



Issue Date: December 3, 2002

Audit Case Number: 2003-AO-1001

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

[Signed]

FROM: Sandra G. Elion, Director, Headquarters Audits Division, GAH

SUBJECT: Congressionally Requested Audit of the Intermediary Technical Assistance Grant
Awarded to the National Center for Tenants Ownership, Grant No. FFIT98005NT

INTRODUCTION

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.

Section 1303 of the FY 2002 Defense Appropriations Act (Public Law 107-117) requires the HUD Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). The directive included the Intermediary Technical Assistance and Outreach and Training Assistance Grants administered by the Office of Multifamily Housing Assistance Restructuring (OMHAR). Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities.

Our objective was to determine whether NCTO expended Section 514 grant funds for only eligible activities as prescribed in MAHRA, the Notice of Funding Availability (NOFA), the grant agreement, and other HUD requirements to further the Mark-to-Market Program. Because Section 514 specifically prohibits the use of grant funds for lobbying Congress, we also wanted to determine whether NCTO expended funds for any lobbying activities.

In conducting the audit, we reviewed the grantee's accounting records and interviewed responsible staff. We also reviewed the requirements in MAHRA; the NOFA; the ITAG grant agreement; HUD's requirements for grant agreements for nonprofit entities; Office of Management and Budget's (OMB) guidance on the allowability of cost for nonprofit grantees; IRS Publication 557, "Tax-Exempt Status for Your Organization;" NCTO's application; and subgrantees' project activities, grant agreements, and quarterly and financial reports. We reviewed each of the Predevelopment Grants (9) and Resident Capacity Grants (4) awarded. However, we selected a nonrepresentative sample (14 of 33 or 42 percent) of the Public Entity Grants. The grants included in our review totaled \$952,877.

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. We discussed our results with Georgetown University and NCTO officials at an exit conference on September 4, 2002.

We appreciate the courtesies and assistance extended by Georgetown and NCTO's personnel during our review.

We provided our draft report to NCTO for their comments on October 30, 2002. On November 13, 2002, NCTO provided their written comments. NCTO stated that the auditors may have underestimated hourly rates given that OMB Circular A-122 allows wages, fringe and indirect costs recovery, but indicates that they have taken some corrective actions and are currently reviewing supporting documentation for its subgrantees. Additionally, NCTO specifically requested that OMHAR provide more extensive training on cost requirements. We summarized NCTO's written comments to our draft report after each finding and included the complete text in Appendix B.

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

Should you or your staff have any questions, please contact me at (202) 708-1342.

SUMMARY

NCTO was awarded \$1.8 million of ITAG funds and subsequently awarded 46 grants to 21 subgrantees. Our audit identified that: (1) six of NCTO's subgrantees charged a total of \$45,212 for employees' salaries and fringe benefits in excess of actual costs; (2) NCTO received \$35,781 in duplicate payments; and (3) NCTO and one subgrantee did not comply with OMB requirements for maintaining adequate documentation. However, we did not find any activity or costs related to lobbying.

BACKGROUND

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) established the Office of Multifamily Housing Assistance Restructuring (OMHAR) within HUD. Utilizing the authority and guidelines under MAHRA, OMHAR's responsibility included the administration of the Mark-to-Market Program, which included the awarding, and oversight of the Section 514 Outreach and Training Assistance and Intermediary Technical Assistance Grants. The objective of the Mark-to-Market Program was to reduce rents to market levels and restructure existing debt to levels supportable by these reduced rents for thousands of privately owned multifamily properties with federally insured mortgages and rent subsidies. OMHAR worked with property owners, Participating Administrative Entities, tenants, lenders, and others to further the objectives of MAHRA.

Congress recognized, in Section 514 of MAHRA, that tenants of the project, residents of the neighborhood, the local government, and other parties would be affected by the Mark-to-Market Program. Accordingly, Section 514 of MAHRA authorized the Secretary to provide up to \$10 million annually (\$40 million total) for resident participation, for the period 1998 through 2001. The Secretary authorized \$40 million and HUD staff awarded about \$26.6 million to 40 grantees (a total for 83 grants awarded). Section 514 of MAHRA required that the Secretary establish procedures to provide an opportunity for tenants of the project and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 514 required the procedures to take into account the need to provide tenants of the project and other affected parties timely notice of proposed restructuring actions and appropriate access to relevant information about restructuring activities. Eligible projects are generally defined as HUD insured or held multifamily projects receiving project based rental assistance. Congress specifically prohibited using Section 514 grant funds for lobbying members of Congress.

HUD issued a NOFA in Fiscal Year 1998 and a second in Fiscal Year 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants, the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Training Assistance Grants (OTAG). The NOFA for the ITAG states that the program provides technical assistance grants through intermediaries to sub-recipients consisting of: (1) resident groups or tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market program to help tenants participate meaningfully in the Mark-to-Market process, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for Mark-to-Market-eligible projects throughout their jurisdictions. The OTAG NOFAs 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 assistance or prepaying the mortgages.

HUD regulations at 24 Code of Federal Regulations 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 OMB Circular A-122, "Cost Principles for Non-Profit Organizations," in determining the allowability of costs incurred to the grant. OMB Circular A-122 outlines specific guidelines for allowability of charging salaries and related benefits to the grants and the records needed to support those salaries. For indirect cost charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and recordkeeping to support the allocation of costs.

The Circular also establishes the unallowability of costs associated with Federal and state lobbying activities. Simply stated, the use of Federal funds for any lobbying activity is unallowable. OMB Circular A-122 identifies some examples of unallowable activities of lobbying. These include any attempt to influence an elected official or any Government official or employee (Direct Lobbying) or any attempt to influence the enactment or modification of any actual or pending legislation by propaganda, demonstrations, fundraising drives, letter writing, or urging members of the general public either for or against the legislation (Grassroots Lobbying).

On October 2, 1998, OMHAR awarded \$1.8 million of ITAG funds to NCTO as the intermediary for the Northeast State Grouping. The intermediaries' requirements were defined in the NOFA. Basically, the intermediaries are responsible for awarding and administering grants to sub-recipients. In order to effectively perform these responsibilities, the intermediaries must:

- Review, approve, or reject grant applications and execute grant agreements;
- Voucher and disburse grant funds;
- Monitor grant activities for compliance with the grant agreement throughout the term of the grant;
- Report to Mark-to-Market staff at least quarterly on the status of grant awards, grantee activities, and funds expended; and
- Maintain documentation for HUD monitoring and audits in accordance with 24 CFR part 84.

NCTO, a clinical program of the Harrison Institute for Public Law at Georgetown University, awarded 46 subgrants totaling \$1,299,664 to 21 grantees during the period October 19, 1999, through September 24, 2001. Of the 46 subgrants that were awarded, 33 were for Public Entity Grants, 9 for Predevelopment Grants, and 4 for Resident Capacity Grants.

NCTO/Georgetown University received an annual financial audit of their activities for the 4 years ending June 30, 1998, through 2001. The auditor rendered an unqualified opinion for each of the 4 years.

In addition to the ITAG, NCTO received resources estimated at \$4,111,760 from other Federal and non-Federal sources. Some of the non-Federal sources included \$200,000 from the Rockefeller Brothers Fund and \$46,000 from the DC Housing Authority.

FINDING 1
NCTO'S SUBGRANTEES RECEIVED EXCESSIVE COMPENSATION

NCTO's subgrantees charged \$45,212 for employee services in excess of actual costs. This condition occurred because NCTO did not receive the subgrantees' actual wages or question the reasonableness of the proposed wages. As a result, ITAG funds were improperly used.

In accordance with OMB Circular A-122, Attachment B, Paragraph 7, Compensation for Personal Services, reasonable compensation and fringe benefits to employees are grant fundable costs. Compensation for employees on federally sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities. OMB Circular A-122 also places specific salary recordkeeping requirements on the grantee.

Six of NCTO's subgrantees overcharged the grants by charging an inflated hourly rate for their employees. The subgrantees were Delaware Housing Coalition (DHC), Housing Development Corporation, Action Housing, Foundation for Political Management, Pennsylvania Low Income Housing Corporation, and Fenway Community Development Corporation. The inflated rates were proposed in the subgrantees' application budgets, approved by NCTO, and later incorporated into the grant agreements. The excessive compensation is presented in Table 1.

Table 1: Excessive Compensation Paid to Subgrantees

Subgrantee	Employee	Annual Compensation	Hourly Rate	Rate Billed to ITAG	Excess Rate	Hours Billed	Excess Cost
Housing Development Corporation	1	\$115,000.00	\$55.29	\$70.00	\$14.71	242	\$ 3,559.82
	2	62,088.00	29.85	35.00	5.15	198	1,019.70
	3	43,505.00	20.92	25.00	4.08	120	489.60
Action Housing *	4	101,336.00	55.68	88.00	32.32	146	4,718.72
	5	67,317.00	36.99	54.00	17.01	189	3,214.89
	6	65,116.00	35.78	38.00	2.22	28	62.16
	7	35,746.00	19.64	30.50	10.86	86	933.96
	4	101,386.00	55.68	88.00	32.32	89	2,876.48
	5	67,317.00	36.99	54.00	17.01	130	2,211.30
	7	35,746.00	19.64	30.50	10.86	21	228.06
Foundation for Political Management	8	50,000.00	24.04	40.00	15.96	245	3,910.20
Pennsylvania Low Income Housing Corporation	9	38,000.00	18.27	50.00	31.73	138	4,378.74
Fenway Community Development Corporation	10	73,500.00	37.69	75.00	37.31	70.75	2639.68
	11	57,000.00	29.23	65.00	35.77	156.50	5,598.01
Delaware Housing Coalition	12	35,000.00	17.95	30.00	12.05	99	1,192.95
	13	38,324.98	21.06	60.00	38.94	210	8,177.40
Total							<u>\$45,211.67</u>
*2 grants – Quemahoning Towers Predevelopment Grant; Greenway Park Predevelopment Grant							
<i>Note: Annual compensation information was obtained from the subgrantees and included fringe benefits for Action Housing and DHC.</i>							
<i>The rates billed to ITAG were based on multiple vouchers submitted from January 1999 through May 2002.</i>							

The subgrantees billed the grant based on the number of hours shown on the employees' timesheets. We compared the hourly wages charged to the grant with the employees' actual hourly wages. Since the employees received a flat monthly salary, we calculated the hourly rate based on their normal workweek (40 hours for 5 employees; 37.5 hours for Fenway; and 35 hours for DHC and Action Housing employees).¹ Based on those calculations, we determined that the subgrantees charged the grants hourly rates in excess of the amount actually earned. For example, we determined that two employees from Fenway received an hourly rate of \$29.23 and \$37.69, respectively. However, Fenway charged the grant \$65 and \$75 per hour, respectively, for these two employees.

In addition to the six subgrantees, we could not determine the reasonableness of the salary expenses charged by the National Housing Trust (NHT), another subgrantee. NHT received three subgrants from NCTO. However, NHT's billing rates were calculated using a combination of actual and budgeted costs. The actual costs included annual salary, benefits and payroll taxes, and annual office rental. NHT's overhead costs and administrative support fee of 20 percent were budgeted costs. OMB Circular A-122 states that budget estimates do not qualify as support for charges to the grant. In addition, NHT charged different hourly rates for services performed by the same employees on the different subgrants.

¹ The number of hours Fenway and Action Housing employees worked was provided by NCTO subsequent to our draft report. These changes resulted in a reduction of excessive costs from \$49,145 to \$45,212.

NHT's benefits and overhead cost pools also included unallowable and questionable cost. Specifically, monthly car allowances and interest on loans are unallowable costs and consultant and travel costs are questionable because they are included in the computation for direct billing rates. Consultant and travel costs can only be charged once. NHT's billing rates are further complicated because NHT did not have an approved indirect cost rate in accordance with OMB Circular A-122. Therefore, we could not determine the reasonableness of the billing rates NHT charged to the grants. These issues are discussed in greater detail in a separate audit memorandum on NHT's Outreach and Technical Assistance Grants.

NCTO allowed its subgrantees to charge the grant excessive rates because it did not verify the subgrantees' actual wages or question the reasonableness of the proposed wages.² In addition, the ITAG Coordinator did not enforce the personnel and compensation requirements of OMB Circular A-122. As a result, ITAG funds that could have been used to further the Mark-to-Market Program were spent unnecessarily. These funds could have been better used to provide training to residents and tenant organizations on meaningful ways to participate in the Mark-to-Market process.

AUDITEE COMMENTS

NCTO stated that the auditors may have underestimated hourly rates given that A-122 allows wages, fringe, and indirect cost recovery; therefore, NCTO will review the rate charges and make the results available to OMHAR. NCTO also indicated that the ITAG administrator regularly compared the proposed rates to other subgrantees' rates approved by OMHAR and had rejected at least one subgrantee because the rates were unreasonable.

NCTO did not believe the methodology the auditors used to determine the \$49,145 in overcharges was sufficient to warrant repayment at this time and requested that the auditors review "our data before determining the amount, if any, to be repaid."

Subsequent to the review, NCTO worked closely with the Sponsored Accounting Office to strengthen its oversight; therefore, the report no longer reflects the current situation at NCTO.

OIG EVALUATION OF AUDITEE COMMENTS

We acknowledge that the subgrantees may have been entitled to recover other costs, but they did not provide this information to us during our audit. And, the data NCTO provided after our draft report was not sufficient to substantially change the excessive amounts reported. Although NCTO attributed most of the excessive charges to overhead costs that the subgrantees were entitled to, none of the subgrantees had submitted an indirect cost proposal or obtained an approved indirect cost rate. Therefore the indirect costs were questionable.

In addition, an acceptable methodology for determining the reasonableness of employees' compensation is not to compare subgrantees' rates but to evaluate whether the compensation charged to the ITAG is the same or comparable to the subgrantee's other activities.

² Subsequent to our draft report, NCTO advised us that the excessive charges were for overhead costs. However, since none of the subgrantees had requested or obtained an approved indirect cost rate, we question these costs.

RECOMMENDATIONS

We recommend that the Director of OMHAR:

- 1A. Require NCTO to repay the \$45,212 in excessive compensation paid to subgrantees.
- 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.
- 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.

FINDING 2
NCTO RECEIVED DUPLICATE PAYMENTS

NCTO received duplicate payments by submitting three different payment vouchers. This occurred because NCTO did not have controls in place to prevent employees from requesting draw downs for the same expenses. As a result, NCTO erroneously received \$35,781 of HUD funds.

24 CFR part 84.21(3), “Standards for Financial Management Systems,” states that recipients’ financial management systems shall provide for effective controls over and accountability for all funds, property, and other assets. The recipients shall adequately safeguard all such assets and assure that they are used solely for authorized purposes.

NCTO received the duplicate payments by submitting different payment vouchers covering the same or overlapping periods. Specifically, these vouchers were for tenant outreach and training activities previously reimbursed to the Delaware Housing Coalition, New York State Tenant & Neighbors, and Pennsylvania Low Income Housing Corporation. Also included in the duplicate payments was \$1,704 (5 percent of the costs) for NCTO’s administrative fee. These payments are described in Table 2.

Table 2: Schedule of Duplicate Payments for Tenant Outreach and Training Activities and Administrative Fees

<u>Subgrantee</u>	Month/Year Charges Incurred	Draw Down Dates & Voucher Numbers				Total Amount Reimbursed
		1 st	2 nd			
Delaware Housing Coalition	01/00	3/17/00	84000293	7/26/01	84000701	\$ 1,711.50*
Delaware Housing Coalition	11/00	7/26/01	84000701	8/9/01	84000731	1,538.25
Delaware Housing Coalition	05/01	7/26/01	84000701	8/9/01	84000731	1,475.25
Delaware Housing Coalition	04/01	7/26/01	84000701	8/9/01	84000731	1,475.25
Delaware Housing Coalition	03/01	7/26/01	84000701	8/9/01	84000731	2,546.25
Delaware Housing Coalition	02/01	7/26/01	84000701	8/9/01	84000731	1,664.25
Delaware Housing Coalition	01/01	7/26/01	84000701	8/9/01	84000731	1,664.25
Delaware Housing Coalition	12/00	7/26/01	84000701	8/9/01	84000731	2,483.25
Delaware Housing Coalition	10/00	7/26/01	84000701	8/31/01	84000760	1,559.25
New York State Tenants & Neighbors	12/00 – 02/01	7/26/01	84000701	8/31/01	84000760	10,080.00
Pennsylvania Low Income Housing Corporation	08/00 – 11/00	7/26/01	84000701	8/31/01	84000760	<u>9,583.76</u>
Total						<u><u>\$35,781.26</u></u>

* Amount includes \$777.50 paid under a different voucher that totaled \$2,352.

NCTO’s Account Analyst submitted three draw down request schedules that contained itemized amounts and then a subsequent request that contained a lump sum for the same expenditures. The Account Analyst advised us that he only reviewed the vouchers for mathematical accuracy

and not to determine whether the vouchers were used for payment under different draw downs. Additionally, the Senior Account Analyst confirmed that Sponsored Accounting did not review the vouchers that were submitted under each of the draw downs.

OMHAR also contributed to this weakness because OMHAR did not obtain the required documentation prior to approving NCTO's requests for payment. Specifically, OMHAR allowed NCTO to draw down \$2,352 without submitting a voucher. In subsequent discussions, OMHAR officials essentially agreed that a grantee could bill HUD twice for the same activity.

NCTO and OMHAR should have controls to detect and prevent grantees from requesting and making multiple draw downs for the same expenditures. However, to NCTO's credit, it recognized that \$2,352 was a duplicate payment and adjusted its next payment voucher by this amount. In addition, after discussing the results of the duplicate payments with Georgetown's Director of Sponsored Accounting, NCTO agreed to repay HUD \$37,861.³

AUDITEE COMMENTS

NCTO concurs with the recommendations to strengthen controls and will now process draw down request by reconciling the draw down amounts to the total expenses on the Center Status Report as required by the University. Based on the finding, NCTO remitted \$37,861 to HUD for the duplicate payments and accrued interest.

OIG EVALUATION OF AUDITEE COMMENTS

The actions NCTO has taken and plans to take should correct the identified deficiency.

RECOMMENDATIONS

We recommend that the Director of OMHAR:

- 2A. Require NCTO to remit \$35,781 to HUD for the duplicate payments.
- 2B. Require NCTO to establish oversight controls to prevent and detect duplicate voucher requests for reimbursement.

³ This amount includes the \$35,781 in duplicate payments erroneously received plus interest.

FINDING 3

NCTO AND SUBGRANTEE DID NOT COMPLY WITH OMB REQUIREMENTS

One subgrantee did not maintain adequate supporting documentation for employees' direct time charges and charged indirect costs based on budget estimates. These conditions occurred because NCTO did not provide adequate monitoring and oversight over the grant administration process. As a result, the subgrantee received \$7,953 in unsupported costs.

Lack of Adequate Supporting Documentation

OMB Circular A-122 places specific salary recordkeeping requirements on the grantee. The grantee must maintain personnel activity reports that account for the total activity for which an employee is compensated in the fulfillment of his/her obligation to the organization. The reports must reflect an after-the-fact determination of actual activity for each employee. Budget estimates do not qualify as support for charges to the grant. Grantees must also maintain reports reflecting the distribution of activity of each employee (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. OMB Circular A-122 also requires that the employee or a responsible official sign the report.

As the intermediary, NCTO executed a grant agreement with DHC. The grant agreement states the grantee will draw down funds by submitting a HUD approved voucher to the intermediary and attaching a detailed expense explanation or billing documentation. The grantee shall submit quarterly progress reports on December 31, March 31, June 30, and September 30; and semiannual financial reports are due on June 30 and December 31. No grant payments will be approved for projects with overdue progress or financial reports until the report has been submitted and approved.

DHC submitted 7 vouchers and 12 invoices for reimbursement totaling \$20,000, their total grant award. DHC did not submit adequate documentation (i.e., billing invoices, receipts, canceled checks, and mileage logs) for the \$20,000 claimed for reimbursement. Generally, the only support DHC provided to NCTO was a monthly timesheet for the Grassroots Policy Specialist that showed the number of hours worked or an invoice summarizing the amounts claimed. The invoices did not indicate the hourly rate charged or the number of hours the Grassroots Policy Specialist spent performing activities under the ITAG program.

DHC charged the grant a total of \$12,600 for salary expense. As discussed in Finding 1, we determined that \$8,177 of the salary billed to ITAG was in excess of the actual costs. Based on the number of hours claimed, it appears that the grantee should have only charged \$4,423 (\$21.06 x 210 hours) for salary expenses. However, the documentation provided by the Director was insufficient to verify the number of hours the employee worked. The DHC Director provided handwritten notes prepared by the Grassroots Policy Specialist. The Specialist's notes included a description of the activities performed but did not include the time spent performing those activities. The Director also provided activity reports for July through September 2000 but none for October 1999 through June 2000. Therefore, we question the remaining \$4,423 as unsupported salary expenses charged to the grant.

DHC also incorrectly charged travel expenses to the grant. The travel claims, totaling \$2,130, were for a VISTA volunteer's travel from home to the DHC office 5 days a week (approximately 40 miles one way) and travel from the DHC office to various rural developments. DHC used \$.30 a mile or a flat rate of \$200 per pay period to reimburse the VISTA volunteer for the local travel. Mileage to the various rural developments is allowable but since the VISTA volunteer did not maintain a mileage log we question these costs.

DHC was not aware of the requirement and thus did not submit the required financial reports. NCTO approved DHC's funding requests despite DHC's failure to submit required reports. The current ITAG Coordinator now requires subgrantees to submit required documentation and financial reports before disbursing payments to grantees.

Subgrantee Did Not Comply with Indirect Cost Proposal Requirements

DHC also allocated costs to the grant without having a federally approved indirect cost rate. OMB Circular A-122 provides guidance on the basic considerations for grant fundable costs and allocation of indirect costs. The grantee should prepare an indirect cost proposal that substantiates its claims for reimbursement of indirect costs. The proposal provides the basis for the review and negotiation leading to the establishment of an organization's indirect cost rate. If the grantee does not have an approved indirect cost rate, the grantee shall submit an initial indirect cost proposal within 3 months of receiving the award.

DHC did not submit an indirect cost proposal in accordance with OMB Circular A-122. Instead, DHC used the amount budgeted in the grant application to charge allocate costs to the ITAG. We did not perform an audit of the indirect costs; therefore, we could not determine the reasonableness of the rates charged. However, our cursory review of some of DHC's proposed costs raised questions as to the reasonableness of these costs. For example, the grantee charged \$1,400 for telephone, rental, and printing and copying expenses. The grantee based this amount on its grant application budget.

AUDITEE COMMENTS

NCTO concurs with our conclusion and recommendations and stated that, "Since its change in administrator, NCTO has increased the documentation of its oversight of subgrantee activity." To that end, NCTO is sending a questionnaire to all subgrantees to determine the extent to which oversight is required. NCTO will also more clearly define the supporting documents required to meet the compliance terms.

Regarding Recommendation 3B, NCTO is currently reviewing DHC's supporting documentation and will respond to OMHAR and the auditors when the review is complete. NCTO specifically requests that OMHAR provide more extensive training on cost requirements.

OIG EVALUATION OF AUDITEE COMMENTS

NCTO's comments were responsive but we could not determine whether the proposed actions will correct the deficiencies.

RECOMMENDATIONS

We recommend that the Director of OMHAR:

- 3A. Require NCTO to maintain supporting documentation for all ITAG expenditures and ensure that all expenditures are reviewed and approved prior to submission for payment.
- 3B. Require NCTO to determine the reasonableness of the \$7,953 (salary, travel, and indirect) in unsupported costs DHC charged to the grant.
- 3C. Require NCTO to ensure that subgrantees maintain timekeeping records and salary expense documentation in accordance with OMB Circular A-122.
- 3D. Require NCTO to ensure that subgrantees prepare and submit indirect cost proposals that comply with OMB Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to NCTO's Section 514 program to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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

- Identification of projects and activities eligible for assistance,
- Controls and documents to support costs of assistance provided, and
- Controls and procedures over the reporting of activities and cost.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

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

- Duplicate payments, excessive salaries and benefits, and ineligible cost charged to the grant.
- Ineffective policies and procedures for reviewing and approving subgrantee payment vouchers; and ensuring that salaries and time records met the standards of OMB Circular A-122, and supporting documentation is provided for all expenditures charged to the ITAG program.
- Inadequate procedures for reviewing and approving indirect cost to ITAG in accordance with OMB Circular A-122.

Significant weaknesses identified by our audit are discussed in the findings.

FOLLOW-UP ON PRIOR AUDITS

The Office of Inspector General has not performed any previous audits of the National Center for Tenant Owners.

SCHEDULE OF QUESTIONED COSTS

Recommendation Number	Type of Questioned Costs	
	Ineligible 1/	Unsupported 2/
1A	\$45,212	
2A	35,781	
3B		\$7,953
Total	\$80,993	\$7,953

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.
- 2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

AUDITEE COMMENTSTHE HARRISON INSTITUTE FOR PUBLIC LAW

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November 13, 2002

Sandra G. Elion
 Director
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Dear Ms. Elion:

We thank you for the opportunity to respond to the draft of your audit report on the National Center for Tenant Ownership's ("NCTO") administration of the Intermediary Technical Assistance Grant ("ITAG") awarded by HUD's Office of Multifamily Housing Assistance Restructuring ("OMHAR"). Given our support of the aims of the ITAG Program, we are willing to do all that we may to promote the proper stewardship of Funds awarded. We can only hope that given the limited time in which to respond that our comments are sufficient to express our readiness to continue administering the program without interruption. In this spirit, we offer the following comments on your findings and recommendations:

Finding 1: Estimate of Excessive Compensations

As a result of the audit, NCTO began a review of the cost rates charged by the subgrantees. The review has indicated that your office based its rate computations on annual wages; therefore, we do not believe that the \$49,145 amount cited accounts for all costs allowable under OMB Circular A-122. After reviewing Table 1, we believe your office may have underestimated hourly rates given that A-122 allows wages, fringe, and indirect cost recovery. NCTO will continue its review of the rates charge by the subgrantees and, once completed, will make the results available to OMHAR and your office.

In addition, we find exception with the wording that states that NCTO did not review the reasonableness of proposed wages. NCTO regularly compared the rates proposed to rates from other subgrantees approved by OMHAR to determine reasonableness. For example, Roslyn Morris-Davis rejected the Camden County Council Economic Opportunity, Inc.'s initial application because, among other things, its rates were unreasonable when compared to similar subgrantees.

Recommendations:

1A: We do not believe the methodology use to produce the \$49,145 finding was sufficient to warrant repayment at this time. We believe that it is in everyone's best interest that your office reviews our data before determining the amount, if any, to be repaid.

1B: NCTO's has again reviewed of all existing rates to determine reasonableness and will provide OMHAR and your office with the results.

1C: Given the work that NCTO has performed and the questions regarding the total amount of the questioned costs, we do not feel that a suspension is warranted. In addition, since the initial audit in August NCTO has been working closely with the Sponsored Accounting Office at Georgetown University to strengthen our oversight. As a result, the report no longer reflects the current situation at NCTO.

Finding 2: Duplicate Payments

We concur with the recommendations to strengthen our controls; however, the error in question involved one particular drawdown (7/26/01). Your office noted that another error was detected and corrected in a timely manner; nevertheless, we welcome the opportunity to strengthen controls. Since that time the University revised it's accounting for subcontracts by using blanket purchase orders. Due to the nature of the administrative fee for ITAG, the drawdown procedures were modified from standard University procedures. Based on the findings of your office, we remitted \$37,861 to HUD for the duplicate payments and interest.

While the error would have been detected during the closeout process, we agree that increasing our prevent controls would strengthen NCTO's control environment; therefore, drawdowns for the ITAG program will be processed in accordance with standard drawdown procedures that require reconciling the drawdown amount to the total expenses on the Center Status Report at the time of the drawdown. The accounting for the five percent fee will be adjusted to allow for the reconciliation.


Finding 3: Failure to Comply with OMB


Since its change in administrator, NCTO has increased the documentation of its oversight of subgrantee activity. We concur with your office that we should continue this effort to strengthen our oversight. A control questionnaire is being sent to all subgrantees to determine the extent of oversight required. In addition, NCTO will more clearly define the supporting documents required to meet the compliance terms.

NCTO is currently reviewing the supporting documents provided by DHC to determine the reasonableness of the questioned costs. We will respond to OMHAR and your office at the conclusion of our review.

We concur with the recommendations. In addition, we recommend that OMHAR provide more extensive training on cost requirements to grantees.

Once again, we thank you for giving us the opportunity to respond to the draft of the audit report. Please feel free to contact us if you have any questions regarding our comments.

Yours truly,

Michael Diamond
National Center for Tenant Ownership


James L. Reisert
Sponsored Accounting

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