
AUDIT REPORT



THE CONGRESS OF NATIONAL BLACK
CHURCHES, INCORPORATED
HOUSING COUNSELING PROGRAM
WASHINGTON, DC

2004-PH-1003

FEBRUARY 19, 2004

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



Issue Date	February 19, 2004
Audit Case Number	2004-PH-1003

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

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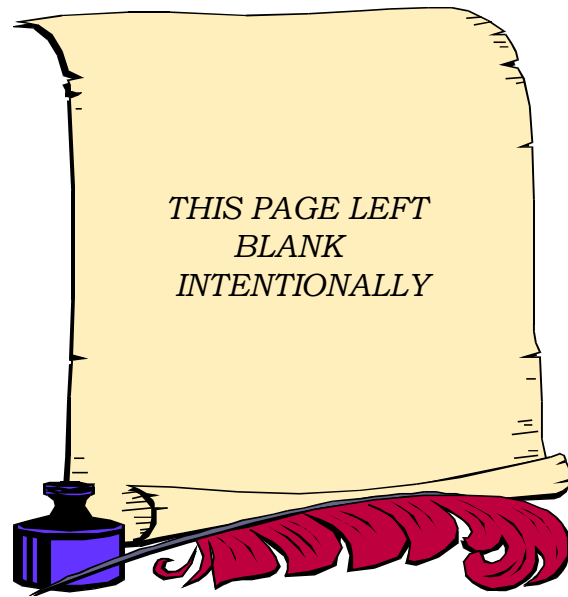
FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: The Congress of National Black Churches, Incorporated
Housing Counseling Program
Washington, DC

We performed an audit of the Congress of National Black Churches, Incorporated (CNBC) Housing Counseling Program. The primary focus of our audit was to determine whether CNBC appropriately used the awarded HUD grant to fund its Program activities. Our audit covered the period from October 1, 2000 through March 31, 2003. This report contains two findings and applicable recommendations requiring action by your office.

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 110 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.

We appreciate the cooperation extended to us during the audit by the CNBC staff, CNBC outside legal counsel - Crowell and Moring, LLP and CNBC Consultants – Institute of Church Administration and Management. Should you or your staff have any questions, please contact Ms. Christine Begola, Assistant Regional Inspector General for Audit, at (410) 962-2520.



Executive Summary

In response to a hotline complaint, we performed an audit of the Housing Counseling Program administered by the CNBC. The complaint alleged that CNBC drew down funds from the Housing Counseling grant and then failed to reimburse its affiliates for services rendered. The complaint also noted that CNBC affiliates were performing services without sub-grant agreements, which is a violation of the grant agreement between HUD and CNBC.

The primary objectives of our audit were to determine if the complainant's allegations had merit and if CNBC spent its grant funds in accordance with the applicable HUD rules and regulations. To accomplish our objectives, we reviewed 100 percent of the grant funds disbursed to CNBC during the period October 1, 2000 through March 31, 2003. We estimate the disbursements totaled \$1,053,798¹.

We found CNBC did not administer its Housing Counseling Program according to the grant agreements with HUD and the applicable HUD rules and regulations. Specifically, CNBC used its grant funds to pay for ineligible and unsupported expenditures, and could not demonstrate it provided the required leverage funding it agreed to under its grant agreement with HUD. The results of our review are summarized below, and detailed in the Finding sections of this report.

CNBC Did Not Use Grant Funds In Accordance With HUD Requirements

CNBC did not administer its grant program in accordance with its grant agreements nor with HUD rules and regulations. Specifically, we found CNBC used \$521,062 in grant funds to pay for ineligible payroll, operating costs, and payments to several affiliates; and drew down another \$423,584 of grant funds from HUD for expenditures that were not properly supported. This represented 49 percent and 40 percent respectively of the \$1,053,798 total expenditures we reviewed. This occurred because CNBC's Board of Directors did not provide adequate oversight over the Executive Director and other key management officials' administration of the Program, nor did they ensure adequate management controls were in place to enable them to detect and prevent these problems from occurring. Due to the severity of these problems and abuses, CNBC's affiliates were forced to curtail or suspend their housing counseling services. Further, CNBC itself was forced to suspend all Program operations.

CNBC Could Not Provide Support For Its Leverage Funding

CNBC could not provide support to demonstrate it met its leverage funding commitment for its 2000 and 2001 grants. Under its grant agreement with HUD, CNBC proposed to provide \$974,047 in leverage funds to cover a portion of its

¹ During the period of our audit, October 1, 2000 through March 31, 2003, these LOCCS disbursements were charged against Program grants for Fiscal Years 1999, 2000, and 2001.

costs for the Housing Counseling Program. However, CNBC could not provide support for \$973,021, (or 99.9 percent) of the funds. This deficiency occurred because CNBC did not maintain cash receipt and disbursement records for the Program nor did it separately account for the funds it received from HUD and the other non-federal sources. As a result, there was no assurance that CNBC met its commitment in providing the required leverage funds. Also, due to the state of the records at CNBC, we were not able to determine whether CNBC actually used the leverage funds it received only for eligible Program activities.

Recommendations

We recommend that HUD's Assistant Secretary for Housing take appropriate administrative action against CNBC as a designated National Housing Counseling intermediary and take debarment action against the former Executive Director and Chief Financial Officer. Further, we recommend HUD require CNBC to reimburse HUD from non-federal sources \$521,062 for the ineligible expenditures and \$423,584 for unsupported expenditures.

Auditee Comments

We provided our initial draft of this report to HUD staff and to CNBC's outside legal counsel on December 8, 2003. We discussed the findings and recommendations with HUD and CNBC's outside legal counsel at an exit conference on December 16, 2003. CNBC's outside legal counsel provided a written response to the draft report on December 18, 2003. The response consisted of a three-page letter and a two-page affidavit from the former Grant Administrator.

Generally CNBC concurred with our findings and recommendations, however, they did request we make a few minor changes to the draft report. We reviewed these requests and modified the report where appropriate. In addition, the affidavit stated due to storage issues all records supporting the quarterly reports forwarded to HUD were destroyed in March 2003. The complete text of CNBC's comments is included in Appendix B of this report. The affidavit is not included but is available upon request.

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Abbreviations

CNBC	Congress of National Black Churches
HUD	U.S. Department of Housing and Urban Development
LOCCS	Line of Credit and Control System
NOFA	Notice of Funding Availability

Background

The Congress of National Black Churches, Incorporated (CNBC) is a faith-based, non-profit organization. Founded in 1978, CNBC is an ecumenical coalition of eight major historically black denominations. Together, these denominations represent 65,000 churches and more than 20 million members. A Board of Directors manages the affairs of the Corporation. The current Chairman of the Board is Bishop Cecil Bishop. Currently, CNBC does not have an Executive Director. In fact, all of CNBC's key management officials were terminated prior to the start of our audit, leaving only the office manager on board to take care of the administrative items in its Washington, DC office. The Corporation's books and records are currently located at 1134-11th Street, NW, Washington, DC. We conducted our work through the assistance of CNBC's Counsel and Consultants during the audit.

Section 106 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701x) authorized HUD's Housing Counseling Program. The purpose of the Program is to provide comprehensive housing counseling through various levels (national – local level) of housing counseling agencies, to assist homebuyers, homeowners, and tenants to meet their housing needs and resolve their housing problems. Some of the eligible housing counseling services include: homebuyer education programs that offer potential purchasers general information on the home buying process; pre and post purchase homeownership counseling; mortgage delinquency and default resolution counseling; and Home Equity Conversion Mortgage counseling; to name a few.

Funding under the Housing Counseling Program is completed on a competitive basis. An agency would submit an application for the grant under the Notice of Funding Availability (NOFA) published in the Federal Register. To be competitive, an agency has to demonstrate among other things, that the funds will be used effectively to implement the objectives of the Housing Counseling Program. Since HUD funding is not intended to cover the total cost of carrying out the grantee's counseling program, the grantee would also have to provide evidence of funds that would be leveraged to assist in covering some of the costs of the Program. Typically, these awards had a performance period of one year from October 1 through September 30. The grantee would obtain the funds from HUD by drawing the funds periodically from the HUD Line of Credit and Control System (LOCCS).

HUD Handbook 7610.1 REV-4, provides the guidance for the Housing Counseling Program. Under the Handbook intermediary grantees such as CNBC are given wide discretion to implement its Housing Counseling Program. In order to assist a wide variety of people, CNBC used sub-grantees from across the country, which provided the counseling services at a local level. These sub-grantees would then bill CNBC for the services provided and in turn CNBC would obtain the funding from HUD. The use of sub-grantees does not relieve the grantee of its responsibility for complying with the grant agreement and other applicable laws. In fact, the grantee is supposed to monitor the performance of its sub-grantees and take appropriate action to resolve problems to ensure compliance with the grant agreement, sub-grant agreements, and other applicable laws.

HUD approved CNBC as a National Housing Counseling agency effective January 1998. For the 1998 and 1999 grant years, HUD awarded CNBC \$1,556,256 in Housing Counseling grants. During that time period, through its nationwide affiliated agencies, CNBC reported that it provided 11,008 individuals home buying education and housing counseling services. For the 2000 and 2001 grant years, HUD awarded CNBC an additional \$1,234,913 in Housing Counseling grants, bringing the total funds awarded to CNBC to \$2,791,169. HUD records show the following authorization and draw down of funds for the grant years within our audit period, as of March 28, 2002.

Grant Year	Amount Authorized	Amount Disbursed	Balance
2000	\$ 522,209	\$522,209	\$ 0
2001	\$ 712,704	\$357,042	\$355,662
Total	\$1,234, 913	\$879,251	\$355,662

Audit Objectives

The primary objectives of our review were to determine if the complainant's allegations had merit and if CNBC spent its grant funds in accordance with the applicable HUD rules and regulations. The complaint alleged that CNBC drew down funds from the Housing Counseling grant and then failed to reimburse its affiliates for services rendered. The complaint also noted that CNBC affiliates were performing services without sub-grant agreements, which is a violation of the grant agreement between HUD and CNBC.

Audit Scope And Methodology

To achieve our audit objectives we reviewed:

- Applicable laws, regulations, and other HUD Program requirements;
- HUD and CNBC program files, and
- CNBC's accounting books and records.

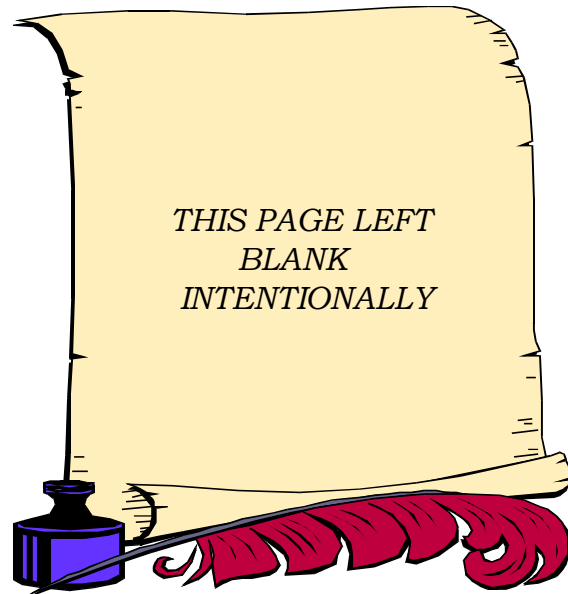
We also reviewed 100 percent of the grant expenditures CNBC disbursed during the period from October 1, 2000 through March 31, 2003. These disbursements included grant expenditures charged against the 1999, 2000 and 2001 grants. These disbursements totaled an estimated

\$1,053,798². We reviewed the grant disbursement records to determine whether the expenditures were properly supported and eligible under the grant program.

In addition, we reviewed contracts, monthly activity reports, timesheets, invoices, and other documents supporting the sub-grantee expenditures. When appropriate, we interviewed HUD staff, CNBC affiliated agencies, and available CNBC representatives. We performed our site work between March and June 2003 at CNBC's office, located at 1134-11th Street, NW, Washington, DC. The audit covered the period October 1, 2000 through March 31, 2003, but was expanded when necessary to include other periods.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

² We estimate the CNBC received \$1,053,798 in LOCCS payments for the 2000 and 2001 grant years and a portion of the 1999 grant year during the time period of our review. However, CNBC's accounting records only support disbursements of \$718,865.



CNBC Did Not Use Grant Funds According To HUD Requirements

CNBC did not administer its grant program in accordance with its grant agreements nor with HUD rules and regulations. Specifically, we found CNBC used \$521,062 in grant funds to pay ineligible payroll and operating costs, and ineligible payments to several affiliates. Further, CNBC drew down another \$423,584 of grant funds from HUD for expenditures that it could not properly support. This represented 49 percent and 40 percent respectively of the \$1,053,798 total expenditures we reviewed. These costs are summarized in the table below.

Description	Ineligible	Unsupported
Unauthorized Payroll Costs	\$394,933	
2000 Operating Costs	\$ 72,629	
Contracts with Affiliates	\$ 53,500	\$417,547
No Support Documentation		\$ 6,037
Total	\$521,062	\$423,584

This occurred because CNBC's Board of Directors did not provide adequate oversight over the Executive Director and other key management officials' administration of the Program, nor did they ensure adequate management controls were in place to enable them to detect and prevent these problems from occurring. As a result of these Program abuses, CNBC failed to reimburse its affiliates for billed housing counseling services they provided clients. Many affiliates were forced to curtail and ultimately suspend their housing counseling services. Further, because of the severity of the Program abuse, CNBC itself suspended all Program operations. Thus, HUD has no assurance the housing counseling services CNBC proposed in its approved grant applications to HUD were satisfactorily provided and the objectives of the Program met.

Following is a detailed explanation for the various questioned costs by category.

CNBC Used \$521,062 to Pay for Ineligible Expenditures

From our review of the \$1,053,798³ in payment vouchers charged to the grant program, we identified \$521,062 of ineligible expenditures. This included \$394,933 of ineligible payroll costs, \$72,629 of FY 2000 operating

³ This amount included the \$174,547 from the 1999 grant, which CNBC used to pay affiliated agencies in December 2000.

CNBC Paid Ineligible
Payroll Costs With 2000
And 2001 Grant Funds

costs, and \$53,500 of unauthorized payments to affiliates. A more detailed discussion of these expenditures follows.

From our review of CNBC's 2000 and 2001 grants, we identified \$394,933 that CNBC used to pay ineligible administrative payroll costs. When CNBC drew down these funds from HUD, they indicated the funds would be used for program operating and subcontract costs. However, CNBC records showed there were no corresponding program expenditures to support these various draws. Specifically, we found CNBC could not support \$100,871 of the \$522,209 it drew down from its 2000 grant and \$294,062 of the \$357,042 it drew down from its 2001 grant.

According to a memorandum submitted to HUD, CNBC admitted that the Executive Director and Chief Financial Officer (CFO) had used the grant funds to pay for all CNBC staff salaries (including staff not associated with the Housing Counseling Grant) and related administrative costs. This was done without authorization and approval from the Board, in anticipation that future private funding would be forthcoming to cover the amount of funds withdrawn from the grants.

The results from our review of CNBC's operating and payroll account activities confirmed that they used the grant funds in this way. For example, for the three months of banking activities we reviewed, CNBC transferred \$354,217 in funds received from HUD and other federal sources from its operating account to the payroll account. This usually happened when the funding received from non-federal sources was insufficient to cover the payroll of all CNBC staff for that particular pay period. Both the 2000 and 2001 grant agreements between HUD and the CNBC require that grant funds only be used for the housing counseling services specified within the grant agreement and/or in the grantee application. The use of funds for this type of activity was specifically prohibited by the grant agreements. Thus, we consider the use of these funds an ineligible activity under the grant and are requesting the full \$394,933 be paid to the sub-grantees and HUD.

Further, when the private funding did not materialize, CNBC faced a funding shortfall, which impaired its financial capability to continue Program operations and

fully pay its affiliated agencies. At the end of our review, CNBC owed its affiliated agencies \$331,000.

CNBC Paid Ineligible
Operating Costs With
2000 Grant Funds

The 2000 NOFA and grant agreement limited the amount of Program funds that a grantee could use to pay its operating costs. The limit was set at ten percent of the grant and required the grantee to distribute at least ninety percent of its grant award to its sub-grantees. For the 2000 grant, CNBC was awarded \$522,209 of which they budgeted \$52,209 (or 10 percent) for operating costs (personnel salaries, office rent and administrative costs). CNBC budgeted the remaining \$470,000 (or 90 percent) for subcontract costs.

As of September 26, 2001, CNBC had drawn down 100 percent of its 2000 grant from LOCCS for Program expenditures. However, CNBC's records showed it disbursed \$296,500 to its sub-grantees and \$124,838 (or 24 percent) for operating costs in 2000. This amount exceeded the HUD-approved budget by \$72,629. Since this cost did not conform to the limitation set forth in the grant agreement, we determined this \$72,629 operating cost was ineligible under the Program and should be paid back to HUD.

CNBC Paid Affiliates
Without Appropriate
Agreements

Both the 2000 and 2001 grant agreements between CNBC and HUD require CNBC to execute a sub-grant agreement with each affiliated agency before disbursing funds to that sub-grantee. Also, CNBC's sub-grant agreements, which we found were retroactively executed, require the sub-affiliate to submit monthly time sheets, activity reports and quarterly documentation, before CNBC is to pay the affiliate for services rendered.

Our review of the \$296,500 payments made to affiliates in 2000 showed that CNBC did not follow HUD's or its own requirements. Specifically, we found CNBC paid an affiliate \$16,000 in payments without ever executing the proper sub-grant agreement. In addition, CNBC paid this affiliate without first obtaining necessary supporting documentation that showed the activity this sub-grantee performed.

We also found CNBC made \$14,500 in payments to affiliates prior to executing a written sub-grant agreement, and without obtaining the required supporting monthly timesheet or activity reports. Without the proper agreement and/or supporting documentation, CNBC and HUD have no assurance affiliates used these funds only for eligible grant activities.

Also, for a portion of the 1999 grant funds that CNBC spent during our audit period, we determined CNBC disbursed \$23,000 to affiliated agencies without having an effective sub-grant agreement in place. As in 2000, CNBC also distributed these funds without the proper supporting documentation to show what activities the affiliates actually completed. As a result, our review found CNBC incurred \$53,500 in ineligible subcontract payments.

CNBC Could Not Support \$423,584 of Grant Expenditures

CNBC could not adequately support \$423,584 of the \$1,053,798 of payment vouchers we reviewed. Specifically, CNBC did not maintain the required documentation to support \$417,547 in payments made to its affiliates, and \$6,037 in administration expenses.

CNBC Could Not Support All Payments Made To Its Affiliates

The 1999, 2000 and 2001 sub-grant agreements between CNBC and its affiliated agencies state that the member agency will be paid the sum specified in the contract for the performance period upon receipt of various reports, including a monthly time record of activities performed, a written quarterly report, confirmation of adherence to the counseling plans and budget objectives, and satisfactory site inspections by CNBC, or HUD, if applicable.

We found CNBC did not obtain the required supporting documentation prior to reimbursing its affiliates as was required by its sub-grant agreements. Of the \$296,500 affiliate payments we reviewed for grant year 2000, we found CNBC made \$266,000 of the payments without obtaining the required supporting monthly timesheets or activity reports. We also found CNBC made \$151,547 of such payments from the 1999 grant funds we reviewed. As a result, CNBC could not properly support \$417,547 in affiliated contract costs.

Some Administrative Expenditures Were Not Properly Supported

CNBC could not provide us with any documentation to support \$6,037 of administrative expenditures it paid with grant funds. HUD and CNBC regulations require that expenditures be supported before making payments. However, our review of CNBC operating costs showed CNBC did not follow these requirements and charged the grant \$6,037 in salaries and fringe benefits, travel, conference fees, and office expenditures without invoices or documents to support how it allocated these costs.

Lack Of Controls Contributed To The Deficiencies

In our opinion, the above-cited deficiencies occurred because CNBC failed to provide adequate oversight and control over Program funds and operations to ensure funds were only used for authorized and intended purposes.

First, CNBC failed to establish and maintain an organizational structure that would require the Board to actively manage the affairs of the Corporation. Specifically, the CNBC Articles of Incorporation and By-laws require the Board to meet only twice a year, which we consider passive participation and inadequate to ensure effective oversight of Program operations. Consequently, the Board relied heavily on the Executive Director to manage the CNBC's day-to-day operation and often accepted the decisions made by the Executive Director without question.

Second, the Board, who was responsible for establishing the controls and management of the organization, failed to ensure that organizational financial statements were regularly audited, despite HUD requirements to do so. Specifically, the Board did not engage an independent public accountant to perform the required annual independent audit of CNBC's financial operation in 2001 and 2002.

We believed that these control deficiencies created an environment that allowed CNBC's management to mispend Program funds for an extended period of time undetected until HUD and the Board discovered the problem during the early part of 2002. As a result, CNBC's financial capability to continue Program operations and pay its affiliated agencies was severely impaired.

CNBC And Affiliates Suffered Undue Financial Hardship

We found CNBC's officials' use of the grant funds for unauthorized payroll activity caused a shortfall in funding, which eventually severely impaired CNBC's financial capability to continue Program operations and fully pay

affiliated agencies for contracted services. Despite the Board's effort to solicit private funds, CNBC has not been able to fully pay its affiliates, had to terminate nearly all its employees, and severely curtailed or suspended its housing counseling services.

Our review found CNBC did not have the capacity to continue Program operations. At the time of our review, CNBC did not have the full complement of staff needed to administer its programs and to perform its monitoring responsibilities imposed by its grant agreement with HUD. Since the financial trouble was discovered in the early part of 2002, CNBC had decreased staff from twenty six to one Office Manager. CNBC has no other employees and it is adhering to its decision not to pursue additional HUD grants until it can become financially stable.

CNBC Board Took Action
When Problem Was
Discovered

We found the CNBC's Board took immediate corrective action and solicited private funds to pay the affiliates for the amount owed, after HUD informed them of the non-payment issue. However, the Board was only able to raise \$60,000 from these efforts. Further, we found the corresponding payments to the affiliates from these funds were also not properly supported. At the end of our review, CNBC owed its affiliates \$331,000 for billed services.

During our review, we contacted 23 of the 32 affiliates who had previous or current sub-grant agreements with CNBC to determine the impact of not receiving payments from CNBC. Nineteen of the twenty-three affiliates contacted stated that their housing counseling agencies suffered a major impact, which included a reduction in workforce, reduction in housing counseling activities, and suspension of some housing counseling activities.

In summary, CNBC did not use Program funds according to HUD regulations and grant requirements because it failed to provide and maintain adequate oversight and controls over Program funds and operations to ensure effective and efficient use of federal resources. As a result, CNBC could not assure HUD that housing counseling services proposed in its approved grant applications were satisfactorily provided and the objectives of the Program were met.

Auditee Comments

Generally, CNBC's legal counsel concurred with our findings and recommendations. However, they did request we make a few changes to the report to more clearly demonstrate that prior to the downfall of CNBC's Housing Counseling Program, the program was running without complication. CNBC explained that the downfall of the Program took place only after the anticipated private sector funds did not materialize. They also stressed that once CNBC Board members became aware of the problems with the Housing Counseling Program, they terminated the employees involved and voluntarily withdrew from not only this HUD program, but all federally managed programs. In addition, CNBC's legal counsel provided a copy of an affidavit from the former Grant Administrator that stated due to storage issues all records supporting the quarterly reports forwarded to HUD were destroyed in March 2003.

OIG Evaluation of Auditee Comments

We are encouraged by the actions CNBC's board has taken thus far to resolve the outstanding issues. However, since our audit only addressed the period from October 1, 2000 through March 31, 2003, we could not attest to CNBC's legal counsel's statement that the Housing Counseling Program was operating without problems prior to the discovery of the cash flow problem. Our overall conclusion was based solely on the information within our audit period.

As to the issue in maintaining Program records, CNBC's grant agreement requires it to retain all documents that support each LOCCS draw for a period of three years. The agreement also specifies these documents must be readily available for review when requested by HUD. However, CNBC ignored these requirements and destroyed most of its records in March 2003, just one month after the OIG formally notified them of the pending audit. Thus, we questioned CNBC's actions especially since this was the only evidence that could show how the grant funds were actually used.

Recommendations

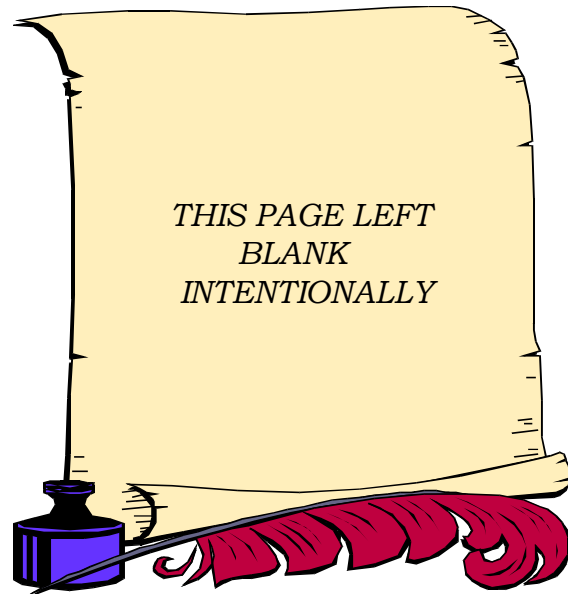
We recommend the Office of Housing:

- 1A. Take debarment action through the Enforcement Center against CNBC's former Executive Director and CFO.
- 1B. Take appropriate administrative action against CNBC as a National Housing Counseling Intermediary given the abuse of taxpayer funds and the Board's failure to oversee CNBC's Housing Counseling Program.

We recommend the Office of Housing require CNBC to:

- 1C. Repay from non-federal sources, \$394,933 for the housing counseling funds used for unauthorized administrative payroll costs, as follows: \$331,000 to its affiliates and \$63,933 to HUD.
- 1D. Repay to HUD, from non-federal sources, \$72,629 for the ineligible operating costs charged to the 2000 grant.
- 1E. Repay to HUD from non-federal sources \$53,500 for the ineligible subcontract costs charged to the 1999 and 2000 grants.
- 1F. Provide adequate support documentation to show that the \$417,547 expended in unsupported costs for the 1999 and 2000 grants can be supported. If proper support documentation cannot be obtained, this amount should be repaid to HUD from non-federal sources.
- 1G. Provide adequate support documentation for the \$6,037 in unsupported operating costs. If proper support documentation cannot be obtained, this amount should be repaid to HUD from non-federal sources.
- 1H. Establish an effective grants administration system, which includes the designation of a person to act as a grantee's representative with respect to the services and the agreements for each of the grants awarded to CNBC.

11. Establish and implement policies and procedures to ensure all future LOCCS Payment Vouchers are supported with original supporting documentation, such as invoices or timesheets, at the time of the LOCCS draw. These policies should include a requirement for routinely completing reconciliations between the LOCCS vouchers to the expenditures charged.



CNBC Could Not Provide Support For Its Leverage Funding Commitment

CNBC could not provide support to demonstrate it met its leverage funding commitment for its 2000 and 2001 grants. Specifically, CNBC proposed to provide \$974,047 in leverage funds to cover a portion of the costs for the Housing Counseling Program. However, our review found that CNBC could not provide support for \$973,021, (or 99.9 percent) of the funds. This deficiency occurred because CNBC did not maintain cash receipt and disbursement records for the Program nor did it separately account for the funds it received from HUD and the other non-federal sources. As a result, there was no assurance that CNBC met its commitment in providing the required leverage funds. Also, we were unable to determine whether the leverage funds that were received actually were used for eligible Program activities.

CNBC Agreed To Provide Leverage Funding To The Program

Under the Housing Counseling Program, HUD does not intend for its grant funds to cover the total cost of carrying out a grantee's counseling program, therefore, the ability of applicants to secure private and public resources is one of five factors used by HUD in its selection and approval of grantee applicants. For CNBC's 2000 and 2001 grants, CNBC submitted letters of commitment from various affiliated agencies, which provided evidence of their leverage commitments. For both grant years, CNBC proposed to commit \$974,047 of leverage funds to the Program. This included \$100,000 from CNBC and \$874,047 from its affiliated agencies. Based upon this information, HUD approved CNBC's 2000 and 2001 applications for funding in the total amount of \$ 1,234,913.

CNBC Could Not Support Its Leverage Funding Commitment

During the review, we requested a listing of the committed leverage funds received from CNBC and its affiliates for the 2000 and 2001 grants. However, based on the documents CNBC was able to provide, we could not determine whether the funding commitments mentioned in the 2000 and 2001 grant applications had been met. Of the \$974,047 in leverage funding commitments CNBC promised to provide, we could only identify \$1,026 that was contributed by three affiliated agencies in July 2001. We were unable to determine whether CNBC provided its \$100,000 share of leverage funds or if its affiliated agencies provided the remaining \$873,021. Also, we were not able to determine how CNBC used the \$1,026 of

CNBC Commingled
Program Funds With
Other Federal And Non-
federal Funds

leverage funds it had received from its three affiliated agencies.

We found CNBC pays all grant program expenditures from its general fund account. This account commingles funds from the Housing Counseling Program along with funds from its other federal and non-federal programs. The general grant requirements state that accounting systems of the grantee must ensure that HUD funds are not commingled with funds from other HUD or federal programs. Although accounting for the various program funds in one cash account is not a violation, the grantee must establish an auditable system to provide adequate accountability for funds it has been awarded. CNBC did not maintain cash receipt and disbursement records specifically for the Housing Counseling Program to separately account for the funds received from HUD and other non-federal sources.

Since CNBC did not have the proper accounting system in place, HUD has no assurance that funds committed during the application phase of the grant process were ever provided. In addition, CNBC cannot provide evidence to show that the funds were received and if they were, how those funds were used. Thus, HUD does not have any assurance the Housing Counseling grant funds distributed to CNBC were ever used for their intended purpose.

Auditee Comments

Generally, CNBC's legal counsel concurred with our findings and recommendations. In addition, they stated CNBC will no longer accept HUD funds and voluntarily will abstain from participating in all future federal grants and programs. Thus, they stated the OIG recommendation that HUD not provide CNBC with additional funding was a moot point and it should be removed from the report. They added that CNBC is prepared to give assurance in writing to the appropriate HUD officials of its voluntary abstention from all future participation in federal programs.

OIG Evaluation of
Auditee Comments

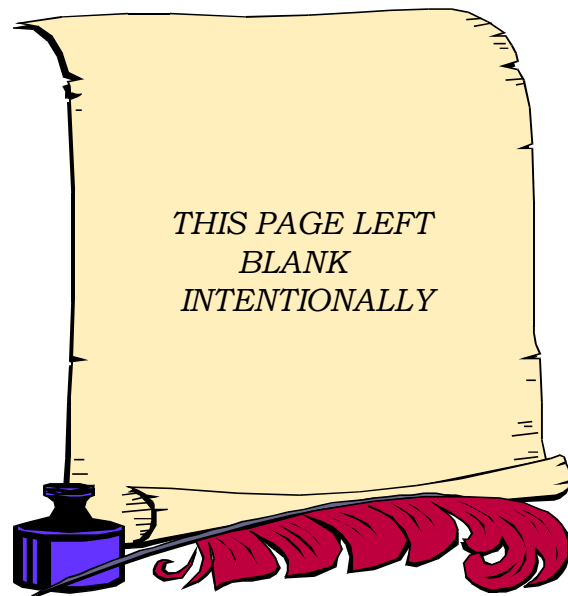
We are encouraged by CNBC's decision to voluntarily abstain from all future participation in federal programs. However, it will be HUD's decision as to whether CNBC's

proposed action is acceptable or an alternative course of action is warranted. Consequently, the recommendation was not removed from this report.

Recommendations

We recommend the Office of Housing:

- 2A. Not provide CNBC with any additional funding until it demonstrates it provided the required leverage funding for its 2000 and 2001 grants. Further, do not provide any additional funding to CNBC until it demonstrates it has established an effective cash management system to ensure grant funds that are drawn down can be effectively accounted for separately within a system. This system should ensure that the funds can be fully accounted for at all times, i.e. when obtained, how maintained and how they were used.



Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, 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.

Relevant Management Controls

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

- Cash management of the program,
- Documentation to support activity and cost eligibility,
- Procedures over the reporting of activities and associated costs, and
- Policies and procedures in awarding sub-grantee agreements.

We assessed all of the relevant control categories identified above, to the extent they impacted our audit objectives.

Significant Weaknesses

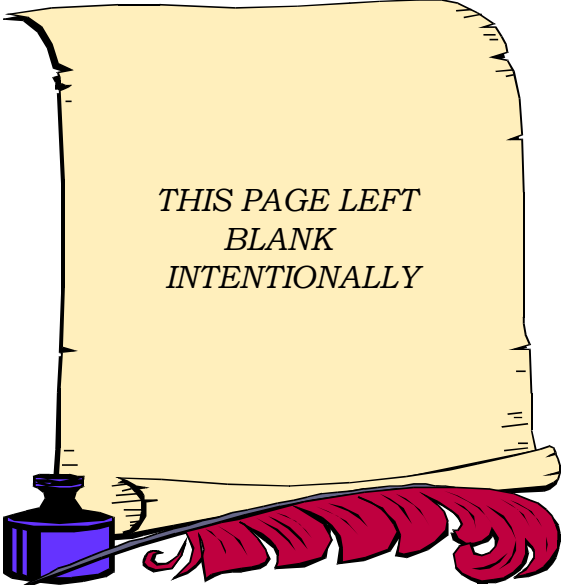
A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

- CNBC did not have a system to ensure costs incurred were for eligible activities, properly supported by appropriate source documentation, and were allowable as grant expenditures (see Finding 1).
- CNBC did not have a system to ensure proper cash management and use of budgetary control over expenditures (see Finding 1 & Finding 2).

- CNBC did not have effective policies and procedures in place to ensure sub-grantee agreements were awarded according to federal requirements (see Finding 1).

Follow Up On Prior Audits

This is the first audit of the Congress of National Black Churches, Incorporated (CNBC) Housing Counseling Program by HUD's Office of Inspector General.

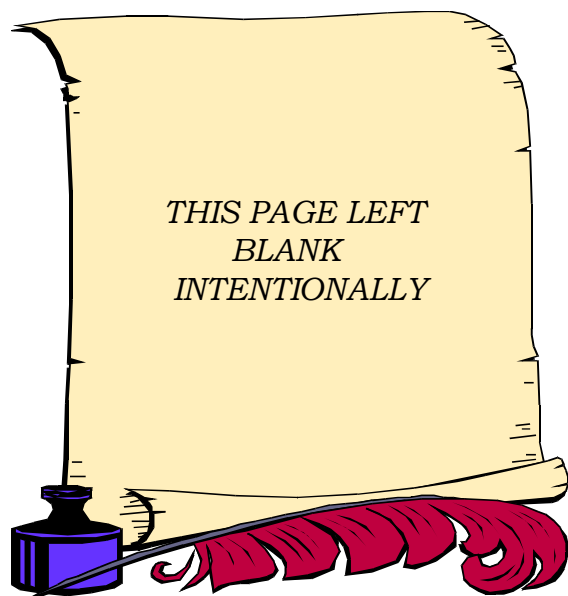


Schedule of Questioned Costs

Recommendation Number	Type Of Questioned Cost	
	<u>Ineligible</u> <u>1/</u>	Unsupported <u>2/</u>
1C	\$394,933	
1D	72,629	
1E	53,500	
1F		\$417,547
1G		<u>6,037</u>
	<u>\$521,062</u>	<u>\$423,584</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.



Auditee Comments



1001 Pennsylvania Avenue, NW, Washington, DC 20004-2595 ■ p202 624-2500 ■ f202 628-5116

kwilliams@crowell.com
(202) 624-2680

December 18, 2003

PRIORITY U.S. MAIL

Daniel G. Temme
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Re: The Congress of National Black Churches; Housing Counseling Program

Dear Mr. Temme:

On behalf of the Congress of National Black Churches (CNBC), we thank you for the opportunity to review the draft audit memorandum report regarding the CNBC's administration of Housing Counseling Program grant funds for Fiscal Years 2000 and 2001. We do have some comments and a request.

The second paragraph on page one may give the readers the mistaken impression that CNBC's administration of program funds was a complete failure. As a matter of fact, administration of the grant funds was in substantial compliance until anticipated private sector revenue sources did not materialize to a level commensurate with then-existing staffing. Only then, as we know the facts, did administration break down, resulting in absorption of grant funds to cover administrative and operational costs. Evidence of the proper disposition of the grant funds to the counseling agencies was reported and documented in quarterly reports on HUD Forms 9902, sent to Ms. Joanne Edwards, the HUD program support manager. As is evidenced in the attached affidavit of Ms. Levenberry, who was the CNBC program manager for the HUD grants during the relevant time frame, the CNBC copies of the back up affiliate data for these quarterly reports were destroyed in or about March, 2003, because there was no room to store the reports. Moreover, there were no open issues at the time regarding the activity reports (Encl. 1). The mistaken implication of a total collapse in the proper distribution of the funds is repeated throughout the report, and should be modified

Daniel G. Temme
U.S. Dept. of Housing and Development
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to show substantial compliance prior to the admitted breakdown in proper administration.

With reference to Recommendation 1B, page 10, we request that the recommendation for “debarment” of this faith-based, non-profit organization be withdrawn and “appropriate administrative action” substituted for the following reasons:

1. All the individuals directly responsible for the maladministration of the program were terminated long ago, as reported to you. This termination action included the former Executive Director, Sullivan Robinson and CFO, Karl Richardson, both of whom are appropriately recommended for debarment.

2. As soon as the maladministration was revealed, the CNBC board took immediate measures to address the matter. In addition to the terminations, the board directed that the balance of available grant funding, \$355,662, not be drawn from HUD and so informed the grant officer, retained outside expert consultants to investigate and help correct the root causes of the maladministration, and embarked on a voluntary program of soliciting contributions from private sources to pay down the shortfall. To date, \$60,000 has been distributed to sub grantees toward liquidation of the shortfall.

3. The CNBC has cooperated fully with the audit effort of the regional inspector general for audit, thus facilitating the government's review of this matter.

4. The CNBC recognizes and understands the seriousness of the maladministration that has resulted in the loss of public funds. In this regard, the CNBC has decided to withdraw voluntarily from participation in all future grant programs by all federal agencies. In the future, the CNBC will address itself exclusively to the pastoral and community needs of its historically black denominations, representing 65,000 churches and more than 20 million members. The CNBC has concluded that this abstention is a fitting atonement and apology for its failures.

5. The direct and collateral effects of a debarment would be harshly punitive for this faith-based organization's social and spiritual missions. More than precluding the CNBC from participation in federal procurement and non-procurement transactions, a debarment would becloud the reputation of the CNBC

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in the eyes of community leaders, lenders, accrediting agencies, and even church members.

6. As an additional protection of the federal interests, the CNBC is prepared to give assurances in writing to appropriate HUD officials of its voluntary abstention from all future participation in federal grant and contract programs.

On behalf of the CNBC, we again express our appreciation for the courtesy and professionalism uniformly displayed by the entire HUD audit team. We request that this letter and its enclosure be attached to the final audit report and made a part of the record going forward. If you need any additional information, please do not hesitate to contact me.

Sincerely yours,



Karen Hastie Williams
Counsel to the Congress of National
Black Churches

Enclosure

cc: Dr. Jacqueline Burton
Bishop Cecil Bishop
Richard Bednar, Esq.

