



Issue Date September 25, 2002
Audit Case Number 2002-DE-1005

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

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

SUBJECT: Congressionally Requested Audit of the Outreach and Training Grant
Awarded to the Crossroads Urban Center, Salt Lake City, Utah
Grant Numbers FFOT98028UT and FFOT00039UT

INTRODUCTION

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. Also, 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. Our report contains four recommendations to address the issues identified in the report.

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

In conducting the audit, we reviewed the grantees accounting records and interviewed responsible staff. We also reviewed the requirements in MAHRA, the OTAG Notice of Fund Availability, the OTAG grant agreement, HUD's requirements for grant agreements

for nonprofit entities, and Office of Management and Budget's (OMB) guidance on the allowability of cost for nonprofit grantees.

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.

We appreciate the courtesies and assistance extended by the personnel of the Crossroads Urban Center during our review.

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 Ernest Kite, Assistant Regional Inspector General for Audit, at (303) 672-5452 extension 1458.

SUMMARY

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. However, 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. Also, 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.

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 OTAG and ITAG. 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 Notice of Fund Availability in fiscal year 1998 and a second in fiscal year 2000 to provided opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants, the ITAG and the OTAG. The Notice of Fund Availability for the ITAG states that the program provides technical assistance grants through Intermediaries to sub-recipients consisting of: (1) resident groups or tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market program to help tenants participate meaningfully in the Mark-to-Market process, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for Mark-to-Market eligible projects throughout its jurisdiction. The OTAG Notices of Fund Availability states that the purpose of the OTAG program is to provide technical assistance to tenants of eligible Mark-to-Market properties so that the tenants can (1) participate meaningfully in the Mark-to-Market program, and (2) affect decisions about the future of their housing.

OMHAR also issued a December 3, 1999 memorandum authorizing the use of OTAG and ITAG funds to assist at-risk projects. OMHAR identified these as non-Mark-to-Market projects where the owners were opting out of the HUD assistance or prepaying the mortgages.

The HUD regulations at 24 Code of Federal Regulation Part 84 contain the uniform administrative requirements for grants between HUD and nonprofit organizations. The regulations (24 CFR 84.27) require that nonprofit grantees utilize the 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 cost charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and record keeping to support the allocation of costs.

The Circular also establishes the unallowability of costs associated with Federal and state lobbying activities. Simply stated, the use of federal funds for any lobby activity is unallowable. OMB Circular A-122 identifies some example of unallowable activities of

lobbying. These include any attempt to influence the introduction of Federal or State legislation; or the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign.

The Crossroads Urban Center is a community-based nonprofit incorporated in the State of Utah in 1970. Its purpose is to assist and organize low income, disabled, and minority Utahans to meet basic survival needs and to address essential issues affecting quality of life. The nonprofit operates the Emergency Food Pantry and a free and low cost store called the Crossroads Thrift Store.

The nonprofit also has four advocacy projects: (1) The Utah HUD Tenants' Association (UHTA) works with tenants in HUD-assisted housing to preserve low income housing and to protect the rights of low income renters; (2) The Anti-Hunger project helps people to obtain food stamp benefits and to address administrative and policy barriers that make it more difficult to feed their families; (3) The Utility project advocates to keep utility costs affordable for all Utahans and to secure life line utility programs for Utahans in need; and (4) The Coalition of Religious Communities (CORC) brings together religious communities of diverse faiths to address state and national legislators on economic justice issues.

The Crossroads Urban Center was one of several nonprofit organizations selected to receive Outreach and Training Grants (OTAG) from HUD, which were available to resident controlled or community based nonprofit organizations with experience in resident education and organizing. The nonprofit's UHTA advocacy group is responsible for running the HUD funded Outreach and Training program.

The Crossroads Urban Center received an OTAG award in October 1998 in the amount of \$100,000 to be used over a three-year period; and received a second award for \$180,000 in January 2001. Also, the Crossroads Urban Center received a \$15,000 Public Entity Grant from the Amador-Tuolumne Community Action Agency in July 2000. These are the only Federally awarded funds to the nonprofit during the audit period. The Crossroads Urban Center received an annual financial audit of their activities for the two-year period ending December 31, 2001. The auditor provided an unqualified opinion for each of the two years.

In addition to the OTAG grant, the Crossroads Urban Center received grants from non-Federal sources. For example, the nonprofit received \$85,000 from the Catholic Campaign for Human Development.

FINDING

The Grantee Needs to Comply with OMB Requirements

The Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, provides a uniform approach to the problem of determining costs, and promotes efficiency and better understanding between recipients and the Federal Government. All nonprofits¹ receiving Federal awards must follow the cost principles described in the Circular. Contrary to the principles of the Circular, 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. Also, 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. The nonprofit was unaware of the OMB Circular A-122 requirements.

The Executive Director told us that these were the nonprofit's first HUD grants and HUD never provided them with any guidance. As a result, grant funds were used to reimburse ineligible and unsupported expenses. We recommend that HUD (1) require the Crossroads Urban Center to establish procedures to ensure that the expenditures of all subsequent draws are adequately documented; (2) negotiate and approve the nonprofit's indirect cost rate allocable to the HUD grants; (3) require the nonprofit to identify additional payments for donated rent for all quarters prior to the second quarter of 2001 and require the nonprofit to either repay the funds or substitute an equal amount of eligible expenditures not already reimbursed; and (4) consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditure complies with OMB Circular A-122.

Costs Must Be Adequately Documented

OMB Circular A-122 states that to be allowable under an award, costs must be adequately documented. The nonprofit adequately accounted for program costs in its accounting system, however, the nonprofit did not maintain adequate documentation to identify which expenses were paid with each draw request. Due to this lack of documentation we were unable to review the costs associated with the OTAG awarded in 1998. However, based on our review of management controls and the expenditures from the Public Entity Grant and the identifiable expenses of the OTAG awarded in 2001 we were able to review sufficient documentation to base our conclusions.

We were able to identify the expenses allocable to the Public Entity Grant and found that the expenses were eligible. The nonprofit provided us with schedules identifying the expenses for most of the draws against the OTAG awarded in 2001, except for expenses incurred in the first quarter of 2001. Thus, we did not review any expenses from the OTAG awarded in 1998 or the first quarter of the OTAG awarded in 2001. The nonprofit

¹ Except for nonprofits on the exemption list in Attachment C of the Circular.

was unable to fully support the draws that it researched but the difference was immaterial.

Allocating Indirect Costs to the Grant

OMB Circular A-122 stipulates that the nonprofit needs to prepare a cost allocation plan to support the determination of indirect cost rates that can be charged to a grant. The Federal agency with the largest dollar value of awards with an organization will be designated the cognizant agency for the negotiation and approval of indirect cost rates. The Crossroads Urban Center determined that a reasonable allocation of indirect costs to the HUD grants was twenty percent, however, HUD² has not approved the rate. The nonprofit charged at least \$23,600 of indirect costs³ to the OTAG awarded in 2001. These costs are unsupported because an indirect cost allocation plan has not been approved.

Ineligible Expenditures

OMB Circular A-122 also states that donated rent is not a reimbursable direct or indirect cost. The nonprofit occupies donated space. The cost of the donated space was included in the nonprofits indirect costs, of which 20% was charged to the HUD grant. The cost is unallowable because the nonprofit did not pay funds to a third party to utilize the space. The nonprofit charged the grant at least \$14,400 for the reimbursement of donated rent.

Lack of HUD Guidance

The staff of the nonprofit was unaware of the requirements of OMB Circular A-122. The Executive Director told us that this was the nonprofit's first HUD grants and HUD never provided them with any guidance. As a result, grant funds were used to reimburse ineligible and unsupported expenses.

AUDITEE COMMENTS

We provided our draft report to the grantees for their comments on September 4, 2002. The grantee provided their comments on September 17, 2002. We included the grantees' comments in Appendix B of the report.

OIG EVALUATION OF AUDITEE COMMENTS

The Crossroads generally agreed with the finding and plan to develop and implement appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditure complies with OMB Circular A-122.

² HUD is the Federal agency with the largest dollar value of awards during the audit period.

³ Typical indirect costs included: office, building and ground supplies; telephone; utilities; security; repairs and maintenance; general insurance; professional fees; depreciation; and salaries and benefits of Executive Director and Bookkeeper.

RECOMMENDATIONS

We recommend that the Director of OMHAR:

- 1A. Require the Crossroads Urban Center to establish procedures to ensure that the expenditures of all subsequent draws are adequately documented.
- 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.
- 1C. Require the nonprofit to identify additional payments for donated rent for all quarters prior to 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.
- 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 the expenditure complies with OMB Circular A-122.

MANAGEMENT CONTROLS

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

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

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meet its objectives.
- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

We assessed the relevant controls identified above.

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

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

- Safeguarding Resources

Crossroads Urban Center was unfamiliar with the principles for determining the costs of grants, which are communicated in OMB Circular A-122. As a result, Crossroads inadequately documented costs, did not have a cost allocation plan to support its allocation of indirect costs and charged ineligible costs to the grant.

These weaknesses are more fully discussed in the finding above.

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of the Crossroads Urban Center by the Office of Inspector General.

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1B		\$23,600
1C	\$14,400	

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 COMMENTS

Executive Director
Glenn L. Bailey

Meeting Community Needs Since 1966

CROSSROADS URBAN CENTER



Board Chairwoman
Debra Duncan

September 17, 2002

Mr. Robert Gwin
Regional Inspector General for Audit
U.S. Dept. of Housing and Urban Development
Office of Inspector General, Rocky Mountain Region
633 17th Street, North Tower, 14th Floor
Denver, Colorado 80202-3607

Dear Mr. Gwin:

We are in receipt of your draft audit of Crossroads Urban Center's two Outreach and Training Assistance Grants (OTAG) and a Public Entity Grant (PEG). We offer the following comments on the recommendations contained in this document:

1A. Adequate documentation of expenditures. Crossroads Urban Center's draw requests were carefully prepared and documented. The expenditures represented in those draw requests were researched upon request of the auditor, but because of HUD's internal deadlines there was insufficient time to analyze each draw request. All documentation and notes used to prepare draw requests are on file at Crossroads for future inspection as needed.

1B. Indirect costs. As mentioned in the draft audit, this was the first major grant from HUD ever awarded to Crossroads Urban Center. We are a nonprofit that has never sought direct federal funding. Very little in the way of training was offered to Crossroads by the Office of Multifamily Housing Assistance Restructuring (OMHAR). Consequently, we were unaware of the need to file a cost allocation plan to document indirect expenses. It was our understanding that the 20% figure we computed for indirect costs was "reasonable and customary" and would be acceptable to HUD. At no time did OMHAR question the vouchers we submitted showing a provisional rate of 20%. We assumed we were in compliance because OMHAR continued to approve our vouchers.

Since discovering this error, we have been in touch with OMHAR and are in the process of resolving this issue, both by justifying the use of 20% indirect cost in the past and establishing an indirect cost allocation plan for use in future quarters.

1C. Donated rent. We were unaware that this was an unallowable expense. Our calculations show that for grant FFOT98028UT (10/98 to 9/01) we incorrectly charged \$22,320 in donated rent to our OTAG. For grant FFOT00039UT (1/01 to 12/03) we incorrectly charged \$17,280 in donated rent to our OTAG, although only \$14,400 has been paid by HUD. Of course, in the future donated rent will not be factored into any draw request to HUD.

We propose to resolve this issue in two ways. First, we documented a recipient share of total expenses (exclusive of donated rent) on the 1998 OTAG of \$37,247.56. This is reflected in the vouchers and reports already submitted to HUD for the period of the 1998 OTAG. If HUD will allow us to replace the ineligible expenses with the documented recipient share for eligible expenses, we can more than make up for the mistake of billing donated rent during this period:

Cumulative Outlays Reported for 1998 OTAG	\$	137,247.56
Donated Rent Included Above		22,320.00
Remainder of Outlays	\$	114,927.56
Federal Share of Outlays		100,000.00
Recipient Share of Outlays	\$	14,927.56

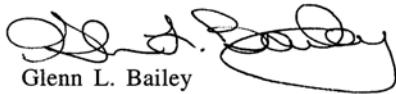
Second, we have documented a recipient share of \$4,064.69 so far in the 2001 OTAG. Our analysis of the quarters already billed under the 2001 OTAG also indicates that we significantly under billed HUD for the work done so far under this contract. The combination of the documented recipient share for the 2001 OTAG so far and the amendment of previous billings should more than make up for the \$14,400 received in error by Crossroads:

Cumulative Outlays Reported for 2001 OTAG	\$	125,591.53
Donated Rent Included Above		17,280.00
Remainder of Outlays	\$	108,311.53
Federal Share of Outlays		121,525.84
Overpayment	\$	(13,214.31)
Donated Rent Expense from 3rd Qtr. (not paid)		2,880.00
Overpayment Through 3/31/02	\$	(10,334.31)
Recipient Share of Outlays	\$	4,064.69
Overpayment Outstanding as of 3/31/02	\$	(6,269.62)

We would request that the Office of the Inspector General recommend to OMHAR that the matters outlined above be handled as indicated. We stand ready to resolve these issues in a timely manner.

We'd also like to commend your field staff for handling this audit in a professional, fair, and friendly manner.

Sincerely,



Glenn L. Bailey
Executive Director

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