



Issue Date	October 31, 2002
Audit Case Number	2003-CH-1004

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


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

SUBJECT: Congressionally Requested Audit of Section 514 Outreach and Training Assistance Grants Awarded to Indiana Coalition on Housing and Homeless Issues; Indianapolis, Indiana; Grant Numbers FFOT98008IN and FFOT00014IN

INTRODUCTION

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

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

In conducting the audit, we reviewed Indiana Coalition on Housing and Homeless Issues' policies and procedures for the period October 1, 1998 to June 1, 2002. We also reviewed and evaluated the Coalition's: management controls over the Outreach and Training Assistance Grants; reliability of computer-processed data; organizational structure; Board of Directors' meeting minutes; general ledgers; method used for allocating costs; and the Independent Auditor's Report for January 1, 2000

to December 31, 2001. In addition, we reviewed bank statements, cancelled checks, cash receipts and disbursements ledgers, the Multifamily Assisted Housing Reform and Affordability Act's requirements, HUD's Notices of Funding Availability and Grant Agreements for the Outreach and Training Assistance Grants, 24 CFR Part 84, and Office of Management and Budget Circulars A-110 and A-122. We tested 1,489 of the 3,409 (43 percent) financial transactions totaling \$132,769 and all of the \$312,766 in payroll expenses that the Coalition charged to the Grants.

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

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

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

SUMMARY

Indiana Coalition on Housing and Homeless Issues did not administer its Outreach and Training Assistance Grants in full compliance with Federal requirements. Specifically, the Coalition:

- Failed to maintain documentation to support Grant funds expended;
- Inappropriately used Grant funds to pay duplicative expenses and costs not related to the Grants; and
- Did not maintain complete and accurate books and records for the Grants as required by Office of Management and Budget Circular A-110.

BACKGROUND

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

the capacity of tenant organizations for technical assistance in furthering any of the purposes of the Act and for tenant services.

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

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

Indiana Coalition on Housing and Homeless Issues organized in 1989 as a nonprofit tenant advocacy organization. The Coalition is a statewide association dedicated to the right of all citizens of the State of Indiana to safe, decent, and affordable housing and necessary supportive services. The Coalition is a member of, and affiliated with, the National Low Income Housing Coalition, National Coalition for the Homeless, National Association of HUD Tenants, and the National Alliance to End Homelessness. The Executive Director of the Coalition is James Cundiff. The Coalition's offices are located at 324 West Morris, Suite 202, Indianapolis, Indiana.

There are over 500 properties with over 44,000 units providing affordable housing for some of the State of Indiana's lowest income households. The 20-year Section 8 Program contracts on these properties began to expire, or will expire, over the next few years. Most of these properties are owned by for-profit businesses and have few incentives to renew their Section 8 contracts. These owners may opt-out of the Section 8 Program and rent their units at market rates or choose to sell the properties. The Outreach and Training Assistance Grant program provides for outreach and training in the area of those properties with expiring Section 8 Program contracts in which rents are above the fair market rent and eligible for the Mark-to-Market Program.

The Outreach and Training Assistance Grant Agreement for Fiscal Year 1998, between Indiana Coalition on Housing and Homeless Issues and HUD, for \$350,000 was signed on October 8, 1998. On January 11, 2001, the Outreach and Training Assistance Grant

Agreement for Fiscal Year 2000 in the amount of \$350,000 was signed. HUD's Office of Multifamily Housing Assistance Restructuring notified the Coalition after January 2001 that the authorized amount for the Fiscal Year 2000 Grant was reduced from \$350,000 to \$183,333. As of June 30, 2002, the Coalition expended \$350,000 and \$181,341 of the Fiscal Years 1998 and 2000 Grants, respectively.

The Outreach and Training Assistance Grants represented 27 percent of the total funding awarded to Indiana Coalition on Housing and Homeless Issues. In addition to the funds from the Outreach and Training Assistance Grants, the Coalition was awarded \$1,401,462 from 26 non-Federal sources as of June 30, 2002. As required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, the Coalition received an annual financial audit of its activities for the two-year period ending December 31, 2001. The audit report contained an unqualified opinion. The report did not identify that the Coalition: failed to maintain supporting documentation of all Grant disbursements; improperly used Grant funds for duplicative expenses or costs not related to the Grants; and did not maintain complete and accurate books and records for the Grants.

FINDING

Controls Over The Grants Need Improvement

Indiana Coalition on Housing and Homeless Issues submitted voucher claims for its Outreach and Training Assistance Grants that contained duplicative costs, costs not related to the Grants, ineligible administrative costs, and unsupported salaries and general operating costs. The unsupported salaries and general operating costs included travel expenses, consultant fees, telephone charges, membership dues, and conference and administrative costs. The unsupported and ineligible voucher claims were due to the Coalition's: (1) inadequate billing process prone to errors since it was not based on supported hourly rates or its general ledger; (2) lack of reviews of claims submitted for reimbursement; and (3) insufficient support for amounts claimed. As a result, we questioned \$35,783 of claims made by the Coalition that represented either unsupported or ineligible costs to the Grants.

Federal Requirements

24 CFR Part 84.27 states for each kind of recipient, there is a set of Federal principles for determining allowable costs. Allowability of costs will be determined in accordance with the cost principles applicable to the entity incurring the costs. The allowability of costs incurred by nonprofit organizations is determined in accordance with Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations.

Attachment A of Office of Management and Budget Circular A-122 requires that all allowable direct and indirect costs be adequately documented. Attachment B, paragraph 7(m), on compensation of personnel costs requires that salaries and wages—whether treated as direct or indirect costs—will be based on documented payrolls and supported by personnel activity reports, such as time sheets. The activity reports (e.g., time sheets) must be maintained for all staff members whose compensation is charged, in whole or in part, to

Federal grant awards. These reports must reflect an after-the-fact determination of actual activity of each employee. Budget estimates do not qualify as support.

24 CFR Part 84.21(b) and Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, require that a grantee's financial management system provide accurate, current, and complete disclosure of the financial results of each Federally assisted program and records that identify the source and application of funds.

Payroll Costs Were Not Adequately Supported

Indiana Coalition on Housing and Homeless Issues failed to ensure that employee payroll costs charged to its Outreach and Training Assistance Grants were adequately supported and accurate. Not all of the Coalition's employees regularly submitted time sheets in support of what they worked on for each period, and errors were made for the number of hours claimed on some vouchers. In addition, the Coalition lacked support for the hourly pay rates it used to charge the Grants. As a result, we questioned \$11,156 in payroll costs charged to the Grants.

The Coalition did not adjust its salary expense accounts in its general ledger to reflect actual hours worked on each program or activity area as reported on employees' time sheets. The Coalition posted actual hours worked into a job ledger only. This enabled the Coalition to have a control in place in its job ledger for determining when time sheets were missing. However, several time sheets were missing that indicated the Coalition did not use the ledger for this purpose.

General Ledger Did Not Reflect Actual Costs

The Coalition's general ledger salary expense accounts were divided into four activity areas. Salary costs were charged to these activities based on budget estimates established at the beginning of each year. A "Tenants Organizing Project Activity" account was used to charge the Outreach and Training Assistance Grants. However, adjusting journal entries to reflect actual hours worked in the Coalition's job ledger were not posted to its general ledger. By not adjusting the general ledger salary expense accounts to reflect actual hours worked on each activity, the accuracy of the annual financial statements was impacted for each activity area.

We calculated pay rates and compared them to the hourly pay rates claimed by the Coalition using the payment voucher requests. Our analysis disclosed that the Coalition overcharged for some employees and undercharged for others. Our analysis was based on time sheets in support of the hours claimed. When time sheets were missing, we questioned the entire cost. Otherwise, we only questioned the difference between the hours that were supported and the amounts claimed by the Coalition. The following table on page 6 shows the Coalition's unsupported salaries by employee and Grant.

Unsupported Salaries Paid From Grants

Employee	Grant #		Unsupported Salaries
	FFOT980008IN	FFOT00014IN	
Grant Program Supervisor	\$2,200	\$4,851	\$7,051
Program Assistant	1,114	(1,026)	88
Program Assistant	3,995	0	3,995
Executive Director	(3,610)	(467)	(4,077)
Program Manager	(9)	4	(5)
Office Manager	(1,039)	1,186	147
Former Director	3,774	0	3,774
Program Assistant	<u>100</u>	<u>83</u>	<u>183</u>
Totals	<u>\$6,525</u>	<u>\$4,631</u>	<u>\$11,156</u>

The Coalition’s Office Manager who maintains the accounting records said he was not aware of the need to adjust the salary expense accounts. In order to make these types of adjustments, the Coalition would need to summarize the hours worked from the time sheets, compare the results to the budget estimates, and adjust the salary expense accounts to reflect actual hours worked. As previously stated, this would serve to enhance the accuracy of the Coalition’s financial statements.

Unsupported and Ineligible Disbursements

The Coalition lacked invoices to support amounts paid from its Outreach and Training Assistance Grants for travel, consultant services, telephone charges, membership dues, conference and general operating costs. The Coalition also submitted claims for activities unrelated to the Grants program. We reviewed 1,381 of the Coalition’s Grant transactions of which 67 transactions were either not supported with an invoice or were ineligible. As a result, the Coalition paid \$9,013 in unsupported transactions and \$1,505 in ineligible transactions from the Grants. According to the Executive Director, the Coalition lacked procedures for submitting and documenting payment voucher claims. The Director for the Coalition also said its accounting system was not designed for billing HUD for Grant expenditures. The Coalition’s Office Manager said payment voucher claims were manually prepared and prone to human error, and a third party review was not considered. This resulted in unsupported and ineligible costs to the Grant program of \$10,518. The following table on page 7 shows disbursement amounts that were ineligible or not supported.

<i>Unsupported And Ineligible Transactions</i>					
<u>Transaction Description</u>	<u>Transactions Reviewed</u>	<u>Unsupported Transactions</u>	<u>Amount</u>		<u>Ineligible Transactions</u>
			Unsupported	Ineligible	
Conference	23	1	\$ 129	\$360	3
Membership	15	2	400	0	0
Telephone	323	13	3,224	213	7
Travel	1020	18	5,260	932	23
Totals:	<u>1381</u>	<u>34</u>	<u>\$9,013</u>	<u>\$1,505</u>	<u>33</u>
Total Unsupported/Ineligible			\$10,518		

Unsupported Voucher Claims

Administrative costs charged to the Coalition’s Outreach and Training Assistance Grants were unsupported or ineligible. We identified unsupported and ineligible administrative costs due to: charging penalty costs; calculating errors--including balances from prior periods; and claiming back pay twice for four employees. The Office Manager said the Coalition’s accounting software lacked the ability to separate out personnel costs from its accounting records for billing the Grants. The Manager also said the Coalition’s accounting software for the Grants program only allowed the Coalition to print out current period transactions from the listing of administrative charges in its job ledger, thus increasing the risk of claiming transactions already paid from a prior period. We found three instances of this occurring. Preparing the Coalition’s payment voucher was a labor-intensive clerical task prone to errors. Errors primarily occurred because the Coalition lacked a procedure for reviewing claims prior to submitting them to HUD for payment. The following table on page 8 summarizes the Coalition’s unsupported and ineligible administrative costs of \$12,119 paid from the Grants.

Administrative Unsupported or Ineligible Costs					
Payment Voucher #	Administrative costs		Under/(Over) Support	Ineligible	Description
	Claimed	Supported			
84000016	\$3,042	\$2,938	\$ 0	\$ 104	IRS penalty
84000123	3,690	4,023	(333)	0	Calculating errors
84000292	15,630	6,215	0	9,415	Duplicate payment
84000330	2,798	5,125	(2,327)	0	Calculating errors
84000427	7,142	7,815	(673)	0	Calculating errors
84000455	2,225	2,251	(26)	0	Calculating errors
84000474	1,920	2,104	(184)	0	Calculating errors
84000487	10,000	3,838	0	6,162	Duplicate payment
84000535	23,229	20,735	0	2,494	Duplicate payment
84000611	19,656	20,358	(702)	0	Calculating errors
84000643	11,953	13,089	(1,136)	0	Calculating errors
84000693	2,041	2,734	(693)	0	Calculating errors
84000824	19,673	19,655	18	0	Calculating errors
Totals	<u>\$122,999</u>	<u>\$110,880</u>	<u>(\$6,056)</u>	<u>\$18,175</u>	
Unsupported and Ineligible Costs To Grants			\$12,119		

Erroneous Billing Procedures

Indiana Coalition on Housing and Homeless Issues was overpaid for life and health insurance claims due to the Coalition using erroneous billing procedures. Since February 2001, the Coalition submitted claims for life and health insurance based on its cost allocation plan and also included these costs in the hourly pay rates of three employees working on the Grants program. This was not apparent to the Coalition because it lacked supporting documentation showing how it computed the hourly pay rates. As a result, the Coalition received \$1,990 more in Grant funds than they were entitled to.

Prior to February 2001, the Coalition’s hourly pay rates for its employees working full-time on the Outreach and Training Assistance Grants did not include fringe benefits. Instead, the associated fringe benefits were charged separately to the Grants. The exception was with the hourly pay rates for the Coalition’s employees working on multiple activities. Their fringe benefits were included in their hourly pay rates only.

At the request of HUD’s Office of Multifamily Housing and Assistance Restructuring in February 2001, the Coalition established an hourly pay rate to include fringe benefits for all of its employees. The Coalition then billed the Outreach and Training Assistance Grants for personnel costs based on the number of hours spent on the Grants. However, the Coalition continued to bill the Grants directly for employee health and life insurance costs after establishing hourly pay rates that included these costs. This was not evident to the Coalition because it failed to document what costs were included in its calculation of the hourly pay

rates. We were able to determine that the hourly rates included these costs for three employees by:

- Recalculating the hourly rates using direct hours for each employee as stated in the Coalition’s cost allocation plan;
- Including the health and life insurance costs; and
- Comparing the results to the rates charged by the Coalition to the Grants.

Health And Life Insurance Costs Were Claimed Twice

The Coalition claimed health and life insurance costs twice for three employees paid from the Outreach and Training Assistance Grants program since February 2001—once as part of the employee’s hourly pay rate, and secondly—as a direct charge to the program for employee health and life insurance costs.

The Executive Director said he agreed that the Coalition neglected to remove direct charges for health and life insurance costs when it changed its billing method for personnel costs to a hourly pay rate. The following table shows the health and life insurance costs totaling \$1,990 that were claimed both in the direct charges to the program, as well as being included in the hourly pay rates of these employees.

Duplicate Health And Life Insurance Costs				
<u>Voucher Claim #</u>	<u>Time Period</u>	<u>Health Costs</u>	<u>Life Costs</u>	<u>Duplicate Claim</u>
84000611	2/01-3/01	\$394	\$ 0	\$ 394
84000624	4/01	0	19	19
84000643	5/02	491	7	498
84000824	7/01-9/01	508	4	512
84000914	10/01-1/02	440	9	449
84001025	2/02-3/02	57	2	59
84001092	4/02-5/02	57	2	59
Totals		<u>\$1,947</u>	<u>\$43</u>	<u>\$1,990</u>

As a result, the Coalition was unable to support charges to the Outreach and Training Assistance Grants totaling \$35,783. The \$35,783 consisted of \$11,156 in questioned payroll charges due to missing time sheets and billing errors; \$21,670 in ineligible administrative costs due to duplicate payments, penalty fees, calculation errors, duplicate health and life insurance costs, and claims for activities not related to the Grants; and \$2,957 in unsupported general operating expenses for travel, telephone charges, membership dues, and conferences.

AUDITEE COMMENTS

We provided our draft audit memorandum report to Indiana Coalition on Housing and Homeless Issues’ Executive Director and HUD’s staff during the audit. The Coalition’s Executive Director provided his comments on the draft report on October 18, 2002. The

Director's comments included 52 attachments (time sheets and activity reports) that were not necessary for understanding his comments.

We held an exit conference with Indiana Coalition on Housing and Homeless Issues' Executive Director on October 24, 2002. We included the Executive Director's comments in Appendix B of this report with the exception of 52 attachments. HUD's Director of Multifamily Housing Assistance Restructuring received a complete copy of the Coalition's comments with the 52 attachments. The Coalition's Executive Director was provided with copies of the audit memorandum report.

[Excerpts paraphrased from the comments provided by Indiana Coalition on Housing and Homeless Issues' Executive Director on our draft audit memorandum report follow. Appendix B, pages 16 and 17, contains the complete text of the comments for the draft report.]

Indiana Coalition on Housing and Homeless Issues supplied all available documentation for the unsupported Outreach and Training Assistance Grant expenditures. The Coalition believes the Grants should be reimbursed \$38,586 for the following costs: \$10,518 for unsupported and/or ineligible disbursements; \$12,119 for unsupported and/or ineligible administrative items; \$1,990 for excessive health and life insurance; and \$13,959 for unsupported salaries.

The Coalition provided documentation to support the time after January 8, 2000 for its Grant Program Supervisor and Program Assistant that were charged to the Outreach and Training Assistance Grants.

The Coalition is tracking the use of funds for all grants and restricted contributions, and its general ledger supports the use of the funds. This is to ensure the proper accounting of all funds so grantors can see the funds are used for their intended purpose. The Coalition has adequate billing procedures in place for all payment requests that are supported by hourly rates and its general ledger.

Indiana Coalition on Housing and Homeless Issues is posting a \$38,586 adjustment to its general ledger so the Coalition's Board of Directors will have an accurate financial statement. The Coalition understands that additional adjustments may be needed to reflect the actual final costs.

The Coalition established written procedures to ensure complete and accurate claims are supported. Expenses are being recorded by the Coalition on spreadsheets along with supporting documentation for every cost claimed. The Coalition's Program Supervisor, Office Administrator, and the Executive Director will conduct an audit on each claim before submission for payment. Additionally, the Treasurer for the Coalition's Board and its accountant will conduct a random review of the claims.

The Coalition has written management controls in place to ensure that only eligible activities receive funding and documentation for expenditures meet Office of Management and Budget Circular A-122. Since the controls are in place and the Coalition will ensure that current and

future claims will be made for only eligible activities, Indiana Coalition on Housing and Homeless Issues sees no need to consider suspending the Outreach and Training Assistance Grants funding.

OIG EVALUATION OF AUDITEE COMMENTS

Indiana Coalition on Housing and Homeless Issues provided supporting documentation; therefore, we adjusted our finding accordingly. The actions taken by the Coalition, if fully implemented, should improve its administration of the Outreach and Training Assistance Grants. We did not remove our recommendation that HUD consider suspending the Coalition's funding until evidence is provided to demonstrate it implemented sufficient management controls to ensure that only eligible costs receive funding and the documentation for each expenditure complies with Office of Management and Budget Circular A-122.

RECOMMENDATIONS

We recommend that HUD's Director of Multifamily Housing Assistance Restructuring require Indiana Coalition on Housing and Homeless Issues to:

- 1A. Provide documentation to support the \$14,113 (\$11,156 plus \$9,013 less \$6,056) of unsupported payments cited in this finding. If documentation cannot be provided, then the Coalition should reimburse its Outreach and Training Assistance Grants for the amount that cannot be supported from non-Federal funds.
- 1B. Reimburse its Outreach and Training Assistance Grants \$21,670 (\$1,505 plus \$18,175 plus \$1,990) from non-Federal funds for the improper payment of duplicative expenses and costs not related to the Grants.
- 1C. Implement procedures and controls to follow HUD's regulation and/or Office of Management and Budget Circular A-122 regarding the accurate recording and proper use of the Outreach and Training Assistance Grant funds.
- 1D. Post actual expenses to its general ledger for the Outreach and Training Assistance Grants to assure the Coalition has accurate books and records for the Grants.

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

- 1E. Consider suspending funding until Indiana Coalition on Housing and Homeless Issues implements sufficient management controls to ensure that only eligible costs receive funding and the documentation for expenditures complies with Office of Management and Budget Circular A-122.

MANAGEMENT CONTROLS

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

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

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

- Program Operations

Indiana Coalition on Housing and Homeless Issues did not manage its Outreach and Training Assistance Grants according to program requirements. Specifically, the Coalition: (1) lacked documentation to support \$14,113 in Grant funds disbursed; (2) improperly used \$21,670 of Outreach Grant funds to pay duplicative expenses and costs not related to the Grants; and (3) did not maintain accurate books and records for the Grants (see Finding).

- Validity and Reliability of Data

Indiana Coalition on Housing and Homeless Issues failed to maintain accurate books and records for its Outreach and Training Assistance Grants since adjusting journal entries were not posted to the Coalition's general ledger (See Finding).

- Compliance with Laws and Regulations

Indiana Coalition on Housing and Homeless Issues did not follow HUD's regulation and/or Office of Management and Budget Circular A-122 regarding the accurate recording and proper use of the Outreach and Training Assistance Grant funds (see Finding).

- Safeguarding Resources

Indiana Coalition on Housing and Homeless Issues failed to maintain documentation to support \$14,113 in Outreach and Training Assistance Grant funds disbursed, and inappropriately used \$21,670 of Outreach Grant funds to pay duplicative expenses and costs not related to the Grants (see Finding).

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of Indiana Coalition on Housing and Homeless Issues by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Coalition covered the two-year period ending December 31, 2001. The Report contained no findings.

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A		\$14,113
1B	<u>\$21,670</u>	
	<u>\$21,670</u>	<u>\$14,113</u>

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



October 18, 2002

Thomas Towers, Assistant Regional Inspector General
Office of Inspector General for Audit, Region V
Patrick McNamara Federal Building
477 Michigan Avenue, Room 1790
Detroit, Michigan 48226-2592

Dear Mr. Towers:

The following is in response to your letter dated October 9, 2002.

Auditee Response

- 1A. We have supplied all available documentation for unsupported program expenditures.
- 1B. We believe the grant program should be reimbursed \$38,586 the breakdown of these costs are as follows:

Unsupported and /or Ineligible Disbursements
\$10,518.00

Administrative Unsupported and/or Ineligible Costs
\$12,119.00

Excessive Health & Life Insurance Cost
\$1,990.00

Salaries Unsupported
\$13,959.00

Documentation is attached to support the Grant Program Supervisor's, Jeff Terry, time after January 8, 2000 also to support Program Assistant, Janie Purchase. No other support documentation is available.

- 1C. A cost by grant use has been established. We are tracking the use of funds for all grants and restricted contributions. The general ledger supports these use of funds. This is to ensure proper accounting of all dollars so granters and donors can clearly see that all dollars are being used for the intended purpose. Adequate billing procedures are in place for all payment requests

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and are based on documented hourly rates and supported by the general ledger. Each submitted claim is challenged by an audit.

1D. We are posting the amount we believe should be adjusted to the general ledger now (\$38,586.00) so our board of directors will have a more accurate financial statement. We understand additional adjustments may need to be made to reflect the final actual costs.

1E. A written procedure has been established to ensure accurate, complete and supported claims. We are recording every expense on spreadsheets with support documentation attached for every cost claimed. The Program Supervisor, Office Administrator and the Executive Director conduct an internal audit on each claim before claims are submitted for payment. An external audit will be conducted on a random bases by the Board Treasurer and our CPA. Each audit will be signed and dated by the individuals who reviewed the claim.

1F. Written Management controls are in place to ensure that only eligible activities receive funding and that the documentation for the expenditures complies with OMB Circular A-122. These written management controls are available for review. Since these appropriate written management controls are in place and will ensure that current and future claims are in support of only eligible activities, we see no need to consider suspending the grant funding. We agree additional management controls were needed. We have developed and implemented new management controls. We have been evaluating ways to improve the current system since better management controls were recommended by L.M. Henderson, our auditors; in their audit management letter we received spring of 2002. We have used these new management controls on recent claims and believe they have proved effective. The detail of these claims is available for review. An audit of recent claims shows the effectiveness of these written management controls. An internal audit is complete and available for review.

According to Dennis Manning at OMHAR, even though your final report is not out, OMHAR has decided to suspend our funding based on your draft recommendation to "consider suspending funding." Dennis informed me that if you remove the recommendation to suspend, OMHAR will reinstate funding.

The recommendations of the Office of Inspector General are being followed to develop and implement appropriate management controls. Since the draft report is subject to revisions and the actions recommended in the draft report are in place, we request our funding not be considered for suspension.

Thank you for you time and consideration of our request.

Sincerely,



James Cundiff
Executive Director

Appendix C

DISTRIBUTION OUTSIDE OF HUD

The Honorable Barbara A. Mikulski, Chairperson, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 709 Hart Senate Office Building, United States Senate, Washington, DC 20510

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