditure complies with Office of Management and Budget Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls of Tenants United for Housing, Inc. to determine our auditing 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 the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

- Program Operations

Tenants United for Housing did not manage the Outreach and Training Assistance Grants according to program requirements. Specifically, Tenants did not: (1) establish a cost allocation plan in accordance with Office of Management and Budget Circular A-122 to allocate indirect costs to the Grants; and (2) promptly return $6,900 in unused Grant funds for estimated costs related to two meetings originally planned for September 2001 that were subsequently cancelled (see Finding).

- Validity and Reliability of Data

Tenants United for Housing did not establish a cost allocation plan to allocate indirect costs to the Outreach and Training Assistance Grants or maintain detailed time records to show staff's time spent working on the Grants (See Finding).

- Compliance with Laws and Regulations

Tenants United for Housing did not follow Office of Management and Budget Circular A-122 regarding the establishment of a cost allocation plan (see Finding).

- Safeguarding Resources

Tenants United for Housing did not promptly return to HUD $6,900 in Outreach and Training Assistance Grant funds for anticipated expenses related to meetings originally planned for September 2001 that were subsequently cancelled (see Finding).

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of Tenants United for Housing, Inc. by HUD's Office of Inspector General. The latest Independent Auditor's Report for Tenants United for Housing covered the two-year period ending June 30, 2001. The Report contained no findings.

Appendix A

SCHEDULE OF INELIGIBLE COSTS

Recommendation Number	Ineligible Costs 1/
1B	$6,900
Total	$6,900

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.

Appendix B

AUDITEE COMMENTS

October 14, 2002

Thomas M. Towers
Assistant Regional Inspector General for Audit
477 Michigan Ave., Room 1790
Patrick McNamara Federal Building
Detroit, MI 48226-2592

Re: Response to OIG Audit Final Report

Dear Mr. Towers:

After reviewing the OIG audit draft final report, our comments are as follows:

Summary/Page 2
The first sentence under summary suggests that TUFH did not administer or use their OTAG funds for only eligible purposes. We find this statement incredibly misleading and untrue. We believe the OTAG funds have indeed been used for only eligible items. Listed below are our comments addressing the cost allocation plan, returning unused funds, and salary and time records.

Cost Allocation Plan
We partially disagree with the auditor's findings in the report. We have always had a cost allocation plan to assure only proper costs have been charged to the OTAG grant. We agree with the auditors that our cost allocation plan should be more formalized and documented, especially as we grow as an organization. However, we disagree that we have not had an adequate plan in place. The effectiveness of our system is evident in the fact that the auditors spent eight weeks in our offices and only noted the one $6,900 exception that we brought to their attention to begin with.

As noted in the audit report, we have had only 597 transactions in our entire history. That equals about 120 per year or 10 per month. Consequently, we made a conscious decision to not spend our very limited resources to this point on developing detailed accounting procedure manuals and documents because the volume and complexity of our transactions could not really be any simpler. However, in response to the auditors' concerns, and as already noted in our findings response letter, we have developed and documented a formalized plan and system for assuring direct and indirect costs are properly charged to the grant. This plan (which previously was never asked for by OMHAR) is being submitted to OMHAR for approval and hopefully will avoid further suspension of funds that would only delay reimbursing the $6,900 in unspent funds, continue to take away the tenants voice, and impede TUFH's ability to do their job.

Unused Funds Were Not Returned to HUD

We strongly disagree with the presentation of this finding in the report because the facts are not clearly stated and subsequently, are misleading.

We had valid cost proposal estimates for the September and October town hall meetings and those quotes were then submitted for payment. With the September 11th crisis the town hall meetings scheduled for September 15th and October 13th had to be cancelled. As stated before, we asked OMHAR how to handle our reimbursement of these funds and were told to subtract the balance from our next voucher request. In this case, the next voucher request would have been attached to the October 2001 report. In the meantime, the hold was put on all OTAG grant funding, so we never had the opportunity to submit another payment voucher and offset the reimbursement. In actuality, we were owed thousands more under the terms of the grant than the $6,900 cited in the report.

We brought the $6,900 to the attention of the auditors. They did not find it! This had nothing to do with the perceptions regarding the adequacy of our accounting system or their concerns over our cost allocation plan. Had funding of the grants not been postponed for seven months, and had the executive director not become seriously ill (which was explained to the auditors), and had we not had to spend most of our time preparing and being available for the inspector general audit, this would have been settled months ago and not even been an issue in the audit.

The report also states the executive director said she uses estimates in lieu of actual expenses to submit monthly voucher claims to HUD. This is not true. What the director said was, we had estimates and quotes for the town hall meetings and that was submitted to OMHAR for funding. Never did the director say we only use estimates for each monthly voucher claim. Subsequently, we always have actual invoices for our activities that are billed to the OTAG. The auditors have seen these invoices, contracts, and/or bills. The only time we have ever used estimates or quotes were for the town hall meetings and OMHAR approved it. Our monthly report also stated the costs were estimated.

Salary and Time Records

Again we strongly disagree with the finding in the audit report. The statement that we "failed to maintain salary and time records" is simply untrue. We have extensive salary and time records, so we were very surprised to see this comment. The executive director sat with both auditors and explained how the time sheets were used to determine staff's hours in the clearinghouse, M2M, other TUFH programs, and administrative columns. The staff hours were also recorded in the monthly reports submitted to OMHAR.

The report indicates the auditors had difficulty identifying time spent on lobbying activities. As we explained during the audit, it is TUFH's policy to not perform any type of lobbying activities under the OTAG grant. Consequently, we disagree with the finding. However, to respond to the concern, we have reviewed our policies and procedures for keeping time sheets and will emphasize the importance to all personnel to keeping detailed and thorough time sheets. We also have added a lobbying activity code on our time sheet.

This concludes our comments on the OIG Audit Report.

Sincerely,

/signed/

Denice Irwin
Executive Director

Appendix C

DISTRIBUTION OUTSIDE OF HUD

The Honorable Barbara A. Mikulski, Chairperson, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 709 Hart Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Christopher S. Bond, Ranking Member, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 274 Russell Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20515
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515
Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515
Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn Building, United States House of Representatives, Washington DC 20515
Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Building, United States Housing of Representatives, Washington, DC 20515
Stanley Czerwinski, Director, Housing and Telecommunications Issues, United States General Accounting Office, 441 G Street, NW, Room 2T23, Washington, DC 20548
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503
Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue, NW, Washington, DC 20420
William Withrow (52KC), Department of Veterans Affairs, Office of Inspector General Audit Operations Division, 1100 Main, Room 1330, Kansas City, Missouri 64105-2112
Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515
George Reeb, Assistant Inspector General for Health Care Financing Audits
Jennifer Miller, Professional Staff, House Committee on Appropriations
Denice Irwin, Executive Director of Tenants United for Housing