



Issue Date: September 30, 2002
Audit Case Number: 2002-SF-1004

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

//SIGNED//

FROM: Mimi Y. Lee, Regional Inspector General for Audit, 9AGA

SUBJECT: Audit Memorandum - Congressionally Requested Audit of the Intermediary Technical Assistance Grants awarded to the Low Income Housing Fund, Oakland, CA, Grant Numbers FFIT98003LF and FFIT98004LF.

INTRODUCTION

We completed an audit of the Low Income Housing Fund's (LIHF) Intermediary Technical Assistance Grants (ITAG). Under the ITAG program, the LIHF reviews applications, distributes grant sub awards, and monitors sub grantee activity for a fee. The audit identified the grantee did not comply with reporting and monitoring requirements under the applicable Notice of Funds 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.

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 Assistance 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 monitoring files, and interviewed responsible staff. We also reviewed the requirements in MAHRA, the applicable NOFA, the ITAG grant agreements, HUD's requirements for grant agreements for nonprofit entities, and OMB Circular guidance on the allowability of cost for nonprofit grantees.

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.

We appreciate the courtesies and assistance extended by the personnel of the LIHF during our review.

In accordance with the 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 (415) 436-8101.

SUMMARY

The LIHF submitted grant applications to HUD for ITAG funding and was awarded grants FFIT98003LF and FFIT98004LF. The LIHF has subsequently awarded sub grants to other entities. Our audit identified the grantee did not adequately monitor the sub grantees' activity and expenses in accordance with NOFA; OMB Circular A-122, Cost Principles for Non-Profit Organizations; and 24 CFR Part 84, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations. This included not confirming expenses by requiring adequate supporting documentation, confirming allocation methods, requiring sufficient payroll records, or ensuring sub grantees did not charge lobbying related activity to their sub grants. In addition, the LIHF did not submit timely quarterly progress reports to HUD in the format required by the grant agreements; the NOFA; OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations; or 24 CFR Part 84. Our report contains recommendations to address the issues identified in the report and strengthen management controls.

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 38 grantees (a total for 81 grants awarded). Section 514 of MAHRA required that the Secretary establish procedures to provide an opportunity for tenants of the project and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 514 required the procedures to take into account the need to provide tenants of the project and other affected parties timely notice of proposed restructuring actions and appropriate access to relevant information about restructuring activities. Eligible projects are generally defined as HUD insured or 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 notice in fiscal year 2000 to provided opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants: (1) the ITAG, and (2) the Outreach and Training Assistance Grants (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 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.

The HUD's regulations at 24 CFR 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 in determining the allowability of costs incurred to the grant. OMB Circular A-122 outlines specific guidelines for allowability of charging salaries and related benefits to the grants and the records needed to support those salaries. For indirect costs charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and record keeping to support the allocation of costs.

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

The LIHF is a community development financial institution which supplies affordable capital and technical assistance to nonprofit organizations working to alleviate poverty in low-income neighborhoods. LIHF is also involved in childcare, education, workforce development, and community facilities. LIHF loans money and makes grants to community organizations that serve low-income populations. Housing funds are used to develop: affordable housing (rental and homeownership), homeless shelters, housing for seniors and mentally ill, housing for people living with HIV/AIDS, and nonprofit office space. LIHF helps borrowers by offering flexible underwriting standards and accepting nontraditional forms of collateral. LIHF also provides technical assistance to the borrowers to increase the chances of obtaining loans.

HUD awarded the LIHF two ITAG grants FFIT98003LF and FFIT98004LF for \$1.8 million each, in February 1999. The LIHF acts as an intermediary, reviewing and approving sub grantee applications and monitoring grant activity. Grant FFIT98003LF was to cover the Southwest Region, including: Arizona, Arkansas, California, Louisiana, Nevada, New Mexico, Oklahoma, and Texas. Grant FFIT98004LF was to cover the Southeast Region, including: Alabama, Caribbean, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. The LIHF requested start up fees of \$40,000 under each grant, on April 12, 1999 and November 8, 1999. The LIHF also receives fees of five percent of the sub grantee draw requests, and \$600 for rejected sub grantee applications. The LIHF awarded 18 sub grantees 35 sub grants totaling \$1,076,560, including eight Predevelopment Grants (PDG), one Resident Capacity Grant (RCG), and 26 Public Entity Grants (PEG). These grants provide funds for activities including tenant outreach, predevelopment, organization, and training for tenants of eligible properties. The LIHF began requesting draws on behalf of sub grantees on November 7, 2000. As of July 31, 2002, the LIHF had withdrawn \$433,122 from grant FFIT98003LF and \$394,380 from grant FFIT98004LF.

The LIHF received annual financial audits of their activities for the two years ending June 30, 2000 and 2001. The auditor provided an unqualified opinion for each of the two years. The LIHF received separate reports on Compliance for Federal Awards for fiscal years ending June 30, 2000 and 2001. The 2001 report included a finding that the LIHF had not submitted quarterly progress reports to HUD.

FINDING
The Grantees Did Not Comply With HUD and OMB Requirements

The LIHF did not adequately monitor sub grantee activities and charges to the ITAG grants. This included the LIHF not consistently requiring supporting documentation for sub grantee expenses, confirming allocation methods, confirming payroll records, or confirming sub grantees did not charge the grant for lobbying related activities. In addition, the LIHF did not submit timely or complete quarterly reports to HUD. As a result, the LIHF obtained insufficient support to confirm \$256,860 charged to the ITAGs. Also, the LIHF did not ensure an indeterminate amount of costs related to possible National Alliance of HUD Tenants lobbying activity was not charged to the grant. This occurred because the LIHF was not sufficiently knowledgeable concerning program requirements.

Inadequate Sub Grantee Monitoring

The grant agreements FFIT98003LF and FFIT98004LF between HUD and the LIHF state the Intermediary agrees to carry out grant activities in compliance with MAHRA, NOFA, and other applicable laws, regulations, and requirements. The Intermediary agrees to accept responsibility for compliance by any other entities to which it makes grant funds available. The Intermediary must monitor the activities of sub-recipients under the grant, including compliance under the grant agreement, throughout the term of the grant.

The 1998 NOFA states the Intermediary is responsible for the award and administration of grants to sub-recipients. The Intermediary must monitor activity under the grant, including compliance under the grant agreement. The NOFA states payments for fees for lobbying services are ineligible. Activities not directly related to eligible activities listed in the NOFA are ineligible.

Federal regulations at 24 CFR 84, part 51, provide that recipients are responsible for managing and monitoring each project, program, sub award, function or activity supported by the award. Recipients must monitor sub awards to ensure sub recipients have met the audit requirements.

OMB Circular A-122, Attachment A, prescribes cost allocation methods including direct and indirect. Allowable indirect cost allocation methods include the simplified allocation method and the multiple allocation base method. Attachment B, Paragraph 7, Compensation for Personal Services, states that reasonable compensation and fringe benefits to employees are grant fundable costs. The Circular also places specific salary record keeping requirements on the grantee. The grantee must maintain reports that account for the total activity an employee is compensated for in fulfillment of their obligations 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. The Circular also requires the report to be signed by the employee or a reasonable supervisor. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees 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.

A December 3, 1999 letter issued by HUD's Director of OMHAR stated that expenses related to any days in which lobbying occurred at national conventions are not eligible to be charged to the grant.

The LIHF did not adequately monitor and review the activity and expenses of sub grantees. The LIHF did not consistently require sub grantees to submit enough supporting documentation to confirm requests for grant funds. This included not consistently requiring sub grantees to submit: timesheet and pay rate information to support payroll, invoices and bills to support travel related disbursements, agendas to determine if lobbying took place during conferences, or indirect cost allocation support. In a few instances, no back up was submitted by sub grantees for entire draws. As a result, there was insufficient support obtained to confirm sub grantees only charged the grant for eligible disbursements. The following issues were identified where the LIHF failed to obtain sufficient back up documentation from sub grantees:

The Florida Housing Coalition (FHC):

1. There was no support submitted for the amounts requested by the FHC under PEG 01-001-21-01. Costs included staff time of \$12,007 and general and promotional costs of \$7,993. There was nothing to confirm staff time or rates charged to the grant.
2. There was no backup documentation submitted by the FHC for travel expenses of \$18,243 requested under PEG 00-009-21-01, or to show what was done with the airline tickets of "no-show" participants.
3. The LIHF required no support for an overhead allocation of \$1,601 to the PEG 01-016-21-01.
4. There was also no support submitted for a \$572 hotel meeting room expense charged to 01-016-21-01.
5. The FHC only submitted a spreadsheet to support the staff time and benefits expenses of \$6,848 charged to PEG 01-016-21-01. The LIHF did not require timesheets to be submitted or confirmation of payroll rates.

The Shoreview Residents Association (SRA):

1. The SRA also charged the grant for vendors not originally requested under their approved application for PDG 01-014-03-02. There was no information available to show the LIHF questioned the change in vendors.

The New Mexico Public Interest Education Fund (NMPIEF):

1. There was insufficient support provided to show per diem expenses of \$1,242 for the 2000 NAHT conference were paid to participants under PEG 00-003-06-01.
2. There was insufficient support provided to confirm the \$2,500 in costs requested from grant 01-021-06-01 to prepare an audit report. There was a pre-engagement letter but no actual bill required by the LIHF.
3. The LIHF did not require information to confirm the rates charged by the NMPIEF for payroll expenses of \$19,680 to PEG 00-004-06-01 and \$500 to PEG 00-021-06-01.

National Housing Trust (NHT):

1. The NHT did not submit the actual bills, receipts, or invoices for travel costs for PDG grant 01-020-25-02 of \$2,511 (\$2,807 reduced by a \$296 write-down to budget), and PEG grants 01-002-21-01 of \$1,399 and 01-015-21-01 of \$942. Only credit card statements were available, which provided limited information.
2. In addition, there was no support for \$784 of travel costs associated with a December 4, 2000 trip, and there was no receipt to confirm airfare costs of \$827 for a May 16, 2001 trip charged to PDG 01-028-26-01.
3. The LIHF required no information to confirm payroll rates of staff charged to PDG grant 01-020-25-02 of \$15,000 (\$17,690 reduced by a \$2,690 staff expense write-down), and to PDG 01-028-26-01 of \$8,634 (\$9,540 reduced by a \$906 staff expense write-down). Likewise, the rates were not confirmed for staff costs of \$33,562 (\$39,756, less a \$6,194 staff expense write-down) charged to PEG grants 01-002-21-01 and 01-015-21-01. Although time reports provided detail concerning activities performed, there was no information to show they were prepared monthly, staff did not sign the documents, and total hours worked were not identified.

Information we obtained from another source, the Amador-Tuolumne Community Action Agency (ATCAA) ITAG Intermediary, showed NHT payroll rates included mark-up costs and other allocated costs. Although the ATCAA required the NHT to remove the mark-up costs, the LIHF never inquired into the rates to determine this was the case. However, the NHT wrote off a substantial amount of payroll costs which exceeded budget. Since payroll rates could not be confirmed for all NHT staff charged to the grant based on the information available, we could not determine whether the amounts written off exceed the mark-up amounts.

Jacksonville Area Legal Aid (JALA):

1. The PEG grants 01-034-21-01 and 01-033-21-01 were charged \$12,787 and \$12,920 respectively, for travel related expenses associated with attending the NAHT 2001 conference in Maryland. There was no information to show the costs were reduced to avoid charging the grant for lobby day activity associated with the conference.
2. JALA allocated indirect charges of \$5,918 to PEG grants 01-018-21-01 and 01-017-21-01, determined as 34.47 percent of salary and benefits. JALA claimed the allocation method was approved by the applicable cognizant agency. The LIHF did not confirm the appropriateness or approval of the allocation method.
3. For PEG grants 01-018-21-01 and 01-017-021-01 the LIHF accepted summary time report information for payroll costs of \$17,170. However, there was no evidence to show staff signed the reports, that they were prepared monthly, or that total time worked was identified.
4. For PEG grants 01-034-21-01 and 01-033-21-01 JALA did not submit information to support an allocation of 10 percent to each grant for payroll of three administrative staff, resulting in charges of \$5,419. In addition, no support was submitted to confirm the salary or benefits of these persons.

Housing Rights

1. The LIHF accepted credit card statements instead of requiring receipts for \$1,022 of airfare and \$1,066 of hotel costs to send participants to a NAHT conference under the PEG 01-027-03-01. There was no information submitted to show the grant was not charged from lobby day activity associated with the conference.
2. Housing Rights charged \$894 to PEG 01-026-03-01 to sponsor a March 23, 2001 NAHT teleconference. The LIHF required no information relating to the teleconference concerning the agenda and material to be discussed. However, we obtained the agenda in question from another source. Review of the agenda showed the teleconference included a discussion of lobbying activities, including those with three U.S. Senators.
3. There was inadequate confirmation of payroll rates for \$10,155 charged to the PEG 01-026-03-01. This included inadequate timesheet information available for the Executive Director.

National Housing Law Project (NHLP):

1. The NHLP submitted timesheets tracking hours spent on the grant. However, they were not signed, did not identify total hours worked, there was nothing to show they were prepared monthly, and they were not signed by the staff. There was also no information to support the payroll rates charged to PEG grants 00-010-03A-01 and 00-010-03B-01 totaling \$30,094.

California Housing Partnership Corporation (CHPC):

1. The LIHF did not require payroll rate information to confirm \$12,920 in staff time charged to PEG 01-013-03-01. Only a spreadsheet was submitted to show hours worked, and the LIHF required no timesheets.
2. In addition, no bills were submitted to support consultant charges of \$2,998.

The North Carolina Low Income Housing Coalition (NCLIHC):

1. The NCLIHC did not submit information to confirm the payroll rates charged to PEG 01-025-26-01 totaling \$8,652.

The monitoring issues are summarized in the following table:

Sub	Grant #	Amount	Expense	Issue
FHC	01-001-21-01	12,007	Payroll	No support
FHC	01-001-21-01	7,993	General	No support
FHC	00-009-21-01	18,243	Travel	No support
FHC	01-016-21-01	1,601	Overhead	No support
FHC	01-016-21-01	572	Travel	No support
FHC	01-016-21-01	6,848	Payroll	No support
Total:		47,264		

NMPIEF	00-003-06-01	1,242	Travel	No support
NMPIEF	01-021-06-01	2,500	Audit	No support
NMPIEF	00-004-06-01	19,680	Payroll	Rate Confirmation

NMPIEF	00-021-06-01	500	Payroll	Rate Confirmation
Total:		23,922		

NHT	01-020-25-02	2,511	Travel	Insufficient Support
NHT	01-002-21-01	1,399	Travel	Insufficient Support
NHT	01-015-21-01	942	Travel	Insufficient Support
NHT	01-028-26-01	784	Travel	No Support
NHT	01-028-26-01	827	Travel	Insufficient Support
NHT	01-020-25-02	15,000	Payroll	Rate Confirmation
NHT	01-028-26-01	8,634	Payroll	Rate Confirmation
NHT	01-002-21-01 & 01-015-21-01	33,562	Payroll	Rate Confirmation & Insufficient Timesheets
Total:		63,659		

JALA	01-034-21-01	12,787	Conference	NAHT lobby day
JALA	01-033-21-01	12,920	Conference	NAHT lobby day
JALA	01-018-21-01 & 01-017-21-01	5,918	Indirect	Allocation Support
JALA	01-018-21-01 & 01-017-021-01	17,170	Payroll	Insufficient Timesheets
JALA	01-034-21-01 & 01-033-21-01	5,419	Payroll	Allocation Support & Rate Confirmation
Total:		54,214		

Hsg. Rights	01-027-03-01	2,088	Travel	Insufficient Support & NAHT lobby day
Hsg. Rights	01-026-03-01	894	Conference	NAHT lobby Discussion
Hsg. Rights	01-026-03-01	10,155	Payroll	Rate Confirmation & Insufficient Timesheets
Total:		13,137		

NHLP	00-010-03A-01 & 00-010-03B-01	30,094	Payroll	Rate Confirmation & Insufficient Timesheets
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CHPC	01-013-03-01	12,920	Payroll	No Support
CHPC	01-013-03-01	2,998	Consultant	No Support
Total:		15,918		

NCLIHC	01-025-26-01	8,652	Payroll	Rate Confirmation
TOTAL COSTS:		\$256,860		

Based on our review results, the LIHF took steps to obtain additional documentation from the sub grantees related to questionable and unsupported items. The NCLIHC submitted payroll information to confirm the \$6,893 of salary charged, but did not submit enough information to confirm the fringe rate charged. As a result, the fringe amount of \$1,759 remains questionable.

We also contacted Housing Rights concerning the NAHT teleconference. Housing Rights maintained it participated for legislative information, and all members are required to sponsor a teleconference. Although the actual time NAHT spent discussing lobbying could not be determined, the associated indirect lobbying costs would not be material to the grant. In addition, there is insufficient information available to show the Housing Rights staff activity engaged in lobbying activity as a result of this discussion or otherwise violated program requirements.

Quarterly Progress Reports

The 1998 and 2000 NOFAs require grantees to submit quarterly performance reports to the Director of OMHAR. The grantees must report on the properties and number of tenants assisted by the OTAG activities performed that quarter. The reports need to include a narrative identifying activities conducted, beneficiaries of assistance provided, and results achieved.

The grant agreements FFIT98003LF and FFIT98004LF require the grantee to submit progress reports every three months, including both performance and financial progress reports. The financial reports must be submitted on Standard Form 269 and a breakdown in costs on Standard Form 424A or a form to be provided by HUD. The reports need to include the amounts drawn by each sub grantee, and a narrative of accomplishments.

Federal Regulations at 24 CFR Part 84 and OMB Circular A-110, Parts 51 and 52, both provide that quarterly performance reports shall be due 30 days after reporting period, and grantees shall use the SF-269 or SF-269A to report the status of funds for all non-construction projects or programs.

The LIHF did not submit timely quarterly progress reports to the OMHAR in a consistent manner. The LIHF had not been submitting progress reports through 2001, even though it had drawn down start up fees from the grant as early as April 12, 1999 and began requesting withdrawal for individual sub grantees on November 7, 2000 for prior activity. This included the LIHF not submitting a narrative, standard form SF 269, or SF 424A. As a result, there was insufficient information available for HUD to monitor the program and track progress.

OMHAR reminded ITAG Intermediaries in writing on August 22, 2001 to submit their quarterly progress reports. OMHAR specifically required the submission of the narrative and both standard forms. OMHAR distributed a copy of both standard forms, which included instructions for completing the SF 424A. The LIHF financial auditors also identified a finding that the LIHF had not submitted quarterly progress reports to HUD as part of their review for fiscal year ending June 30, 2001.

The LIHF finally submitted the progress report for the ten quarters of April 1999 through September 30, 2001 on October 17, 2001. Although the SF 269 was submitted to OMHAR, the report and subsequent quarterly submissions excluded the SF 424A. The LIHF submitted requests for guidance on how to complete the SF 424A.

The LIHF was not sufficiently knowledgeable over grant program requirements to know it should be submitting quarterly reports to OMHAR, or how to prepare standard forms. LIHF staff sent to initial ITAG training, which included information on the preparation of quarterly reports, no longer worked on the ITAG by the time the LIHF had the program underway. HUD also did not notify the LIHF of the reporting problem until 2001, or enforce the reporting requirement by halting draws. There is no information to indicate HUD provided technical assistance to the LIHF on the preparation of the SF 424A, despite repeated written requests by the LIHF. The LIHF stated it has recently obtained information from HUD on the preparation of the SF 424A and plans to include the document as part of future quarterly reports.

AUDITEE COMMENTS AND OIG EVALUATION OF AUDITEE COMMENTS

We provided our draft report to the auditee for its comments on August 30, 2002. The auditee provided written comments on September 16, 2002. A revised response was provided on September 24, 2002, due to the addition of recommendation 1D to the draft report. We also obtained further clarification during an exit conference discussion with LIHF officials on September 24, 2002. We included the auditee's revised written comments in Appendix B of the report.

The LIHF generally agreed with the audit conclusions. The LIHF stated that with the exception of the standard form SF424A, it is current on the submission of all progress reports to OMHAR. The LIHF has been seeking technical guidance from OMHAR in the preparation of the SF424A. The LIHF also stated it is in the process of obtaining adequate support for all unsupported costs identified in the report. Based on the auditee's response, it appears to be taking steps to address the issues cited in the report.

RECOMMENDATIONS

We recommended you:

- 1A. Require the LIHF 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 Standard Form 424A.
- 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 allocations methods/rates of indirect costs; and invoices, receipts, or bills of all material expenses. The LIHF must review the submissions to

confirm the accuracy of charges and ensure no costs related to lobbying are charged to the grant.

- 1C. Require the LIHF to obtain documentation from the sub grantees to confirm the inadequately supported payroll and expenses already incurred. The LIHF and/or the sub grantees should be required to return any costs which cannot be adequately supported or are inappropriate, as follows:
 - (a) The FHC needs to provide support for \$47,264 of disbursements related to payroll, travel, general, and overhead costs as identified above or return costs drawn from the grant.
 - (b) The NMPIEF needs to provide support for the \$1,242 of travel and \$2,500 of audit or return costs drawn from the grant. In addition, 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.
 - (c) The NHT should provide receipts and invoices to confirm travel costs of \$6,463. In addition, the NHT needs to provide support to show actual payroll corresponds to the \$57,196 charged to the grants. Mark up or other ineligible amounts in excess of payroll write-downs should be returned.
 - (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 activity, or provide adequate justification for those costs. The LIHF should also confirm JALA maintained appropriate timesheets for the \$17,170 in payroll charged to the grant. In addition, JALA needs to provide support to confirm the \$5,918 of indirect allocated to the grant and \$5,419 of payroll allocated to the grant.
 - (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. In addition, Housing Rights needs to provide support for the payroll charges of \$10,155. Any amounts charged in excess of actual should be returned.
 - (f) The NHLP needs to provide support for the payroll charges of \$30,094. Any amounts charged in excess of actual should be returned.
 - (g) The CHPC needs to provide time sheets and support for the rates relating to the payroll charges of \$12,920. In addition, bills, invoices and/or checks should be provided to support the consultant expenses of \$2,998. Any amounts charged in excess of actual should be returned.
 - (h) The NCLIHC needs to provide additional support for the payroll benefits charges of \$1,759. Any amounts charged in excess of actual should be returned.
- 1D. Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure only eligible activities receive funding and documentation for the expenditure complies with OMB Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to the LIHF'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:

- Controls over disbursements of grant funds,
- Controls over monitoring grant sub awards,
- Controls over receipt of grant funds, and
- Controls over grant reporting.

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:

- Lack of procedures to ensure monitoring of sub grantee activities and expenditures, and
- Lack of procedures to ensure activities and financial information is reported to HUD in a timely fashion.

FOLLOW-UP ON PRIOR AUDITS

The Office of Inspector General performed no previous audit of the LIHF.

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation Number	Type of Questioned Costs	
	Ineligible 1/	Unsupported 2/
1C		\$249,073

- 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.

Appendix B

AUDITEE COMMENTS



September 24, 2002

Ms. Mimi Y. Lee
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Pacific/Hawaii District
450 Golden Gate Avenue, Box 36003
San Francisco, CA 94102-3448

Dear Ms. Lee:

The Low-Income Housing Fund ("LIHF") has received the draft memorandum, including supplemental recommendation 1D, prepared by the Office of Inspector General ("OIG") describing the results of your audit of our Intermediary Technical Assistance Grants ("ITAGs") numbered FFIT98003LF and FFIT98004LF. LIHF generally agrees with the recommendations contained in your report. In accepting the ITAGs, LIHF intended to administer grants to the ITAGs in compliance with HUD and OMB requirements. LIHF understands that it has not fully adhered to every provision and guideline under the applicable Notice of Funds Availability, OMB circulars and Codes of Federal Regulations. LIHF views your audit findings as an opportunity to strengthen the internal controls over its administration of sub grantee awards and activities.

The following sections provide responses from LIHF management to your four recommendations:

OIG Recommendation 1A: Require the LIHF 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 Standard Form 424A.

Management response to 1A: LIHF will endeavor to comply with known reporting requirements in a timely manner using the prescribed forms. To the best of our knowledge, there are no outstanding or past due reports with the exception of SF 424A.

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You accurately state that LIHF satisfied its quarterly reporting obligations on October 17, 2001 with the exception of SF 424A.

As you note in your draft memorandum, LIHF has repeatedly requested guidance from OMHAR on how to complete SF 424A. In response, we received by fax a replacement form entitled, "Quarterly Expenditure Information." LIHF, in early September, did speak with Sande Tyler, a Management Analyst in OMHAR. While she was unable to provide detailed guidance, she referred us to Dennis Manning who was on leave until September 16, 2002. LIHF contacted Mr. Manning and was informed that SF 424A really applies to OTAGs and does not fit ITAG contract arrangements.

Present LIHF staff members have also referred back to the training binder that was provided at the initial ITAG training. It does not contain information on how to prepare SF 424A. LIHF will continue to pursue the necessary guidance from OMHAR and will then complete SF 424A or the replacement form if OMHAR requires us to do so.

OIG Recommendation 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 allocations methods/rates of indirect costs; and invoices, receipts, bills of all material expenses. The LIHF must review the submissions to confirm the accuracy of charges and ensure no costs related to lobbying are charged to the grant.

Management response to 1B: LIHF will establish additional procedures to ensure, as part of future draw requests, that sub grantees submit adequate timesheets, documentation to confirm payroll rates, conference and training agendas, support for allocations of indirect costs, and invoices, receipts or bills of all material expenses. Prior to making disbursements, LIHF staff will review the submissions to confirm the accuracy of charges and ensure that no costs related to lobbying are charged against the ITAGs.

OIG Recommendation 1C: Require the LIHF to obtain documentation from the sub grantees to confirm the inadequately supported payroll and expenses already incurred. The LIHF and/or sub grantees should be required to return any costs which cannot be adequately supported or are inappropriate.

Management response to 1C: LIHF will continue its efforts to obtain documentation from sub grantees to confirm the inadequately supported payroll and other expenses identified in your draft memorandum and already incurred. As you also note in your draft memorandum, LIHF immediately and independently took steps to obtain additional documentation from the respective sub grantees. LIHF has now received most of the required documentation and continues to pursue outstanding information.

After you have issued your final report, LIHF will attempt to arrange a conference call with appropriate HUD officials to discuss a reasonable deadline for obtaining sufficient documentation from sub grantees. If any costs remain inadequately supported or are deemed to be inappropriate, LIHF will request that sub grantees return such costs.

OIG Recommendation 1D: Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure only eligible activities receive funding and the documentation for the expenditure complies with OMB Circular A-122.

Management response to 1D: After receiving notification on June 19th of OIG's imminent audit, LIHF decided to suspend grant funding to sub grantees pending communication of any findings identified in the audit.

Present LIHF staff has reviewed OMB Circular A-122. We believe that LIHF can ensure, within reason, that sub grantees provide adequate documentation to support future draw requests, that only eligible activities receive funding, and that sub grantee documentation clearly cross-references eligible activities and their associated expenses. LIHF understands that it may, at its discretion as grantee, disburse funds to sub grantees prior to finalization of a corrective action plan, if any, with HUD.

If HUD prefers, LIHF would be open to obtaining pre-approval from HUD personnel of future draw requests. HUD thereby would be able to review both the adequacy of supporting documentation and the eligibility of activities prior to disbursement of additional funds.

We await distribution of your final report.

Sincerely,



Larry S. Liederman
Chief Financial & Administrative Officer

Cc: Nancy O. Andrews, President
William F. Causey, Nixon Peabody LLP
Nicolas Retsinas, Board Chair

Appendix C

EXTERNAL REPORT DISTRIBUTION

The Honorable Christopher S. Bond, Ranking Member, Subcommittee on Veterans Affairs, HUD and Independent Agencies, United States Senate, 274 Russell Senate Office Building, Washington, DC 20510

The Honorable Barbara A. Mikulski, Chairwoman, Subcommittee on Veterans Affairs, HUD and Independent Agencies, United States Senate, 274 Russell Senate Office Building, Washington, DC 20510

The Honorable Dan Burton, Chairman Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs,
(senator_lieberman@lieberman.senate.gov)

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs,
(senator_thompson@thompson.senate.gov)

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, (Sharon.Pinkerton@mail.house.gov)

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