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# AUDIT REPORT



## HUD Office of Multifamily Housing Assistance Restructuring's Oversight of the Section 514 Program Activities

Washington, District of Columbia

2003-DE-0001

March 31, 2003

Office of Audit, Region 8  
*633 17<sup>th</sup> Street, 14<sup>th</sup> Floor*  
*Denver, Colorado, 80202*

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Issue Date	March 31, 2003
Audit Case Number	2003-DE-0001

TO: John C. Weicher, Assistant Secretary for Housing – Federal Housing Commissioner, H

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

SUBJECT: HUD Office of Multifamily Housing Assistance Restructuring's (OMHAR)  
Oversight of the Section 514 Program Activities,  
Washington, District of Columbia

We completed an audit of OMHAR's management and oversight of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) Section 514 Program activities. We wanted to know what management controls OMHAR implemented to manage and oversee the Section 514 Program. We concluded that OMHAR's management did not establish appropriate management controls to oversee and manage the Section 514 Program, as required by the Office of Management and Budget's Circular A-123 and HUD's policy.

This report does not contain additional recommendations related to the 221 recommendations in the individual external Section 514 audit reports. The plan prepared in response to recommendation 1B and management decisions related to recommendation 1D, 1E and 1F should provide appropriate management decisions for each of the 221 recommendations. The Assistant Secretary for Housing and the Director of OMHAR may wish to provide these management decisions in groups comparable to the grouping used in this report.

The Assistant Secretary for Housing did not dispute the information and conclusions in this report. In addition, the Assistant Secretary provided management decisions for the recommendations contained in this report and for the 221 recommendations in the forty external Section 514 audits. The Assistant Secretary grouped the management decisions for the external Section 514 audit reports consistent with the grouping used in Appendix D of this report (See Appendix F for a complete copy of the Assistant Secretary's comments and management decisions).

We appreciate the Assistant Secretary's comments on the draft report and providing management decisions on this report and the forty Section 514 audits. We reviewed the proposed

management decisions for this report and the forty external Section 514 audits. We agreed to the management decisions proposed by the Assistant Secretary with an effective date of the issuance of this report. Also, please furnish us copies of any correspondence or directives issued because of the audit.

HUD appointed a new Director of OMHAR in June 2002. Based on our discussion, the new Director implemented a number of controls over the Section 514 Program, before the issuance of this report. Specifically, the Director personally reviewed payments vouchers for eligibility before payment and visited a number of the Section 514 grantees. In addition, the Director suspended funds to twenty-one grantees based on our Section 514 Program audit reports. We commend the proactive response by the new Director to our external Section 514 Program audit reports.

Should you or your staff have any questions, please contact me at (303) 672-5452.

# Executive Summary

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We completed an audit of OMHAR's management and oversight of the Section 514 Program activities. We wanted to know what management controls OMHAR implemented to manage and oversee the Section 514 Program. We concluded that OMHAR's management did not establish appropriate management controls to oversee and manage the Section 514 Program, as required by the Office of Management and Budget's Circular A-123 and HUD's policy.

We also completed external audits of forty Section 514 Program participants (hereinafter referred to as Grantees) that received funding over the last 4 years under Section 514 of MAHRA. Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117) required the HUD Office of Inspector General to audit all Section 514 funded activities over the last four years. Consistent with the Congressional directive, we audited all grantees and reviewed their use of Section 514 funds for eligibility (per the legislation and the grantee's agreement with HUD) and/or the allowability (per Office of Management and Budget's Circular A-122) of costs with particular emphasis on identifying ineligible lobbying activities.

As a result of our audits, we identified that thirty-two of the forty grantees did not comply with the requirements of their grant agreements and/or the allowability of grant cost requirements of the Office of Management and Budget's Circular A-122. In our grantee audit reports, we identified \$573,818 of ineligible costs and \$1,634,541 in questioned costs for a total of \$2.2 million. In addition, we identified that nine grantees used a portion of their Section 514 funds for lobbying activities directed at Congress, contrary to the explicit prohibition in Section 514. We also identified four grantees that used a portion of their Section 514 funds for lobbying activities at the state and local level. Section 514 did not include a prohibition on lobbying at the state or local level, but these costs are unallowable under OMB Circular A-122 guidance. We concluded that these conditions occurred because OMHAR's management emphasized the creation of the Mark-to-Market program and strong relations with the effected tenants not the management and oversight of the Section 514 Program. In addition, OMHAR staff generally lacked the knowledge and skills needed to manage and oversee a grant program.

HUD appointed a new Director of OMHAR in June 2002. Based on our discussion, the new Director implemented a number of controls over the Section 514 Program. Specifically, the Director personally reviewed payment vouchers for eligibility before payment and visited a number of the Section 514 grantees. In addition, the Director suspended funds to twenty-one grantees based on our Section 514 Program audit reports. We commend the proactive response by the new OMHAR Director to our Section 514 Program audit reports.

Section 1303 of the 2002 Defense Appropriation Act required OIG to identify grantees that used any funds for activities that did not meet the requirements of Section 514 of MAHRA. Congress did not provide OIG with materiality guidelines. Rather Congress mandated OIG to identify **“any funding”** (emphasis added) that did not meet the requirements of Section 514 of MAHRA. Based on OIG's reviews, we identified nine grantees that used a portion of their Section 514 funding for activities that did not meet the requirements of Section 514 (see Appendix E Table 1 for the list of grantees). Based on that determination, the Assistant Secretary for Housing should take action with respect to language in Section 1303 of the 2002 Defense Appropriation Act. In addition, OIG's reviews identified seven grantees that used funds for activities potentially not allowed under Section 514 of MAHRA. Because of OMHAR's conflicting guidance and the

ambiguity of Section 514-(f), OIG is unable to make a definitive determination if the activities meet the requirements of Section 514. Specifically, Section 514(f)(3)(A) states that funds may be used for “building **the capacity of tenant organizations** (emphasis added), for technical assistance in furthering any of the purposes of this subtitle (including transfer of developments to new owners)....” In addition, Section (f)(1)(A) states that the Section 514 procedures developed by HUD shall take into account the need to provide tenants of the project, residents of the neighborhood, **the local government** (emphasis added), and other affected parties to participate effectively and on a timely basis in the restructuring process established by this subtitle.” As such, HUD to the extent feasible and appropriate needs to clarify or establish guidance to facilitate a determination if the activities, by the grantees listed below, meet the requirements of Section 514. OIG will make itself available to HUD and based on HUD’s guidance, OIG will make appropriate further recommendations pursuant to Section 1303.

Section 514 of MAHRA required the Secretary to establish procedures

Section 514 of MAHRA required the Secretary to establish procedures to provide an opportunity for tenants of the project, residents of the neighborhood, the local government, and other affected parties to participate effectively and on a timely basis in the Mark-to-Market restructuring process. In addition, Congress authorized \$40 million (\$10 million annually) in funding to carry out the Section 514 Program activities.

OMB and HUD provided guidance for establishing procedures to manage the Section 514 Program

The Office of Management and Budget’s (OMB) Circular A-123 provides guidance and procedures to manage agency programs. Specifically, managers must establish controls that reasonably ensure that obligations and costs comply with applicable law, assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

In addition, HUD’s Departmental Management Control Handbook (Handbook 1840.1 Rev. 2 and 3, dated September 1992 and February 1999, respectively) provides policies, procedures, and guidance for carrying out an effective management control process within the Department. The Handbook requires that any new program with a funding level totaling \$10 million or more obtain a Front End Risk Assessment. As a result, HUD’s policy required a Front End Risk Assessment of the Section 514 Program.

In addition, OMHAR was required to formulate program administration requirements, establish and document policies and procedures for the Section 514 Program, and

monitor and evaluate the Section 514 grantees' activities in relation to the established policies and procedures.

OMHAR did not perform the required risk analysis

Our review identified that OMHAR did not perform the required Front End Risk Assessment of the Section 514 Program. The Assessment provides an analysis of the general management control environment, inherent control risk and management control techniques to manage and oversee the program. In simple terms, the Assessment becomes the foundation for OMHAR to formulate program administration requirements, and establish policies and procedures for managing the Section 514 Program.

OMHAR did not establish a system of management controls

Our review concluded that OMHAR did not establish and document a system of management controls as required by OMB and HUD policy. Specifically:

- OMHAR has no written internal instructions for the review and payment of the grantees' payment requests. According to the OMHAR staff, they relied on the good sense and judgment to complete the review and payment process. According to the OMHAR staff, the review of payment vouchers was limited to reviewing for mathematical accuracy. Thus, OMHAR staff performed no review of the eligibility of the grantees' activities before providing payments.
- OMHAR did not require the grantees to submit quarterly reports until August 2001, almost three years into the Section 514 Program.
- OMHAR performed no on-site monitoring of grantees' activities.
- Without the quarterly reports and on-site monitoring, OMHAR lacked the information needed to perform an analysis on the accomplishments of the grantees under the terms of their agreements and the Section 514 Program as a whole.

OMHAR's lack of oversight provided an environment for the grantees to fund activities they considered eligible

OMHAR's absence of guidance and oversight of the Section 514 Program provided an environment for the grantees to fund activities they considered eligible. Furthermore, the absence of any monitoring procedures and activities prevented HUD from ascertaining whether its forty grantees were carrying out their program activities within the grant agreement and Federal requirements.

Thirty-two grantees did not comply with the terms of their agreements

As a result of our Congressional mandated audits of all forty Section 514 grantees, we identified that thirty-two grantees did not comply with the requirements of their grant agreements and/or the allowability of grant cost requirements of the Office of Management and Budget Circular A-122. The 221 recommendations in the grantees' audit reports identified \$573,818 of ineligible costs and \$1,634,541 of questioned costs for a combined total of \$2.2 million. In addition, we identified that nine grantees used a portion of their Section 514 funds for activities directed at lobbying Congress, contrary to the explicit prohibition. We also identified four grantees that used a portion of their grant funds for lobbying activities at the state and local level.

Recommendations

We recommend that the Assistant Secretary for Housing – Federal Housing Commissioner:

- Transfer the responsibility for the Section 514 Technical Assistance grants to another program area within Housing, thus allowing OMHAR to focus its resources on the Mark-to-Market program;
- Rescind or clarify the December 3, 1999 memorandum, that provided guidance to Section 514 Program grantees, to correctly identify the requirements under MAHRA and HUD's policies; and
- Develop a plan to resolve the recommendations/issues identified in the individual external Section 514 audit reports.

If the Assistant Secretary for Housing – Federal Housing Commissioner decides not to transfer responsibility for the Section 514 Program, we recommend that the Assistance Secretary:

- Require the Director of OMHAR to perform a Front End Risk Assessment of the Section 514 Program;
- Develop, based on the Risk Assessment, written policies and procedures for managing and overseeing the Section 514 Program; and
- Ensure that the staff responsible for the Section 514 Program have the knowledge and skills to provide management and oversight of a grant program.

Based on OIG's audits, we identified that nine grantees used a portion of their Section 514 funding for activities that did not meet the requirements of Section 514 (see Appendix E Table 1 for the list of grantees). Based on that

determination, the Assistant Secretary for Housing should take action with respect to the language in Section 1303 of the 2002 Defense Appropriation Act.

In addition, OIG's reviews identified seven grantees that used funds for activities potentially not allowed under Section 514 of MAHRA. As such, HUD to the extent feasible and appropriate needs to clarify or establish guidance to facilitate a determination if the activities, by the grantees listed below, meet the requirements of Section 514. OIG will make itself available to HUD and based on HUD's guidance, OIG will make appropriate further recommendations pursuant to Section 1303.

This report does not contain additional recommendations related to the 221 recommendations in the individual external Section 514 audit reports. The plan prepared in response to recommendation 1B needs to provide appropriate management decisions for each of the 221 recommendations. The Director may wish to provide those management decisions in groups comparable to the grouping used in this report (See Appendix D for a complete schedule of the 221 recommendations)

#### Auditee Comments

OIG provided the Assistant Secretary with a draft report, for comments, on February 6, 2003. Base on a number of discussions between Housing and OIG, OIG revised the draft report and provided a revised draft report, on March 7, 2003. The Assistant Secretary provided preliminary comments on March 17, 2003 and final comments on March 31, 2003.

The Assistant Secretary for Housing did not dispute the information and conclusions in this report. In addition, the Assistant Secretary provided management decisions for the recommendations contained in this report and for the 221 recommendations in the forty external Section 514 audits. The Assistant Secretary grouped the management decisions for the external Section 514 audit reports consistent with the grouping used in Appendix D of this report (See Appendix F for a complete copy of the Assistant Secretary's comments and proposed management decisions).



OIG response to auditee  
comments

OIG appreciates the Assistant Secretary's review of the draft report and providing management decisions on this report and the forty external Section 514 audits. We reviewed the proposed management decisions for this report and the forty external Section 514 audits. OIG agreed with the management decisions proposed by the Assistant Secretary, with an effective date of the issuance of this report.

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**ABBREVIATIONS**

CFR	Code of Federal Regulations
GAO	General Accounting Office
HUD	United States Department of Housing and Urban Development
ITAG	Intermediary Technical Assistance Grant
LOCCS	Line of Credit Control System
MAHRA	Multifamily Assisted Housing Reform and Affordability Act of 1997
NAHT	National Alliance of HUD Tenants
NOFA	Notice of Fund Availability
OIG	HUD Office of Inspector General
OMB	Office of Management and Budget
OMHAR	Office of Multifamily Housing Assistance Restructuring
OTAG	Outreach and Technical Assistance Grant/Outreach and Training Assistance Grant
PEG	Public Entity Grant (grant funds provided by an ITAG Grantees)

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# Introduction

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 creation of the Mark-to-Market program for HUD assisted projects with above-market or below-market rents and project-based Section 8 contracts expiring in October 1998 or later. The program's goals include preserving the affordability and the availability of low-income rental housing while reducing the long-term costs of Section 8 project-based assistance, resolving the problems affecting financially and physically troubled projects, and correcting management and ownership deficiencies. As required by MAHRA, OMHAR was under the management of a Director, who was nominated by the President on September 29, 1998, and confirmed by the Senate on October 21, 1998. MAHRA authorized the Mark-to-Market program and OMHAR, including the Director's position, through September 30, 2001.

Congress reauthorized the Mark-to-Market Program until September 30, 2006 and the Office of OMHAR until September 30, 2004. Congress' reauthorization removed OMHAR's independence within HUD. OMHAR and its Director are now under the management of the Assistant Secretary for Housing - Federal Housing Commissioner.

MAHRA directs OMHAR to select capable organizations, referred to as Participating Administrative Entities, to carry out restructuring under the Mark-to-Market program on behalf of the Federal government. The restructuring generally involves resetting rents to market levels and if necessary restructuring mortgage debt to permit positive cash flow. Among the Participating Administrative Entities' responsibilities is developing a mortgage restructuring and Rental Assistance Sufficiency Plan for each Mark-to-Market project. Among other things, this plan is to restructure the project-based rents or provide for tenant-based assistance, require the project's owner to provide or contract for competent management of the project, and require the owner to maintain affordability and use restrictions on the project for at least 30 years.

According to OMHAR, they completed restructuring on 1,670 projects, with another 585 in the restructuring process. OMHAR plans to receive an additional 875 projects in calendar years 2003 through 2005 and another 140 projects during calendar years 2006 through 2011.

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. Section 512 of MAHRA generally defined eligible projects as HUD insured or held multifamily projects receiving project-based rental assistance. MAHRA also excluded certain multifamily projects, for example Section 202 projects. In addition to these restrictions, Congress specifically prohibited using Section 514 funds for lobbying members of Congress.

Congress recognized, in Section 514 of MAHRA, that the Mark-to-Market Program would affect tenants of the projects, residents of the neighborhood, the local government, and other parties.

Accordingly, Section 514 of MAHRA authorized the Secretary to provide up to \$40 million (\$10 million annually) for resident participation, for the period 1998 through 2001. As of August 2002, HUD awarded \$30,312,772, of the \$40 million authorized, to forty grantees (a total of 83 awards). As of August 2002, HUD obligated \$25,196,163 and disbursed \$13,894,036 (about 55 percent) of the obligated funds. (See Appendix B for a schedule of the funds awarded, obligated, and disbursed as of August 2002)

Before the appointment and confirmation of the OMHAR Director, HUD's Office of Multifamily Housing issued a Notice of Fund Availability in April 1998 to provide opportunities for nonprofit organizations to participate in the Section 514 Programs. OMHAR issued a second Notice of Fund Availability in March 2000. Through these Notices of Fund Availability, HUD provided two types of grants: the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Technical (Training) Assistance Grant (OTAG).

The Notice of Fund Availability for the ITAG states that the program provides technical assistance grants through Intermediaries to sub-grantees consisting of: (1) resident groups or tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market program to help tenants participate meaningfully in the Mark-to-Market process, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for Mark-to-Market eligible projects throughout its jurisdiction. The OTAG Notices of Fund Availability state 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 rental assistance or prepaying the HUD insured mortgage.

For these ITAG and OTAG grants, 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 Organization, in determining the allowability of costs incurred to the grant.

OMB Circular A-122 outlines specific guidelines for allowability of charging salaries and related benefits to the grants and the records needed to support those salaries. For indirect costs charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and record keeping to support the allocation of costs.

The Circular also establishes the unallowability of costs associated with Federal, state and local 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. Such actions 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).

In addition to the ITAG and OTAG grants, HUD provided funding to two other entities. One was the Corporation for National Service (Corporation). In June 1998, HUD's Office of Multifamily Housing and the Corporation entered into a Memorandum of Understanding (MOU) providing \$2.4 million of Section 514 funding over a three-year period. The Memorandum provided Volunteers in Service to America (VISTA) members to organize resident councils, act as coordinators to assist residents in accessing social, educational and economic development services, perform resident training and capacity building for management or ownership roles, and other activities. The National Alliance of HUD Tenants acted as the primary sponsoring organization for the VISTA members funded by this agreement.

Second was a contract with Cox & Associates, awarded on September 30, 1998, to provide financial management technical assistance training to ITAG and OTAG organizations selected under the 1998 Notice of Fund Availability and provide Mark-to-Market information to interested parties. The ceiling amount of the contract was for \$1,248,140, however only \$541,472 was actually disbursed under the contract.

In total, HUD made eighty-three awards to forty grantees. Specifically, these included five ITAG grants to three grantees, seventy-six OTAG grants to thirty-five grantees, one Memorandum of Understanding, and one contract.

The 2002 Defense Appropriation Act (Public Law 107-117) Section 1303 requires the HUD Office of Inspector General to audit all Outreach and Technical Assistance Grants and Intermediary Technical Assistance Grants, and other Section 514 awards. The directive requires that the Office of Inspector General audit each provision of technical assistance obligated under the requirements of Section 514 over the last 4 years. The directive also provides that, to the extent the HUD's Inspector General determines that the use of **any funding** (emphasis added) for technical assistance does not meet the requirements of Section 514, the Secretary shall take specific actions related to the grantees.

In addition, HUD's Office of Inspector General received a request from Senator Christopher S. Bond, Chairman, Subcommittee on VA, HUD, and Independent Agencies. Senator Bond requested (among other items) that we determine if the Section 514 grantees received an annual financial audit. Therefore, as part of Section 514 grantee reviews, we identified whether the grantee received an Office of Management and Budget (OMB) required Circular A-133 audit. We did not review the Independent Public Accountant work related to the OMB Circular A-133 audit as part of our review. OMB Circular A-133 does not require grantees to receive an annual financial audit if they expend less than \$300,000 during the year. In accordance with OMB Circular A-133, thirteen of the forty grantees were not required to have an annual financial audit. During our fieldwork, one recipient was in the process of receiving a financial audit and the results were not available to us. The remaining twenty-six grantees received an A-133 financial audit. Three of the twenty-six audits reported findings. Two audits identified findings related to a need to improve internal controls and the third audit identified serious weaknesses in Housing

Comes First's internal controls. (See Appendix C, Schedule of Grantees Receiving an Office of Management and Budget (OMB) Circular A-133 Annual Financial Audit)

### Audit Objectives

This report focuses on OMHAR's guidance and oversight of the Section 514 Program. Specifically, we wanted to know what management controls OMHAR implemented to manage and oversee the Section 514 Program. Additionally, consistent with a Congressional directive, we audited all the Section 514 grantees. Specifically, we reviewed the grantees' use of Section 514 funds for eligibility (per the legislation and the grantee's agreement with HUD) and/or the allowability costs per OMB Circular A-122 with particular emphasis on identifying ineligible lobbying activities. Congress did not provide the OIG with materiality guidelines. Rather Congress mandated the OIG to identify "**any funding**" (emphasis added) that does not comply with Section 514. This report provides a schedule of the Section 514 external audit report results, HUD funding provided to grantees and the 221 recommendations from the external Section 514 reports. (See Appendix A, B and D)

### Audit Methodology and Scope

In reviewing OMHAR's guidance and oversight, we reviewed OMHAR's records, and interviewed responsible HUD and OMHAR staff. We also reviewed the requirements in MAHRA, the Office of Management and Budget's guidance on the oversight of agency programs and grantees, and HUD's policies.

This report covers the period September 1998 through December 2002. We performed the work for the summary report at HUD's Headquarters and at OMHAR's offices in the Portals Building, Suite 4000, 1280 Maryland Avenue, SW, Washington, District of Columbia from April 2002 through January 2003.

For the external Section 514 audits, we reviewed the grantees accounting records and interviewed responsible staff. We also reviewed the requirements in MAHRA, the Notices of Fund Availability, the grant agreements, HUD's requirements, and the Office of Management and Budget's guidance on the allowability of cost. We performed the fieldwork for the external Section 514 audits at the individual grantee's place of business. Depending on the awards to the Section 514 grantee, the audits covered

various audit periods (See Appendix A for the audit period of each audit report).

HUD issued three additional Section 514 grants

In September 2002, HUD issued three additional \$500,000 grants for the Section 514 Program. The Congressional directive, in Section 1303 of the Defense Appropriation Act, did not direct us to perform a review of these additional grants. As such, we did not perform any review of these three grants.

Generally Accepted Government Auditing Standards

We conducted our audits in accordance with Generally Accepted Government Auditing Standards.



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# Appropriate Management Controls To Oversee and Manage the Section 514 Program Not Established

The Office of Multifamily Housing Assistance Restructuring's (OMHAR) management did not establish appropriate management controls to oversee and manage the Section 514 grantees, as required by the Office of Management and Budget's Circular A-123 and HUD's policy. As a result, thirty-two grantees did not comply with the requirements of their grant agreements and/or the allowability of grant cost requirements of the Office of Management and Budget's Circular A-122. Our external Section 514 audits identified \$2.2 million of ineligible (\$573,818) and questioned costs (\$1,634,541). In addition, we identified that nine grantees used a portion of their Section 514 Program funds for lobbying activities directed at Congress, contrary to the explicit prohibition in Section 514. In addition, we identified that four additional grantees used a portion of their Section 514 funds to lobby at the state and local level. The amount expended on lobbying represents about 1/3 of one percent of the total Section 514 funds disbursed. This occurred because OMHAR's management emphasized the creation and implementation of the Mark-to-Market program and strong relations with the affected tenants. Such emphasis failed to include the management and oversight of the Section 514 Program. In addition, OMHAR's staff generally lacked the knowledge and skills to manage and oversee a grant program.

Section 514 of MAHRA required the Secretary to establish procedures

Section 514 of MAHRA required the Secretary to establish procedures to provide an opportunity for tenants of the projects, residents of the neighborhood, the local government, and other affected parties to participate effectively and on a timely basis in the Mark-to-Market restructuring process. In addition, Congress authorized \$40 million (\$10 million annually) in funding to carry out the Section 514 Program activities.

OMB's guidance for establishing procedures over program activities

The Office of Management and Budget's (OMB) Circular A-123 provides guidance and tools to assist Federal agencies in establishing controls over their program activities. Specifically, managers must establish controls that reasonably ensure that obligations and costs comply with applicable law, assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

The Circular further defines management controls as the organization, policies, and procedures used by agencies to reasonably ensure that programs achieve their intended results, resources are used consistent with agency mission,

programs and resources are protected from waste, fraud, and mismanagement, laws and regulations are followed, and reliable and timely information is obtained, maintained, reported, and used for decision-making.

HUD's guidance policy for establishing procedures over program activities

HUD's Departmental Management Control Handbook (Handbook 1840.1 Rev. 2 and 3, dated September 1992 and February 1999, respectively) provides additional policies, procedures, and guidance for carrying out an effective management control process within the Department. Specifically, HUD's Management Control Program aims to establish and maintain a cost-effective system of management controls providing reasonable assurance that programs and activities are effectively and efficiently managed and to protect against fraud, waste, abuse, and mismanagement.

OMHAR did not perform the required risk assessment

HUD's policy required OMHAR to perform a Front End Risk Assessment. Our review identified that OMHAR did not perform the required Front End Risk Assessment. The Assessment provides an analysis of the general control environment, inherent risk review of control objectives and control techniques, identification of planned actions, and management and oversight of planned actions. In simple terms, the Assessment becomes the foundations for OMHAR to formulate program administration requirements, and establish policies and procedures for managing the Section 514 Program.

In contrast, OMHAR did prepare a detailed Assessment for the Mark-to-Market Program. However, the Assessment did not encompass the requirements of the Section 514 Program. Without an Assessment, OMHAR lacked the necessary information to establish and document a system of management controls over the Section 514 Program.

OMHAR was required to take specific actions and prepare documentation of the Section 514 Program

OMB and HUD's policies required OMHAR to take specific actions and prepare documentation on the Section 514 Program's system of management controls. In general, OMHAR was required to formulate program administration requirements, establish and document policies and procedures for the Section 514 Program, and monitor and evaluate the Section 514 grantees' activities in relation to the established policies and procedures.

OMHAR did not establish or document a system of management controls

Even though, OMB and HUD's policies required specific actions and documentation, OMHAR did not prepare documentation on how it would oversee, manage, and monitor the Section 514 Program. The available Section 514 Program documents were limited to the two Notices of Fund Availability, recipient award letters, grant agreements, some questions and answers to the grantees, and a December 1999 memorandum to the grantees. As such, we could not make an evaluation of OMHAR's guidance, oversight, and monitoring in relation to the policies and procedures.

OMHAR staff provided little oversight and guidance to the grantees

Moreover, during the external Section 514 audits, a number of grantees criticized OMHAR staff for not providing guidance and clarification on issues related to the grants.

For example, our review at the Affordable Housing and Homeless Alliance identified that the grantee had not received any instructions on how to amend a budget or how to make corrections to prior billings from OMHAR staff. The grantee left voicemails, sent emails, and other correspondence to various staff of OMHAR requesting assistance. After receiving no response from OMHAR staff, the grantee contacted the Director of the National Alliance of HUD Tenants (NAHT). The Director of NAHT advised the grantee to hire a local CPA firm to assist with amending the budget and prior billings for the over billing of project supervision and administration.

OMHAR performed limited reviews of payment vouchers and quarterly reports

With the lack of specific program oversight and monitoring procedures, OMHAR performed limited reviews of the grantee's funding requests and quarterly reports. Current OMHAR staff advised that OMHAR has no written instructions for the review and payment of the grantee's payment requests. According to the staff, the good sense and judgment of a series of reviewers were relied upon to complete the review and payment process.

OMHAR staff did not review for eligibility before approving grantee

OMHAR staff advised that the review of payment requests was limited to reviewing for mathematical accuracy. Therefore, OMHAR staff performed no review of the eligibility of the recipient's activities before approving payments.

OMHAR did not require grantees to submit required reports

According to OMHAR staff, they did not require the grantees to submit quarterly reports until August 2001, almost three years into the Section 514 Program. At that time, OMHAR stopped paying vouchers until required quarterly reports were submitted. Therefore, OMHAR was not fully aware of the grantees' activities being carried out under the program for almost three years.

However, the grant agreements clearly required the submission of the quarterly activity reports. Therefore, even though OMHAR did not start enforcing the requirement until August 2001, the grantees had a clear obligation to prepare and submit the required reports.

OMHAR provided two training sessions

OMHAR staff concurred that they provided little if any oversight or guidance to the Section 514 grantees. However, OMHAR did provide two training sessions for grantees. OMHAR provided the first training session in November 1998. A second training session was provided to grantees in June 2001.

The first training session covered OMB guidance on the allowability of costs, HUD requirements for grants to non-profit organizations, grant management, and the Section 514 requirements under MAHRA. HUD advised all 1998 OTAG/ITAG grantees that it would pay for the training for two representatives from each grantee. HUD used a contractor to develop and provide the training to the OTAG and ITAG grantees.

The second training session focused on the Mark-to-Market program. According to the second training agenda, no training was provided on OMB guidance or the allowability of costs, HUD requirements for grants to non-profit organizations, grant management, or the Section 514 requirements under MAHRA. Instead, the training covered the Mark-to-Market Program and making the restructuring deal work. Therefore, it appears that the nine new grantees awarded grants in the second round of funding did not receive formal training related to grants management, and OMB and HUD program requirements.

OMHAR staff performed no on-site reviews

OMHAR staff performed no on-site grantee reviews. Due to the absence of quarterly reports and on-site reviews, OMHAR did not have the information needed to analyze the accomplishments of the grantees.

Due to the lack of oversight and monitoring, HUD is unable to ascertain that required Section 514 Program requirements and activities are being achieved in an effective and efficient manner. Our audits provided OMHAR with the only external review of the Section 514 Program activities. Our external Section 514 audit reports clearly identified a need for better oversight of the Section 514 Program activities and grantees.

The Section 514 audits focused on the grantees' responsibilities and Program expenditures

Our external Section 514 Program audits focused on the grantees' responsibilities per the grant agreements, OMB's guidance, and MAHRA. The grantees by accepting the terms and conditions of the grants accepted the responsibility to managing their respective activities in accordance with the grant agreement. OMHAR's lack of management controls and oversight over the grantees Section 514 activities does not relieve the grantees from the terms and conditions of the funding agreements.

OMHAR's absence of oversight created an environment for the grantees to fund items and activities they believed eligible

OMHAR's absence of guidance and oversight of the 514 Program provided an environment for the grantees to fund items and activities they considered eligible. Our Section 514 Program audits identified that eight of the forty grantees complied with the terms and conditions of their grants. The remaining thirty-two grantees did not comply with the terms of their agreements, specifically in the areas of lobbying, salaries and benefits, non-salary costs, and cost allocations.

Our recipient audits included 221 recommendations

Our external Section 514 audit reports included 221 recommendations. We reviewed these recommendations and grouped the recommendations based on the applicable guidance and requirements used to support each recommendation. In addition, we reviewed the condition and effect used to support each recommendation to further support the grouping of the recommendations (See Appendix D for a complete listing of recommendations by grouping and Appendix E for OIG's determination under Section 1303). We identified each recommendation by report and recommendation number.

The following five examples provide a representation of the issues in the external Section 514 audit reports:

- Lobbying activities by the grantees,
- Unallowable salary costs, lack of adequate salary records or questioned salary allocation,
- Charging for ineligible costs, consultants, and space rental costs,
- Assisting projects not eligible for the Mark-to-Market Program, and
- Lack of cost allocation system,

Nine grantees used funds for lobbying activities directed at Congress

**1. Lobbying Activities by the Grantees**

In nine external Section 514 audit reports, we concluded that the grantees used a portion of their Section 514 Program funds for lobbying activities directed at Congress, contrary to the explicit prohibition in Section 514. In addition, we identified that four additional grantees used a portion of their Section 514 funds to lobby at the state and local level. State and local lobbying was not specifically prohibited in Section 514. However, state and local lobbying is an unallowed cost under OMB Circular A-122 guidance.

These audits contained twenty-six recommendations questioning a total cost of \$44,049. The total questioned cost represents about 1/3 of one percent of the total Section 514 funds disbursed to all grantees. However, due to the nature of the grantees' records, we could not always identify the amount of funds used to support the unallowable lobbying activities.

In nine of the external audit reports, we recommended that the Director of OMHAR take actions under Section 1303 for lobbying activities directed at Congress (See Appendix E, Table 1 for OIG's determination under Section 1303).

MAHRA explicitly prohibits the use of any Section 514 funds for lobbying members of Congress. In addition, OMB Circular A-122, Attachment B, Paragraph 25 identifies lobbying at either the Federal, State or local level as an unallowable use of Federal funds. Specifically, lobbying includes 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).

During the audits, OIG reviewed the grantees' documented activities and compared the activities to OMB's Circular A-122 lobbying guidance to determine if the activity would be considered lobbying or advocacy. Based on the reviews, we concluded that thirteen grantees used a portion of their Section 514 Program funding for unallowable lobbying.

Two examples of lobbying activities

The following two examples depict the unallowable lobbying activities identified in these audit reports.

- The Anti-Displacement Project charged its OTAG grants \$6,835 in ineligible costs for lodging and transportation to three National People's Action Conferences held in Washington, DC. Conference agendas show unallowable lobbying activities, such as meetings with legislators, meetings with government officials, and workshops that encourage lobbying. We recommended that the Anti-Displacement Project repay \$6,835 in ineligible costs.
- From January 2000 through December 2001, the Tenants Union charged its grants 101.5 hours for participating in National Alliance of HUD Tenants conference calls. Our review of the agendas for these conference calls determined that a substantial portion of the calls focused on National Alliance of HUD Tenants' lobbying activities. Since the grantee's timesheets did not segregate the portion of the calls dedicated to lobbying, we are questioning the 101.5 hours charged, amounting to \$2,829 in questioned costs. We recommended that the Tenants Union provide support for or repay the grant for \$2,829 for questionable lobbying costs.

## **2. Unallowable, Questioned, and/or Undocumented Salary Costs**

Twenty-five (62.5 %) audits identified issues with salaries and benefits

In twenty-five external Section 514 audit reports, we concluded that the grantees did not account for or charge their grants appropriately for salaries and benefits. These twenty-five audit reports contained fifty-six recommendations identifying ineligible costs of \$326,759 and questioned cost of \$1,097,918 for a total of \$1,422,790.



These fifty-six recommendations represent the largest issues identified in the recipient reports. In addition, eleven external Section 514 audit reports identified that the grantees did not account for or charge the Section 514 grants appropriately for salaries and benefits, as a result we could not make a determination of the eligibility of these salaries and benefits.

OMB Circular A-122, Attachment B, Paragraph 7, Compensation for Personal Services, places a specific requirement on the grantee in determining the allowability of salaries and benefits and the required documents to support the costs. (See Appendix D, Grouping 1 and 2 for additional details).

Examples of unallowable salaries and benefits

The following two examples depict the unallowable salaries and benefits identified in the twenty-five recipient reports.

- Housing Comes First could not adequately support \$336,108 (over 92 percent) of the disbursements reviewed. The majority of the unsupported disbursements were for payroll expenses for which Housing Comes First could not provide timesheets to adequately support the expenses. Housing Comes First did not comply with OMB requirements because it could not adequately support how it used \$336,108 in grant funds. We recommend HUD take appropriate administrative actions against Housing Comes First and its management, and HUD should consider action such as requiring repayment of the questioned costs of \$336,108.
- The Tenants' Action Group of Philadelphia charged its grant \$97,928 in questioned salary and benefit costs. The grantee spent a portion of their time working on ineligible properties. However, due to the lack of detailed time reports, we could not determine the salary amount expended to provide assistance to the ineligible projects, nor could we determine the portion of this amount that was used for eligible activities. Thus, we consider these expenditures unsupported. We recommend that the Tenants' Action Group of Philadelphia provide proper support for all unsupported salary and benefit costs totaling \$97,928 and repay to

HUD from non-Federal funds amounts it can not adequately support

Audits identified issues with non-salary costs

### **3. Charging for Ineligible Costs, Consultants and Space Rentals**

In nineteen external Section 514 audit reports, we concluded that the grantees did not appropriately account for its non-salary cost or charged the Section 514 grants for ineligible or questioned non-salary costs. These nineteen reports made twenty-nine recommendations surrounding non-salary costs for a total of ineligible costs of \$82,236 and questioned costs of \$101,167 for a total of \$183,403 (See Appendix D, Grouping 3 for additional details).

In addition, in six external Section 514 audit reports, we concluded that the grantees did not appropriately account for costs related to consultants. These six reports made thirty-three recommendations surrounding consultants' costs for a total of ineligible costs of \$9,285 and questioned costs of \$163,362 for a total of \$172,647 (See Appendix D, Grouping 7 for additional details).

In three external Section 514 audit reports, we concluded that the grantees charged the grant for ineligible or question costs related to rental space. These three reports made three recommendations surrounding ineligible rental space for a total of ineligible costs of \$17,000 and questioned cost of \$18,600 for a total of \$35,600 (See Appendix D, Grouping 8 for additional details).

Example of unallowable non-salary costs

The following example depicts the unallowable non-salary costs identified in the external Section 514 audit reports.

- We concluded that the Philadelphia Regional Alliance purchased six computers for a total of \$9,624 and charged it all directly to the grant. The Notice of Fund Availability mandates only \$1,000 as eligible, thus \$8,624 of the computer equipment is ineligible. The grantee also charged general-purpose equipment directly to the grant. Since we did not obtain any evidence the grantee received prior approval from HUD to charge these general expenditures to the grant, we consider \$2,721 ineligible. During our review of the grantee's draw request, we noted that the grantee also charged ineligible miscellaneous bank charges for \$645 directly to the grant. While reviewing the bank

statements, we found \$6,209 in questionable ATM withdrawals. Since the grantee did not have the proper support and could not explain the reason for these expenditures, we consider the withdrawals ineligible. We recommended that the Philadelphia Regional Alliance reimburse HUD for these ineligible expenditures charged to the grant.

Five audit reports identified using funds for non Mark-to-Market projects or activities

#### **4. Assisting non Mark-to-Market Projects**

In five external Section 514 audit reports, we noted instances where the grantee used Section 514 funds to assist projects that were not eligible for the Mark-to-Market Program. However, the December 3, 1999 memorandum from OMHAR, which referred to “at risk projects,” was allegedly interpreted by the grantees as authorizing the use of the Section 514 funds at other than Mark-to-Market projects.

The five reports, addressing costs related to non Mark-to-Market activities, included eight recommendations surrounding ineligible project activities for a total of ineligible costs of \$71,817 (See Appendix D, Grouping 6). In a number of external Section 514 auditee comments, the grantees included the December 3, 1999 memorandum from OMHAR as a justification for assisting the ineligible projects. The memorandum did not clearly identify the assistance or projects that could be assisted. For example, the memorandum used the term “at risk” but did not provide a definition or clarification for the term.

Example of ineligible projects and project activities

The following examples depict the issues related to the charging for assistance to ineligible projects.

- The Corporation for National Service provided assistance for ineligible activities under MAHRA for four of the 21 projects reviewed. Contrary to MAHRA legislation and the agreement with HUD, the VISTA members provided assistance for after school daycare activities and new homeownership activities. Based on the Corporation's financial records we determined that the Corporation expended at least \$57,916 for these ineligible activities. We recommended that the Corporation refund to HUD the \$57,916 for the ineligible activities, plus any additional costs associated with the VISTA members that worked on the four projects.

In the Corporations written comments, they state that the after school daycare and the homeownership were permissible under the terms of the Agreement and the December 3, 1999 memorandum from Ira Peppercorn, Director of OMHAR. As stated in the report, Section 514 of MAHRA provided funding 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 funding 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. We find nothing in MAHRA that would allow for the assistance to daycare and homeownership activities. As such, any assistance to these activities is not consistent with the funding legislation. We made changes to the report to include the specific VISTA projects that provided the ineligible activities.

- The Delaware Housing Coalition report identified that Coalition employees obtained Chelten Apartments from HUD's website identifying Section 8 projects, and believed since it was a Section 8 property it was eligible for OTAG and ITAG participation. However, the Notice of Fund Availability defines an eligible property as having an expiring Section 8 contract or a property in which the owner intends to prepay its HUD-insured mortgage. Chelten Apartments does have a Section 8 contract, however, the contract does not expire until 2019, thus making it ineligible for assistance.

Again, the grantee's written comments to the report advised that The Housing Coalition does not believe it assisted ineligible properties. The Housing Coalition based their understanding of the OTAG and Public Entity Grant rules upon a December 3, 1999 memo provided by OMHAR to the grantees, which broadened the definition of eligible properties.

##### **5. Lack of an Appropriate Cost Allocation System**

In twenty-one external Section 514 audit reports, we concluded that the grantees did not appropriately allocate its non-salary cost. These twenty-one reports made thirty-three recommendations surrounding non-salary costs for a

Twenty-one audit reports identified issues with non-salary cost allocations

total of ineligible costs of \$53,296 and questioned costs of \$222,870 for a total of \$276,166 (See Appendix D, Grouping 4 for additional details).

OMHAR did not review or approve cost allocation plans as required

OMHAR staff neither reviewed nor enforced the OMB requirement that a non-profit organization submit a cost allocation system/plan. OMHAR staff advised that they did not have the staff or technical knowledge for reviewing nor approving a cost allocation system/plan.

Example of unallowable non-salary costs

The following example depicts the issues related to the lack of a cost allocation plan in these twenty-one recipient reports.

- The Legal Aid Bureau, Incorporated expended \$51,121 in indirect expenditures during the audit period. The majority of these expenditures were accounted for in the categories of travel, equipment, training, management, and general type expenditures. We considered \$51,121 of indirect expenditures as unsupported costs because the grantee did not maintain any detailed time records and used **an educated guess** for the method of allocating costs.

Due to the nature of the issues identified at the Section 514 grantees, we recommended that OMHAR suspend grant funding to twenty-six grantees. To date OMHAR suspended funding to twenty-one grantees (see Appendix B for identification of the twenty-one grantees).

OMHAR's lack of guidance and oversight contributed to the deficiencies identified in the Section 514 audits

OMHAR's absence of guidance and oversight of the 514 Program provided an environment for the grantees to fund activities they considered eligible and contributed to the 221 recommendations and the \$2.2 million of questioned costs identified in the external Section 514 audit reports (See Appendix D for a complete list of Section 514 Recommendations).

The following contributed to OMHAR's lack of oversight and guidance

We believe the following items contributed to OMHAR's lack of oversight and guidance of the Section 514 Program:

- OMHAR's staff generally lacked the technical expertise to operate a grant program,
- OMHAR's staff did not perform a meaningful review of the payment requests and quarterly reports,
- Lack of any on-site monitoring of the Section 514 grantees, and
- OMHAR's focus was on the creation and operation of the Mark-to-Market program.

OMHAR staff focused on developing relationships with the grantees not grants management

OMHAR staff in charge of the Section 514 Program believed their responsibility and focus should be limited to a relationship manager not a grant manager. In fact, the person overseeing the Section 514 Program had no technical experience in overseeing or managing a grant program.

Thus, OMHAR allowed the grantees to administer their program based on the grantees interpretation and understanding of the program. This was further encouraged by OMHAR's December 3, 1999 notice to the grantees. The grantees used this notice as a basis to undertake ineligible project activities (See appendix D, Grouping 6).

OMHAR performed no meaningful reviews

As stated earlier, OMHAR staff did not perform a meaningful review of the payment requests and quarterly reports, nor did OMHAR perform any on-site monitoring of the Section 514 grantees. We concluded that OMHAR placed little importance on the Section 514 Program and its activities. Therefore, OMHAR's absence of guidance and oversight of the Section 514 Program provided an environment for the grantees to fund activities they considered eligible. Moreover, grantees looked to the National Alliance of HUD Tenants for guidance.

OMHAR's focus on the creation of the Mark-to-Market Program not the Section 514 Program

With the establishment of the Mark-to-Market Program by MAHRA, OMHAR's focus has been on the creation, implementation, and operation of the Mark-to-Market program. OMHAR concentrated its efforts in establishing offices and staff, and processing the large number of multifamily projects in the Mark-to-Market program. As such, OMHAR placed a low priority in formulating

management and oversight of the Section 514 Program and the program grantees.

We believe the emphasis on the Mark-to-Market Program can be emphasized by the General Accounting Office's (GAO) reviews of OMHAR. GAO performed seven reviews focusing on the creation of OMHAR and the Mark-to-Market Program.

The National Alliance of HUD Tenants became a source of information and guidance

Due in part to OMHAR's lack of oversight and guidance, the National Alliance of HUD Tenants (NAHT) became the source of information and guidance for the Section 514 Program. NAHT held scheduled teleconferences with a number of grantees and provided training to the VISTA members. In the opinion of the grantees, NAHT provided the guidance and oversight not being provided by OMHAR.

NAHT also developed and submitted an unsolicited proposal to strengthen the Section 514 Program, in December 2002. The proposal included administrative compliance, outreach to residents in Mark-to-Market buildings, and other affected properties. Specifically, NAHT proposed increased HUD oversight of grantee activity, compliance monitoring to ensure effective communication between HUD and grantees, and training on appropriate program activities. According to the Director of OMHAR, they met with a representative group of the OTAG grantees to review NAHT's recommendations. The Director advised that utilization of NAHT's recommendations would be dependent on the issuance of the OIG consolidated report and its recommendations.

Summary

OMHAR staff did not perform the required Front End Risk Assessment. As such, OMHAR did not establish an appropriate control environment to provide grantees with the guidance and oversight needed for a program that received \$40 million in funding.

OMHAR's lack of guidance and oversight does not relieve the grantees of their responsibility under the term of the grant agreements, but contributed to the issues identified in the external Section 514 audit reports.

Thirty-two audit reports included 221 recommendations of unallowable or questioned cost related to activities funded by the Section 514 grantees. The audit reports identified that these thirty-two grantees used a total of \$2.2 million or 16.5 percent of the total funds disbursed for ineligible and questioned costs. We also identified that the grantees still have about \$12.2 million of undisturbed funds as of August 2002.

Our reports also identified that thirteen grantees used about \$44,049 for unallowable lobbying activities, or about 1/3 of one percent of the total funds reviewed. Even though this represents a small portion of the funds reviewed, the OMB guidance is clear that no funds may be used for lobbying activities.

Until OIG provided the audit results to the Director of OMHAR, neither OMHAR staff nor HUD management were aware of the grantees activities. Based on the audit reports the Director of OMHAR suspended funding to twenty-one grantees.

OMHAR should perform the required Front End Risk Assessment. Our external Section 514 audit reports provide needed information on the risks associated with the program. This report provides additional information on the need for appropriate policies and procedures and oversight of the grantees' activities. In addition, the report points out, the need for knowledgeable and skilled grants management staff in the oversight of a grant program.

Lastly, OMHAR needs to develop a plan to resolve the issues identified in the external Section 514 audit reports and this report. The plan should include rescinding or clarifying the December 3, 1999 memorandum.

Section 1303 of the 2002 Defense Appropriation Act required OIG to identify grantees that used any funds for activities that did not meet the requirements of Section 514 of MAHRA. Congress did not provide OIG with materiality guidelines. Rather Congress mandated OIG to identify "**any funding**" (emphasis added) that did not meet the requirements of Section 514 of MAHRA. Based on OIG's reviews, we identified nine grantees that used a portion of their Section 514 funding for activities that did not meet the requirements of Section 514 (see Appendix E



Table 1 for the list of the grantees). We recommend that, the Assistant Secretary for Housing should take action with respect to the language in Section 1303 of the 2002 Defense Appropriation Act.

In addition, OIG's reviews identified seven grantees (see Appendix E Table 2 for the list of the grantees) that used funds for activities potentially not allowed under Section 514 of MAHRA. Because of OMHAR's conflicting guidance and the ambiguity of Section 514-(f) OIG is unable to make a definitive determination if the activities meet the requirement of Section 514. Specifically, Section 514(f)(3)(A) states that funds may be used for "building **the capacity of tenant organizations** (emphasis added), for technical assistance in furthering any of the purposes of this subtitle (including transfer of developments to new owners)...." In addition, Section (f)(1)(A) states that the Section 514 procedures developed by HUD shall take into account the need to provide tenants of the project, residents of the neighborhood, **the local government** (emphasis added), and other affected parties to participate effectively and on a timely basis in the restructuring process established by this subtitle."

As such, HUD to the extent feasible and appropriate needs to clarify or establish guidance to facilitate a determination if the activities, by the grantees listed in Table 2 of Appendix F, meet the requirements of Section 514. OIG will make itself available to HUD and based on HUD's guidance, OIG will make appropriate further recommendations pursuant to Section 1303.

This report does not contain additional recommendations related to the external Section 514 audit reports and their 221 recommendations. The Director of OMHAR needs to provide appropriate management decisions for each of those recommendations. The Director may wish to provide those management decisions in groups comparable to the grouping used in this report.

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**Auditee Comments**

The Assistant Secretary for Housing did not dispute the information and conclusions in this report. In addition, the Assistant Secretary provided management decisions for the recommendations contained in this report and for the 221 recommendations in the forty external Section 514 audits. The Assistant Secretary grouped the management decisions for the external Section 514 audit reports consistent with the grouping used in Appendix D of this report (See Appendix for a complete copy of the Assistant Secretary's comments and proposed management decisions).

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**OIG response to auditee comments**

OIG appreciates the Assistant Secretary's review of the draft report and for providing management decisions on this report and the 221 recommendations in the forty external Section 514 audits. OIG reviewed the proposed management decisions for this report and the 221 recommendations in the forty external Section 514 audits. OIG agreed with the Assistant Secretary's proposed management decisions with an effective date of the issuance of this report.

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**Recommendations**

We recommend that the Assistant Secretary for Housing – Federal Housing Commissioner:

- 1A. Transfer the responsibility for the Section 514 Technical Assistance grants to another program area within Housing, thus allowing OMHAR to focus on the Mark-to-Market program.
- 1B. Develop a plan to resolve the issues identified in the individual external Section 514 audit reports and this report to ensure residents of affected projects receive the assistance mandated by Section 514.
- 1C. Rescind or clarify the December 3, 1999 memorandum to grantees to correctly identify the requirements under MAHRA and HUD's policies.

If the Assistant Secretary for Housing – Federal Housing Commissioner decides not to transfer the responsibility for the Section 514 Program, we recommend that the Assistant Secretary require the Director of OMHAR:

- 1D. To perform a Front End Risk Assessment of the Section 514 Program.
- 1E. Based on the Risk Assessment, develop written policies and procedures for managing and overseeing the Section 514 Program.
- 1F. To ensure that the staff, responsible for the Section 514 Program, have the knowledge and skills for the management and oversight of a grant program.

Section 1303 of the 2002 Defense Appropriation Act required OIG to identify grantees that used any funds for activities that did not meet the requirements of Section 514 of MAHRA. Congress did not provide OIG with materiality guidelines. Rather Congress mandated OIG to identify “**any funding**” (emphasis added) that did not meet the requirements of Section 514 of MAHRA. Based on OIG’s reviews, we identified nine grantees that used a portion of their Section 514 funding for activities that did not meet the requirements of Section 514 (see Appendix E Table 1 for the list of grantees).

In addition, OIG’s reviews identified seven grantees (see Appendix E Table 2 for the list of grantees) that used funds for activities potentially not allowed under Section 514 of MAHRA.

We recommend that, the Assistant Secretary for Housing- Federal Housing Commissioner:

- 1G. Take action with respect to the language in Section 1303 of the 2002 Defense Appropriation Act for the nine grantees identified Table 1 of Appendix E.
- 1H. To the extent feasible and appropriate needs to clarify or establish guidance to facilitate a determination if the activities, by the grantees identified in Table 2 of Appendix E, meet the requirements of Section 514.

This report does not contain additional recommendations related to the 221 recommendations in the individual external Section 514 audit reports. The plan prepared in response to recommendation 1B needs to provide appropriate management decisions for each of the 221 recommendations. The Director may wish to provide the management decisions in groups comparable to the grouping used in this report.

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# Management Controls

In planning and performing our audit, we considered OMHAR's management controls over the Section 514 Program to determine our audit procedures, not to provide assurance on their management controls. Management controls are the plan of an 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.

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## Management Controls Assessed

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

- Guidance provided to the Section 514 grantees,
- Review of Section 514 voucher submissions prior to payments, and
- Monitoring and performance of the Section 514 grantees.

## Assessment Procedures

The following audit procedures were used to evaluate the management controls:

- A review of all grantees receiving Section 514 funding during our audit period,
- Review of OMB and HUD guidance,
- Review of Section 514 written policies and procedures utilized by the HUD staff, and
- Interviews with staff involved with the Section 514 Program.

## Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained and maintained, and fairly disclosed in reports.

Our review of OMHAR's management controls of the Section 514 Program concluded that OMHAR did not comply with OMB and HUD's requirements. Based on our audit, we believe significant weaknesses exist in the following areas:

- Failure to perform the required Front End Risk Assessment,
- Lack of written policies and procedures for the Section 514 Program,
- Lack of guidance and oversight of the Section 514 grantees, specifically in the areas of lobbying and salaries and benefits, and
- Lack of information to track the activities and accomplishments of the Section 514 grantees.

The deficiencies are discussed in detail in the finding of this report.

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## Follow Up on Prior Audits

We performed one previous audit of OMHAR. The audit (Report Number 2002-DE-0801, dated March 22, 2002) concluded that HUD did not violate the Anti Deficiency Act in awarding OMHAR's Section 514 Technical Assistance grants for fiscal years 1998 through 2001. However, HUD did violate the HUD Reform Act by not publishing the fiscal year 2001 grant awards in the Federal Register.

The Deputy Secretary did agree with our report recommendation to revise the Department's grant award and funds control policies and procedures. However, contrary to our report, the Secretary concluded that HUD did violate the Anti Deficiency Act and reported the matter to the President, President of the Senate and OMB.

GAO performed seven reviews of OMHAR. GAO did not review the Section 514 Program activities. GAO's reviews focused on the creation of OMHAR and the Mark-to-Market Program. One GAO report did address the Section 514 Program. The report focused on whether HUD gathered performance measures for all of its Technical Assistance Programs. The GAO report concluded that HUD did not collect this data. Our audit noted the same situation for the Section 514 Program.



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# Executive Summary and Scope for the Individual External Section 514 Audit Reports

The following provides a summary of the audit results and scope for each individual external Section 514 audit performed. We included the Uniform Resource Locator (URL) to HUD OIG's website, whereby a complete copy of the audit report is contained.

**1. Anti-Displacement Project Springfield, Massachusetts Grant Numbers FFOT98013MA and FFOT00019MA**

Audit Report Number 2002-BO-1004, September 30, 2002,

URL: <http://www.hud.gov/oig/ig211004.pdf>

We completed an audit of two Outreach and Training Assistance Grants (OTAG) awarded to the Anti-Displacement Project (Grantee). The review was performed at the request of Congress. Our 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 (MAHRA), Notices of Fund Availability (NOFA), and grant agreements 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. The audit determined that the Grantee: 1) charged ineligible travel and conference costs to OTAG; 2) incurred questionable costs for Consultant Services; and 3) charged unallowable lobbying activities to the grants.

Scope: The audit covered the period October 1998 through June 2002. During June and July 2002, we performed the fieldwork at 57 School Street, Springfield, MA 01105. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**2. Boston Affordable Housing Coalition, Grant Numbers FFOT98014MA and FFOT00018MA**

Audit Memorandum Number 2002-BO-1802, August 29, 2002

URL: <http://www.hud.gov/oig/ig211802.pdf>

We completed an audit of the Outreach and Training Assistance Grants (OTAG) awarded to Boston Affordable Housing Coalition (BAHC) doing business as Massachusetts Alliance of HUD Tenants. The overall objective of the review was to determine if BAHC used Section 514 grant funds for only eligible activities as identified in the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), Notices of Fund Availability and grant agreements between HUD and BAHC to further Mark-to-Market Program. The audit disclosed that BAHC used Section 514 grant funds for eligible activities to further the Mark-to-Market Program in accordance with the applicable Notices of Fund Availability and their grant agreements.

Scope: The audit covered the period October 1998 through June 2002 for the OTAG grants and the period January through December 2001 for the public Entity Grants (a Section 514 grant received from an Intermediary Technical Assistance Grant), awarded to the Boston Affordable Housing Coalition (BAHC). We performed our fieldwork at the BAHC located at 353 Columbus Avenue, Boston, Massachusetts 02116 during July and August 2002. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards.

**3. People to End Homelessness, Grant Number FFOT00034RI**

Interim Audit Report Number 2002-BO-1006, September 30, 2002

URL: <http://www.hud.gov/oig/ig211006.pdf>

We issued an Interim Report on the People to End Homelessness. Because of the condition of their internal controls and financial records, we have not yet completed our evaluation of grant expenditures. We will issue a final report covering that area after we finish evaluating the accounting records. We have determined that the Grantee does not have adequate internal controls to ensure grant funds are properly used. Our interim report contains two recommendations to correct the conditions found to date.

Scope: The audit covered the period of January 2001 through June 2002 for the OTAG grant. We performed the fieldwork at People to End Homelessness, located at 807 Broad Street, Providence, RI during June through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**People to End Homelessness, Grant Number FFOT00034RI**

Audit Report Number 2003-BO-1002, March 31, 2003

URL: <http://www.hud.gov/oig/ig311002.pdf>

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 Fund 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. 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 draw down 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.

Scope: The audit covered the period of January 2001 through June 2002 for the OTAG grant. We performed the fieldwork at People to End Homelessness, located at 807 Broad Street, Providence, RI during June through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**4. Ironbound Community Corporation, Grant Numbers FFOT98019NJ and FFOT00027NJ**  
Audit Report Number 2002-NY-1004, September 23, 2002  
[URL: http://www.hud.gov/oig/ig221004.pdf](http://www.hud.gov/oig/ig221004.pdf)

Our review disclosed that the Grantee did not always comply with HUD and/or Federal requirements pertaining to support for costs charged to the grant and allocated among prescribed activities. More specifically, the review disclosed that the Grantee was unable to: a) provide adequate documentation to support rental expenses of \$18,600 that were charged to the OTAG; and b) support the pre-determined percentages used to allocate total cost of \$159,673.26 among the four HUD prescribed activities of the OTAG. In this regard, the Grantee did not comply with provisions of OMB Circular A-122, which provide that cost must be adequately documented and commensurate with the benefits derived when allocated to benefiting functions. Consequently, the Grantee paid rental expenses with HUD funds that are unsupported, and reported costs to HUD by activity that may not be accurate. This occurred because Grantee officials believe that a rental agreement is not necessary and are apparently unfamiliar with Federal requirements pertaining to selecting a supportable base to allocate costs among activities benefited. Thus, we recommend that HUD require the Grantee to obtain and maintain a rental agreement/lease to support the rental expenses charged to the grant, and to develop and maintain supporting documentation for the percentages used to allocate costs among the four HUD prescribed activities.

Scope: The audit covered the period between January 1998, and April 2002. The audit fieldwork was performed during the months of June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**5. Legal Aid Society, Grant Numbers FFOT98021NY and FFOT00029NY**  
Audit Report Number 2002-NY-1005, September 23, 2002,  
[URL: http://www.hud.gov/oig/ig221005.pdf](http://www.hud.gov/oig/ig221005.pdf)

Our review disclosed that the Grantee charged ineligible and unsupported costs to its OTAGs. More specifically, the Grantee charged excessive salaries, fringe benefits and administrative costs totaling \$12,060.45 to OTAG II; and failed to provide us with documentation to support costs of \$7,822, which were charged to its Other Than Personal Service (OTPS) account under OTAG I. In this regard, the Grantee did not comply with the provisions of OMB Circular A-122, which require costs to be reasonable and adequately documented. This occurred because the Grantee erroneously charged expenses related to several employees to the grant even though they did not work on grant activities; and because the Grantee failed to retrieve supporting documentation from a storage facility for costs charged to OTAG I. Thus, we recommend that the Grantee be instructed to reimburse HUD for the ineligible costs, and to retrieve and submit supporting documentation for the unsupported, OTPS costs to HUD, so that HUD can make an eligibility determination on these costs.

Scope: The audit covered the period between January 1, 1998, and May 31, 2002. Where necessary, we extended the audit period to meet our objectives. The audit fieldwork was performed during the months of June 2002, and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**6. New York State Tenant and Neighborhood Information Service, Grant Numbers FFOT98020NY and FFOT00030NY**

Audit Memorandum Number 2002-NY-1803, September 23, 2002

URL: <http://www.hud.gov/oig/ig221803.pdf>

The results of our review disclosed that the Grantee generally administered the OTAG/PEG Programs in accordance with HUD requirements, and used grant funds only for eligible activities to further the Mark-to-Market Program. In addition, we did not find any instances where the Grantee expended grant funds on lobbying activities.

Scope: The audit covered the period between January 1, 1998 and April 30, 2002. The audit period was extended, as appropriate, to meet our objectives. The audit fieldwork was conducted during the months of June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**7. Delaware Housing Coalition, Grant Number FFOT00009DE**

Audit Report Number 2002-PH-1003, Issue Date: September 30, 2002

URL: <http://www.hud.gov/oig/ig231003.pdf>

We completed an audit of the Delaware Housing Coalition's (Grantee) Outreach and Technical Assistance Grant (OTAG) and Public Entity Grant (PEG). The primary objective of our review was to determine whether the Grantee expended Section 514 grant funds for only eligible activities as identified in the OTAG/PEG agreements and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. In addition, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities. The audit identified that the Grantee assisted ineligible projects; could not provide adequate support for \$38,883 in salaries and fringe benefits; and did not properly support \$17,082 in other direct and indirect costs. In addition, the Grantee charged \$21,553 in ineligible expenditures to the grant. We also noted the Grantee did not comply with other requirements under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), and Office of Management and Budget's (OMB) Circulars A-110 and A-122, which included using grant funds to participate in various lobbying activities. Accordingly, we made recommendations that will correct the above deficiencies and will improve the Grantee's controls over administering OTAG and PEG funds.

Scope: The audit covered the period January 2001 through June 2002 for the OTAG grant and the period October 2000 through September 2001 for the Public Entity Grant (a Section 514 grant received from an Intermediary Technical Assistance Grant), awarded through the National Center for Tenant Ownership. We performed the fieldwork at the Delaware Housing Coalition located at 840 Walker Road, Dover, DE 19904 during July through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**8. Legal Aid Bureau Incorporated, Grant Number FFOT98012MD**

Audit Report Number 2002-PH-1007, September 30, 2002

URL: <http://www.hud.gov/oig/ig231007.pdf>

We completed an audit of the Legal Aid Bureau, Incorporated's (Grantee) Outreach and Technical Assistance Grant (OTAG). The primary objective of our review was to determine whether the Grantee expended Section 514 grant funds for only eligible activities as identified in

the OTAG agreement and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. In addition, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities. The audit identified that the Grantee assisted ineligible projects; could not provide adequate support for \$107,834 in disbursements it made for salaries and fringe benefits; and did not properly support \$51,121 in indirect costs. In addition, the grantee charged an additional \$1,044 of ineligible expenditures to the grant. We also noted the grantee did not comply with other requirements of the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, which included using grant funds to participate in various lobbying activities. Accordingly, we made recommendations that will correct the above deficiencies and will improve the Grantee's controls over administering OTAG funds.

Scope: The audit covered the period January 1999 through August 2001 for the OTAG grant awarded to Legal Aid Bureau, Inc. We performed the fieldwork at the office of Legal Aid Bureau, Incorporated, located at 500 East Lexington Street, Baltimore, MD during June through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**Legal Aid Bureau, Incorporated, Grant Number FFOT0020MD**

Audit Report Number 2002-PH-1006, September 30, 2002

URL: <http://www.hud.gov/oig/ig231006.pdf>

We completed an audit of the Legal Aid Bureau, Incorporated (Grantee) Outreach and Technical Assistance Grant (OTAG). The primary objective of our review was to determine whether the Grantee expended Section 514 grant funds for only eligible activities as identified in the OTAG agreement and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. In addition, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities. The audit identified that the Grantee could not provide adequate support for \$90,904 in disbursements it made for salaries and fringe benefits, and did not properly support \$22,676 in indirect costs. In addition, the grantee charged \$3,198 of ineligible expenditures to the grant. We also noted the grantee did not comply with other requirements of the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, which included using grant funds to participate in lobbying activities. Accordingly, we made recommendations that will correct the above deficiencies and will improve the Grantee's controls over administering OTAG funds.

Scope: The audit covered the period January 2001 through June 2002 for the OTAG grant awarded to Legal Aid Bureau, Inc. We performed the fieldwork at the Office of Legal Aid Bureau, Inc., located at 500 East Lexington Street, Baltimore, MD during June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**9. Philadelphia Regional Alliance of HUD Tenants, Grant Number FFOT00033PA**

Audit Report Number 2002-PH-1005, September 30, 2002

URL: <http://www.hud.gov/oig/ig231005.pdf>

We completed an audit of the Philadelphia Regional Alliance of HUD Tenants \$310,000 Outreach and Training Assistance Grant and a \$20,000 Public Entity Grant (a Section 514 grant

received from an Intermediary Technical Assistance Grant). The objectives of the review were to determine if the Philadelphia Regional Alliance of HUD Tenants used Section 514 grant funds for only eligible activities as identified in the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), their agreements, and/or other requirements to further the Mark-to-Market Program. Also, we wanted to determine if the Philadelphia Regional Alliance of HUD Tenants expended Section 514 funds for any lobbying activities. MAHRA specifically identified lobbying as an ineligible activity. The audit identified the grantee assisted ineligible projects, charged the grant \$60,750 in unsupported expenditures, charged \$23,422 in ineligible expenditures, and did not comply with other requirements under the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations. In addition, the grantee participated in lobbying activities, contrary to the enabling legislation and OMB Circular A-122. Our report contains eight recommendations to address the issues identified in the report and to strengthen the grantee's management controls.

Scope: The audit covered the period January 2001 through May 2002 for the OTAG grant and the period May 2000 through June 2001 for the Public Entity Grant awarded through the National Center for Tenant Ownership. We performed the fieldwork at the office of the Philadelphia Regional Alliance of HUD Tenants located at 525 S. 4<sup>th</sup> Street, Philadelphia, PA and at their fiscal agent, Housing Authority of the Delaware Valley at 1500 Walnut Street, Philadelphia, PA during June through July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

#### **10. Tenants' Action Group of Philadelphia, Grant Number FFOT98025PA**

Audit Report Number 2002-PH-1004, September 30, 2002

URL: <http://www.hud.gov/oig/ig231004.pdf>

We completed an audit of the Tenants' Action Group of Philadelphia's (Grantee) Outreach and Technical Assistance Grant (OTAG). The primary objective of our review was to determine whether the Grantee expended Section 514 grant funds for only eligible activities as identified in the OTAG agreement and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. In addition, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities. The audit identified that the Grantee assisted ineligible projects; could not provide adequate support for \$97,928 in disbursements it made for salaries and fringe benefits; and did not properly support \$35,341 in direct and indirect costs. In addition, the grantee charged an additional \$13,719 in ineligible expenditures to the grant. We also noted the grantee did not comply with other requirements of the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, which included using grant funds to participate in lobbying activities. Accordingly, we made recommendations that will correct the above deficiencies and will improve the Grantee's controls over administering OTAG funds.

Scope: The audit covered the period September 1998 through October 2001. We performed the fieldwork at the Tenants' Action Group of Philadelphia located at 21 S. 12<sup>th</sup> Street, Philadelphia, PA 19107, during July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**11. Virginia Poverty Law Center, Grant Number FFOT98029VA**

Audit Report Number 2002-PH-1002, September 30, 2002

URL: <http://www.hud.gov/oig/ig231002.pdf>

We completed an audit of the Virginia Poverty Law Center's (Grantee) Outreach and Technical Assistance Grant (OTAG). The primary objective of our review was to determine whether the Grantee expended Section 514 grant funds for only eligible activities as identified in the OTAG agreement and in accordance with U.S. Department of Housing and Urban Development (HUD) and other Federal requirements to further the Mark-to-Market Program. In addition, the review was conducted to determine whether the Grantee used grant funds to pay expenses associated with lobbying activities. Federal regulations specifically prohibit the use of grant funds for lobbying activities. The audit identified that the Grantee could not provide adequate support for \$63,050 in disbursements it made for salaries, fringe benefits, and \$11,950 in indirect costs. We also noted the Grantee did not comply with other requirements of the enabling legislation and the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, which included using grant funds to participate in various lobbying activities. Accordingly, we made recommendations that will correct the above deficiencies.

Scope: The audit covered the period September 1998 through May 31, 2002. We performed the fieldwork at the Virginia Poverty Law Center located at 201 West Broad Street, Suite 302, Richmond, VA 23220, during June through July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**12. Florida Housing Coalition Inc., Grant Numbers FFOT98005FL and FFOT00010FL**

Audit Memorandum Number 2002-AT-1809, September 27, 2002

URL: <http://www.hud.gov/oig/ig241809.pdf>

We completed an audit of the two Outreach and Technical Assistance Grants and four Intermediary Technical Assistance Grants awarded to Federal Housing Coalition, Inc. (Grantee). The overall objective of the review was to determine if the Grantee used Section 514 grant funds for only eligible activities as identified in the grant agreements and HUD requirements. We did not identify any ineligible lobbying activities. The Grantee used the OTAG and ITAG funds for only eligible activities and maintained accounting system records and documentation that complied with OMB Circulars A-122 and A-110. We found no material reportable conditions.

Scope: The audit covered transactions and grant activity that occurred during the period October 1998 through May 2002. We performed the fieldwork at the Grantee's offices located at 1367 E. Lafayette Street, Suite C, Tallahassee, Florida, 32301 during June 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**13. Homeless and Housing Coalition of Kentucky Inc., Grant Numbers FFOT98011KY and FFOT00016KY**

Audit Report Number 2002-AT-1808, September 20, 2002

URL: <http://www.hud.gov/oig/ig241808.pdf>

We reviewed the eligibility of costs of Homeless and Housing Coalition of Kentucky, Inc.'s Outreach and Technical Assistance Grant (OTAG), with particular emphasis on identifying ineligible lobbying activities. The audit concluded the Grantee failed to maintain adequate records to support charges to the grants, and charged the grants for ineligible activities. The ineligible activities included unreasonable consulting fees, lobbying activities that are prohibited



by OMB Circular A-122, and unrelated travel and training costs. The Grantee's failure to comply with requirements under OMB Circulars A-122 and A-110 resulted in overcharges to the grants of at least \$16,287 for ineligible activities. The Grantee also failed to use a cost allocation method or plan that complied with guidance in OMB Circular A-122 to allocate indirect costs to the grants. Consequently, the Grantee could not support \$54,625 of indirect costs charged to the grants. In addition, the Grantee failed to submit required supporting data for some payment vouchers.

Scope: The audit covered the period January 1999 through May 2002. We performed the fieldwork at the Grantee's offices at 221 W. Main Street, Suite 105, Frankfort, KY 40601 during June and July 2002. We conducted the audit in accordance with generally accepted government auditing standards.

**14. North Carolina Low Income Housing Coalition, Inc., Grant Numbers FFOT98022NC and FFOT00025NC**

Audit Report Number 2002-AT-1005, September 27, 2002

URL: <http://www.hud.gov/oig/ig241005.pdf>

We did not identify any ineligible lobbying activities. However, the Grantee obtained advances in excess of program needs, claimed reimbursement for expenditures not paid, and claimed reimbursement for the same expenses twice, resulting in overcharges to the grants of \$52,083. In addition, the Grantee did not use a cost allocation method or plan that complied with guidance in OMB Circular A-122. The lack of an adequate cost allocation plan resulted in overcharges to the grants of at least \$9,030. Furthermore, the Grantee hired a nonprofit organization to conduct portions of the grant activities under a cost reimbursable type contract. Of the invoices submitted by the contractor for \$166,470, we determined \$73,361 was not adequately supported. Without adequate supporting documentation, the \$73,361 represents potential overcharges to the grants. In addition, we determined that \$2,344 in contractor salaries and benefits represents overcharges to the grant. Our report contains recommendations to address these issues and to strengthen management controls over the Grantee. We recommend you consider suspending grant funding until the Grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditures complies with OMB Circular A-122.

Scope: The audit covered transactions and grant activity that occurred during the period October 1998 through June 2002. We performed the fieldwork at the Grantee's offices located at 3948 Browning Place, Suite 210, Raleigh, North Carolina, 27609 during June and July 2002. We conducted the audit in accordance with generally accepted government auditing standards.

**15. Coalition on Homelessness and Housing in Ohio, Grant Numbers FFOT00031OH and FFOT98023OH**

Audit Memorandum Number 2002-CH-1802, September 24, 2002

URL: <http://www.hud.gov/oig/ig251802.pdf>

We completed an audit of the Coalition on Homelessness and Housing in Ohio's Section 514 Outreach and Training Assistance Grants awarded under the Multifamily Assisted Housing Reform and Affordability Act of 1997. The objectives of the audit were to determine whether the Coalition had: management controls in place to ensure that Section 514 Grant funds were used for eligible activities; and expended the Grant funds for any lobbying activities. We found no material reportable conditions based upon our audit objectives. The Coalition properly managed the two Outreach and Training Assistance Grants and assured that Grant funds were used for

eligible purposes. The Coalition had adequate controls in place to preclude paying lobbying expenses with Grant monies. The Coalition used American Fundware software system to track each employee's time spent on each activity, including lobbying. The system was set up so that each Grant had its own account number detailing how the funds were spent.

Scope: We reviewed Coalition on Homelessness and Housing in Ohio's policies and procedures as they pertained to our audit objectives for the period October 1, 1998 through April 1, 2002. We performed our on-site audit work between April and June 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

#### **16. HOME Line, Grant Number FFOT00044MN**

Audit Memorandum Number 2002-CH-1803, September 24, 2002

URL: <http://www.hud.gov/oig/ig251803.pdf>

We completed an audit of HOME Line's Section 514 Outreach and Training Assistance Grant awarded under the Multifamily Assisted Housing Reform and Affordability Act of 1997. The objectives of the audit were to determine whether HOME Line had: management controls in place to ensure that Section 514 Grant funds were used for eligible activities; and expended the Grant funds for any lobbying activities. We found no material reportable conditions based upon our audit objectives. HOME Line properly managed the Outreach and Training Assistance Grant and assured that Grant funds were generally used for eligible purposes. HOME Line had adequate controls in place to preclude paying lobbying expenses with Grant monies. An in-house system was developed by HOME Line to track employees' time spent on each activity, including lobbying. Home Line set up its accounting system to identify each grant with an account number, thus enabling reports detailing how funds were spent.

Scope: We reviewed HOME Line's policies and procedures as they pertained to our audit objectives for the period January 1, 2000 through June 30, 2002. We performed our on-site audit work between July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

#### **17. Indiana Coalition for Housing and Homeless Issues, Grant Numbers FFOT98008IN AND FFOT00014IN**

Audit Report Number 2003-CH-1004, October 31, 2002

URL: <http://www.hud.gov/oig/ig351004.pdf>

We completed an audit of Indiana Coalition on Housing and Homeless Issues' Section 514 Outreach and Training Assistance Grants. The audit identified that the Coalition: (1) lacked documentation to support \$14,113 in Grant funds disbursed; (2) improperly used \$21,670 of Outreach Grant funds to pay duplicative expenses and costs not related to the Grants; and (3) did not maintain complete and accurate books and records for the Grants. Our report contains five recommendations to address the issues identified in this audit.

Scope: Our audit covered the period October 1998 to June 2002 for the two Outreach and Training Assistance Grants that the Coalition received. We performed our on-site audit work between May and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**18. Tenants United for Housing Inc., Grant Numbers FFOT98007IL AND FFOT00013IL**

Audit Report Number 2003-CH-1003, October 29, 2002

URL: <http://www.hud.gov/oig/ig351003.pdf>

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.

Scope: 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.

**19. New Mexico Public Interest Education Fund, Grant Number FFOT00028NM**

Audit Report Number 2002-FW-1003, September 30, 2002

URL: <http://www.hud.gov/oig/ig261003.pdf>

We completed an audit of the New Mexico Public Interest Education Fund (Education Fund) Outreach and Training Assistance Grant (OTAG) and three Public Entity Grants. The audit determined that the Education Fund engaged in lobbying activities. In addition, the Education Fund expended over \$14,400 on ineligible activities and did not have sufficient documentation to support over \$5,000 in grant expenditures. Our report contains eight recommendations to address the issues identified in the report.

Scope: The audit covered the period January 2001 through April 2002 for the OTAG grant and the period May 2000 through April 2001 for the Public Entity Grants awarded to the Education Fund. We performed the fieldwork at the Education Fund located at 134 Harvard Street, Albuquerque, New Mexico, during May and June 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**20. Texas Tenant's Union Inc., Grant Numbers FFOT98027TX and FFOT00038TX**

Audit Memorandum Number 2002-FW-1805, August 21, 2002

URL: <http://www.hud.gov/oig/ig261805.pdf>

We performed an audit of Texas Tenants Union's two Outreach and Training Assistance Grants (OTAG) and a Public Entity Grant. Congress required our office to audit each provision of technical assistance obligated under the requirements of Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 over the last 4 fiscal years. Under Section 514, HUD provided the funding for the Texas Tenant's Union grants that we audited. Our objectives were to determine whether the Texas Tenant's Union used its grant funds for only eligible activities and to determine whether it expended the funds for any lobbying activities. Overall, the Texas Tenant's Union used its grants for eligible activities. The Texas Tenant's Union supported the National Alliance of HUD Tenants by attending annual conferences. Although the National Alliance of HUD Tenants provided training opportunities, it also performed lobbying activities. The Texas Tenant's Union did not directly use its grant fund for the National Alliance of HUD Tenants' lobbying activities. In addition, the Texas Tenant's Union inadvertently claimed a minimal amount in ineligible and unsupported costs. We made no recommendations.

Scope: Our audit scope included draws from January 1998 through May 2002. We performed our fieldwork from May 20, 2002 through June 18, 2002. We performed our audit in accordance with generally accepted government auditing standards.

**21. Housing & Credit Counseling, Inc., Grant Numbers FFOT98010KS and FFOT00015KS**

Audit Report Number 2002-KC-1002, September 19, 2002

URL: <http://www.hud.gov/oig/ig271002.pdf>

We completed an audit of Housing & Credit Counseling, Inc.'s Outreach and Technical Assistance Grant (OTAG) pursuant to Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117). Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities. The audit concluded the Grantee has an effective and well-run organization with the exception the Grantee could not demonstrate that the allocation plans used to distribute salaries and indirect costs to the grant are reasonable. The Grantee also did not have documentation to support the method of cost allocation used in their plans and did not obtain HUD's approval for the plans. Housing & Credit Counseling, Inc. agreed with the three recommendations we made in the report to improve the cost allocation process.

Scope: The audit covered the period September 1998 through April 2002 for the OTAG grant. We performed the fieldwork at Housing & Credit Counseling, Inc. located at 1195 SW Buchanan, Suite 101, Topeka, Kansas during May through July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**22. Housing Comes First, Grant Numbers FFOT98018KS and FFOT00022KS**

Audit Report Number 2003-KC-1002, December 17, 2002

URL: <http://www.hud.gov/oig/ig371002.pdf>

We have completed an audit of Housing Comes First and have determined that Housing Comes First did not comply with HUD and Office of Management and Budget (OMB) requirements. Specifically, Housing Comes First did not establish and implement controls to ensure grant funds were used according to applicable regulations. In addition, Housing Comes First could not adequately support how it used \$336,108 in grant funds, did not use a reasonable method to allocate costs, did not follow regulations when drawing down grant funds from HUD, and engaged in lobbying activities that possibly violated Federal regulations. Our report contains one recommendation that HUD take appropriate administrative action against Housing Comes First and its management.

Scope: The audit covered the period September 30, 1998 through November 19, 2002. We performed the fieldwork at Housing Comes First, 5300 Delmar Boulevard, St. Louis, Missouri from June through Mid-November 2002. Our audit testing was severely limited by the lack of availability of Housing Comes First staff and records. Except for the testing limitations described above, we conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**23. Iowa Coalition for Housing and the Homeless, Grant Number FFOT980091A**

Audit Report Number 2002-KC-1003, September 19, 2002

URL: <http://www.hud.gov/oig/ig271003.pdf>

We completed an audit of the Iowa Coalition for Housing and the Homeless' Outreach and Technical Assistance Grant (OTAG) pursuant to Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117). Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities. The audit concluded the Coalition is effectively managed and well run with the exception of the method used to charge salaries to the grant. The audit identified that the Grantee over charged the grant \$4,945 because the method they used to charge salaries to the grant was not proper. The Coalition agreed that the method used to allocate salary expense to the grant was not the most accurate method available to them. They said they have modified the worksheets used in their indirect cost allocation system. We made two recommendations that should correct the problem and recoup the funds overcharged to the grant.

Scope: The audit covered the period September 1998 through May 2002. We performed on-site audit work at the Coalition located at 713 East Locust Street, Des Moines, Iowa 50309. The on-site audit work was accomplished during June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**24. Crossroads Urban Center, Grant Numbers FFOT98028UT and FFOT00039UT**

Audit Report Number 2002-DE-1005, September 25, 2002

URL: <http://www.hud.gov/oig/ig281005.pdf>

We completed an audit of the Crossroads Urban Center's two Outreach and Training Grants (OTAG) and a Public Entity Grant. Crossroads Urban Center is a nonprofit organized in the State of Utah. The audit identified that the Crossroads Urban Center did not adequately document costs of the grant and did not have a Federally approved cost allocation plan when it charged at least \$23,600 of indirect costs to a HUD grant. In addition, the Crossroads Urban Center used at least \$14,400 in grant funds for ineligible costs that consisted of a 20% indirect cost allocation for donated rent. Overall, the Crossroads Urban Center used its grant funds for eligible activities. The nonprofit documented its lobbying activities and as a matter of policy did not charge these costs to the HUD grants.

Scope: The audit covered the period October 1999 to June 2002. We performed the fieldwork at the Crossroads Urban Center located at 347 South 400 East, Salt Lake City, Utah 84111 in August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**25. Housing Advocacy Coalition, Grant Number FFOT00008CO**

Audit Report Number 2002-DE-1004, August 26, 2002

URL: <http://www.hud.gov/oig/ig281004.pdf>

We completed an audit of the Housing Advocacy Coalition and the Community Resource Center's Outreach and Training Assistance Grant. The Housing Advocacy Coalition and the Community Resource Center jointly submitted a grant application. The two non-profits share the grant as co-recipients, even though the HUD grant agreement identifies the Housing Advocacy Coalition as the grantee. The audit identified that the grantees over charged the grant at least \$3,827 for salaries and did not comply with other requirements under the Office of Management

and Budget's Circular A-122, Cost Principles for Non-Profit Organizations. In addition, the grantees participated in lobbying activities, contrary to the enabling legislation and OMB Circular A-122. Our report contains seven recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grantees.

Scope: The audit covered the period January 2001 through April 2002 for the OTAG grant and the period May 2000 through April 2001 for the Public Entity Grant (a Section 514 grant received from an Intermediary Technical Assistance Grant), awarded to the Community Resource Center. We performed the fieldwork at the Housing Advocacy Coalition located at 2023 East Bijou Street, Colorado Springs, CO 80909 and the Community Resource Center located at 655 S. Broadway, Suite 300, Denver, CO 80203 during April through June 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**26. Corporation for National Service (VISTA), Memorandum of Understanding (Number I-OPC-21214)**

Audit Report Number 2003-DE-1003, October 28, 2002

URL: <http://www.hud.gov/oig/ig381003.pdf>

We completed an audit of the \$2.4 million provided by HUD to the Corporation for National Service (Corporation), under a June 1998 Memorandum of Understanding. We performed the review at the direction of Congress. We wanted to know if VISTA members' activities, funded under the Memorandum of Understanding, were eligible under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). We reviewed 21 of the 53 VISTA projects supported by HUD funding. We identified that the Corporation approved VISTA projects with goals/objectives that did not comply with MAHRA or the HUD Memorandum of Understanding. In addition, we identified that four of the 21 projects provided ineligible assistance under MAHRA. We determined that the Corporation expended at least \$57,916 to fund these ineligible activities. In addition, we could not determine the eligibility of the assisted HUD multifamily projects because the VISTA sponsors' quarterly reports lacked sufficient detail to make a determination. As a result, VISTA members were utilized to further the goals and objectives of the National Alliance of HUD Tenants. In addition, HUD cannot be sure that the projects assisted were eligible under MAHRA. The Corporation did not establish adequate management control to ensure only items eligible under MAHRA and the Memorandum of Understanding received assistance. In addition, the Corporation did not prepare or submit the required quarterly reports per the Memorandum of Understanding. We did not identify lobbying activities by the VISTA members. Our report contains two recommendations to address the issues identified in the report and strengthen management controls over future agreements between HUD and the Corporation.

Scope: The audit covered the period June 12, 1998 through June 2002. We reviewed the \$2.4 million provided by HUD, of the originally intended \$3.0 million. Due to the funding shortfall, the Corporation used its own funds to continue funding VISTA members' activities after December 31, 2001. Therefore, our review includes activities funded in part with Corporation funds. We performed the fieldwork at the Corporation's Office located at 1201 New York Avenue, NW, Washington, District of Columbia during July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**27. Cox & Associates, Contract (Number C-OPC-21280)**

Audit Memorandum Number 2002-DE-1805, August 21, 2002

URL: <http://www.hud.gov/oig/ig281805.pdf>

We completed a review of Cox & Associates, Washington, District of Columbia - Section 514 Outreach and Technical Assistance Training Contract, C-OPC-21280, Cox Contract. The objectives of the review were to determine if Cox & Associates used Section 514 grant funds for only eligible activities as identified in Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), their agreements, and/or other requirements to further the Mark-to-Market Program. Specifically we wanted to determine if Cox & Associates expended Section 514 funds for any lobbying activities. MAHRA specially identified lobbying as an ineligible activity. Based upon the review and analysis of the Drawdown Invoices and the Bi-Weekly Activity Reports, we determined that all of the funds obligated, drawn down, and paid to Cox & Associates, for services provided under the Cox Contract, were for authorized costs. These costs consisted of salaries, consulting fees, travel expenses, and materials associated with the financial management technical assistance training of OTAG/ITAG grantees. There was no evidence of spending of Section 514 monies on unauthorized activities. In addition, we did not discover any evidence of lobbying activities.

Scope: We reviewed Cox & Associates' records and files maintained by the Department of Housing and Urban Development (HUD) as they pertained to our objectives for the period September 30, 1998 through May 31, 1999. We performed the on-site review work during July 2002. This audit was performed in accordance with the Generally Accepted Government Auditing Standards.

**28. Affordable Housing and Homeless Alliance, Grant Number FFOT00011HI**

Audit Report 2002-DE-1002, September 30, 2002

URL: <http://www.hud.gov/oig/ig281002.pdf>

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

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

**29. Amador-Tuolumne Community Action Agency, Grant Numbers FFIT98001AT and FFIT98002AT**

Audit Memorandum Number 2002-SF-1805, September 26, 2002

URL: <http://www.hud.gov/oig/ig291805.pdf>

We completed an audit of the Amador-Tuolumne Community Action Agency (A-TCAA) Intermediary Technical Assistance Grants (ITAG), numbers FFIT98001AT and FFIT98002AT. This was pursuant to a Congressional directive to audit all grants authorized under Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). The primary purpose of the audit was to determine whether grant funds were expended in accordance with the requirements of MAHRA and other applicable regulations and requirements. Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities. Although sub-recipients used ITAG funds to send tenants and staff to the National Alliance of HUD Tenants (NAHT) conferences, which consisted of two days of training and a third day of lobbying activities, most sub-recipients excluded the last day's costs or showed they did not participate in lobbying on the third day. Only one met with Congressional staff while including the last day's costs in its reimbursement request. However, there is no evidence this resulted in additional grant costs that would not have occurred if activity were limited to the two days of training. All other grant costs appear to have been incurred in compliance with the applicable regulations and requirements.

Scope: The audit covered the period from February 1999 through June 2002, and the fieldwork was performed at the A-TCAA offices located in Sonoma and Jackson, California, between July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**30. California Coalition for Rural Housing, Sacramento, California, Grant Numbers FFOT98002CA and FFOT00004CA**

Audit Memorandum Number 2002-SF-1806, September 26, 2002

URL: <http://www.hud.gov/oig/ig291806.pdf>

We have completed an audit of the California Coalition for Rural Housing's (CCRH) Outreach and Training Assistance Grants, numbered FFOT98002CA and FFOT00004CA. The primary purpose of the audit was to determine whether grant funds were expended in accordance with the requirements of Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 and other applicable regulations and requirements. Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities. Although CCRH staff participated in National Alliance of HUD Tenants (NAHT) conferences and teleconferences, both of which included lobbying related topics or activities, there was no information to show the grantee participated in or charged the grant for any material costs associated with possible lobbying related activity. Other grant costs appear to have been incurred in compliance with the applicable regulations and requirements. However, CCRH did not submit complete quarterly progress reports to the U.S. Department of Housing and Urban Development (HUD) in compliance with program requirements.

Scope: The audit covered the period November 1998 through June 2002, which included review of the Public Entity Grant provided by the Low Income Housing Fund to CCRH as part of HUD's Intermediary Technical Assistance Grant program. We performed the fieldwork at the CCRH office located in Sacramento, California, between June and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.



**31. Housing Rights Committee of San Francisco/Tides Center, Grant Numbers FFOT98004CA and FFOT00005CA**

Audit Report Number 2002-SF-1005, September 26, 2002

URL: <http://www.hud.gov/oig/ig291005.pdf>

We audited the Housing Rights Committee of San Francisco (HRCFSF) and Tides Center's Outreach and Training Assistance Grants (OTAG) with particular emphasis on identifying ineligible lobbying activities. Although HRCFSF staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities from other eligible OTAG business conducted during the conference calls or at the conferences. HRCFSF and Tides Center lack adequate management controls and they failed to properly document and allocate employee salary and other costs in accordance with Office of Management and Budget (OMB) requirements, resulting in \$4,114 in unsupported costs. In addition, the grantees did not comply with administrative and accounting requirements under the applicable Notices of Funds Availability (NOFA), Office of Management and Budget's (OMB) Circulars, Codes of Federal Regulations (CFR), and the grant agreements. Our report contains five recommendations to address the issues identified in the report and strengthen the management controls of the grantees.

Scope: The audit covered the period of October 1998 through June 2002 for the OTAG grant. We performed the fieldwork at the HRCFSF and the Tides Center offices located in San Francisco, California, between May and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**32. Los Angeles Center for Affordable Tenant Housing, Grant Numbers FFOT98003CA and FFOT00007CA**

Audit Memorandum Number 2002-SF-1808, September 30, 2002

URL: <http://www.hud.gov/oig/ig291808.pdf>

We audited the Los Angeles Center for Affordable Tenant Housing (LACATH) Outreach and Training Assistance Grants (OTAGs) with particular emphasis on identifying ineligible lobbying activities. Although LACATH staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities from other eligible OTAG business conducted during the conference calls or at the conferences. Most of the other grant costs appear to have been incurred in compliance with the applicable regulations and requirements. However, LACATH did fail to properly allocate employee salary costs in accordance with Office of Management and Budget (OMB) requirements. The report includes one recommendation to resolve the salary allocation problem.

Scope: The audit covered the period from June 1999 through May 2002 and the fieldwork was performed at the LACATH offices in Los Angeles, California. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**33 Legal Aid Society of San Diego, Inc., Grant Number FFOT00006CA**

Audit Memorandum Number 2002-SF-1807, September 30, 2002

URL: <http://www.hud.gov/oig/ig291807.pdf>

We audited the Legal Aid Society of San Diego (LASSD) Outreach and Training Assistance Grant (OTAG) with particular emphasis on identifying ineligible lobbying activities. Although LASSD staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities from other eligible OTAG business conducted during the conference calls or at the conferences. All other grant costs appear to have been incurred in compliance with the applicable regulations and requirements. The report does not include any recommended corrective actions.

Scope: The audit covered the period from April 2001 through June 2002 and the fieldwork was performed at the LASSD offices in San Diego, California. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**34 Legal Aid Society of Hawaii, Grant Number FFOT98006HI**

Audit Report 2002-SF-1006, September 30, 2002

URL: <http://www.hud.gov/oig/ig291006.pdf>

We audited the Legal Aid Society of Hawaii's (LASH) Outreach and Training Assistance Grants (OTAG) with particular emphasis on identifying ineligible lobbying activities. Our audit identified the LASH charged the grant \$6,408 for tenant legal representation not allowed by the 1998 NOFA, OMB Circular A-122, or the grant agreement. In addition, the LASH did not sufficiently confirm \$10,904 in questionable sub grantee payroll expenses in accordance with the grant agreement; OMB Circular A-110; and 24 CFR Part 84, Uniform Administrative Requirements for Grants and Agreements with Nonprofit Organizations. Our report contains five recommendations to address the issues identified in the report and strengthen the management controls of the grantees.

Scope: The audit covered the period of October 1998 through June 2002 for the OTAG grant. We performed the fieldwork at the LASH office located in Honolulu, Hawaii, during July 2002. In addition, we obtained information from other OIG auditors, who performed a concurrent review at the Affordable Housing and Homeless Alliance's office, located in Honolulu, Hawaii. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**35 Low Income Housing Fund, Grant numbers FFIT98003LF and FFIT98004LF**

Audit Report Number 2002-SF-1004, September 30, 2002

URL: <http://www.hud.gov/oig/ig291004.pdf>

We audited the Low Income Housing Fund's (LIHF) Intermediary Technical Assistance Grants (ITAG) with particular emphasis on identifying ineligible lobbying activities. The audit identified the grantee did not comply with reporting and monitoring requirements under the applicable Notices of Fund Availability (NOFA), Office of Management and Budget's (OMB) Circulars, Codes of Federal Regulations (CFR), and the grant agreements. Our report contains four recommendations to address the issues identified in the report and strengthen the management controls of the grantee.

Scope: The audit covered the period February 1999 through June 2002 for the ITAG grants. We performed the fieldwork at the LIHF office located in Oakland, California, between July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**36 Southern Arizona People's Law Center, Tucson, Arizona, Grant Number FFOT00003AZ**  
Audit Report Number 2002-SF-1007, September 30, 2002  
[URL: http://www.hud.gov/oig/ig291007.pdf](http://www.hud.gov/oig/ig291007.pdf)

We audited the Southern Arizona People's Law Center (SAPLC) Outreach and Training Assistance Grant (OTAG) with particular emphasis on identifying ineligible lobbying activities. Although SAPLC staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities from other eligible OTAG business conducted during the conference calls or at the conferences. However, SAPLC does not have adequate management controls and failed to properly document and allocate employee salary and other costs in accordance with Office of Management and Budget (OMB) requirements. Of the \$109,319 in OTAG funding, SAPLC received through June 30, 2002, we determined that claims totaling \$79,854 were ineligible and \$19,686 were unsupported. We made four recommendations including recovery of ineligible and unsupported costs, and suspension funding authorization until adequate controls are implemented.

Scope: The audit covered the period from January 2001 through June 2002 and the fieldwork was performed at the SAPLC offices in Tucson, Arizona. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**37 Community Alliance of Tenants, Grant Numbers FFOT98024OR and FFOT00032OR**  
Audit Report Number 2003-SE-1001, October 31, 2002  
[URL: http://www.hud.gov/oig/ig301001.pdf](http://www.hud.gov/oig/ig301001.pdf)

The Community Alliance of Tenants (CAT) is the recipient of two OTAG grants totaling \$410,000. Our audit found that CAT generally segregated its lobbying expenditures from the grants, but inadvertently charged \$434 and other indeterminable costs to the OTAG grants for prohibited lobbying activities. In addition, CAT did not fully comply with the cost principles of Office of Management and Budget (OMB) Circular A-122 in its classification of direct and indirect costs, and other instances of non-compliance with A-122. As a result, CAT used grant funds for lobbying and other ineligible activities, and may have over or undercharged the OTAG grants for indirect costs. In addition, the grants were charged \$6,493 in ineligible and \$45,751 in questionable direct and indirect expenses. Our report contains recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grants.

Scope: The audit covered the period June 1998 through June 2002 for the OTAG grants and May 2000 through August 2000 for the ITAG Public Entity Grant. We performed the fieldwork at the offices of the Community Alliance of Tenants in Portland, Oregon during July and August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**38. Tenants Union, Grant Numbers FFOT98030WA and FFOT00040WA**

Audit Report Number 2003-SE-1002, December 2, 2002

URL: <http://www.hud.gov/oig/ig301002.pdf>

We completed an audit of the Tenants Union and Washington Low Income Housing Network's Outreach and Training Assistance Grants (OTAG). The Tenants Union and Washington Low Income Housing Network (Network) jointly submitted the grant applications. The HUD grant agreements identify the Tenants Union as the grantee. The Washington Low Income Housing Network performed OTAG work as a sub-grantee to the Tenants Union. We also audited the Tenants Union's two Public Entity Grants received through an intermediary as part of HUD's Intermediary Technical Assistance Grant (ITAG) program. The audit determined that the Tenants Union participated in lobbying activities, contrary to the enabling legislation and Office of Management and Budget (OMB) Circular A-122. Further, neither grantee fully complied with HUD nor OMB Circular A-122 cost allocation requirements, resulting in \$127,804 of ineligible and questionable labor costs charged to the OTAG grants. The grantees also charged \$36,394 of other ineligible and questionable expenses to the grants. Our report contains seven recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grantees.

Scope: The audit covered the period October 1998 through December 2001 for the OTAG grants and July 2000 through June 2001 for the ITAG Public Entity Grants. We performed the fieldwork at the offices of the Tenants Union and the Washington Low Income Housing Network in Seattle, Washington from May through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**39. National Housing Trust, Grant Numbers FFOT98001AL, FFOT98015MI, FFOT98016MN, FFOT98017MS, FFOT98026TN, FFOT98031WV, FFOT98032WI, FFOT00001AL, FFOT00002AZ, FFOT00012ID, FFOT00017LA, FFOT00021MI, FFOT0023MS, FFOT00024MT, FFOT0026ND, FFOT00035SC, FFOT0036SD, FFOT00037TN, FFOT0041WI, FFOT00042WV, and FFOT00043WY**

Audit Report Number 2003-AO-1002, December 9, 2002

URL: <http://www.hud.gov/oig/ig3c1002.pdf>

We completed an audit of the Outreach and Technical Assistance Grants (OTAGS) awarded to the National Housing Trust (NHT). The audit identified that NHT properly accounted for the direct costs charged to the OTAGs. However, NHT overcharged the OTAGs over \$29,000 for employee services and included indirect costs in its billing rates that had not been approved. In addition, NHT did not maintain records to account for non-billable hours and received \$946 in duplicate payments. However, we did not identify any costs related to lobbying activities. Our report contains seven recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grantees.

Scope: The audit covered the period October 1, 1998, through May 31, 2002. We performed the fieldwork at NHT's Office in Washington, DC, from June through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

**40. National Center for Tenant Owners, Grant Number FFIT98005NT**

Audit Report Number 2003-AO-1001, December 3, 2002

URL: <http://www.hud.gov/oig/ig3c1001.pdf>

We completed a review of the Intermediary Technical Assistance Grant (ITAG) awarded to the National Center for Tenants Ownership (NCTO). The audit identified that NCTO's subgrantees charged \$45,212 for employees' salaries and fringe benefits in excess of actual cost, did not submit adequate supporting documentation for expenditures, and did not adequately support the cost allocation method for charging indirect costs. In addition, NCTO received \$35,781 in duplicate payments. However, we did not find any activity that related to lobbying. Our report contains nine recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grantees.

Scope: The audit covered the period October 1998 through May 2002. We performed our fieldwork at Georgetown University Law Center and the Office of Sponsored Accounting from June through August 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

# Schedule of Funding, Funds Disbursed, and Identification of Those Grantees Whose Grant Funds Were Suspended

The Director of OMHAR suspended the funding to the twenty-one grantees identified in RED.

We used a cut-off date of August 2002 for the dollar amounts in the table below.

	Agreement Number	Type of funding	Auditee Name	OIG Audit Report Number	Grant/Contract Amount	Authorized Amount	Amount Disbursed	Remaining Balance
1	FFOT00019MA	OTAG	Anti-Displacement Project	2002-BO-1004	\$250,000.00	\$250,000.00	\$196,028.00	\$53,972.00
	FFOT98013MA	OTAG			\$250,000.00	\$250,000.00	\$41,691.00	\$208,309.00
2	FFOT98014MA	OTAG	Boston Affordable Housing	2002-BO-1802	\$250,000.00	\$250,000.00	\$250,000.00	\$0.00
	FFOT00018MA	OTAG			\$450,000.00	\$450,000.00	\$160,752.00	\$289,248.00
3	FFOT00034RI	OTAG	People To End Homelessness	2002-BO-1006 2003-BO-1002	\$400,000.00	\$400,000.00	\$44,835.00	\$355,165.00
	FFOT00027NJ	OTAG			Ironbound Community Corp/H	2002-NY-1004	\$400,000.00	\$400,000.00
4	FFOT98019NJ	OTAG	\$210,000.00	\$210,000.00			\$0.00	\$210,000.00
	5	FFOT98021NY	OTAG	The Legal Aid Society	2002-NY-1005	\$250,000.00	\$250,000.00	\$82,724.73
FFOT00029NY		OTAG	\$230,000.00			\$230,000.00	\$89,659.42	\$140,340.58
6	FFOT98020NY	OTAG	New York State Tenant & Neighborhood	2002-NY-1803	\$350,000.00	\$350,000.00	\$350,000.00	\$0.00
	FFOT00030NY	OTAG			\$400,000.00	\$400,000.00	\$74,107.00	\$325,893.00
7	FFOT00009DE	OTAG	Delaware Housing Coalition	2002-PH-1003	\$180,000.00	\$180,000.00	\$62,925.00	\$117,075.00
	FFOT98012MD	OTAG			Legal Aid Bureau Inc	2002-PH-1006 2002-PH-1007	\$160,000.00	\$160,000.00
8	FFOT00020MD	OTAG	\$450,000.00	\$450,000.00			\$116,778.00	\$333,222.00
	9	FFOT00033PA	OTAG	Philadelphia Regional Alliance	2002-PH-1005	\$450,000.00	\$450,000.00	\$76,787.00
10	FFOT98025PA	OTAG	Tenant Action Group Philadelphia	2002-PH-1004	\$400,000.00	\$400,000.00	\$400,000.00	\$240,734.00
11	FFOT98029VA	OTAG	Virginia Poverty Law Center	2002-PH-1002	\$75,000.00	\$75,000.00	\$75,000.00	\$75,000.00
12	FFOT00010FL	OTAG	Florida Housing Coalition	2002-AT-1809	\$416,500.00	\$416,500.00	\$124,543.00	\$291,957.00
	FFOT98005FL	OTAG			\$110,000.00	\$110,000.00	\$110,000.00	\$0.00
13	FFOT98011KY	OTAG	Homeless & Housing Coalition Of Kentucky Inc.	2002-AT-1808	\$210,000.00	\$210,000.00	\$201,449.41	\$8,550.59
	FFOT00016KY	OTAG			\$450,000.00	\$450,000.00	\$27,734.36	\$422,265.64
14	FFOT98022NC	OTAG	North Carolina Low Income Housing, Inc.	2002-AT-1005	\$250,000.00	\$250,000.00	\$250,000.00	\$0.00
	FFOT00025NC	OTAG			\$450,000.00	\$450,000.00	\$121,043.00	\$328,957.00
15	FFOT00031OH	OTAG	Coalition On Homelessness And Housing In Ohio	2002-CH-1804	\$450,000.00	\$450,000.00	\$261,680.00	\$188,320.00
	FFOT98023OH	OTAG			\$400,000.00	\$400,000.00	\$35,252.00	\$364,748.00
16	FFOT00044MN	OTAG	Homeline	2002-CH-1803	\$450,000.00	\$450,000.00	\$82,051.00	\$367,949.00
17	FFOT98008IN	OTAG	Indiana Coalition Housing & Ho	2003-CH-1004	\$350,000.00	\$350,000.00	\$350,000.00	\$0.00
	FFOT00014IN	OTAG			\$350,000.00	\$350,000.00	\$181,341.00	\$168,659.00
18	FFOT00013IL	OTAG	Tenants United For Housing	2003-CH-1003	\$450,000.00	\$450,000.00	\$84,643.00	\$365,357.00
	FFOT98007IL	OTAG			\$350,000.00	\$350,000.00	\$349,780.00	\$220.00
19	FFOT00028NM	OTAG	New Mexico Public Interest Education Fund	2002-FW-1003	\$225,000.00	\$225,000.00	\$66,211.00	\$158,789.00

Appendix B

	Agreement Number	Type of funding	Auditee Name	OIG Audit Report Number	Grant/Contract Amount	Authorized Amount	Amount Disbursed	Remaining Balance
20	FFOT98027TX	OTAG	Texas Tenant's Union, Inc.	2002-FW-1805	\$250,000.00	\$250,000.00	\$240,239.16	\$9,760.84
	FFOT00038TX	OTAG			\$450,000.00	\$450,000.00	\$36,185.00	\$413,815.00
21	FFOT98010KS	OTAG	Housing & Credit Counseling	2002-KC-1002	\$250,000.00	\$250,030.00	\$250,030.00	\$0.00
	FFOT00015KS	OTAG			\$325,000.00	\$325,000.00	\$102,936.00	\$222,064.00
22	FFOT00022MO	OTAG	Housing Comes First	2003-KC-1002	\$450,000.00	\$450,000.00	\$37,739.00	\$412,261.00
	FFOT98018MO	OTAG			\$350,000.00	\$350,000.00	\$350,000.00	\$0.00
23	FFOT98009IA	OTAG	Iowa Coalition Housing & Homelessness	2002-KC-1003	\$220,000.00	\$220,000.00	\$128,776.00	\$91,224.00
24	FFOT00039UT	OTAG	Crossroad Urban Center	2002-DE-1005	\$300,000.00	\$300,000.00	\$95,589.35	\$204,410.65
	FFOT98028UT	OTAG			\$100,000.00	\$100,000.00	\$100,000.00	\$0.00
25	FFOT00008CO	OTAG	Housing Advocacy Coalition	2002-DE-1004	\$450,000.00	\$450,000.00	\$169,132.00	\$280,868.00
26	I-OPC-21214	MOU	Corporation For National Service (Vista)	2002-DE-1003	\$3,000,000.00	\$2,400,000.00	\$2,400,000.00	\$0.00
27	C-OPC-2180	Contract	Cox And Associates	2002-DE-1805	\$541,472.21	\$541,472.21	\$541,472.21	\$0.00
28	FFOT00011HI	OTAG	Affordable Housing and Homeless Alliance	2002-DE-1002	\$300,000.00	\$300,000.00	\$34,562.01	\$265,437.99
29	FFIT98001AT	ITAG	Amador-Tuolumne Community Act	2002-SF-1805	\$1,800,000.00	\$1,168,670.90	\$468,350.73	\$700,320.17
	FFIT98002AT	ITAG			\$1,800,000.00	\$699,656.20	\$332,727.14	\$366,929.06
30	FFOT00004CA	OTAG	California Coalition For Rural Housing	2002-SF-1806	\$450,000.00	\$450,000.00	\$0.00	\$450,000.00
	FFOT98002CA	OTAG			\$280,000.00	\$280,000.00	\$146,911.34	\$133,088.66
31	FFOT98004CA	OTAG	Housing Rights Committee Of San Francisco	2002-SF-1005	\$110,000.00	\$110,000.00	\$108,115.00	\$1,885.00
	FFOT00005CA	OTAG			\$400,000.00	\$400,000.00	\$85,465.00	\$314,535.00
32	FFOT00007CA	OTAG	Los Angeles Center For Affordable Tenant Housing	2002-SF-1808	\$450,000.00	\$450,000.00	\$7,148.00	\$442,852.00
	FFOT98003CA	OTAG			\$180,000.00	\$180,000.00	\$180,000.00	\$0.00
33	FFOT00006CA	OTAG	Legal Aid Of San Diego	2002-SF-1807	\$225,000.00	\$225,000.00	\$59,676.00	\$165,324.00
34	FFOT98006HI	OTAG	Legal Aide Society Of Hawaii	2002-SF-1006	\$50,000.00	\$50,000.00	\$48,090.00	\$1,910.00
35	FFIT98003LF	ITAG	Low Income Housing Fund	2002-SF-1004	\$1,800,000.00	\$681,250.75	\$433,122.00	\$248,128.75
	FFIT98004LF	ITAG			\$1,800,000.00	\$529,137.08	\$394,380.00	\$134,757.08
36	FFOT00003AZ	OTAG	Southern Arizona People's	2002-SF-1007	\$400,000.00	\$400,000.00	\$109,319.00	\$290,681.00
37	FFOT00032OR	OTAG	Community Alliance Of Tenant	2003-SE-1001	\$450,000.00	\$450,000.00	\$52,550.00	\$397,450.00
	FFOT98024OR	OTAG			\$100,000.00	\$100,000.00	\$100,000.00	\$0.00
38	FFOT00040WA	OTAG	The Tenants Union	2003-SE-1002	\$450,000.00	\$450,000.00	\$60,098.77	\$389,901.23
	FFOT98030WA	OTAG			\$240,000.00	\$240,000.00	\$236,925.82	\$3,074.18
39	FFOT00002AZ	OTAG	National Housing Trust	2003-AO-1002	\$15,700.00	\$15,700.00	\$6,171.80	\$9,528.20
	FFOT000121D	OTAG			\$15,700.00	\$15,700.00	\$6,434.25	\$9,265.75
	FFOT00017LA	OTAG			\$15,700.00	\$15,700.00	\$9,135.42	\$6,564.58
	FFOT00021MI	OTAG			\$15,700.00	\$15,700.00	\$2,275.19	\$13,424.81
	FFOT00023MS	OTAG			\$15,700.00	\$15,700.00	\$11,018.60	\$4,681.40
	FFOT00024MT	OTAG			\$15,700.00	\$15,700.00	\$14,117.61	\$1,582.39
	FFOT00026ND	OTAG			\$15,700.00	\$15,700.00	\$8,997.84	\$6,702.16
	FFOT00035SC	OTAG			\$15,700.00	\$15,700.00	\$9,111.32	\$6,588.68
	FFOT00036SD	OTAG			\$15,700.00	\$15,700.00	\$6,383.90	\$9,316.10
	FFOT00037TN	OTAG			\$15,700.00	\$15,700.00	\$10,480.66	\$5,219.34
	FFOT00041WI	OTAG			\$15,700.00	\$15,700.00	\$2,003.21	\$13,696.79
	FFOT00042WV	OTAG			\$15,700.00	\$15,700.00	\$1,665.19	\$14,034.81
	FFOT00043WY	OTAG			\$15,700.00	\$15,700.00	\$6,173.90	\$9,526.10
FFOT98001AL	OTAG	\$35,000.00	\$35,000.00	\$34,577.73	\$422.27			

	Agreement Number	Type of funding	Auditee Name	OIG Audit Report Number	Grant/Contract Amount	Authorized Amount	Amount Disbursed	Remaining Balance
	FFOT98015MI	OTAG			\$35,000.00	\$35,000.00	\$33,411.18	\$1,588.82
	FFOT98016MN	OTAG			\$35,000.00	\$35,000.00	\$31,432.21	\$3,567.79
	FFOT98017MS	OTAG			\$35,000.00	\$35,000.00	\$35,000.00	\$0.00
	FFOT98026TN	OTAG			\$35,000.00	\$35,000.00	\$35,000.00	\$0.00
	FFOT98031WV	OTAG			\$35,000.00	\$35,000.00	\$26,268.81	\$8,731.19
	FFOT98032WI	OTAG			\$45,000.00	\$45,000.00	\$40,309.00	\$4,691.00
	FFOT00001AL	OTAG			\$15,700.00	\$15,700.00	\$6,153.51	\$9,546.49
40	FFIT98005NT	ITAG	National Center For Tenant Owner	2003-AO-1001	\$1,800,000.00	\$1,404,646.68	\$1,006,330.16	\$398,316.52
<b>TOTAL</b>					<b>\$30,312,772.21</b>	<b>\$25,196,163.82</b>	<b>\$13,238,678.20</b>	<b>\$12,273,219.62</b>



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# SCHEDULE OF GRANTEES RECEIVING AN OMB CIRCULAR A-133 ANNUAL FINANCIAL AUDIT

The following table identifies those grantees that received OMB Circular A-133 annual financial audits. The grantees identified with N/A were not required to have a financial audit because they did not meet the requirements or threshold established by OMB Circular A-133.

	Auditee Name	OIG audit Report Number	Financial Audit	A-133 Findings
1	ANTI-DISPLACEMENT PROJECT	2002-BO-1004	N/A	N/A
2	BOSTON AFFORDABLE HOUSING	2002-BO-1802	N/A	N/A
3	PEOPLE TO END HOMELESSNESS	2002-BO-1006 2003-BO-1002	N/A	N/A
4	IRONBOUND COMMUNITY CORP/H	2002-NY-1004	Yes	No
5	THE LEGAL AID SOCIETY	2002-NY-1005	Yes	No
6	NEW YORK STATE TENANT & NEIGHBORHOOD	2002-NY-1803	Yes	No
7	DELAWARE HOUSING COALITION	2002-PH-1003	Yes	No
8	LEGAL AID BUREAU INC	2002-PH-1006 2002-PH-1007	Yes	No
9	PHILADELPHIA REGIONAL ALLIANCE	2002-PH-1005	N/A	N/A
10	TENANT ACTION GROUP PHILADELPHIA	2002-PH-1004	Yes	Yes
11	VIRGINIA POVERTY LAW CENTER	2002-PH-1002	Yes	No
12	FLORIDA HOUSING COALITION	2002-AT-1809	Yes	No
13	HOMELESS & HOUSING COALITION OF KY Inc.	2002-AT-1808	Yes	No
14	NORTH CAROLINA LOW INCOME HOUSING, Inc.	2002-AT-1005	Yes	No
15	COALITION ON HOMELESSNESS AND HOUSING IN OHIO	2002-CH-1802	Yes	No
16	HOMELINE	2002-CH-1803	In Process (1)	Unknown
17	INDIANA COALITION HOUSING & HO	2003-CH-1004	Yes	No
18	TENANTS UNITED FOR HOUSING	2003-CH-1003	Yes	No
19	NEW MEXICO PUBLIC INTEREST EDUCATION FUND	2002-FW-1003	Yes	Yes
20	TEXAS TENANT'S UNION, Inc.	2002-FW-1805	N/A	N/A
21	HOUSING & CREDIT COUNSELING	2002-KC-1002	Yes	No
22	HOUSING COMES FIRST	2003-KC-1002	Yes	Yes (4)
23	IOWA COALITION HOUSING & HOMELESSNESS	2002-KC-1003	Yes	No
24	CROSSROAD URBAN CENTER	2002-DE-1005	Yes	No
25	HOUSING ADVOCACY COALITION	2002-DE-1004	Yes (2)	No
26	CORPORATION FOR NATIONAL SERVICE (VISTA)	2003-DE-1003	Yes	No
27	COX AND ASSOCIATES	2002-DE-1805	N/A (3)	N/A
28	AFFORDABLE HOUSING AND HOMELESS ALLIANCE	2002-DE-1002	N/A	N/A
29	AMADOR-TUOLUMNE COMMUNITY ACT	2002-SF-1805	Yes	No
30	CALIFORNIA COALITION FOR RURAL HOUSING	2002-SF-1806	N/A	N/A
31	HOUSING RIGHTS COMMITTEE OF SAN FRANCISCO	2002-SF-1005	Yes	No
32	LOS ANGELES CENTER FOR AFFORDABLE TENANT HOUSING	2002-SF-1808	N/A	N/A

## Appendix C

	Auditee Name	OIG audit Report Number	Financial Audit	A-133 Findings	
33	LEGAL AID OF SAN DIEGO	2002-SF-1807	Yes	No	
34	LEGAL AIDE SOCIETY OF HAWAII	2002-SF-1006	Yes	No	
35	LOW INCOME HOUSING FUND	2002-SF-1004	Yes	Yes	
36	SOUTHERN ARIZONA PEOPLE'S	2002-SF-1007	N/A	N/A	
37	COMMUNITY ALLIANCE OF TENANT	2003-SE-1001	N/A	N/A	
38	THE TENANTS UNION	2003-SE-1002	N/A	N/A	
39	NATIONAL HOUSING TRUST	2003-AO-1002	Yes	No	
40	NATIONAL CENTER FOR TENANT OWNER	2003-AO-1001	Yes	No	
		Totals	Yes	27	4
			No	0	23
			N/A	12	12

### Footnotes

- (1) Recipient was in the process of receiving an A-133 financial audit. The results of the audit were not available at the end of our fieldwork.
- (2) The recipient shared the grant with another nonprofit. One of the nonprofits met the requirements for an A-133 audit. The other did not.
- (3) The recipient was a contractor and not required to have an A-133 audit.
- (4) Recipient's financial audits identified severe weaknesses in internal controls.

# SCHEDULE OF EXTERNAL SECTION 514 RECIPIENT AUDIT RECOMMENDATIONS BY GROUPINGS

Our external Section 514 audits included 221 recommendations. We reviewed these recommendations and grouped the recommendations based on the applicable guidance and requirements used to support each recommendation. In addition, we reviewed the condition and effect used to support each recommendation to further support the grouping of the recommendations. We identified each recommendation by report and recommendation number.

**The Assistant Secretary for Housing agreed with the recommendations and advised that with respect to individual audits with cost issues, our decision is to seek repayment of costs determined to be “ineligible” by the OIG. Regarding items of “questioned” cost by the OIG, grantee responses to the questioned items in the individual audit reports will be considered in order to seek repayment where appropriate. Housing request that management decisions be recorded for each of the recommendations on cost issues in the individual grant audit reports, with an estimated completion date of December 31, 2003. Housing further requested that the individual audit report recommendations on grantee reminder notices or policy and procedure revisions be closed in consideration of actions proposed on recommendation 1C and 1E of the OIG’s consolidated report. (See Appendix F, for a complete copy of the Assistant Secretary’s comments)**

**OIG agrees with the proposed management decisions with a target date of December 31, 2003.**

## **Grouping 1, Salaries and Benefits**

In twenty-five of the forty recipient audits, we concluded that the grantees did not account for and/or charged the Section 514 grants inappropriately for salaries and benefits. These twenty-five reports contained 57 recommendations identifying ineligible costs of \$326,759 and questioned cost of \$1,097,918 (\$1,424,677 total). These recommendations represent the largest issues identified in the recipient reports.

OMB Circular A-122, Attachment B, Paragraph 7, Compensation for Personal Services, states reasonable compensation, and fringe benefits to employees are allowable grant costs. It also requires specific salary record keeping from the grantee. The grantee's reports must: account for the total activity for which an employee is compensated for in fulfillment of their organizational obligations; reflect an after the fact determination of actual activity for each employee; and reflect the distribution of activity of each employee (professionals and unprofessional) whose compensation is charged, in whole or in part, directly to awards and requires the employee or a responsible supervisor sign the report. It also states budget estimates do not qualify as support for grant charges. In addition, OMB Circular A-122, Attachment A, Paragraph A(4) specifies (in order to be

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allowed) costs must: 1) be reasonable for the performance of the award; 2) be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the organization; 3) be accorded consistent treatment; and 4) be adequately documented.

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1	2002-SF-1007/1A	Require the SAPLC to repay \$77,254 of ineligible costs pertaining to: duplicate salary claims (\$62,599) and salary claims before and subsequent to actual employment (\$14,655).	\$77,254.00		\$77,254.00
2	2003-SE-1002/1D	Tenants Union to repay the grants \$59,194 for ineligible labor double billings.	\$59,194.00		\$59,194.00
3	2003-AO-1001/1A	Require NCTO to repay the \$45,212 in excessive compensation paid to subgrantees.	\$45,212.00		\$45,212.00
4	2003-AO-1002/1A	Require NHT to repay the \$29,436 in overcharges made to the OTAGs.	\$29,436.00		\$29,436.00
5	2003-CH-1004/1B	Reimburse its Outreach and Training Assistance Grant \$20,165 [\$21,670 total (\$1,505 plus \$18,175 plus \$1,990) less \$1,505 non salary costs] from non-Federal funds for the improper payment of duplicative expenses and costs not related to the grant.	\$20,165.00		\$20,165.00
6	2002-FW-1003/1C	Reimburse its grant \$13,269 for ineligible salary costs.	\$13,269.00		\$13,269.00
7	2002-DE-1002/1A	Require the Affordable Housing and Homeless Alliance to repay the \$12,478.63 in excess salary for project supervision and administration (\$12,242.19) and duplicate billings (\$236.44).	\$12,478.63		\$12,478.63
8	2002-NY-1005/1A	Instructed the Grantee to reimburse the \$12,060.45 in ineligible salaries, fringe benefits, and administrative costs to HUD from non-Federal Funds.	\$12,060.45		\$12,060.45
9	2002-PH-1004/1B	Repay to HUD from non-Federal funds the \$11,747 for ineligible salaries and benefits that were charged to the grant.	\$11,747.00		\$11,747.00
10	2002-AT-1005/2B	Require the Grantee repay the grant \$9,030 for ineligible costs and any additional overcharges after June 2002 or offset the overcharges against future draws.	\$9,030.00		\$9,030.00
11	2002-AT-1808/1A	Require the Grantee to repay the grants \$7,475 [\$16,287 total less \$7,990 consultants less \$822 non salary costs] for ineligible activities.	\$7,475.00		\$7,475.00
12	2002-PH-1003/1C	Provide the proper support to show that \$38,883 of the salaries and benefits was only charged to eligible properties, for any remaining unsupported or ineligible charges, repay to HUD from non-Federal funds. In addition, support all ineligible salary and benefit costs totaling \$6,357 and repay to HUD from non-Federal funds, amounts it cannot adequately support.	\$6,357.00	\$38,883.00	\$45,240.00
13	2002-KC-1003/1B	Reduce future draw down requests to repay the \$4,945 overcharged and recalculate the amounts charged to the grant for salaries since May 31, 2002 and make appropriate adjustments.	\$4,945.00		\$4,945.00
14	2002-PH-1005/1D	Reimburse HUD for the \$4,161 [\$23,422 total less \$18,199 non salary costs less \$1,062 lobbying] ineligible fringe benefits expenditures charged to the grant.	\$4,161.00		\$4,161.00

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
15	2002-DE-1004/1B	Require the Housing Advocacy Coalition and the Community Resource Center to repay the \$3,827 in excess salaries and benefit charges.	\$3,827.00		\$3,827.00
16	2003-SE-1001/1B	Repay the grant \$2,857 [\$6,493 total less \$1,213 computer costs less \$2,423 lobbying] for ineligible direct labor, fringe benefits, allocated indirect costs charged to the OTAG grants.	\$2,857.00		\$2,857.00
17	2002-AT-1005/3B	Require the Grantee repay the grant \$2,344 for overcharges of salaries and benefits or offset the overcharges against future draws.	\$2,344.00		\$2,344.00
18	2003-BO-1002/1A	Repay \$1,887 [\$3,804 total less \$1,917 non salary costs] in ineligible salary costs.	\$1,887.00		\$1,887.00
19	2002-PH-1004/1C	Repay to HUD from non-Federal funds the \$1,762 for ineligible indirect administrative costs for the ineligible salaries and benefits.	\$1,762.00		\$1,762.00
20	2003-SE-1002/1F	Washington Low Income Tenants Network to repay the grants \$1,298 for ineligible direct expenses.	\$1,298.00		\$1,298.00
21	2003-KC-1002/1A	Housing Comes First did not comply with HUD and OMB requirements because it could not adequately support how it used \$336,108 in grant funds. We recommend HUD take appropriate administrative actions against Housing Comes First and its management. HUD should consider action such as requiring repayment of the questioned costs of \$336,108.		\$336,108.00	\$336,108.00
22	2002-PH-1007/1D	Provide proper support for all unsupported salary and benefit costs totaling \$107,834 and repay to HUD from non-Federal funds amounts it cannot adequately support.		\$107,834.00	\$107,834.00
23	2002-PH-1004/1D	Provide proper support for all unsupported salary and benefit costs totaling \$97,928 and repay to HUD from non-Federal funds amounts it cannot adequately support.		\$97,928.00	\$97,928.00
24	2002-PH-1006/1C	Provide proper support for all unsupported salary and benefit costs totaling \$90,904 and repay to HUD from non-Federal funds amounts it cannot adequately support.		\$90,904.00	\$90,904.00
25	2002-PH-1002/1A	Provide proper support for unsupported salary and benefit costs totaling \$63,050 and repay to HUD from non-Federal funds amounts it cannot support.		\$63,050.00	\$63,050.00
26	2002-SF-1004/1C(c)	The NHT needs to provide support to show actual payroll corresponds to the \$57,196 charged to the grant. Mark up or other ineligible amounts in excess of the payroll write-downs should be returned.		\$57,196.00	\$57,196.00
27	2003-SE-1002/1E	Tenants Union to provide support for or repay the grant for \$33,844 of questionable labor and indirect costs and \$17,704 [\$22,246 total less \$4,542] for other questionable [staff membership and staff meetings] direct costs.		\$51,548.00	\$51,548.00
28	2002-SF-1004/1C(a)	Require the LIHF to obtain documentation from the subgrantees to confirm the inadequate supported payroll and expenses already incurred. The FHC needs to provide support for \$47,264 of disbursements related to payroll, travel, general overhead costs as identified above and return costs drawn from the grant.		\$47,264.00	\$47,264.00
29	2003-SE-1002/1G	Washington Low Income Tenants Network to provide support for or repay the grant for \$34,766 of questionable labor and indirect costs.		\$34,766.00	\$34,766.00
30	2002-SF-1004/1C(f)	The NHLP needs to provide support for payroll charges of \$30,094. Any amounts charged in excess of actual should be returned.		\$30,094.00	\$30,094.00

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	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
31	2002-SF-1004/1C(d)	The LIHF should also confirm JALA maintained appropriate time sheets for the \$17,170 in payroll charged to the grant. In addition, JALA needs to provide support to confirm the \$5,918 of indirect [salary] allocated to the grant and \$5,419 of payroll allocated to the grant.		\$28,507.00	\$28,507.00
32	2002-SF-1004/1C(b)	The NMPIEF needs to provide support to confirm the \$20,180 of payroll charged to the grant. If actual rates are lower than rates claimed, the NMPIEF should return those funds.		\$20,180.00	\$20,180.00
33	2002-PH-1005/1C	Provide adequate documentation to support all unsupported [salaries/benefits] expenditures [for \$15,860] (\$60,750) [total less \$41,435 consultant fees less \$3,455 non salary costs] that were drawn down for the grant. For any expenditure that cannot be fully supported, require the grantee reimburse HUD.		\$15,860.00	\$15,860.00
34	2002-SF-1004/1C(g)	The CHPC needs to provide time sheets and support for the rates relating to the payroll charges of \$12,920.		\$12,920.00	\$12,920.00
35	2003-CH-1004/1A	Provide documents to support the \$11,156 (\$14,113 total less \$9,013 non salary costs plus \$6,056 supported) of unsupported payroll payments cited in this finding. If documents cannot be provided, then the Coalition should reimburse its Outreach and Training Assistance Grants for the amount that cannot be supported from non-Federal funds.		\$11,156.00	\$11,156.00
36	2002-SF-1007/1B	Require the SAPLC to support or repay \$19,686 of unsupported costs pertaining to: salaries (\$10,658) and other office and VISTA expenses claims (\$9,028).		\$10,658.00	\$10,658.00
37	2002-SF-1004/1C(e)	Housing Rights needs to provide support for the payroll charges of \$10,155. Any amounts charged in excess of actual should be returned.		\$10,155.00	\$10,155.00
38	2002-PH-1004/1G	Provide proper support for unsupported salary and benefit costs totaling \$9,503 paid to the Low Income Housing Coalition and repay to HUD from non-Federal funds amounts it cannot support.		\$9,503.00	\$9,503.00
39	2002-SF-1006/1C	Require the LASH to submit payroll documentations to support salary costs paid to the AHHA, or return the \$7,211 of questioned costs.		\$7,211.00	\$7,211.00
40	2003-AO-1001/3B	Require NCTO to determine the reasonableness of the \$4,423 [\$7,953 total less \$3,530 non salary costs] in unsupported salary costs DHC charged to the grant.		\$4,423.00	\$4,423.00
41	2002-SF-1005/1B	Require the HRCSF and Tides Center to reconcile payroll charged to the grant to the amounts that should have been charged based on available activity reports. Demonstrate amounts charged in other periods were less than actual, to offset the excessive \$4,114. Return any excessive amounts collected to the OTAG.		\$4,114.00	\$4,114.00
42	2002-SF-1006/1B	Require the LASH to submit documentation to confirm the benefits allocation was appropriate based on the AHHA's actual benefit cost, or return the unsupported \$3,693.		\$3,693.00	\$3,693.00
43	2002-FW-1003/1D	Support or reimburse its grants \$2,204 for unsupported salary costs.		\$2,204.00	\$2,204.00
44	2002-SF-1004/1C(h)	The NCLIHC needs to provide additional support for the payroll benefits charges of \$1,759. Any amount charged in excess of actual should be returned.		\$1,759.00	\$1,759.00

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
45	2003-AO-1002/3A	Ensure that NHT prepares and maintains salary record keeping reports in accordance with OMB Circular A-122.			
46	2003-AO-1001/3C	Require NCTO to ensure that subgrantees maintain timekeeping records and salary expense documentation in accordance with OMB Circular A-122.			
47	2002-SF-1808/1A	Determine the amount of salary overcharges resulting from the failure to properly allocate the Tenant Organizers salaries and consider: (1) requiring LACATH to reimburse the overcharges; (2) offsetting the overcharges on future LOCCS draws; or (3) waiving reimbursement of the overcharges in consideration of CES administrative cost savings.			
48	2002-SF-1005/1C	Require the HRCSF and Tides Center ensure amounts attributed to the OTAG in the general ledger corresponds to amounts requested for reimbursement through the performance of periodic reconciliations.			
49	2002-SF-1005/1A	Require the HRCSF and Tides Center to develop procedures to maintain accurate activity reports identifying all time spent on the OTAG program and charge the grant for the payroll cost attributable to the actual time spent on OTAG activities.			
50	2002-SF-1004/1B	Require the LIHF to establish procedures to ensure, as part of future draw requests, sub grantees submit adequate timesheets; documentation to confirm payroll rates; conference and training agendas; support for allocation methods/rates of indirect costs; and invoices, receipts, or bills for all material expenditures. The LIHF must review the submission to confirm the accuracy of charges and ensure no costs related to lobbying are charged to the grant.			
51	2002-PH-1007/1C	Maintain detailed time records in accordance with OMB Circular A-122.			
52	2002-PH-1006/1B	Maintain detailed time records in accordance with OMB Circular A-122.			
53	2002-PH-1005/1E	Maintain time records in accordance with OMB Circular A-122.			
54	2002-PH-1003/1D	Maintain detailed time records according to OMB Circular A-122.			
55	2002-DE-1004/1C	Require the Housing Advocacy Coalition and the Community Resource Center to maintain time records according to OMB Circular A-122.			
56	2002-DE-1002/1B	Require the Affordable Housing and Homeless Alliance to maintain time records according to OMB Circular A-122.			
57	2002-BO-1004/3A	Require the Grantee to maintain time records according to OMB Circular A-122.			
<b>Totals</b>			<b>\$326,759.08</b>	<b>\$1,097,918.00</b>	<b>\$1,424,677.08</b>



## Grouping 2, Cost Allocation Salaries, and Benefits

In eleven of the forty recipient audits, we concluded that the grantees did not account for or charge the Section 514 grants appropriately for salaries and benefits, but we could not make a determination of the amounts related to these salaries and benefits. We provided the Director of OMHAR with 12 recommendations related to these 11 reports.

OMB Circular A-122, Attachment A, 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.

In addition, Attachment B, Paragraph 7 requires the recipient maintain activity distribution reports (timesheets) for each employee whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate. Also, Attachment A, Paragraph D (3)(c), entitled "Allocation Bases" provides that actual conditions shall be taken into account in selecting the base to be used in allocating the expenses for each cost objective. The essential consideration in selecting a method or base is that it is the one best suited for assigning pools of costs to cost objectives in accordance with benefits derived.

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1 2002-AT-1005/2A	Determine whether the Grantee's new cost allocation method complies with OMB Circular A-122 before allocating any more indirect costs to the OTAG Program.			
2 2002-AT-1808/1B	Require the Grantee to maintain time keeping and salary expense documentation in accordance with OMB Circular A-122.			
3 2002-AT-1808/1C	Require the grantee to maintain supporting documentation for all OTAG Program expenditures in accordance with OMB Circular A-110.			
4 2002-BO-1006/2	Require the Grantee to maintain adequate salary records and supporting documentation for salaries and other expenses.			
5 2002-KC-1002/1	Develop a cost allocation plan for salaries that is supported and can be shown to be an accurate representation for the salaries allocated to the grant.			
6 2002-KC-1003/1A	Develop a reasonable cost allocation plan for accurately charging salaries to the grant.			

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
7	2002-NY-1004/1A	Instruct the grantee to develop procedures to ensure compliance with OMB Circular A-122 as it pertains to maintaining adequate supporting documentation for all costs charged against the grant and allocated among grant activities.		
8	2002-PH-1004/1I	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources.		
9	2003-SE-1002/1B	Tenants Union and Washington Low Income Tenants Network to submit cost allocation plans for review and approval. After the plans are approved, require the grantees to use the plans to adjust all costs charged to the grants containing an allocation of indirect costs, and repay any overcharges.		
10	2003-CH-1004/1C	Implement procedures and controls to follow HUD's regulations and/or Office of Management and Budget Circular A-122 regarding the accurate recording and proper use of Outreach and Training Assistance Grant funds.		
11	2003-AO-1001/1B	Require NCTO to review NHT's billing rates to determine the reasonableness of those rates and recover any excessive, unallowable, and unsupported costs charged to the grant.		
12	2003-CH-1003/1B	Implement procedures and controls to follow HUD's regulations 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 spend working on the Outreach and Training Assistance Grant; and returning unused grant funds promptly to HUD.		

### Grouping 3, Non Salary or Lobbying Costs

In nineteen of the forty recipient audits, we concluded that the grantees did not appropriately account for its non-salary cost or charged the Section 514 grants for ineligible or questioned non-salary costs. These nineteen reports made thirty-four recommendations surrounding non-salary costs for a total of ineligible costs of \$82,236 and questioned costs of \$101,167 (Total \$183,403).

OMB Circular A-122 specifies (in order to be allowed) costs must: 1) be reasonable for the performance of the award; 2) be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the organization; 3) be accorded consistent treatment; and 4) be adequately documented. In addition, OMB Circular A-122, Attachment B, Paragraph 15, states that capital expenditures for general-purpose equipment are unallowable as a direct cost except with prior approval of the awarding agency. The February 24, 2000 Notice of Fund Availability, Section III C & D provides guidance on what types of expenditures are considered eligible under OTAG. The list includes computers, with a reimbursement limit of \$1,000.

In addition, OMB Circular A-110, Subpart C – Post Award Requirements requires financial management systems that provide, among other things: 1) records that identify

the source and application of funds; 2) effective control over and accountability for all funds; and 3) accounting records that are supported by source documentation.

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1	2003-AO-1001/2A	Require NCTO to remit \$35,781 to HUD for the duplicate payments.	\$35,781.00		\$35,781.00
2	2002-PH-1005/1D	Reimburse HUD for the \$18,199 [\$23,422 total less \$1,062 lobbying less \$4,161 salaries/benefits] ineligible expenditures charged to the grant.	\$18,199.00		\$18,199.00
3	2003-CH-1003/1C	Reimburse HUD \$6,900 from Federal funds for the Outreach and Training Assistance funds not used for the town meeting.	\$6,900.00		\$6,900.00
4	2003-AO-1002/2B	Require NHT to repay the \$6,329 in unallowable interest on loans charged to the OTAGs.	\$6,329.00		\$6,329.00
5	2003-SE-1002/1D	Tenants Union to repay the grants \$5,215 for other ineligible [translation, interpretation, and travel] direct expenses.	\$5,215.00		\$5,215.00
6	2002-PH-1006/1A	Repay to HUD from non-Federal sources the \$3,198 in ineligible computer, food, telephone, and lobbying expenditures that were charged to the grant.	\$3,198.00		\$3,198.00
7	2003-BO-1002/1A	Repay \$1,917 [\$3,804 total less \$1,887 salaries] in ineligible insurance, utilities, telephone, accounting errors, and rounding error costs.	\$1,917.00		\$1,917.00
8	2003-CH-1004/1B	Reimburse its Outreach and Training Assistance Grant \$1,505 [\$21,670 total (\$1,505 plus \$18,175 plus \$1,990) less \$20,165 salaries/benefits] from non-Federal funds for the improper payment of duplicative expenses and costs not related to the grant.	\$1,505.00		\$1,505.00
9	2002-FW-1003/1E	Reimburse its grant \$1,214 for ineligible expenditures.	\$1,214.00		\$1,214.00
10	2003-AO-1002/4A	Request NHT to remit \$946 to HUD.	\$946.00		\$946.00
11	2002-AT-1808/1A	Require the Grantee to repay the grants \$822 [\$16,287 total less \$7,990 consultants less \$7,475 salaries] for ineligible [travel, training] activities.	\$822.00		\$822.00
12	2002-PH-1004/1F	Repay to HUD from non-Federal sources the \$210 in ineligible conference costs paid to the Low Income Housing Coalition for the cost of sending children to a HUD conference.	\$210.00		\$210.00
13	2002-PH-1004/1H	Provide proper support for the materials and supplies totaling \$16,085 charged to the grant and repay to HUD from non-Federal funds amounts it cannot support.		\$16,085.00	\$16,085.00
14	2002-PH-1004/1E	Provide adequate documentation to support all unsupported travel expenses totaling \$9,753 and repay to HUD from non-Federal funds amounts it cannot support.		\$9,753.00	\$9,753.00
15	2002-SF-1007/1B	Require the SAPLC to support or repay \$19,686 of unsupported costs pertaining to: salaries (\$10,658) and other office and VISTA expenses claims (\$9,028).		\$9,028.00	\$9,028.00

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
16	2003-BO-1002/2B	Evaluate the reasonableness and necessity of \$8,454 of payments to affiliates.		\$8,454.00	\$8,454.00
17	2002-NY-1005/1B	Instruct the grantee to obtain and submit to HUD the supporting documentation for the \$7,822 of other than personal services cost [such as telephone, rent, maintenance supplies, facility maintenance expenses] charged to the OTAG 1 between December 1998 and March 2000, so that HUD can determine the eligibility of these costs. If HUD deems any amount ineligible, the Grantee should be instructed to immediately reimburse the ineligible amounts to HUD from non-Federal funds.		\$7,822.00	\$7,822.00
18	2002-SF-1004/1C(c)	The NHT should provide receipts and invoices to confirm travel costs of \$6,463.		\$6,463.00	\$6,463.00
19	2002-SF-1006/1A	Obtain a legal determination as to whether the use of OTAG funding for tenant legal representation is appropriate under the OTAG program. If not require the LASH to return the \$6,408 of OTAG funds used for legal representation.		\$6,408.00	\$6,408.00
20	2003-SE-1001/1C	Provide support for or repay the grant for \$5,293 of questionable costs charged to the OTAG grants.		\$5,293.00	\$5,293.00
21	2003-SE-1002/1E	Tenants Union to provide support for or repay the grant for \$4,542 [\$22,246 total less \$17,704 salaries/benefits] for other questionable [audit, unapproved translation and interpretation] direct costs.		\$4,542.00	\$4,542.00
22	2003-BO-1002/1B	Repay \$4,041 in unsupported costs or provide adequate supporting documentation from independent third parties showing the eligibility and reasonableness of these costs.		\$4,041.00	\$4,041.00
23	2002-SF-1004/1C(b)	The NMPIEF needs to provide support for the \$1,242 of travel and \$2,500 of audit costs or return costs drawn from the grant.		\$3,742.00	\$3,742.00
24	2003-AO-1001/3B	Require NCTO to determine the reasonableness of the \$3,530 [\$7,953 total less \$4,423 salaries/benefits] in unsupported travel and indirect office administrative costs DHC charged to the grant.		\$3,530.00	\$3,530.00
25	2002-PH-1005/1C	Provide adequate documentation to support all unsupported [supplies] expenditures [of \$3,455] (\$60,750) [total less \$41,435 consultant fees less \$15,860 salaries/benefits] that were drawn down for the grant. For any expenditure that cannot be fully supported, require the grantee reimburse HUD.		\$3,455.00	\$3,455.00
26	2003-CH-1004/1A	Provide documents to support the \$2,957 [\$14,113 total less \$11,156 payroll costs] of unsupported [conference, membership, telephone, travel] payments cited in this finding. If documents cannot be provided, then the Coalition should reimburse its Outreach and Training Assistance Grants for the amount that cannot be supported from non-Federal funds.		\$2,957.00	\$2,957.00
27	2002-FW-1003/1F	Support or reimburse its grants \$2,808 for unsupported costs.		\$2,808.00	\$2,808.00
28	2003-SE-1002/1G	Washington Low Income Tenants Network to provide support for or repay the grant for \$2,745 for other questionable direct costs.		\$2,745.00	\$2,745.00

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
29	2002-PH-1003/1F Provide support for the \$1,303 expended for hotel and per diem charged for the NAHT Conference and \$1,000 expended for NAHT training, and repay to HUD from non-Federal funds amounts it cannot adequately support.		\$2,303.00	\$2,303.00
30	2002-DE-1002/1E Require the Affordable Housing and Homeless Alliance to support or repay the \$1,738.32 in unsupported costs.		\$1,738.32	\$1,738.32
31	2003-BO-1002/2A 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.			
32	2003-BO-1002/1E Identify and track in-kind services and donations.			
33	2002-DE-1005/1A Require the Crossroads Urban center to establish procedures to ensure that the expenditures of all subsequent draws are adequately supported.			
34	2003-KC-1002/1A Housing Comes First did not comply with HUD and OMB requirements because it made payment requests to HUD based on budget amounts when HUD regulations required it to obtain funds on a reimbursement basis for actual costs incurred. We recommend HUD take appropriate administrative action against Housing Comes First and its management. HUD should consider action such as ceasing funding.			
<b>Total</b>		<b>\$82,236.00</b>	<b>\$101,167.32</b>	<b>\$183,403.32</b>

## Grouping 4, Cost Allocation Non-Salary, or Lobbying

In twenty-two of the forty recipient audits, we concluded that the grantees did not appropriately allocate for its non-salary cost or allocated costs ineligible or questioned non-salary costs. These twenty-one reports made thirty-four recommendations surrounding non-salary costs for a total of ineligible costs of \$53,296 and questioned costs of \$222,870 (Total \$276,166).

OMB Circular A-122, Attachment A, provides guidance on the basic considerations for grant fundable costs and allocation of indirect costs. The guidance provides that the grantee must support a cost allocation that takes into account all activities of the organization. Additionally, Attachment B, Paragraph 7 requires the recipient maintain activity distribution reports (timesheets) for each employee whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate. In addition, Paragraph E. 2b. states: "A non-profit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award.

**OMHAR staff neither reviewed nor enforced the OMB requirement that a non-profit organization submit a cost allocation plan. OMHAR staff advised that they did not have the staff or technical knowledge for reviewing nor approving a cost allocation plan.**

In addition, OMB Circular A-110, Paragraph 22 (b), states that grantees can be paid in advance provided the advances are limited to the minimum amounts needed and timed to be in accordance with the actual, immediate cash requirements in carrying out the purpose of the approved program or project. Paragraph 21 (b) (2) provides that the recipient's financial management system shall provide for records that identify adequately the source and application of funds for Federally sponsored activities. Paragraph 21 (b) (7) states that the system must provide accounting records including cost accounting records that are supported by source documentation.

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1 2002-AT-1005/1A	Repay the grant \$52,083 for advances in excess of program needs, expenses claimed twice and expenses not actually paid, or offset the reimbursements by properly supported costs.	\$52,083.00		\$52,083.00
2 2003-SE-1001/1B	Repay the grant \$1,213 [\$6,493 total less \$2,423 lobbying less \$2,857 direct labor, fringe benefits, allocated indirect costs] for ineligible computer costs charged to the OTAG grants.	\$1,213.00		\$1,213.00
3 2002-AT-1808/2B	Determine the actions or documentation necessary to resolve the unsupported indirect costs [of \$54,625].		\$54,625.00	\$54,625.00
4 2002-PH-1007/1E	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources, and based on the plan make appropriate adjustments to the \$51,121 in indirect costs and repay to HUD from non-Federal funds any overcharges.		\$51,121.00	\$51,121.00
5 2003-SE-1001/1D	Submit an indirect cost rate proposal to HUD for approval and repay the OTAG grants for that portion of the \$40,458 of indirect costs (excludes indirect costs questioned in Recommendation 1B) charged to the OTAG grants that exceeds the approved rate.		\$40,458.00	\$40,458.00
6 2002-DE-1005/1B	Negotiate and approve the nonprofit's indirect cost rate allocable to the HUD grants and determine whether the indirect cost allocation of \$23,600 is adequately supported.		\$23,600.00	\$23,600.00
7 2002-PH-1006/1D	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources, and based on the plan make appropriate adjustments to the \$22,676 in indirect costs and repay to HUD from non-Federal funds any overcharges.		\$22,676.00	\$22,676.00
8 2002-PH-1002/1B	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources, and based on the plan make appropriate adjustments to the \$11,950 in indirect costs and repay to HUD from non-Federal funds any overcharges.		\$11,950.00	\$11,950.00
9 2002-DE-1004/1D	Require the Housing Advocacy Coalition and the Community Resource Center to submit a cost allocation plan and based on the plan adjust the \$9,070 for telephone, accounting and auditing charges and repay any overcharges.		\$9,070.00	\$9,070.00

Appendix D

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
10	2002-PH-1003/1E	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources, and based on the plan make appropriate adjustments to the \$6,720 in indirect costs charged to against the grant and repay to HUD from non-Federal funds any overcharges.		\$6,720.00	\$6,720.00
11	2002-DE-1002/1C	Require the Affordable Housing and Homeless Alliance to submit a cost allocation plan and based on the plan adjust the \$2,650.32 for telephone and fax charges, and supplies and repay any overcharges.		\$2,650.32	\$2,650.32
12	2002-AT-1005/1B	Reconcile expenditures per the accounting records with the payment vouchers submitted for reimbursement.			
13	2002-AT-1005/1C	Maintain fund accounting systems and records that clearly identify the source and application of grant funds.			
14	2003-AO-1001/2B	Require NCTO to establish oversight controls to prevent and detect duplicate voucher requests for reimbursement.			
15	2003-AO-1001/3A	Require NCTO to maintain supporting documentation for all ITAG expenditures and ensure that all expenditures are reviewed and approved before submission for payment.			
16	2002-AT-1005/3C	Require the grantee maintain supporting documentation for all OTAG program expenditures in accordance with OMB Circular A-110 and A-122.			
17	2002-AT-1808/2A	Require the Grantee to develop and use a cost allocation method that complies with OMB Circular A-122 before allocating any more indirect costs to the OTAG Program.			
18	2002-BO-1004/1C	Require the grantee to implement a system, in accordance with OMB Circular A-122, separating the cost for eligible and ineligible activities and maintain adequate records to support the allocation of costs.			
19	2002-DE-1002/1D	Require the Affordable Housing and Homeless Alliance to adjust subsequent billings for OTAG and PEG expenditures, which have yet to be submitted for approval and reimbursement, in accordance with the cost allocation plan.			
20	2002-KC-1002/2	Develop a cost allocation plan for indirect costs that is supported and demonstrates there is a valid relationship between indirect costs and the method used to allocate indirect costs to the grant.			
21	2002-KC-1002/3	Obtain HUD approval for its cost allocation plan.			
22	2003-KC-1002/1A	Housing Comes First did not comply with HUD and OMB requirements because it did not use a reasonable method to allocate common costs. The grantee informed us that costs are allocated based on a predetermined percentage rather than actual costs. We recommend HUD take appropriate administrative action against Housing Comes First and its management. HUD should consider action such as recapturing funds.			

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
23	2002-NY-1004/1C	Instruct the Grantee to develop and submit, for HUD's review and/or approval, adequate documentation showing that the predetermined percentages used to allocate costs among HUD prescribed activities of the OTAG produced allocated amounts to each activities that were commensurate with the benefits derived. If the Grantee is unable to support the percentages used, the Grantee is to be instructed to develop a supportable allocation plan in accordance with the requirements of OMB Circular A-122.			
24	2002-PH-1004/1I	Prepare and submit an acceptable cost allocation plan that fairly allocates indirect costs among funding sources.			
25	2002-PH-1005/1H	Attend mandatory training to obtain an understanding on the financial management of the OTAG and ITAG grants or related Federally run programs.			
26	2002-SF-1007/1D	Require the SAPLC to submit detailed supporting documents for any LOCCS draw pertaining to periods subsequent to June 30, 2002 through suspension of LOCCS authorization. The documentation should include all supporting documentation for claims made to Pima County for the same period on the CDBG, ESG, and Outside Agency grants. This documentation should be reviewed to identify and adjust similar ineligible and unsupported claims as discussed herein.			
27	2003-CH-1004/1D	Post actual expenses to its general ledger for the Outreach and Training Assistance Grant to assure the Coalition has accurate books and records for the Grant.			
28	2003-AO-1002/2A	Ensure that NHT submits its indirect cost proposal for approval by December 31, 2002.			
29	2003-AO-1002/2C	Review NHT's indirect cost proposal and determine the reasonableness of the proposed allocation methodology. Recover any additional excessive, unallowable, and unsupported charges to the grants (that were not specifically addressed in this report).			
30	2003-CH-1003/1A	Implement a cost allocation plan to properly identify Outreach and Training Assistance Grant costs through its accounting system.			
31	2003-SE-1002/1C	Tenants Union and Washington Low Income Tenants Network to put controls in place to ensure that all expenditures charged to the grant comply with OMB Circular A-122.			
32	2003-AO-1001/3D	Require NCTO to ensure that subgrantees prepare and submit indirect cost proposals that comply with OMB Circular A-122.			
33	2003-BO-1002/1D	Implement a system, in accordance with OMB Circular A-122, which separates costs for eligible and ineligible activities and maintain adequate records to support cost and their allocation.			
34	2003-SE-1001/1A	Put controls in place to ensure that all direct and indirect expenditures charged to the grant comply with OMB Circular A-122.			
<b>Totals</b>			<b>\$53,296.00</b>	<b>\$222,870.32</b>	<b>\$276,166.32</b>



## Grouping 5, Recommendations Related to OMHAR

We identified specific issues related to OMHAR and its oversight of the program. These four reports made seven recommendations surrounding OMHAR. **Specifically, that OMHAR require the grantees to submit the required reports and perform a detailed review of the reports to identify ineligible activities**

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
2002-AT-1808/3A	Remind the Grantee to submit all required supporting data for payment vouchers.			
2002-AT-1808/3B	Review OMHAR procedures for reviewing and approving payment vouchers and make necessary improvements to ensure that payment vouchers submitted that do not comply with applicable administrative reporting requirements are rejected.			
2002-AT-1808/3C	Review OMHAR procedures for reviewing activity reports and quarterly progress reports and place increased emphasis on identifying grantees engaged in ineligible activities, including lobbying.			
2002-AT-1808/3D	Consider adding a requirement for grantees to certify on the Mark-to-Market Activity Reports that reimbursements are being requested for only eligible activities under the MAHRA, and that indirect cost allocations are based on a method or plan that complies with OMB Circular A-122.			
2002-SF-1004/1A	Require the LIHF to comply with the reporting requirements and submit future quarterly reports following OMB, CFR, NOFA, and grant agreement requirements, including submitting reports in a timely manner and using the prescribed Standards Form 424A.			
2002-SF-1005/1E	Require the HRCSF and Tides Center to comply with the reporting requirements and submit future quarterly reports following OMB, CFR, NOFA, and grant agreement requirements, including submitting reports in a timely manner and using the prescribed Standards Forms 269 and 424A.			
2002-SF-1806/1A	The CCRH to submit timely and complete quarterly reports to HUD, following OMB, CFR, NOFA, and the grant agreement requirements, including standard forms SF 268 and SF 424A.			

## Grouping 6, Assistance to Non Mark-to-Market Projects or Activities

In five of the forty recipient audits, we concluded that the grantees assisted projects that were not eligible for the Mark-to-Market Program. These five reports made eight recommendations surrounding non Mark-to-Market projects for a total of ineligible costs of \$71,817.

Section 514(f) of MAHRA provided funds to assist and provide an opportunity for tenants of the project, residents of the neighborhood, the local government, and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 512 of MAHRA defines the term eligible multifamily housing project to generally mean a property consisting of more than four dwelling units with rents that, on an average per unit or per room basis, exceed the rent of comparable properties in the same market area. Section 512 also requires that the project be covered in whole or in part by a contract for HUD project-based assistance under one of a number of HUD programs and be financed by a mortgage insured or held by the Secretary under the National Housing Act. MAHRA specifically excluded certain HUD projects. In addition, per the OTAG grant agreement, if the grantee is providing services under the grant agreement that are related to a specific property, and any group related to that property receives grant funds under the Mark-to-Market ITAG, the grantee shall cease billing for activities related to that property under the OTAG grant agreement within 30 days. The grantee may only receive funding under another technical assistance grant program (i.e., Public Entity Grants) if the proposed activities do not duplicate activities eligible under the OTAG grant agreement.

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1 2003-DE-1003/1A	Require the Corporation to refunds to HUD the \$57,916 for the ineligible activities, plus any additional costs associated with the VISTA members that worked on the four projects.	\$57,916.00		\$57,916.00
2 2002-PH-1003/1M	Repay to HUD from non-Federal funds the \$13,100 expended from the Public Entity Grant, which was incorrectly used simultaneously with the OTAG grant for the same properties and activities.	\$13,100.00		\$13,100.00
3 2002-PH-1003/1A	Repay to HUD from non-Federal funds, \$801 for salaries and benefits for time spent on ineligible projects	\$801.00		\$801.00
4 2002-DE-1004/1A	Require the Housing Advocacy Coalition and the Community Resource Center to support the assistance to the ineligible projects and refund the grant the cost associated with assistance to the ineligible projects.			
5 2002-DE-1004/1F	To establish policies and procedures for identifying eligible projects to ensure only eligible projects receive assistance from grantees.			
6 2002-PH-1003/1B	Refund the grant the cost associated with assistance that was provided to ineligible projects, unless it can be shown the projects were actually eligible.			
7 2002-PH-1004/1A	Provide detailed documentation to support the assistance the grantee provided to all projects (eligible and ineligible) and refund the grant all costs associated with assistance to the ineligible projects.			
8 2002-PH-1007/1A	Document the costs (salary, benefits, travel indirect, etc.) associated with the assistance it provided to the ineligible projects and require the grantee to refund the grant for those associated costs.			
<b>Totals</b>		<b>\$71,817.00</b>		<b>\$71,817.00</b>

## Grouping 7, Questioned Costs for Consultant Activities

In six of the forty recipient audits, we concluded that the grantees did not appropriately account for costs related to consultants. These six reports made eleven recommendations surrounding consultants' costs for a total of ineligible costs of \$9,285 and questioned costs of \$163,362 (Total \$172,647).

OMB Circular A-122, Attachment B, Paragraph 39, Professional Service Costs, states: factors in determining allowability of consultant costs include nature and scope of the service rendered in relation to the service required, and adequacy of the contractual agreement for the service. Attachment A, General Principles, Paragraph 2(g), provides that for costs to be allowable, they must be fully documented. In addition, Attachment B, Paragraph 7m(1), Support of Salaries and Wages, provides in part that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the organization. Moreover, Paragraph 3(b) states that the requirements of the Circular also apply to subcontracts if the subcontractor is a non-profit organization.

The OTAG NOFA defines eligible activities as those that provide outreach, training, and counseling so residents can participate effectively in the Mark-to-Market process. Article II, Section c of the [OTAG] Grant Agreement stipulates that only the [OMHAR] Grant Officer may authorize deviations from the Grant Agreement. In the event, the Grantee deviates without written approval of the Grant Officer, such deviations including the resulting costs shall be at the risk of and borne by the Grantee.

	Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
1	2002-AT-1808/1A	Require the Grantee to repay the grants \$7,990 [\$16,287 total less \$7,475 salaries less \$822 non salary costs] for ineligible consultant activities.	\$7,990.00		\$7,990.00
2	2002-PH-1003/1I	Obtain the proper supporting documentation for the \$3,650 expended on Horn and Associates, and insure that the funds were used for only eligible OTAG activities. For the \$1,000 noted to date and any future noted as ineligible, repay the HUD from non-Federal funds.	\$1,000.00	\$3,650.00	\$4,650.00
3	2002-PH-1003/1J	Obtain the proper supporting documents for the \$2,343 expended for the mini-planning grant provided to the Delaware Statewide Association of Tenants and insure that the funds were spent on eligible OTAG activities. For the \$295 noted to date and any future funds noted as ineligible, repay to HUD with non-Federal funds.	\$295.00	\$2,343.00	\$2,638.00
4	2002-AT-1005/3A	Require the grantee to obtain and provide supporting documentation for the unsupported subcontractor payments totaling \$73,361 or repay, any unsupported costs to the grant.		\$73,361.00	\$73,361.00

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
5	2002-PH-1005/1C	Provide adequate documentation to support all unsupported [consultant] expenditures [of \$41,435.00] (\$60,750) [total less \$3,455 non salary costs less \$15,860 salaries/benefits] that were drawn down for the grant. For any expenditure that cannot be fully supported, require the grantee to reimburse HUD.	\$41,435.00	\$41,435.00
6	2002-BO-1004/2C	Evaluate the Grantee's use of OTAG funds for Consultant Services and determine if any of the \$37,509 is eligible.	\$37,509.00	\$37,509.00
7	2002-SF-1004/1C(g)	Bills, invoices, and/or checks should be provided to support consultants' expenses of \$2,998. Any amount charged in excess of actual should be returned.	\$2,998.00	\$2,998.00
8	2002-PH-1003/1K	Require the cash in hand totaling \$2,066 at DeSWAT to be expended for eligible OTAG expenses or return the unexpended funds back to HUD.	\$2,066.00	\$2,066.00
9	2002-BO-1004/2A	Require the grantee to provide justification for its use of OTAG funds for Consultant Services.		
10	2002-BO-1004/2D	Require the Grantee to repay the ineligible costs.		
11	2002-PH-1003/1L	Establish policies and procedures to require subrecipients to immediately disburse grant funds once the funds are received.		
<b>Totals</b>		<b>\$9,285.00</b>	<b>\$163,362.00</b>	<b>\$172,647.00</b>

## Grouping 8, Rents Space

In three of the forty recipient audits, we concluded that the grantees charged the grant for ineligible or question costs related to rents space. These three reports made three recommendations surrounding ineligible rental space for a total of ineligible costs of \$17,000 and questioned cost of \$18,600 (Total \$35,600).

OMB Circular A-122, Attachment B, Paragraph 46 Rental Costs states that rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area, alternatives available, and the type, life expectancy, condition, and value of the property leased. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property. In addition, OMB Circular A-122, Attachment B Paragraph 12 states that donated rent is not a reimbursable direct or indirect cost.

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
2002-DE-11005/1C	Require the nonprofit to identify additional payments for donated rent for all quarters before the second quarter of 2001 and require the nonprofit to either repay the funds (at least \$14,400) or substitute an equal amount of eligible expenditures not already reimbursed.	\$14,400.00		\$14,400.00
2002-SF-21007/1A	Require the SAPLC to repay ineligible costs pertaining to duplicate claims for office rent (\$2,600).	\$2,600.00		\$2,600.00
2002-NY-31004/1B	Instruct the grantee to obtain and provide to HUD a rental agreement or lease that supports the rental expenses charged to the grant of \$18,600. If such an agreement is not provided, the grantee should be instructed to reimburse the total amount of the expenses to HUD from non-Federal funds, and discontinue charging rental expenses to the grant.		\$18,600.00	\$18,600.00
<b>Totals</b>		<b>\$17,000.00</b>	<b>\$18,600.00</b>	<b>\$35,600.00</b>

## Grouping 9, Lobbying Activity

In nine of forty recipient audits, we concluded that the grantees used a portion of their Section 514 Program funds for lobbying activities directed at Congress. Section 514 explicitly prohibited the lobbying of Congress.

In addition, we identified that four grantees used a portion of their Section 514 funds for lobbying activities at the state and local level. These activities were not specifically prohibited in Section 514, but are unallowed costs under OMB Circular A-122 guidance.

These audit reports contained twenty-six recommendations questioning a total cost of \$44,049. Due to the nature of the grantees record, we could not always identify the funds used to support the unallowable lobbying activities. For nine of the thirteen grantees, we included a recommendation in the external Section 514 audit that the Director of OMHAR consider taking actions under Section 1303 of the Defense Appropriation Act.

MAHRA specifically prohibits the use of Section 514 funds for lobbying members of Congress. In addition, OMB Circular A-122, Attachment B, Paragraph 25 identifies lobbying as an unallowable use of Federal funds. Specifically, lobbying includes 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).

Table A

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
2002-BO-1 1004/1A	Require the Grantee to repay \$6,835 in ineligible costs.	\$6,835.00		\$6,835.00
2003-SE-2 1001/1B	Repay the grant \$2,423 [\$6,493 total less \$1,213 computer costs less \$2,857 direct labor, fringe benefits, allocated indirect costs] for ineligible lobbying costs charged to the OTAG grants.	\$2,423.00		\$2,423.00
2003-SE-3 1002/1D	Tenants Union to repay the grants \$2,061 for ineligible lobbying.	\$2,061.00		\$2,061.00
2002-PH-4 1005/1D	Reimburse HUD for the \$1,062 lobbying [\$23,422 total less \$18,199 other costs - nonsalary less \$4,161 salaries/benefits] ineligible expenditures charged to the grant.	\$1,062.00		\$1,062.00
2002-PH-5 1007/1B	Repay to HUD from non-Federal funds the \$1,044 in ineligible lobbying expenditures that were charged to the grant.	\$1,044.00		\$1,044.00
2002-SF-6 1004/1C(d)	The JALA should return any portion of the \$25,707 in travel costs charged to the grant associated with NAHT conferences, which reflects additional costs to the grant for lobby day activities, or provide adequate justification for those costs.		\$25,707.00	\$25,707.00
2003-SE-7 1002/1E	Tenants Union to provide support for or repay the grant for \$2,829 for questionable lobbying costs.		\$2,829.00	\$2,829.00
2002-SF-8 1004/1C(e)	Housing Rights should return any amounts charged to the grant associated with NAHT lobby day activity, or provide adequate justification for those costs. Invoices and receipts should be provided to support the related travel charges of \$2,088.		\$2,088.00	\$2,088.00
2003-SE-9 1002/1A	Tenants Union to account for its lobbying hours and avoid charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-AT-10 1808/3C	Review OMHAR procedures for reviewing activity reports and quarterly progress reports and place increased emphasis on identifying grantees engaged in ineligible activities, including lobbying.			
2002-BO-11 1004/1B	Require the Grantee to discontinue charging the grant for activities related to lobbying as defined in OMB Circular A-122.			
2002-BO-12 1004/3B	Require the Grantee to establish policies and procedures for identifying lobbying activities to ensure that Federal funds are not used to support direct or indirect lobbying activities.			
2002-BO-13 1004/3C	Require the Grantee to discontinue charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-DE-14 1004/1E	Require the Housing Advocacy Coalition and the Community Resource Center to stop charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			

Appendix D

Report Number / Finding Number	Finding	Ineligible Cost	Questioned Cost	Total Cost
2002-DE-151004/1G	Establish policies and procedures for identifying grantees engaged in housing advocacy to ensure Federal funds are not used to support direct or indirect lobbying activities.			
2002-FW-161003/1A	Estimate the amount it spent from the grant for lobbying activities and reimburse the grants.			
2002-FW-171003/1B	Establish procedures to ensure that its does not charge lobbying expenses against the grant.			
2003-KC-181002/1A	Housing Comes First did not comply with HUD and OMB requirements because it engaged in lobbying activities that possibly violated Federal regulations under MAHRA and OMB Circular A-122. We recommend HUD take appropriate administrative action against Housing Comes First and its management.			
2002-PH-191003/1G	Stop charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-PH-201003/1H	Establish policies and procedures for identifying grantees engaged in housing advocacy to ensure Federal funds are not used to support direct or indirect lobbying activities.			
2002-PH-211005/1F	Stop charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-PH-221005/1G	Establish policies and procedures for identifying grantees engaged in housing advocacy to ensure Federal funds are not used to support direct or indirect lobbying activities.			
2002-PH-231006/1E	Stop charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-PH-241006/1F	Establish policies and procedures for identifying grantees engaged in housing advocacy to ensure Federal funds are not used to support direct or indirect lobbying activities.			
2002-PH-251007/1F	Stop charging the grant for activities related to lobbying as defined by MAHRA and OMB Circular A-122.			
2002-PH-261007/1G	Establish policies and procedures for identifying grantees engaged in housing advocacy to ensure Federal funds are not used to support direct or indirect lobbying activities.			
<b>Totals</b>		<b>\$13,425.00</b>	<b>\$30,624.00</b>	<b>\$44,049.00</b>

The following table identifies the external Section 514 audits where the report contained a recommendation that the Director of OMHAR consider taking actions under Section 1303 of the Defense Appropriation Act. See Appendix E Table 1 for OIG’s complete determination with respect to Section 1303.

Table B

Report Number / Finding Number	Finding
1 2002-BO-1004/3D	Consider taking sanctions against the Grantee in accordance with Section 1303 of the Defense Appropriation Act (Public Law 107-117).
2 2002-FW-1003/1H	Consider taking sanctions against the Education Fund in accordance with Section 1303 of the Defense Appropriation Act (Public Law 107-117)

	Report Number / Finding Number	Finding
3	2002-PH-1003/1O	Make a determination on the lobby issues presented to determine if sanctions should be imposed as provided for in the 2002 Defense Appropriation Act.
4	2002-PH-1004/1K	Make a determination on the lobbying issues presented to determine if sanctions should be imposed as provided for in the 2002 Defense Appropriation Act.
5	2002-PH-1005/1B	Make a determination on the lobby issues presented to determine if sanctions should be imposed as provided for in the 2002 Defense Appropriation Act.
6	2002-PH-1006/1H 2002-PH-1007/1I	Make a determination on the lobby issues presented to determine if sanctions should be imposed as provided for in the 2002 Defense Appropriation Act.
7	2003-KC-1002/1A	We recommend HUD take appropriate administrative action such as imposing sanctions against Housing Comes First and its management in accordance with Section 1303 of the Defense Appropriation Act (Public Law 107-117).
8	2003-SE-1002/1H	Consider taking sanctions against the Grantee in accordance with Section 1303 of the Defense Appropriation Act (Public law 107-117).
9	2002-SF-1805/1A	Take appropriate action under Section 1303 of the Defense Appropriation Act for the instances where ITAG funds were used for lobbying.

## Grouping 10, Consider Suspension of the Grantee for Questioned Costs

In twenty-six audit reports, we recommended that the Director of OMHAR suspend funding to the grantees. Based on our recommendations, the Director of OMHAR suspended twenty-one grantees.

	Report Number / Finding Number	Finding
1	2002-AT-1005/3D	Consider suspending grant funding until the Grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
2	2002-AT-1808/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
3	2002-BO-1004/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.



Appendix D

	Report Number / Finding Number	Finding
4	2002-BO-1004/2B	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
5	2002-BO-1006/1	Deny grantee draw requests until a) grantee hires an Executive Director, b) develops and implements internal controls procedures and c) OMHAR staff verifies the control procedures.
6	2002-DE-1002/1F	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
7	2002-DE-1005/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
8	2002-FW-1003/1G	Consider suspending grant funding until the Education Fund develops and implements appropriate management controls including a cost allocation plan to ensure that it funds only eligible activities and that documentation for expenditures complies with OMB Circular A-122.
9	2003-KC-1002/1A	Housing Comes First did not comply with HUD and OMB requirements because it did not establish and implement controls to ensure grant funds were used according to applicable regulations. The grantee did not have adequate policies and procedures or complete and reliable computerized accounting records. The grantee also did not segregate executive and financial functions or perform monthly reconciliations of its bank accounts. We recommend HUD take appropriate administrative action against Housing Comes First and its management. HUD should consider action such as prohibiting future awards to the grantee.
10	2003-AO-1002/1B	Obtain documentation assuring that NHT has developed an indirect cost rate in compliance with OMB Circular A-122 as outlined in their response. If you are unable to obtain such assurances in a timely manner, consider suspending future grant funding.
11	2003-AO-1001/1C	Consider suspending grant funding until NCTO implements appropriate controls to ensure that all of its grantees administer their grants in accordance with OMB Circular A-122.
12	2002-PH-1003/1N	Restrict all remaining grant distributions to the Delaware Housing Coalition for this grant and any future grants until the grantee demonstrates they have established the necessary policies and procedures to ensure they can administer the grant in accordance with OMB Circulars A-122 and A-110, MAHRA, and HUD regulations.
13	2002-PH-1004/1J	Restrict all remaining grant distributions to the Tenants' Action Group for any current and future HUD grants until the grantee demonstrates they have established the necessary policies and procedures to administer its HUD grants in accordance with OMB guidance and HUD regulations.
14	2002-PH-1005/1A	Restrict all remaining grant distributions to the Philadelphia Regional Alliance for this grant and any future grants until the grantee demonstrates they have established the necessary policies and procedures to ensure they can administer the grant in accordance with OMB Circulars A-122 and A-110, MAHRA, and HUD regulations.

	Report Number / Finding Number	Finding
15	2002-PH-1006/1G	Restrict all remaining grant distributions to the Legal Aid Bureau, for this grant and any future grants until the grantee demonstrates they have established the necessary policies and procedures to ensure they can administer the grant in accordance with OMB Circulars A-122 and the MAHRA.
16	2002-PH-1007/1H	For future HUD funding, determine that the Legal Aid has established the necessary policies and procedures to follow OMB guidance and HUD regulations before awarding any new funds to the organization.
17	2002-SF-1004/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
18	2002-SF-1005/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
19	2002-SF-1006/1D	Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
20	2002-SF-1007/1C	Suspend authorization for SAPLC to make OTAG withdrawals from LOCCS until they implement adequate administrative, accounting and financial management controls to operate the grant in accordance with OMB requirements.
21	2003-CH-1004/1E	Consider suspending funding until Indiana Coalition on Housing and Homelessness Issues implements sufficient management controls to ensure that only eligible costs receive funding and that the documentation for expenditures complies with OMB Circular A-122.
22	2003-CH-1003/1D	Consider suspending funding until Tenant United for Housing, Inc. implements a cost allocation plan to ensure that only eligible costs receive funding and that the documentation for expenditures complies with OMB Circular A-122.
23	2003-SE-1001/1E	Consider suspending grant funding until the Grantee implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.
24	2003-SE-1002/1I	Consider suspending grant funding until the grantees develop and implement appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditures complies with OMB Circular A-122.
25	2003-DE-1003/1B	Not enter into another agreement for VISTA members until the Corporation establishes appropriate management controls, to include policies and procedures, to ensure funding of goals/objectives eligible under the funding legislation and the agreement with HUD.

## Grouping 11, Grantees Reports with No Recommendations

Eight of the participants received no audit recommendations.

1	2002-AT-1809	No Recommendations
2	2002-BO-1802	No Recommendations
3	2002-CH-1802	No Recommendations
4	2002-CH-1803	No Recommendations
5	2002-DE-1805	No Recommendations
6	2002-FW-1805	No Recommendations
7	2002-NY-1803	No Recommendations
8	2002-SF-1807	No Recommendations

## Schedule of Grantees with Respect to OIG’s Determination Under Section 1303

Section 1303 of the 2002 Defense Appropriation Act states:

*“That to the extent the HUD Inspector General determines that the use of any funding for technical assistance does not meet the requirements of section 514, the Secretary of Housing and Urban Development (‘Secretary’) shall recapture any such funds: Provided further, that no funds appropriated under title II of Public Law 107-73 and subsequent appropriations acts for the Department of Housing and Urban Development shall be made available for 4 years to any entity (or any subsequent entity comprised of significantly the same officers) that has been identified as having violated the requirements of section 514 by the HUD Inspector General....”*

Congress did not provide OIG with materiality guidelines. Rather Congress mandated OIG to identify **“any funding”** (emphasis added) that does not comply with Section 514. Section 514 of MAHRA, contains one explicit prohibition, specifically, prohibiting the use of any Section 514 funding to lobby members of Congress or their staff. Section 514(f)(3)(C) states:

*“(C) Prohibition. --None of the funds made available under subparagraph (A) may be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a Member of Congress, to favor or oppose, by vote or otherwise, any legislation or appropriation by Congress, whether before or after the introduction of any bill or resolution proposing such legislation or appropriation.”*

OIG’s external Section 514 reports identified nine grantees that used a portion of their grant funds on activities for lobbying members of Congress or their staff, contrary to the specific prohibition. As such, HUD should take action with respect to the language in Section 1303 of the 2002 Defense Appropriation Act.

Table 1

	Agreement Number	Type of funding	Auditee Name/ Subgrantee Name	Report Number
1	FFOT00019MA	OTAG	Anti-Displacement Project	2002-BO-1004
	FFOT98013MA	OTAG		
2	FFOT00009DE	OTAG	Delaware Housing Coalition	2002-PH-1003
3	FFOT98012MD	OTAG	Legal Aid Bureau Inc	2002-PH-1006
	FFOT00020MD	OTAG		2002-PH-1007
4	FFOT00033PA	OTAG	Philadelphia Regional Alliance	2002-PH-1005
5	FFOT98025PA	OTAG	Tenant Action Group Philadelphia	2002-PH-1004
6	FFOT00028NM	OTAG	New Mexico Public Interest Education Fund	2002-FW-1003
7	FFOT00022MO	OTAG	Housing Comes First	2003-KC-1002
	FFOT98018MO	OTAG		
8	FFIT98001AT	ITAG	Amador-Tuolumne Community Action (1)	220-SF-1805
	FFIT98002AT	ITAG		
9	FFOT00040WA	OTAG	The Tenants Union	2003-SE-1002
	FFOT98030WA	OTAG		

(1) Lobbying performed by sub-grantee not the ITAG grantee

In addition, HUD requested that OIG identify audit findings, in our external Section 514 audit reports related to activities that could potentially represent a violation of Section 514. These relate to activities that, while not explicitly prohibited, may not be allowed under Section 514.

Because of OMHAR's conflicting guidance and the ambiguity of Section 514-(f), OIG is unable to make a definitive determination on whether the seven activities identified below meet the requirement of Section 514. Specifically, Section 514(f)(3)(A) states that funds may be used for **“building the capacity of tenant organizations** (emphasis added), for technical assistance in furthering any of the purposes of this subtitle (including transfer of developments to new owners)....” In addition, Section (f)(1)(A) states that the Section 514 procedures developed by HUD shall take into account the need to provide tenants of the project, residents of the neighborhood, **the local government** (emphasis added), and other affected parties to participate effectively on a timely basis in the restructuring process established by this subtitle.”

As such, HUD to the extent feasible and appropriate needs to clarify or establish guidance to facilitate a determination on whether the activities, by the grantees listed below, meet the requirements of Section 514. OIG will make itself available to HUD and based on HUD's guidance, OIG will make appropriate further recommendations pursuant to Section 1303.

Table 2

1	FFOT00008CO	OTAG	Housing Advocacy Coalition (2)	2002-DE-1004
2	I-OPC-21214	MOU	Corporation For National Service (Vista) (3)	2002-DE-1003
3	FFOT98006HI	OTAG	Legal Aide Society Of Hawaii (4)	2002-SF-1006
4	FFIT98003LF	ITAG	Low Income Housing Fund (5)	2002-SF-1004
	FFIT98004LF	ITAG		
5	FFOT98011KY	OTAG	Homeless and Housing Coalition of Kentucky (6)	2002-AT-1808
	FFOT00016KY	OTAG		
6	FFOT00003AZ	OTAG	Southern Arizona People's (7)	2002-SF-1007
7	FFOT00032OR	OTAG	Community Alliance Of Tenant (6)	2003-SE-1001
	FFOT98024OR	OTAG		

- (2) HUD should clarify if lobbying performed at the state or local level would be permitted under Section 514.
- (3) Portions of the lobbying (state and local lobbying) charges were performed by a sub-grantee Community Resource Center of Colorado.
- (4) HUD should clarify if Section 514 funds can be used for daycare and homeownership assistance.
- (5) HUD should clarify if providing legal assistance to tenant organizations for retaliation, by owners, for organizing would be an eligible activity permitted under Section 514.
- (6) HUD should clarify if the ineligible and questioned salaries would be an eligible activity permitted under Section 514.
- (7) Questioned salaries charged by the sub-grantee.

# Auditee Comments

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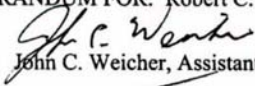


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-8000

March 31, 2003

OFFICE OF THE ASSISTANT SECRETARY  
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

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

FROM:  John C. Weicher, Assistant Secretary for Housing- Federal Housing Commissioner, H

SUBJECT: Proposed Management Decisions for IG Audit HUD Office of Multifamily Housing  
Assistance Restructuring's Oversight of the Section 514 Program Activities

The below proposed management decisions for recommendations 1A through 1H are submitted for your review and consideration. In accordance with HUD Handbook 2000.06 Rev-3 you are requested to provide your formal response in writing to me within 15 days of the above date. In addition, in the event you cannot concur with some of the proposed management decisions as presented, please let me know as soon as possible so I can provide any additional information needed or discuss possible alternatives.

**Recommendation 1A:** The OIG recommends that the responsibility for the Section 514 Technical Assistance grants be transferred from OMHAR to another program area within Housing.

**Response:** Housing non-concurs and requests that this recommendation be closed in favor of actions proposed on OIG's alternative recommendation numbers 1D, 1E and 1F, below. The problems associated with the administration of the 514 Program did not occur because of where the program was located but rather because of a lack of program controls and the capacity and training of the staff. Those problems will be addressed by our proposed actions under recommendation 1D through 1F.

**Recommendation 1B:** Develop a plan to resolve the recommendations/issues identified in the individual Section 514 audit reports.

**Response:** Management concurs with this recommendation. With respect to individual audits with cost issues, our decision is to seek repayment of costs determined to be "ineligible" by the OIG. Regarding items of "questioned" cost by the OIG, grantee responses to the questioned items in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. We request that management decisions be recorded for each of the recommendations on cost issues in the individual grant audit reports, with an estimated completion date of 12/31/03. Specific plans for each of the 10 issue groupings in the audit have been developed and are included in the "Attachment" to this memorandum.

We further request that the individual audit report recommendations on grantee reminder notices or policy and procedure revisions be closed in consideration of actions proposed on recommendations 1C and 1E of the OIG's consolidated report.

**Recommendation 1C:** Rescind or clarify the December 3, 1999 memorandum that provided guidance to Section 514 Program grantees, to correctly identify the requirements under MAHRA and HUD policies.

**Response:** Management concurs. The referenced memo was rescinded on 3/14/03 and a subsequent letter will be sent by 4/30/03 to clarify which projects under MAHRA are eligible. The guidance provided to grantees will also address and remind them of other issues raised in the OIG's individual ITAG/OTAG grant audit reports, such as the need to adhere to reporting requirements.

**If the Assistant Secretary for Housing-Federal Housing Commissioner decides not to transfer responsibility for the Section 514 program, we recommend the Assistant Secretary:**

**Recommendation 1D:** Require the Director of OMHAR to perform a Front End Risk Assessment of the Section 514 Program.

**Response:** Management concurs with the intent of this recommendation. However, Housing understands, through consultation with the CFO's Office, that a Front End Risk Assessment (FERA) is not the appropriate corrective action because the Section 514 Program has been in existence and operating for a significant period of time. Housing proposes, as an alternative corrective action, a Management Control Review (MCR) of the Section 514 Program performed under the leadership of the Office of Departmental Grants Management and Oversight Staff. The MCR will document program processes and identify risks and areas in need of management control improvements. Completion of the MCR is estimated by 6/30/03.

**Recommendation 1E:** Develop, based on the Risk Assessment, written policies and procedures for managing and overseeing the Section 514 Program.

**Response:** Management concurs. In conjunction with the conduct of the MCR under recommendation 1D, improved written policies and procedures for managing and overseeing the Section 514 Program will be developed and issued by 9/30/03. The policies and procedures will include all improvements recommended in the OIG's individual ITAG/OTAG grant audit reports (see the Attachment).

**Recommendation 1F:** Ensure that the staff responsible for the Section 514 Program has the knowledge and skill to provide management and oversight of a grant program.

**Response:** Management concurs. In conjunction with program improvements resulting from actions proposed to address recommendations 1D and 1E, staff training will be provided on improved policies and procedures. In the interim, activity conducted under outstanding grants will be subject to a supervisory review by senior staff familiar with grants management prior to any voucher being authorized for payment. The estimated completion date for these actions is 9/30/03.

**Recommendation 1G:** Take action with respect to the language in Section 1303 of the 2002 Defense Appropriations Act for the nine grantees identified in Table 1 of Appendix E.

**From the Schedule of Grantees with Respect to OIG's Determination Under Section 1303:** OIG's external Section 514 reports identified nine grantees that used a portion of their grant funds on activities

## Auditee Comments

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for lobbying members of Congress or their staff, contrary to the specific prohibition. As such, HUD should take action with respect to the language in Section 1303 of the 2002 Defense Appropriations Act.

**Response:** Management concurs. Housing, in cooperation with other appropriate offices in HUD will implement the recommendation with regard to the 9 grantees identified by the Inspector General in the audit report. The estimated completion date for these actions is 4/30/03.

**Recommendation 1H:** To the extent feasible and appropriate (HUD) needs to clarify or establish guidance to facilitate a determination if the activities by the grantees listed below (Table 2) meet the requirements of Section 514.

**Response:** Management will seek guidance from the Office of the General Counsel in determining how best to respond to this recommendation by 4/30/03.



**– Management Decisions on Individual ITAG/OTAG Grant Audit Issues**

The OIG Consolidated Audit takes the individual audit recommendations from the 40 individual ITAG/OTAG audits and combines them into like recommendations in a document titled: “Schedule of Section 514 Recipient Audit Recommendations by Groupings” (Appendix D to the consolidated audit). These groupings allow for a single response to address the recommendations within each grouping. The following management decisions are responsive to the individual recommendation groupings and are meant to address the recommendations individually and in total. Our target date for completion is 12/31/03.

With respect to individual audits with cost issues, our decision is to seek repayment of costs determined to be “ineligible” by the OIG. Regarding items of “questioned” cost by the OIG, grantee responses to the questioned items in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG’s auditors in reviewing and determining the acceptability of that documentation against the OIG’s work papers.

**Grouping 1, Salaries and Benefits**

In twenty-five of the forty recipient audits, we concluded that the recipients did not account for or charge the Section 514 grants appropriately for salaries and benefits. These twenty-five reports contained 57 recommendations identifying ineligible cost of \$326,759 and questioned cost of \$1,097,918 (\$1,424,677 total). These recommendations represent the largest issues identified in the recipient reports.

**Response:** Housing/OMHAR, in conjunction with HUD’s Office of the Chief Financial Officer, will seek repayment of \$326,759 in ineligible costs from the grantees identified in the audit. The grantee responses to the questioned costs (\$1,097,759) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG’s auditors in reviewing and determining the acceptability of that documentation against the OIG’s work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD’s Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

## Auditee Comments

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### Grouping 2, Cost Allocation, Salaries and Benefits

In eleven of the forty recipient audits, we concluded that the recipients did not account for or charge the Section 514 grants appropriately for salaries and benefits, but we could not make a determination of the amounts related to these salaries and benefits. We provided the Director of OMHAR with 12 recommendations related to these 11 reports.

**Response:** The grantee responses to these unsupported costs in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. When the cost is disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

### Grouping 3, Non-Salary or Lobbying Costs

In nineteen of the forty recipient audits, we concluded that the recipients did not appropriately account for its non-salary cost or charged the Section 514 grants for ineligible or questioned non-salary costs. These nineteen reports made thirty-four recommendations surrounding non-salary costs for a total of ineligible cost of \$82,236 and questioned costs of \$101,167 (Total \$183,403)

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$82,236 from the grantees identified in the audit. The grantee responses to the questioned costs (\$101,167) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

### Grouping 4, Cost Allocation on Non-Salary, or Lobbying

In twenty-one of the forty recipient audits, we concluded the recipients did not appropriately allocate for its non-salary cost or allocated cost ineligible or questioned non-salary costs. The twenty-one reports made thirty-four recommendations surrounding non-salary cost for a total of ineligible cost of \$53,296 and questioned costs of \$222,870 (Total \$276,166).

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$53,296 from the grantees identified in the audit. The grantee responses to the questioned costs (\$222,870) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's

auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

#### **Grouping 5, Recommendations Related to OMHAR**

We identified specific issues related to OMHAR and its oversight of the program. These four reports made seven recommendations surrounding OMHAR. Specifically, that OMHAR require the recipients to submit the required reports and perform a detailed review of the reports to identify ineligible activities.

**5A** Remind the Grantee to submit all required supporting data for payment vouchers.

**Response:** Management concurs. Actions will be pursued under recommendation 1C of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

**5B** Review OMHAR procedures for reviewing and approving payment vouchers and make necessary improvements to ensure that payment vouchers submitted that do not comply with applicable administrative reporting requirements are rejected.

**Response:** Management concurs. Actions will be pursued under recommendation 1E of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

**5C** Review OMHAR procedures for reviewing activity reports and quarterly progress reports and place increased emphasis on identifying grantees engaged in ineligible activities, including lobbying.

**Response:** Management concurs. Actions will be pursued under recommendation 1E of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

**5D** Consider adding a requirement for grantees to certify on the Mark-to-Market Activity Reports that reimbursements are being requested for only eligible activities under MAHRA, and that indirect cost allocations are based on a method or plan that complies with OMB Circular A-122.

**Response:** Management concurs. Actions will be pursued under recommendations 1E and 1C of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

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**5E** Require the LIHF to comply with the reporting requirements and submit future quarterly reports following OMB, CFR, NOFA, and grant agreement requirements, including submitting reports in a timely manner and using the prescribed Standards Form 424A.

**Response:** Management concurs and will send a letter to the grantee reminding them of these requirements. Action will be pursued under recommendation 1C of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

**5F** Require the HRCSF and Tides center to comply with reporting requirements and submit future quarterly reports following OMB, CFR, NOFA and grant agreement requirements, including submitting reports in a timely manner and using the prescribed Standards Forms 269 and 424A

**Response:** Management concurs and will send a letter to the grantee reminding them of these requirements. Action will be pursued under recommendation 1C of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

**5G** Require the CCRH to submit timely and complete quarterly reports to HUD, following OMB, CFR, NOFA and grant agreement requirements, including standard forms SF268 and SF424A.

**Response:** Management concurs and will send a letter to the grantee reminding them of these requirements. Action will be pursued under recommendation 1C of the OIG's consolidated ITAG/OTAG report, and we request that the recommendations on this same issue in individual audit recommendations be closed.

### Grouping 6, Ineligible Project Activities

In five of the forty recipient audits, we concluded that the recipients assisted ineligible projects or could not support the eligibility of projects assisted. These five reports made eight recommendations surrounding ineligible projects for a total of ineligible costs of \$71,817

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$71,817 from the grantees identified in the audit.

In addition, Housing/OMHAR will make sure policies and procedures are in place so that grantees will be funding only eligible projects.

### Grouping 7, Questioned Costs for Consultant Activities

In six of the forty recipient audits, we concluded that the recipients did not appropriately account for costs related to consultants. These six reports made eleven recommendations surrounding consultants' cost for a total of ineligible costs of \$9,285 and questioned cost of \$163,362 (Total \$172,647)

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$9,285 from the grantees identified in the audit. The grantee responses to the questioned costs (\$163,362) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

#### **Grouping 8, Rents Space**

In three of the forty recipient audits, we concluded that the recipients charged the grant for ineligible or questionable costs, related to rents space. These three reports made three recommendations surrounding ineligible rental space for a total of ineligible cost of \$17,000 and questioned costs of \$18,600 (Total \$35,600)

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$17,000 from the grantees identified in the audit. The grantee responses to the questioned costs (\$18,600) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

#### **Grouping 9, Lobbying Activity**

In nine of the forty recipient audits, we concluded that the recipients used a portion of their Section 514 Program funds for Lobbying activities directed at Congress. Section 514 explicitly prohibited the lobbying of Congress.

In addition, we identified that four grantees used a portion of their Section 514 funds to lobbying activities at the state and local level. These activities were not specifically prohibited in Section 514, but are not allowed costs under OMB Circular A-122 guidance.

**Response:** Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of \$13,425 from the grantees identified in the audit under Table A. The grantee responses to the questioned costs (\$30,624) in the individual audit reports will be considered in order to seek repayment where appropriate. To the extent grantees provide additional supporting documentation for any cost items identified by the OIG, we will seek the assistance of the OIG's auditors in reviewing and determining the acceptability of that

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documentation against the OIG's work papers. Determinations will be made if these costs are allowable or disallowable and appropriate notification to the grantee will be made. If the costs are disallowed, Housing/OMHAR, in conjunction with HUD's Office of the Chief Financial Officer, will seek repayment of disallowed costs from the grantees.

### **Grouping 10, Consider Suspension of the Grantee for Questioned Costs**

In twenty-six audit reports, we recommended that the Director of OMHAR suspend funding to the grantees. Based on our recommendations, the Director of OMHAR suspended twenty-one grantees.

**Response:** Housing/OMHAR noted the recommendations (instead of 26 audit reports as stated in the report, the IG made suspension recommendations in 23 individual grantee reports) in the individual audit reports and imposed suspensions on the grantees pending the issuance of the consolidated IG audit and the resolutions called for in the individual reports. The OMHAR Director suspended 21 of the 23 grantees, and one (VISTA) had no funds remaining under the grant. The difference of 1 grantee was due to a recommendation for suspension being added after the initially report was issued by the IG and that grantee has now been suspended. Those grantees not sanctioned under the provisions of Section 1303 of the fiscal year 2002 Defense Appropriations Act, will be given an opportunity to continue to participate in the program after they have developed and implemented appropriate management controls to ensure that only eligible activities receive funding and that the documentation of expenditures complies with OMB Circular A-122. We request these recommendations be closed based on actions taken.

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