



Audit Report

District Inspector General for Audit
Rocky Mountain District

*City And County of
Denver, Colorado*

*Housing Opportunity For
Persons With AIDS Program*

*00-DE-259-1001
February 25, 2000*

U.S. Department of Housing and Urban Development
District Inspector General for Audit
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Denver, CO 80202-3607

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Audit Report

District Inspector General for Audit Rocky Mountain District

Report: 00-DE-259-1001

Issued: February 25, 2000

**TO: Guadeloupe Herrera, Director, Rocky Mountain District Office Of Community
Planning And Development, 8AD**

Robert C. Gwin

FROM: Robert C. Gwin, District Inspector General for Audit, 8AGA

**SUBJECT: City and County of Denver's Housing Opportunity for Persons with AIDS
program Audit**

We have concluded our audit of the City and County of Denver's Housing Opportunity For Persons With AIDS Program. The audit included six objectives to determine the effectiveness of the City and County of Denver's Program. Specifically: The objectives of the audit were to determine if the City and County of Denver ensured that:

- Project sponsors admit only eligible tenants and charge appropriate tenant rents according to the Housing Opportunity Program requirements including maximum allowable rents.
- Project sponsors expended HUD funds for only eligible program activities.
- Project sponsors complete rehabilitation of facilities prior to tenants moving into the units.
- Projects sponsors maintain the dwelling units in a safe and sanitary condition.
- Project income is appropriately accounted for and used for project related expenses.
- Project sponsors, their officials and/or owners do not have a conflict of interest in the funded activities.

This report contains five findings related to our audit objectives and related recommendations for improving the City and County of Denver's Program.

Within 60 days please furnish to this office, for each recommendation in this report, 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the courtesies and assistance extended by the management and staff at the City and County of Denver, its project sponsors and the Rocky Mountain District Office of Community Planning and Development.

Should you have any questions, please call me or Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

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Executive Summary

We performed an audit of the City and County of Denver’s Housing Opportunity for Persons with AIDS Program (herein referred to as the Housing Opportunity Program). In addition, due to the overlapping of HUD funds (Housing Opportunity Program, HOME, Rental Rehabilitation CDBG funds, etc.) we had to take into consideration other various HUD funding programs in our review. Our Office also received two complaints relating to the City and County of Denver’s Housing Opportunity Program. We considered the complaints in developing our audit objectives and planning for the audit.

Our review identified that the City and County of Denver needs to improve its oversight and monitoring, and ensure that project sponsors comply with HUD requirements.

The City received about \$6.73 million

The City and County of Denver (City) began receiving Housing Opportunity Program funding from HUD in 1992. Since that time the City received a total of \$6.73 million through the end of 1998. Disbursements for Housing Opportunity Program for rental assistance total approximately \$2.46 million while the housing development disbursements for Program’s community residences total about \$3.59 million as of November 1998.

HUD’s Housing Opportunity program

HUD’s Housing Opportunity for Persons with AIDS Program (hereinafter referred to the Housing Opportunity Program) provides monies to be used to assist eligible persons with housing assistance programs, including providing supportive services for rental and mortgage assistance, that are designed to prevent homelessness. Eligible persons are low income that also are medically diagnosed with the acquired immunodeficiency syndrome or infected with the human immunodeficiency virus. Rental assistance may be used to pay monthly support for an eligible person. Rent, mortgage, and utility payments to prevent homelessness may not be disbursed to an individual over a period of more than 21 weeks in any 52 week period. Program monies may be used to acquire and rehabilitate multiunit residences designed for eligible persons to provide a lower cost of care. Units used to house program recipients must conform with the HUD’s Minimum Property Standards.

Our audit objectives

The objectives of the audit were to determine if the City and County of Denver ensured that:

- Project sponsors admit only eligible tenants and charge appropriate tenant rents according to the Housing Opportunity Program requirements including maximum allowable rents.

- Project sponsors expended HUD funds for only eligible program activities.
- Project sponsors complete rehabilitation of facilities prior to tenants moving into the units.
- Projects sponsors maintain the dwelling units in a safe and sanitary condition.
- Project income is appropriately accounted for and used for project related expenses.
- Project sponsors, their officials and/or owners do not have a conflict of interest in the funded activities.

Our review identified that the City and County of Denver needs to improve its oversight and monitoring, and ensure that project sponsors comply with HUD requirements.

City needs to improve its oversight of project sponsors

The City needs to improve its oversight and monitoring of its HUD funded projects to ensure that project sponsors carry out their project activities in conformity with the applicable HUD requirements. This is particularly true since many of the sponsors acquired and/or rehabilitated projects using more than one HUD funded programs. Accordingly, units within each project may be controlled by different HUD program requirements. Our review of seven judgmentally selected projects identified that the program sponsors were not fully complying with the appropriate HUD funding program requirements. Improved City oversight and monitoring is needed, if the City and HUD are to have assurances that Federally funded projects are being properly administered. In the past, the City relied primarily upon the project sponsors to ensure compliance with specific HUD program requirements. Also the City monitoring has been through informal contact with project sponsors.

The City initiated corrective actions

City officials also advised that they were in the process of updating their monitoring procedures. According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our on-site review. Specifically:

- The Agency hired a consultant to integrate its various data bases and set up a monitoring module to ensure programs and projects receive appropriate monitoring.
- The delayed project has received the additional funding and should be in operation by the end of calendar year 2000.
- The City is taking action to ensure the commercial rents from the project are being used for that project and not other projects.

Four of the seven project sponsors charged excessive rents

Four of the seven project sponsors reviewed charged contract rents in excess of the agreement with the City or other source of assistance. As a result, program participants, other programs and/or HUD programs pay excessive rent. The overcharging of contract rents stemmed primarily from the project sponsors not being fully knowledgeable of the various requirements and restrictions applicable to the different funding sources or contract restrictions applicable to their particular projects. In addition, the City has not had effective monitoring procedures to ensure that project sponsors charged appropriate contact rents.

The City initiated corrective actions

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our on-site review. Specifically, the City is in the process of working with the various project sponsors to ensure that appropriate rents are charged based on the various funding sources for the projects.

Colorado Aids Project Improperly Administering HUD Program Funds

Since May 1993, the City has provided to the Colorado AIDS Project approximately \$1.018 million in funds under the HUD Housing Opportunity for Persons with AIDS. At least \$862,935 of this total was used to provide rental or mortgage assistance to 948 recipients. However, the Colorado AIDS Project has not properly implemented the program in conformity with HUD requirements.

More specifically, the Colorado AIDS Project did not always document the eligibility of the program participants, identify and support the need for rental or mortgage assistance, nor ensure that landlords received the assistance payments. As a result, neither HUD nor the City have assurances that assistance was paid to eligible participants. In addition, the Colorado AIDS Project provided rental assistance in excess of the 21-week maximum period a year specified by HUD regulation. Based upon our case review sample of 74 out of the 948 recipients receiving assistance, at least \$37,857 was paid for ineligible assistance.

The Colorado AIDS Project failed to establish proper procedures to ensure that assistance payments were made only in conformity with HUD requirements. Also, the Project did not correctly verify and document the eligibility of the program recipients. Therefore, questionable or ineligible payments were made.

The City's monitoring of the project also did not ensure that the Colorado AIDS Project provided assistance to only eligible persons and that the assistance went for rental or mortgage payments. Moreover, the City of Denver amended their agreement with the Colorado AIDS Project that allowed for ineligible excessive assistance payments.

The City began a regular review of the Colorado AIDS Project

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our site review. Specifically, the City's Community Development Agency implemented a regular review of the Colorado AIDS Project to ensure compliance with HUD's and the City's requirements.

Questionable Use of \$80,330 for Refinance an existing project

A project sponsor used Housing Opportunities for Persons with AIDS and Rental Rehabilitation program funds for refinancing of an existing project acquisition debt, which is not specifically authorized in the applicable HUD funding program regulations. As a result, the use of HUD program funds totaling \$80,330 is questionable as an eligible program cost.

The project sponsor did not specify that HUD monies would be used to refinance an existing debt in its application to the City but that the funds would be used only to acquire and rehabilitate the project. At the time the City approved the sponsor's project application, the project sponsor had already acquired the project. Therefore, the monies were used for purposes not delineated in the City approved application. Nonetheless, City officials considered the refinancing to be an eligible HUD program cost. A determination needs to be made by HUD as to its eligibility.

Project Did Not Meet Housing Quality Standards

One of seven HUD funded projects we inspected failed to meet the specific HUD and City required Housing Quality Standards. Consequently, tenants and their children were exposed to safety, security and health hazards. The deficiencies in the Housing Quality Standards went undetected since the City did not perform a Housing Quality Standards inspection after completion of the project's rehabilitation. In addition, the City does not perform regularly scheduled inspections to insure the project sponsor continues to maintain the project within the required Housing Quality Standards during the 20 year commitment of the project. Without such inspection procedures, the City has limited assurance the HUD funded projects and their dwelling units meet HUD's required Housing Quality Standards.

The City initiated corrective actions

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of or site review. Specifically, the City is now performing inspections after the completion of rehabilitation and on an annual basis.

We also reviewed for a conflict of interest

We also reviewed to determine if the project sponsors, their officials and/or owners have a conflict of interest, per HUD's regulations, in the funded activities. Based on the items tested, we concluded that no conflict of interest existed.

Auditee Comments

The City and County of Denver's Director of the Community Development Agency provided written comments to our draft report on February 22, 2000. The Director, for the most part, agreed with our audit results and implemented a number of actions to respond to issues identified in our report. Appendix 1, of this report, includes the Director's comments in their entirety. We provided our specific responses to the Director's comments within each finding.

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Introduction

HUD's Housing Opportunity for Persons with AIDS Program (hereinafter referred to the Housing Opportunity Program) provides monies to be used to assist eligible persons with housing assistance programs, including providing supportive services for rental and mortgage assistance, that are designed to prevent homelessness. Eligible persons are low income that also are medically diagnosed with the acquired immunodeficiency syndrome or infected with the human immunodeficiency virus.

Rental assistance may be used to pay monthly support for an eligible person. The maximum amount of assistance per person is the difference between 30% of the tenant's adjusted income and Fair Market Rent. Short-term supported housing includes facilities to provide temporary shelter for eligible individuals as well as rent, mortgage, and utility payments to enable eligible individuals to remain in their own housing. Temporary Shelter facilities may not provide residence to any individual for more than 60 days in any six month period. Rent, mortgage, and utility payments to prevent homelessness may not be disbursed to an individual over a period of more than 21 weeks in any 52 week period. Program monies may be used to acquire and rehabilitate multiunit residences designed for eligible persons to provide a lower cost of care. Units used to house program recipients must conform with the HUD's Minimum Property Standards.

The City and County of Denver (City) began receiving Housing Opportunity Program funding from HUD in 1992. Since that time the City received a total of \$6.73 million through the end of 1998. Disbursements for Housing Opportunity Program for rental assistance total approximately \$2.46 million while the housing development disbursements for Program's community residences total about \$3.59 million as of November 1998.

HUD's Housing Opportunity Program grant funds furnished to the City were awarded to project sponsors who were responsible for administering their particular segment of the Program. The City and project sponsors often combined other HUD and Federal monies with local and private funding to finance the activities by the project sponsors. Most of these monies were used to acquire and/or rehabilitation multifamily structures for use by eligible program recipients. In addition to the Housing Opportunity Program monies, HUD funds from the HUD Rental Assistance, HOME, and Community Development Block Grant Programs were used. Also, HUD Section 8 Rental Assistance Program funds were provided to some program recipients.

Our Office received two complaints alleging that the City of Denver's Housing Opportunity Program:

- Overcharged tenant rents (rents in excess of 30% of adjusted income).
- Allowed tenants to move-into units that were not clean and in good repair.
- Did not ensure that Housing Opportunity Program and HOME funds were properly used to rehabilitate properties.
- Performed deficient monitoring of the programs and subgrantees.
- Did not ensure that property values were not inflated before awarding Housing Opportunity Program or HOME funding.

We did consider the complaints in our planning for the audit and developing audit objectives.

Audit objectives and methodology

The objectives of the audit were to determine if the City and County of Denver ensured that:

- Project sponsors admit only eligible tenants and charge appropriate tenant rents according to the Housing Opportunity Program requirements including maximum allowable rents.
- Project sponsors expended HUD funds for only eligible program activities.
- Project sponsors complete rehabilitation of facilities prior to tenants moving into the units.
- Projects sponsors maintain the dwelling units in a safe and sanitary condition.
- Project income is appropriately accounted for and used for project related expenses.
- Project sponsors, their officials and/or owners do not have a conflict of interest in the funded activities.

We originally planned to audit the Housing Opportunity Program funding; however, due to the overlapping of grant monies from the various other HUD Programs grants, we had to take into consideration the various restrictions of these various HUD grant programs. When a project receives multiple funding, the most restrictive program criteria applies.

During the audit, we examined accounting records and other pertinent Housing Opportunity Program documents from the City and County of Denver and the project sponsors regarding the nine selected entities. We also conducted interviews with managers and employees of these organizations.

The City provided us a budget schedule of funded projects from 1992 to 1998. The scheduled listed eight rental assistance projects and twenty housing developments funded with Housing Opportunity Program funds. We judgmentally selected the largest rental assistance program for review. This program, The Colorado AIDS Project, received about \$1,018,103 from 1992 through 1997.

In addition, we selected the two project sponsors identified in the complaint. Each project sponsor had three projects. We also judgmentally selected two additional project sponsors.

Scope

Our audit generally covered the period January 1, 1992 through September 30, 1998, and was extended as necessary to fully accomplish our objectives. We performed our field work from November 1998 through May 1999. After the completion of field work, we discussed our tentative findings with City Officials. Subsequently, City officials began taking actions to address issues identified in this report. We have incorporated those actions, as appropriate, in this report.

Generally Accepted
Government Auditing
Standards

We conducted the audit in accordance with generally accepted government auditing standards.

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Findings

Finding 1

Improvement Needed in the City's Oversight and Monitoring of HUD Program Activities

The City needs to improve its oversight and monitoring of its HUD funded projects to ensure that project sponsors carry out their project activities in conformity with the applicable HUD requirements. This is particularly true since many of the sponsors acquired and/or rehabilitated projects using more than one HUD funded programs. Accordingly, units within each project may be controlled by different HUD program requirements. Our review of seven judgmentally selected projects identified that the program sponsors were not fully complying with the appropriate HUD funding program requirements. Improved City oversight and monitoring is needed, if the City and HUD are to have assurances that Federally funded projects are being properly administered. In the past, the City relied primarily upon the project sponsors to ensure compliance with specific HUD program requirements. Also the City monitoring has been through informal contact with project sponsors.

City and project sponsors are to comply with HUD program requirements

Our review focused primarily on the City and County of Denver's implementation of the Housing Opportunity for Persons With AIDS program. This is one of several HUD programs and projects that the City and County of Denver administers. The City uses a combination of several Federal, local and private funding to implement and carryout its various housing projects and programs.

The primary HUD programs consist of the Housing Opportunity for Persons with AIDS, HOME, Rental Rehabilitation, Community Development Block Grant, and HUD housing subsidies. The implementation and administration of these HUD programs by the City is for the most part passed on to various project sponsors and subgrantees. These sponsors and subgrantees are to carryout their particular projects and programs in conformity with the terms of the contract with the City. In addition, they are obligated to ensure that the particular HUD program requirements are followed. In like manner, the City has the overall responsibility for ensuring that the Federal requirements for the various HUD programs and projects are met.

The City's responsibility is defined in Section 85.40 of Title 24, of the Code of Federal Regulations. The City as grantee for the HUD funds is obligated to properly manage the day-to-day operations of HUD grant and subgrant supported activities. The City must monitor these supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. City monitoring must cover each program, function or activity.

Seven projects reviewed were not fully complying with HUD requirements

We reviewed seven projects that had received funding under the Housing Opportunities for Persons with AIDS program. Our review was directed at evaluating whether the sponsors were administering their projects in accordance with HUD program requirements.

We found several areas whereby the project sponsors were not carrying out their portions of the City's program in accordance with HUD requirements. The main areas of noncompliance include the following four areas:

Project sponsors charged excess contract rents

- Four of the seven project sponsors received contract rents in excess of the agreement with the City or other source of assistance. As a result, program participants, other programs, and/or HUD pay excessive rent. The City did not have procedures to ensure that project sponsors charged appropriate contact rents. (Finding 2)

Colorado AIDS Project improperly administering HUD program funds

- The Colorado AIDS Project staff did not always document the eligibility of the participants, their need for rental assistance, or ensure that landlords received the rental payment. In addition, the Colorado AIDS Project provided rental assistance for a longer period than allowed by the regulation. As a result, neither HUD nor the City can be assured that assistance went to eligible participants. From our sample of 74 case files reviewed out of a total of 948, at least \$37,857 was paid for ineligible rental assistance. The Colorado AIDS Project did not implement procedures to ensure that rental assistance was paid to only eligible persons. In addition, the City amended their agreement with the Colorado AIDS Project allowing for excessive rental payments. (Finding 3)

Questionable use of \$80,330 HUD funds to refinance an existing project acquisition debt

- A project sponsor used Housing Opportunity for Persons with AIDS and/or Rental Rehabilitation program funds for refinancing of existing acquisition debt, which is not authorized in the HUD regulations. As a result, these HUD program monies totaling \$80,330 were used for a questionable activity. A City official considered the refinancing as an eligible HUD funded activity. (Finding 4)

Project did not meet HUD Housing Quality Standards

One of the seven projects inspected failed to meet the HUD Housing Quality Standards. Consequently, tenants were exposed to safety, security and health hazards. The City did not perform a Housing Quality Standard inspection of the project after the rehabilitation work was completed. Subsequent to the rehabilitation, the City did not routinely perform Housing Quality Inspections of the projects even though the projects must meet and conform with the requirements for a 20-year commitment period. (Finding 5)

In addition to these areas, we noted several other instances whereby the project sponsors were not fully complying with the HUD requirements of the Housing Opportunity for Persons with AIDS program. These involve:

- Delays in rehabilitation of an acquired project by a project sponsor,
- Under utilized vacant program units,
- Units and related funding of specific HUD funded programs not clearly identified, and
- Questionable use of commercial rental income.

These are discussed in the following sections.

After 2 years, project rehabilitation has not started

Delays in Project Rehabilitation A project sponsor acquired the Gates property on April 15, 1997, for \$525,431. The project sponsor planned to rehabilitate the property into 14 studio apartments. The project sponsor agreed in their March 31, 1997 loan agreement with the City, that it had 19 months from the date of the note to obtain financing to enable the redevelopment of the property. However, the City, when it provided \$485,000 for the acquisition of the property, expected that by November 1, 1998 the property would be rehabilitated and ready for occupancy.

As of January 1, 1999, the project sponsor had raised about \$1,934,531 of the estimated \$2,277,727 needed for rehabilitation. The project sponsor had not started the rehabilitation as of March 3, 1999 and was still short about \$343,196 for the rehabilitation.

As a result, over two years have elapsed since the City provided the \$485,000 funding for acquisition and the project is not ready to house any program eligible recipients.

Program units vacant due to lack of eligible applicants

Under Utilized Vacant Program Units Our physical inspection of seven projects, comprising of a total of 30 units allotted for Housing Opportunity for Persons with AIDS program, identified that five projects had a total of 5 vacant units. All the vacant units, with the exception of one which needed to be cleaned, were ready for occupancy by eligible program recipients. However, the

project sponsors advised us that they did not have any eligible applicants available to move in to these units. As a result, the units were not being utilized.

The City did not have procedures to ensure vacant units were being utilized and rented in a timely manner. The responsibility for leasing vacant program units rests with the project sponsors

Specific program funding and related units not clearly identified.

Specific Program Funding and Related Units Unclear The City combined funding from various HUD and local sources to finance the acquisition and rehabilitation of its various housing projects. The amount of HUD funding by a specific program determines the number of units within a project that are assigned and applicable to that particular HUD program. The leasing of the assigned units within a project is governed by the program requirements and regulations of the specific funding program. Under a contract with the City, the project sponsor is to maintain the established number of units in the project for a particular program for a 20-year period.

Our review noted that the project sponsors do not routinely identify which dwelling units are assigned to and applicable to specific HUD programs. The only method to identify a specifically assigned unit is to question the project sponsor. Without knowing what project dwelling units relate to a particular HUD, the City is limited in being able to ensure that the project sponsor is properly administering the appropriate HUD requirements.

City did not restrict the use of commercial rent from a project

Unrestricted Use of Commercial Rental Income One of the seven projects inspected contained rented commercial space. The restrictions placed upon the project by the City under its contract with the project sponsor do not address how a project sponsor can use the rental income generated by commercial space rehabilitated. The project was acquired and rehabilitated using HUD Housing Opportunity for Persons with AIDS program, HUD HOME program monies and Low Income Housing Tax Credits. The HUD regulations for these two programs do not discuss how monies generated from rehabilitated commercial space may be used.

The project sponsor current rental income from the commercial space amounts to \$4,392 per month or \$52,704 annually. The rental amount does not include one commercial space that is vacant.

Therefore, specific guidance from HUD is needed to determine if the commercial rents is program income and how the commercial rental income can be used.

Neither HUD or the City knew if project sponsors complied with program requirements

Our review of seven selected HUD funded projects shows key areas where HUD requirements have not been followed by the project sponsors or the use of HUD program generated revenue may not be properly used. As a result, the program monies may not be used for the intended purposes. The need for compliance becomes more significant since the project sponsors are obligated by contract with the City to operate the projects in accordance with HUD and City requirements for twenty years.

City relies on project sponsors for program compliance

City officials advised that they relied on the project sponsors to comply with the appropriate requirements. In addition, the City generally performed monitoring through informal contact with its program sponsors or through meetings, correspondence, and day-to-day management. The official advised that the City monitors programs individually, and does not consider the multiple funding sources when monitoring a project or its sponsor. The City's management information system did not provide easily accessible information on the projects funding sources and related program requirements.

City official advised that in the past they relied on HUD's on-site reviews to identify weakness in their monitoring activities. Since, HUD reduced its monitoring activity, they must now rely on HUD's technical assistance for specific questions.

The City initiated corrective actions

City officials also advised that they were in the process of updating their monitoring procedures. According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our on-site review. Specifically:

- The Agency hired a consultant to integrate its various data bases and set up a monitoring module to ensure programs and projects receive appropriate monitoring.
- The delayed project has received the additional funding and should be in operation by the end calendar year 2000.
- The City is taking action to ensure the commercial rents from the project are being used for that project and not other projects.

With the implementation of improved, more comprehensive City monitoring of its project sponsors, the City will be better able to ensure that its HUD program grants are being used utilized and that its program sponsors are fully complying with the applicable HUD program requirements as well as with the City's contract provisions.

Auditee Comments

The City Community Development Agency Director's written comments reiterated the comments above. The Director also

noted that additional outreach is being performed to market vacant units.

The Director disagreed that the commercial rents should be included as program income under Federal regulations. Furthermore, the Director advised that the income from the commercial units is not net profit, but rather income that is used to pay off debt related to improvements made to the commercial portion of the building.

We disagree with the Director position. As stated above, specific guidance from HUD is needed to determine if the commercial rents is program income and how the commercial rental income can be used. The project sponsors have a twenty year commitment with the City to operate the project. We want HUD and the City to ensure that the revenues generated, as a direct result of Federal assistance, to this project are used for the benefit of the project.

Recommendations

We recommend that the Rocky Mountain Office of Community Planning and Development:

1A. Require the City:

- Improve its oversight procedures and monitoring system of its subgrantees that will include evaluating projects based on the combined HUD programs' restrictions;
- Implement procedures for identifying specifically assigned units within its projects that are applicable to the particular HUD program funding and for the prompt leasing of under utilized units within its projects to appropriate program eligible tenants.
- Provide appropriate guidance and assistance to the project sponsor of the Gates property for the prompt rehabilitation and leasing of the project.

1B. Make a determination whether the commercial rents generated by a project is program income, and if so, provide instructions to the City on the correct use of rental revenues received from the leasing of HUD program acquired and/or rehabilitated commercial space.

Recommendations relating to Findings 2 through 5 are listed with their respective finding.

Finding 2

Project Sponsors Charged Excess Contract Rents

Four of the seven project sponsors reviewed charged contract rents in excess of the agreement with the City and County of Denver (City) or other source of assistance. As a result, participants, HUD and other programs pay excessive rent. The overcharging of contract rents stemmed primarily from the project sponsors not being fully knowledgeable of the various requirements and restrictions applicable to the various funding sources or contract restrictions applicable to their particular projects. In addition, the City has not had effective monitoring procedures to ensure that project sponsors charged appropriate contact rents.

Various funds sources used for City's housing projects

In carrying out the City's housing programs, the City combines funds from various Federal, local, and private sources to acquire, rehabilitate and/or operate its housing programs. The Federal sources included various HUD programs and the Resolution Trust Corporation. The HUD programs providing monies include the Housing Opportunity for Persons with AIDS program, Rental Rehabilitation program, HOME program, Community Development Block Grant program, the Shelter Care Plus Program and Low Income Housing Tax Credits.

In the development or establishment of the various multifamily housing projects, the City combines funds from the various sources available. Because of the layering of funds, certain number of units within a project are often designated as being specifically applicable to the particular program that provided the funding. The Federal requirements applicable to the Federal program providing the monies would apply to the designated housing units.

For example, a multifamily project consisting of six dwelling units could be acquired and rehabilitated using both Housing Opportunity for Persons with AIDS program and Rental Rehabilitation program monies. Two units might be applicable to the Housing Opportunity for Persons with AIDS and the remaining four units would be applicable to the Rental Rehabilitation program. The Federal regulations for each program would govern the administration and operation of their designated units.

Charging of contract rents reviewed at seven projects

As part of our review, we examined the contract rent being charged to tenants during February 1999 in seven judgmentally selected projects. Contract rents are the monthly rental charges assessed by the project sponsor against its housing tenants. We noted that for four of the seven projects reviewed, some tenants were being charged excessive contract rents.

Contract rents vary by funding source or contract

The monthly contract rent that can be charged a tenant is dependent upon the regulations governing the particular program used for the designated units in the projects. For our test month of February 1999, the amount of contract rents could range from \$478 to \$835. These maximum monthly contract rent charges are summarized by type of Federal program:

- \$478 for the HUD programs consisting of the Housing Opportunity for Persons with AIDS, Rental Rehabilitation program, HOME Program, and Shelter Care Plus program;
- \$538 for projects purchased from the Resolution Trust Corporation; and
- \$835 for projects financed with Low Income Housing Tax Credits under Internal Revenue Service requirements.

In addition, the City often specified in their contracts with the various project sponsors that the contract rents were not to exceed certain stated amounts. For two of the projects we reviewed, the City contract set maximum rents of \$176 and \$293.

Overcharging of contract rents by project sponsors

Of the seven projects we reviewed, four of the projects sponsors were charging in February 1999 monthly contract rents to its tenants and that in some cases exceeded the maximum rents allowed by the particular funding program or set by contract with the City. These four were the Jersey Street, California Street, Logan Street and Corona Street projects.

The overcharges for these four are discussed in the following sections.

The Jersey Street project sponsors charged excessive rents

Jersey Street Project The Jersey Street Apartments received \$167,273 in HUD HOME funds and \$80,000 in HUD Housing Opportunity for Persons with AIDS program funds from the City. The HOME funds specify that two of the six units in the project are to remain affordable to low income families. The Housing Opportunity for Persons with AIDS program provisions stipulate that the remaining four units must remain affordable to low income persons eligible under the Housing Opportunity for Persons with AIDS program. Under HUD program provisions, the maximum monthly contract rent that could be charged in February 1999 could only be \$478.

However, the Jersey Street project sponsor signed an agreement with the City limiting rent on all units at the project. The agreement specifies initial contract rent to begin at \$150 a month with annual increases amounting to no more than the annual percentage increase in the Fair Market Rent for Section 8 Housing in the area. Using the percentage rate increase for each year, the contract rents in February 1999 for the project should have been no more than \$176 per month.

However, the contract rents charged to the project tenants exceed the maximum allowed of \$176 on four of the six units. The contact rents charged on the four units ranged from \$198 to \$460. This resulted in the project sponsor being overpaid in total by approximately \$754 a month. The remaining two units were vacant during February 1999.

In addition, two of the tenants receive rental assistance from HUD's Shelter Care Plus Program. The excess rent charges resulted in the Shelter Care Plus Program being charged an overpayment of \$289 per month.

The California Street project sponsor received excessive rents

California Street Project The California project received \$94,921 in Housing Opportunity for Persons with AIDS, \$59,871 in Rental Rehabilitation and \$30,388 in Community Development Block Grant program funds from the City. The City's agreement with the project sponsor stipulates that four of the five units must remain available for persons eligible under the Housing Opportunity for Persons with AIDS program.

Also for this project, the project sponsors signed an agreement with the City limiting rent amounts. Specifically, the agreement specifies rent for the one bedroom units to begin at \$250 per month and the three bedrooms to start at \$375 per month as of April 1994. Allowable increases in these rents are to be restricted to the annual rate of increase in the Section 8 Fair Market Rents. Therefore, rents for our test month of February 1999 were not to exceed \$293 for the one bedroom units and \$439 for the 3 bedroom units.

The California Street Project contact rent assessed to its tenants in February 1999 for the one bedroom units range from \$350 to \$470 per month and the rent for the three bedroom units were \$833 per month. These monthly contract rents exceeded the maximum of \$293 and \$439 for the one bedroom and three bedroom units respectively. As a result, the project sponsor was overpaid approximately \$1,238 for February 1999.

Moreover, four of the tenants receive rental assistance from other HUD programs. Three received rental assistance under HUD's

Section 8 Housing Assistants Program. Since the monthly contract rent was too high, the amount of overpayment in Section 8 program assistance to the project for the three tenants was \$1,111 for February 1999. A fourth tenant was receiving rental assistance under the HUD Shelter Care Plus program. Again since the monthly contract rent was too high, the amount of overpayment in rental assistance to the project for the tenant was \$127 for February 1999. The combined overpayments in HUD rental assistance totaled \$1,238 for the month.

Logan Street project sponsor charged excessive contract rents

Logan Street Project The Logan Street project received \$121,000 in HUD Housing Opportunity for Persons with AIDS and \$115,000 in HUD HOME funds from the City. The project sponsor purchased the Logan Street property from the Resolution Trust Corporation. As a result, the Resolution Trust Corporation maximum contract rents applied to the Logan units.

All of the contract rents for the Logan Apartment building fall within the limitations, with the exception of the 2 bedroom unit . The two bedroom unit cannot be assessed a monthly rent charge of more than \$604. However, our review of rent charges for February 1999 showed the project sponsor was charging \$614 for the two bedroom unit. The tenant is paying an excess of \$10 per month.

The Corona Street project sponsor charged excessive rents

Corona Street Project The Corona Street property received \$120,130 in HUD Housing Opportunity for Persons with AIDS funding from the City. The City's agreement with the project sponsor stipulates that ten of the nineteen units in the project are to remain available for persons eligible under this program. In addition, the project sponsor purchased the project from the Resolution Trust Corporation. Therefore, the contact rents for all the units may not exceed the restriction imposed by the Resolution Trust Corporation.

Five of the two bedroom units, that were designated for the Housing Opportunity for Persons with AIDS program, were charged in our test month of February 1999, more that the \$604 limit stated in the Resolution Trust Corporations requirements. These overcharges range from \$1 to \$37 per month. In total, the overcharges amount to \$80 per month.

Since the tenants were receiving rental assistance provided by the HUD Section 8 Housing Assistance Program, the overcharge in rental contract amount resulted in excess assistance payments being paid by HUD.

Excessive contract rents for project reviewed totaled about \$24,984 annually

In summary for February 1999, City housing program participants, as well as HUD and other programs, paid excessive amounts for contract rents to project sponsors. These overcharges ranged from one dollar to \$540 a unit per month. We estimated that the overcharges at these four projects for February 1999 totaled about \$2,082 or \$24,984 annually.

Project Sponsors not fully aware of restrictions on project contract rents

The overcharging of contract rents by some of the project sponsors stems from one basic cause. The project sponsors in many instances do not fully understand the various program requirements and restrictions required by the various funding source programs applicable to their particular project. Instead of using the applicable rental charge based upon the funding source program applicable to their designated units, the project sponsors have established monthly rental charges to its tenants on amounts that were based upon fair market rents. At one project, the project sponsor was not aware of the rent restriction specified in the City's contract with the project sponsor.

City relies upon project sponsors to comply with contract rent provisions

The City also relied upon the various project sponsors to charge the proper monthly rent to its housing tenants. No established procedures has been formulated by the City to perform any comprehensive reviews or evaluations of the rental activities by the sponsors to ensure that the applicable Federal program or City requirements are being met. City officials stated that reviews have been conducted at some projects but the reviews were based solely upon an individual program rather than a review applicable to all funding sources for the project.

We noted that the records maintained by the City do not readily identify the various funding sources that were used for each of the funded projects. Without this information, the City is hampered in identifying the various program requirements and restrictions that are applicable to its housing projects and to the various designated units within the particular projects.

The City initiated corrective actions

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our on-site review. Specifically, the City is in the process of working with the various project sponsors to ensure that appropriate rents are charged based on the various funding sources for the projects.

Auditee Comments

The City Community Development Agency Director's written comments, reiterated the comments above. The Director also noted that the Community Development Agency has moved forward to establish a fully staffed monitoring section within the existing compliance department. Monitoring staff will be responsible for performing annual site visits to review source file data for all organizations receiving funding from the agency.

The Director disagreed with our rent computation related to the Resolution Trust low-income rents for a two-bedroom unit in February, 1999. Specifically, the rents could be as high as \$637 rather than the \$604, we identified, according to Colorado Housing Finance Association records available at the management agent.

We obtained our rent schedules directly from the Colorado Housing Finance Association. The identified disagreement clearly reiterates our position and recommendations. Specifically, that HUD and the City provide instructions and directions to the project sponsors as to the correct contract rent to be assessed for its various dwelling units based upon the various funding sources used for the particular projects and requirements for the particular funding

Recommendations

We recommend that the Rocky Mountain Office of Community Planning and Development require the City and County of Denver:

- 2A. Provide instruction and direction to each of its project sponsors as to the correct contract rent to be assessed for its various dwelling units based upon the various funding sources used for the particular projects and requirements for the particular funding sources.
- 2B. Require the project sponsors to review their assessment of contract rents of all their tenants to determine if the proper contract rent has been assessed and to make any adjustments accordingly.
- 2C. Review the action taken by the various project sponsors under recommendation 2B to ensure that the appropriate corrective action has been taken.
- 2D. Establish and implement an effective monitoring system for reviewing the assessment of contract rents by the project sponsors to ensure that the appropriate program requirements are being followed.

Finding 3

Colorado Aids Project Improperly Administering HUD Program Funds

Since May 1993, the City and County of Denver has provided to the Colorado AIDS Project approximately \$1.018 million in funds under the HUD Housing Opportunity for Persons with AIDS (hereinafter referred to the Housing Opportunity Program). At least \$862,935 of this total was used to provide rental or mortgage assistance to 948 recipients. However, the Colorado AIDS Project has not properly implemented the program in conformity with HUD requirements.

More specifically, the Colorado AIDS Project did not always document the eligibility of the program participants, identify and support the need for rental or mortgage assistance, nor ensure that landlords received the assistance payments. As a result, neither HUD nor the City have assurances that assistance was paid to eligible participants. In addition, the Colorado AIDS Project provided rental assistance in excess of the 21-week maximum period a year specified by HUD regulation. Based upon our case review sample of 74 out of the 948 recipients receiving assistance, at least \$37,857 was paid for ineligible assistance.

The Colorado AIDS Project failed to establish proper procedures to ensure that assistance payments were made only in conformity with HUD requirements. Also, the Project did not correctly verify and document the eligibility of the program recipients. Therefore, questionable or ineligible payments were made.

The City's monitoring of the project also did not ensure that the Colorado AIDS Project provided assistance to only eligible persons and that the assistance went for rental or mortgage payments. Moreover, the City of Denver amended their agreement with the Colorado AIDS Project that allowed for ineligible excessive assistance payments.

Housing Opportunity Program funds can be used for rental or mortgage assistance

The HUD Housing Opportunity for Persons with AIDS Program (hereinafter referred to the Housing Opportunity Program) provides monies to be used to assist eligible persons with housing assistance, including supportive services, that are designed to prevent homelessness. Eligible people are low income persons that also are medically diagnosed with the Acquired Immunodeficiency Syndrome (AIDS) or infected with the Human Immunodeficiency Virus (HIV).

Housing assistance of \$862,935 has been provided to 948 persons

During the period May 1993 through May 1997, the City of Denver awarded about \$1.018 million in Housing Opportunity Program funds to the Colorado AIDS Project. The Colorado AIDS Project is a non-profit organization that provides support and financial assistance to those that are medically qualified.

The Colorado AIDS Project has used a portion of the funds to provide for salaries and overhead costs but the majority was used for rental and mortgage assistance. Specifically, at least \$862,935 of the \$1.018 million, or about 84 percent, was used to provide rental and mortgage assistance to 948 people during the period January 1995 through November 1998.

Program assistance must meet specific requirements

In carrying out the HUD Housing Opportunity Program, the Colorado AIDS Project is obligated to follow the HUD program requirements set out in Section 574 of Title 24 of the Code of Federal Regulations. Some key provisions to be followed by the Colorado AIDS Project are:

- Total family income is to be used as the basis for determining rental or mortgage assistance;
- Program recipients are to be in need of the specific rental or mortgage assistance;
- Assistance is not to be in excess of HUD contract or regulatory limits;
- Compensation is to be used solely for rental or mortgage assistance; and
- Program recipients are not permitted to receive duplicate or excessive Federal assistance from other program or activity.

The Colorado AIDS Project established written policies or procedures for administering its various programs. These are outlined in their Case Managers Handbook. The handbook provides guidance to case managers when determining the eligibility for assistance and the limits for such assistance.

We reviewed program eligibility for 74 participants

We wanted to know if the 948 people assisted with Housing Opportunity Program funds were eligible and received payments according to HUD and the Colorado AIDS Project requirements. Therefore, we tested a judgmental sample of 74 of the 948 or about 7.8 percent of the assistance provided to these people.

Our review identified that the Colorado AIDS Project could not support rental and mortgage assistance payments were paid to individuals that:

- Were income ineligible,
- Were in need of rental or mortgage assistance,
- Were not in excess of the HUD's regulatory limits,

- Used the payments for rental or mortgage assistance, and
- Were not already receiving Housing Opportunity Program or other rental or mortgage assistance.

In addition, we identified that the Colorado AIDS Project case managers did not always follow their guidance and that the guidance did not always comply with HUD's requirements.

These areas are discussed in the following sections.

The family must qualify as low income

Questionable Income Eligibility HUD regulation at Section 574.3 of Title 24 of the Code of Federal Regulations requires that Housing Opportunity Program assisted person's and their family must qualify as low income. Specifically, HUD defines a low income family as any individual or family whose annual incomes do not exceed 80% of the median income for the area. HUD further defines family as a household composed of two or more related persons. Family also includes one or more eligible people living with another person or persons who are determined to be important to their care or well being.

Colorado AIDS Project Case Manager Handbook states that the participant's monthly income will be established by taking into account the total household income from disability, employment, and other sources. The handbook also states that if the participant has a roommate the income of both may be considered.

Sixty-six of 74 case files did not identify income from other family members

Our review of 74 files identified that the Colorado AIDS Project calculates a client's income based on verification of wages, social security income, etc., for the individual alone. We identified that only 8 of the 74 participant files contained documentation of appropriate family income .

For the remaining 66 recipients, the participant files contained information which identified other family members living with the participant, but no documentation as to their income or why, under HUD regulations or the Project's own procedures, their income should or could be excluded. As a result, the Colorado AIDS Project is unable to show the appropriate monthly income for 66 of the 74 participants sampled.

Participants must pay a portion of the rent or mortgage payment

Need for Rental or Mortgage Assistance Unsupported HUD requires under Section 310(d) of Title 24 of the Code of Federal Regulations that the participant pay a portion of the monthly rent or mortgage payment. Specifically, each person receiving assistance must pay, including utilities, an amount which is the higher of:

- Thirty percent of the family's monthly adjusted income described in detail in Title 24, Section 813.102 of the Code of Federal Regulations;
- Ten percent of the family's monthly gross income; or
- If the family is receiving payments for welfare assistance, from a public agency, the portion of the payments that is designated for housing costs.
- The Colorado AIDS Project Case Managers Handbook provided that Housing Opportunity Program funds will make up the difference between 30 percent of the families adjusted monthly income and the total monthly rental or mortgage payment. The handbook did not include HUD's specific requirements for paying the higher of the three methods listed above.

Participant's portion of rent or mortgage payment could not be determined

Due to the lack of family income information, The Colorado AIDS Project could not calculate the appropriate portion of the rental payment for 66 of the 74 participants reviewed. Therefore, the Project could not determine if the 66 participants were paying the correct housing payments.

Monthly rental/mortgage assistance is limited

Possible HUD Limits Exceeded Under Section 574.320 of Title 24 of the Code of Federal Regulations, HUD requires monthly assistance for an eligible person may not exceed the difference between the lower of the rent standard or reasonable rent for the unit and shall be no more than the published Section 8 Fair Market Rent or the HUD-approved community-wide exception rent, adjusted for the unit size. Also, the rent charged for a unit must be reasonable in relation to rents currently being charged for comparable units in the private unassisted market and must not be in excess of rents currently being charged by the owner for comparable unassisted units.

Colorado AIDS project established a maximum monthly assistance of \$400 per month. The handbook does not provide for assistance limited by the Fair Market Rents nor is the assistance adjusted for bedroom size.

Assistance may exceed HUD's limit

Our review disclosed that 24 of the 74 files reviewed contained no rental or mortgage agreement. Therefore, we could not determine the appropriate contact rent or mortgage payment. A Colorado AIDS Project official advised that they recently changed their policy to require a copy of the agreement in the files. Prior to this policy the case manager just need to see the agreement.

As a result, we could not determine, for 24 participants, if the actual contact rent or mortgage payment exceeded allowable ceiling of the Fair Market Rent, based on bedroom size. Moreover,

we could not determine if the actual assistance provided by the Colorado AIDS Project exceeded HUD's limit.

Housing Opportunity Program funds can be used for rental/mortgage assistance

Possible Rental or Mortgage Payments Used for Other Purposes HUD requires under Section 574.310(a)(2) of Title 24 of the Code of Federal Regulations that the grantee shall ensure that grant funds will not be used to make payments for health services for any item or program.

The Colorado AIDS Project Case Managers Handbook also states that any financial assistance provided will be paid directly to the landlord or vendor.

Housing Opportunity Program payments may be used for questionable purpose

For our sample of 74 participants, the Colorado AIDS Project issued 528 checks totaling \$158,575. We reviewed the 528 canceled checks to determine if the payee and endorser agreed. For 13 of the 528 checks having a total of \$3,679, we identified that the payee of the check did not agree with the endorser of the check. For example, one check was endorsed to a hair salon. Accordingly, the Colorado AIDS Project's rental or mortgage payments may be used for some other unauthorized purpose.

The Colorado AIDS Project management advised that they routinely give the check to the participants for delivery to the landlords and assume that the checks were given to the landlords. Under this procedure, the Colorado AIDS Project has no assurance the payments are being used solely for their intended purpose.

HUD limits the number of monthly assistance payments

Assistance Period of Only 21 Weeks a Year Exceeded Under HUD program requirements set out in Section 574.330(a) of Title 24 of the Code of Federal Regulations, rental and mortgage assistance is only to be provided to eligible program recipients for no more than 21 weeks in any 52 week period.

The Colorado AIDS Project Case Managers Handbook provides that a participant can receive no more than six monthly rental assistance payments in their Colorado Aids Project Housing Opportunity Program year. A Colorado AIDS Project official advised that their program year started the first month a person received assistance.

In addition, the City of Denver amended their agreement with the Colorado AIDS Project to change the allowed rental assistance from 21 weeks to 26 weeks a year. This change exceeds the maximum assistance allowed by HUD regulations. Neither the Colorado AIDS Project nor the City officials could explain why the change was made nor who authorized the change.

HUD limits the number of monthly assistance payments

For our sample of 74 participants, rental payments beginning in 1995 were examined to determine if the Colorado AIDS Project exceed the HUD limit of no more than 21 weeks of assistance in any 52 week period. We identified that 36 of the 74 sample, or 48 percent, of the participants received payments that exceeded the 21 week limit. The number of overpayments received by participants ranged from 1 to 8. In total, we identified 108 overpayments disbursed and these overpayments ranged from \$166 to \$3,200 per participant.

As a result, the Colorado AIDS Project provided at least \$34,178.23 in ineligible rental and mortgage assistance to 36 participants.

Recipients are not to receive duplicate program assistance

Duplicate Assistance Provided Participants As stated above, HUD requires that the participant pay a portion of their monthly rental or mortgage payment. Therefore, the participants should not receive duplicate assistance from any program or from more than one HUD program.

The Colorado AIDS Project Case Managers Handbook states that Housing Opportunity Program funds will not pay Section 8 payments or any subsidized housing.

Some participants received duplicate assistance benefits

We reviewed the rent rolls obtained during our review of selected Housing Opportunity Program projects and compared the names and vendors to the Colorado AIDS Project program recipients. We identified one Housing Opportunity Program assisted rental project where three participants were only required to pay 30 percent of income in rent, but also received rental assistance from the Colorado AIDS Project for the full contract rent. Therefore, these three participants received assistance from two sources under the same program. Moreover, their excessive assistance exceeded the participants' required monthly rental payment.

As a result, the Colorado AIDS Project provided participants with rental assistance, when the participant were already receiving Housing Opportunity Program funding.

Neither HUD or the City assured Colorado AIDS Project provided appropriate assistance

Due to these deficiencies, neither HUD nor the City of Denver can be sure that the Colorado AIDS Project provided rental assistance payments to persons that:

- Were income ineligible,
- Were in need of rental or mortgage assistance,
- Were not in excess of the HUD limits,
- Used the payments for rental assistance, and
- Were not already receiving Housing Opportunity Program assistance or other rental assistance.

Colorado AIDS Project provided at least \$37,857 of ineligible assistance

Moreover, we identified that the Colorado AIDS Project provided at least \$37,857 in ineligible Housing Opportunity Program payments, because the payments exceeded the 21 week limit in a 52 week period or the checks were not cashed by the payee.

Proper verification and administrative procedures not followed

These deficiencies were caused from four basic problems. First, the Colorado AIDS Project failed to implement procedures to ensure that the requirements of the HUD Housing Opportunity Program were properly established and implemented. Second, the Case Managers Handbook, that is followed by the case managers in determining the eligibility and administer the program, contained provisions that were contrary to the HUD program requirements. Third, the contract between the City and the Colorado AIDS Project specified program provisions to be followed that exceeded the HUD requirements. The fourth cause is the Colorado AIDS Project did not properly verify and document the program eligibility of the recipients.

Without proper controls and administrative procedures, the Colorado AIDS Project has minimal assurance that the program recipients are eligible for the HUD Housing Opportunity Program and that the participants are being paid the correct rental or mortgage assistance.

City did not ensure compliance with HUD requirements

In addition to these four causes, the City's monitoring did not ensure that the Colorado AIDS Project provided assistance to only eligible persons and that the assistance went for rental payments. The City advised that they routinely monitored the Colorado AIDS Project. However, the City's monitoring was not detailed enough to identify the issues we found. The City also advised that they rely on the project sponsor and their annual audit to identify regulatory issues.

The City official also advised that HUD's past monitoring provided a basis to identify program weakness. However, HUD does not routinely monitor the program and no system has been implemented to identify regulatory concerns in the program execution.

Furthermore, the City's agreement with the Colorado AIDS Project allowed for the excess payments. A City official advised that they did not adequately review the agreement to ensure that it complied with HUD's requirements.

The City began a regular review of the Colorado AIDS Project

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our site review. Specifically, the City's Community Development Agency implemented a regular review of the Colorado AIDS project to ensure compliance with HUD's and the City's requirements.

Auditee Comments

The City Community Development Agency Director's written comments reiterated the comments above. The Director also noted that the Colorado AIDS Project is making every effort to determine income and to identify family members. The subject population tends to be quite transient and individuals do not always have a steady source of income.

The Director also commented that the Colorado AIDS Project staff now keep copies of leases and mortgage statements in clients' files rather than in a separate master file which had previously been the practice and according to Colorado AIDS Project staff, they have always kept copies of leases/mortgage statements on file and would have shown those document to the auditor, but were not questioned about the existence of the documents.

We disagree with the statements from the Colorado AIDS Project. The auditors ask for copies of the leases an or mortgage agreements from the Colorado AIDS staff and were advised that they recently changed their policy to require a copy of the agreement in the files. Prior to this policy the case manager just needed to see the agreement. Moreover, the audit staff meet with the Colorado AIDS Management and staff during and after the completion of field work to discuss our results. At no point in these meeting did the staff of the Colorado AIDS Project advise that additional records were available.

The Director also commented that the participants may have a roommate for one month or one week, live alone for a month and then move in with someone for a month. In other words, they do what they have to do to keep a roof over their head and often times they try to help others who are in the same situation.

We applaud the work of the Colorado AIDS Project and appreciate the difficulty in performing their work. However, as stated in the finding, the assistance provided from Federal funds and under HUD regulations require that eligibility and amount of assistance be based on specific program requirements.

 Recommendations

We recommend that the Rocky Mountain Office of Community Planning and Development have the City:

3A. Require the Colorado AIDS Project to implement proper procedures and controls that will:

- Correctly identify and support the income eligibility of program recipients;
- Correctly calculate the monthly assistance within HUD established requirements;

- Ensure that assistance is actually provided for rental or mortgage payments;
 - Provide assistance for only 21 weeks per year; and
 - Ensure that duplicate assistance is not provided.
- 3B. Require the Colorado AIDS Project to correctly determine the eligibility of its program recipients and adjust the amount of monthly assistance. Any over payments or excess assistance needs to be repaid to the City. This will include the \$37,857 identified and discussed above in the finding.
- 3C. Amend the City's contract with the Colorado AIDS Project to ensure the contract complies with HUD program requirements.
- 3D. Review the revised Colorado AIDS Project procedures after they have been implemented to ensure their program is being carried out in conformity with HUD and City requirements. This would include ensuring that all excess or ineligible assistance is properly determined and refunded to the City.

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Finding 4

Questionable Use of \$80,330 HUD Funds to Refinance an Existing Project Acquisition Debt

A project sponsor used Housing Opportunities for Persons with AIDS and Rental Rehabilitation program funds for refinancing of an existing project acquisition debt, which is not specifically authorized in the applicable HUD funding program regulations. As a result, the use of HUD program funds totaling \$80,330 are questionable as an eligible program cost.

The project sponsor did not specify that HUD monies would be used to refinance an existing debt in its application to the City but that the funds would be used only to acquire and rehabilitate the project. At the time the City approved the sponsor's project application, the project sponsor had already acquired the project. Therefore, the monies were used for purposes not delineated in the City approved application. Nonetheless, City officials considered the refinancing to be an eligible HUD program cost. A determination needs to be made by HUD as to its eligibility.

Monies from several HUD programs used to fund City housing activities

The City and County of Denver uses HUD monies coming from the Housing Opportunities for Persons With AIDS, Rental Rehabilitation Grant and HOME programs to fund some of its housing activities. The City provides the HUD monies to project sponsors who acquire and rehabilitate a project that is used to provide housing for eligible tenants. The conditions and requirements relating to the use of the HUD monies differs somewhat by the HUD program that is involved.

Refinancing of an existing project debt is eligible under the HOME program only

The refinancing of an existing acquisition or rehabilitation debt is not listed as an eligible activity for the Housing Opportunities for Persons with AIDS (hereinafter referred to Housing Opportunity program) program under Section 574.300 of Title 24 of the Code of Federal Regulations, nor the Rental Rehabilitation Grant Program under Section 511.10(f) of Title 24 of the Code of Federal Regulations. However, the HOME program specifically includes the refinancing of debt under Section 92.206 (b) of Title 24. More specifically, the Home program regulations state that the cost to refinance existing debt is an eligible activity, as long as the project is being rehabilitated with HOME funds.

Project sponsor requested funding for Humboldt project acquisition and rehabilitation

A project sponsor submitted an application to the City and County of Denver for the acquisition and rehabilitation of the Humboldt project. The sponsor requested \$82,750 of Housing Opportunity program funds and \$57,770 of HOME funding for the project. The application indicated that only \$62,550 of the \$82,750 Housing Opportunity program monies and all of the \$57,700 of HOME funds would be used for the acquisition of the project.

City approved sponsor's application and provided HUD funding

On May 21, 1996 the City approved the project sponsor's application and awarded the project sponsor with a total of \$159,144 in HUD funds. These funds consisted of \$82,750 in Housing Opportunity program monies and \$76,394 in Rental Rehabilitation funds, rather than the HOME program as set out in the sponsor's application to the City. City officials could not provide any reason as to why Rental Rehabilitation monies were awarded to the sponsor rather than the HOME program funds. The project sponsor signed an agreement with the City for the \$159,144 on July 12, 1996.

In a July 29, 1996 letter to the City, the project sponsor stated the following planned funding sources and uses would be used for the Humboldt project.

FUNDING SOURCE	USE	AMOUNT
Housing Opportunity for Persons With AIDS Funds	Acquisition	\$82,750
Rental Rehabilitation Program Funds	Acquisition	\$33,041
Rental Rehabilitation Program Funds	Construction	\$43,353
Bank Loan	Acquisition	\$50,000
Private Donation	Construction	\$66,400

In August 1996, the project sponsor requested and received all of the \$159,144 in HUD funds.

Sponsor used HUD funds to refinance prior project acquisition debt

Subsequently, in October 1996, the project sponsor used \$80,330 of the \$159,144 HUD funding to refinance a previous \$165,750 bank loan into a new loan of \$85,449.95. The previous loan was used to acquire the Humboldt property on February 7, 1996, some three months prior to the time when the City approved the sponsor's application to only acquire and rehabilitate the property. The documentation relating to the \$80,330 HUD program funds used to refinance the \$165,751 loan was unclear as to the exact amount of Housing Opportunity program and Rental Rehabilitation program funds that were used.

In our discussions with the project sponsor, the sponsor told us that they had planned to repay the bank loan once HUD funds were received. In addition, a loan fact sheet used by the City to evaluate the sponsor's application identified that \$115,791 of the \$159,144 would be used to refinance the acquisition of the Humboldt property. The City official responsible for the approval of the funding advised us that they considered the refinancing an eligible activity for the Housing Opportunity and the Rental Rehabilitation programs.

Use of HUD program funds to refinance an existing acquisition debt is questionable project cost

In our opinion, the use of \$80,330 in HUD funds to refinance an existing acquisition debt is questionable as an eligible program cost because:

- Neither Housing Opportunity program and Rental Rehabilitation program regulations specifically authorized program funds to be used to refinance an existing debt; and
- The application and subsequent correspondence relating to the Humboldt project stated the HUD funds would be used to only acquire and rehabilitate the project.

Had the City provided HOME program funds for the refinancing of the existing debt, the cost would also be questionable since HOME program monies were not used to rehabilitate the property.

In conclusion, a determination needs to be made by HUD as to whether the refinancing of the existing project acquisition debt is eligible under the specific funding program requirements.

Auditee Comments

The City Community Development Agency Director's written comments reiterated that the technically the activity was refinancing. However, it was not to refinance a "seasoned loan" that would allow the borrower to take money away from the table. After funding was approved by the Community Development Agency, a short-term bridge loan from the non-profit's line-of-credit from a local bank was used to purchase the property. This was done to expedite the process because the City funds could not be made available in time to meet the closing date for the purchase. It should be noted that in this housing market, a property can be lost if the buyer does not close on the prescribed closing date. Nearly all properties have several back up contracts. The line-of-credit loan was not a long term loan and if it had been it would have carried an interest rate that would have been so high, the project would not have been financially feasible.

We appreciate the difficulty in acquiring properties for these projects and the related problems with timing the various applications and grant awards. However, as stated in the finding, program monies are not specifically authorized in connection with

the refinancing of the existing acquisition debt. We will await the opinion from the HUD Office of General Counsel to resolve this issue.

Recommendations

We recommend that the Rocky Mountain Office of Community Planning and Development:

- 4A. Obtain a legal opinion from the Office of General Counsel as to the eligibility of refinancing of the existing debt for the Humboldt project with Housing Opportunity for Persons with AIDS program and Rental Rehabilitation program funds;
- 4B. Provide the appropriate instructions and guidance to the City based upon the legal decision. If the legal decision is that program monies cannot be used in connection with the refinancing of the existing acquisition debt, require the City to reimburse the HUD programs from non-Federal funds and to submit the appropriate evidence of repayment to HUD.

Finding 5

Project Did Not Meet Housing Quality Standards

One of seven HUD funded projects we inspected failed to meet the specific HUD and City required Housing Quality Standards. Consequently, tenants and their children were exposed to safety, security and health hazards. The deficiencies in the Housing Quality Standards went undetected since the City did not perform a Housing Quality Standards inspection after completion of the project's rehabilitation. In addition, the City does not perform regularly scheduled inspections to insure the project sponsor continues to maintain the project within the required Housing Quality Standards during the 20 year commitment of the project. Without such inspection procedures, the City has limited assurance the HUD funded projects and their dwelling units meet HUD's required Housing Quality Standards.

The City awarded HUD funds to project sponsors

HUD awarded several program grants to the City and County of Denver to be used in carrying out the City's housing program. HUD grant funds were provided under the HUD Housing Opportunities for Persons With AIDS program, HUD Rental Rehabilitation program and/or HUD HOME program. HUD monies were combined by the City with other non-Federal funds to finance the acquisition and rehabilitation of several housing projects consisting of six or more dwelling units.

The acquisition and rehabilitation of the projects as well as the subsequent operation of the projects are to be performed by independent project owners or sponsors under agreements with the City and County of Denver. These agreements require the project sponsors to operate the projects in conformity with the applicable HUD program requirements for a period of twenty years.

HUD requires that the project meet minimum habitability standards

Under the provisions of the HUD program grants, the acquired and rehabilitated projects as well as their subsequent operation must meet certain Housing Quality Standards. These standards are specified in the applicable program sections of Title 24 of the Code of Federal Regulations. Basically, the Housing Quality Standards require:

- Structures must be structurally sound and pose no hazard to the tenants,
- Project must afford adequate security for tenants and their belongings, and
- Project must be maintained in sanitary condition.

One of seven project did not meet Housing Quality Standards

A City inspector told us that the City uses the Section 8 Housing Quality Standards as the basis for their inspection of project units. In addition, assisted units under the Housing Opportunity for Persons with AIDS program and non-program assisted units must meet their Housing Quality Standards.

We physically inspected seven projects that had been acquired and rehabilitated with HUD program funds for compliance with the required Housing Quality Standards. This involved judgmentally selecting and inspecting forty seven of the seventy-nine units in the seven projects.

We found that six of the projects meet the HUD Housing Quality Standards. However, the seventh project, which is referred to as the Humboldt property, did not meet the standards. We identified the following safety and health hazards relating to the exterior of the Humboldt project:

- A temporary electrical meter and outlets attached to the rear fence and electrical outlets poses an electrical hazard to tenants and the children that played in the enclosed area behind the project.
- Gas meters located on the driveway with no barriers to prevent damage to the gas lines and meters from cars parking in the driveway.
- Garbage and old furniture in the rear area of the building presenting a hazard to tenants and the children that played in the area behind the project.
- Access to the basements of the side units was only covered with a plywood covering, allowing easy entrance to the basement of the unit. Moreover, one tenant complained about being robbed during the day and her family installed an alarm system for the unit.

In addition, our inspection of all six units in the Humboldt property identified the following Housing Quality Standard violations:

- Garbage and building materials were not cleaned out of the basement areas (two units),
- Leaking water heaters (two units),
- Exposed electrical wire (one unit) and
- Cracked and leaking toilet (one unit).

Project sponsor removed the electrical hazard	After our inspection, the project sponsor removed the temporary electrical meter and outlets attached to the rear fence of the property. Thus, the electrical hazard was eliminated.
Tenants unnecessarily exposed to safety, security and health hazards	These deficiencies in the Humboldt project went undetected and uncorrected since the rehabilitation work was completed in August, 1996. The City did not performed any Housing Quality Standards inspections of the project prior to our inspection. As a result, tenants have been unnecessarily exposed to safety, security and health hazards.
HUD funding of \$159,144 for the Humboldt project is questionable	HUD monies totaling \$159,144, comprising of \$82,750 in Housing Opportunities for Persons with AIDS program funds and \$76,394 in Rental Rehabilitation program funds, were used on the acquisition and rehabilitation of the Humboldt property. Since the rehabilitated project failed to meet HUD Housing Quality Standards, the eligibility of the HUD funds is questionable.
Subsequent City inspection found similar Housing Quality Standards violations	Subsequent to our project inspection, the City did perform its first Housing Quality Standards inspection of the Humboldt project on March 15, 1999. The City inspection was performed about two and a half years after the Humboldt project's rehabilitation was completed.
	The City inspector advised us that they also failed the six units in the project. The City's inspection identified similar failed items to those we identified in our inspection. Moreover, the City identified an ongoing problem with the project's heating system. The City inspector stated to us that the project sponsor will be required to correct the Housing Quality Standards deficiencies. When the violations are corrected, another inspection would be performed to verify the problems are corrected.
Systematic City Housing Quality Standards inspections are not made	The City did not perform a Housing Quality Standards review prior to the tenants first moving into the rehabilitated projects. According to the City's Housing Quality Standards inspector, no inspections were performed after the rehabilitation was completed. Instead, a City rehabilitation specialists performed a walk through inspection of only the completed rehabilitation work. As a result, inspections are not made of its HUD funded housing projects to ensure that the properties meet the required Housing Quality Standards.
The City does not perform regularly scheduled inspections	In addition, the City's does not have a specific procedures for performing regular scheduled inspections of its HUD funding housing to ensure the properties and related units meet the Housing Quality Standards. The City inspector informed us that depending on the condition of the projects and units, inspections may be done annually or less frequently, but no formal inspection schedule is established. The inspector also told us that projects inspections are

scheduled on a non routine basis depending upon prior experience with the project sponsors.

City lacks assurance Standards are met during life of its projects

The City's current procedures do not provided adequate assurance that Housing Quality Standards were met at the completion of the rehabilitation work nor continue to meet the required standards over the 20 year life of the project.

The City initiated corrective actions

According to the Director of the City of Denver's Community Development Agency, the Agency began taking actions after our discussion of the tentative findings at the completion of our on-site review.

Auditee Comments

The City Community Development Agency Director's written comments disagreed that the City did not perform an inspection of the property after completion of the rehabilitation work, but did agree that the City did not perform its first annual inspection. The Director commented that the tenants made inappropriate changes to property and failed to remove their trash from the property. The Director advised that they are working with the property management agents to take a more active role in performing regular site visits to the properties.

We disagree that the City performed an adequate inspection of the property at the completion of construction work. Our inspection identified two major safety issues that should have been identified at the completion of the rehabilitation work. Specifically,

- A temporary electrical meter and outlets attached to the rear fence and electrical outlets poses an electrical hazard to tenants and the children that played in the enclosed area behind the project.
- Gas meters located on the driveway with no barriers to prevent damage to the gas lines and meters from cars parking in the driveway.

These items should, at a minimum, been identified by the City's inspection at the completion of construction.

Recommendations

We recommend that the Rocky Mountain Office of Community Planning and Development:

- 5A. Require the City establish and implement inspection procedures to ensure projects meet Housing Quality Standards after the completion of the rehabilitation and prior to the move-in of tenants;

- 5B. Require the City establish and implement a formal inspection scheduling and follow up procedures of its HUD funded projects to ensure its HUD funded projects conform to the required Housing Quality Standards for the 20 year life of the projects;
- 5C. Require the City have the Humboldt project sponsor take sufficient actions to correct the Housing Quality Standards deficiencies identified at the failed project; and
- 5D. Evaluate that the City's inspection procedures and scheduling are properly being implemented and that Housing Quality Standards deficiencies at the failed project are corrected.

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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 systems for measuring, reporting, and monitoring program performance.

Management controls assessed

We determined the following City and County of Denver's (hereinafter referred as City) management controls were relevant to our audit objectives:

- Grant oversight of the Housing Opportunity for Persons with AIDS grant recipients;
- Rents charged to participants by the grant recipients;
- Grant funds were expended for eligible recipients and activities; and
- Assisted units met the minimum Housing Quality Standards.

Assessment procedures

The following audit procedures were used to evaluate the management controls:

- Interviews with City officials and grant recipients;
- Review of the City's HUD program award and monitoring files;
- Review of grant recipients records on eligibility of participants and use of grant funds;
- Physical inspection of a sample of grant projects assisted with Housing Opportunity for Persons with AIDS grants; and
- Evaluation of HUD's and the City's established policies and procedures for implementing the Housing Opportunity for Persons with AIDS Program.

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 is obtained and maintained, and fairly disclosed in reports. Based on our audit, we identified the following significant weaknesses:

- The City did not adequately monitor grant recipients for program compliance (Finding 1);

- Program grantees did not ensure program recipients were charged appropriate rents (Finding 2);
- Program grantees did not ensure that grant funds were furnished to eligible persons or that the grant assistance did not exceed specifically allowed amounts (Finding 3),
- Program grant funds were used for questionable activities, (Finding 4); and
- The City did not ensure that all program assisted units meet the minimum Housing Quality Standards (Finding 5).

Appendices

Appendix 1 - Auditee Comments



WELLINGTON E. WEBB
Mayor

CITY AND COUNTY OF DENVER

COMMUNITY DEVELOPMENT AGENCY
A DIVISION OF THE COMMUNITY PLANNING
AND DEVELOPMENT AGENCY

216 16TH STREET MALL
SUITE 1400
DENVER, CO 80202-5124
PHONE: (303) 640-7128
TDD: 640-2549
FAX: 640-7120

February 22, 2000

Mr. Robert C. Gwin
District Inspector General
For Audit
Office of Inspector General
U.S. Department of Housing and
Urban Development
633 17th Street, North Tower, 14th Floor
Denver, CO 80202-3607

Dear Mr. Gwin:

In response to your letter of February 11, 2000, the following are written comments responding to the official draft audit report resulting from your audit of the Housing Opportunity for Persons with AIDS Program administered by the City and County of Denver.

Finding 1: The City needs to improve its oversight and monitoring of its HUD funded projects to ensure that project sponsors carry out their project activities in conformity with the applicable HUD requirements.

Comments:

1. The Community Development Agency has moved forward to establish a fully staffed monitoring section within the existing compliance department. Monitoring staff will be responsible for performing annual site visits to review source file data for all organizations receiving funding from the agency.
2. A consultant has been retained to assist with the integration of various data bases and to assist with the design of a module that will track monitoring visits, results of monitoring, corrective actions needed and appropriate follow-up.
3. While we agree that it has taken too long to complete the Gates property, it should be noted that the complexity of financing this type of project does require an extended period of time. The project will be completed by the end of 2000.
4. Continental Divide, a non-profit management company that manages many of the units in question and is now operating under a new director, has made improvements to the outreach effort for marketing vacant units. There are now 70 eligible clients on a waiting list for units.

5. We will discuss the definition of program income with HUD. However, we do not agree that income from the commercial units of the Austin Building is program income as defined by federal regulations. Furthermore, the income from the commercial units is not net profit, but rather income that is used to pay off debt related to improvements made to the commercial portion of the building. To date, the non-profit owner of the building has been at break even, or less, on income and expenses.

Finding 2: Four of the seven project sponsors reviewed charged contract rents in excess of the agreement with the City and County of Denver (City) or other source of assistance.

Comments:

1. The City has met with project sponsors to assure that they understand the rental limits required by various federal programs.
2. The staff of Continental Divide is working diligently to assure that the data systems previously developed to track rents and eligibility are being maintained appropriately and in accordance with the regulations for each program governing the use of units.
3. Rents at the Jersey, California, Logan and Corona St. units are currently being reviewed. According to CHFA records on file at Continental Divide, the Resolution Trust low-income rents for a two-bedroom unit in February, 1999 could be as high as \$637 rather than \$604. This means rents at Logan and Corona were \$33 less than they could have been under the contract.
4. As previously noted, the Community Development Agency has moved forward to establish a fully staffed monitoring section within the existing compliance department. Monitoring staff will be responsible for performing annual site visits to review source file data for all organizations receiving funding from the agency.

Finding 3: Colorado Aids Project Improperly Administering HUD Program Funds

Comments:

1. The City performed a review of all case files from the period April through August, 1999. At that time all documentation was in order. We are currently in the process of performing a second review. Given the large caseload, we will continue to review all files at approximately six-month intervals for a minimum of two years rather than once a year.
2. We have also met with the staff of Colorado AIDS Project to assure that they understand the regulatory guidelines required by federal funding.
3. Colorado AIDS Project is making every effort to determine income and to identify family members. The subject population tends to be quite transient and individuals do not always have a steady source of income. Furthermore, they may have a roommate for one month or one week, live alone for a month and then move in with someone for a month. In other words, they do what they have to do to keep a roof over their head and often times they try to help others who are in the same situation. To the extent the Colorado AIDS Project staff can determine "households" they are doing a better job.

4. Colorado AIDS Project staff now keep copies of leases and mortgage statements in clients' files rather than in a separate master file which had previously been the practice. Clients are denied assistance until a copy of the appropriate document is produced. According to Colorado AIDS Project staff, they have always kept copies of leases/mortgage statements on file and would have shown those document to your auditor, but were not questioned about the existence of the documents.
5. All assistance is now being mailed directly to the owners of the property. Clients are no longer given checks.
6. In the summer of 1998, CDA informed the Colorado AIDS Project that they were exceeding the yearly limit on funds. Since that time several trainings have been held to ensure that all staff understand the 21-week limit for assistance. The contract which contained the typo has expired. The current contract contains accurate language.
7. At the beginning of 1999, both the Community Development Agency and the Mayor's Office of HIV Resources entered into single payer agreements with the Colorado AIDS Project to avoid duplication of services from several providers. Under this agreement, Colorado AIDS Project actually cuts client checks for other service providers. The assistance is tracked through a database with unique record numbers that prevent a client from receiving duplicate funds from more than one agency.
8. Community Development staff, in cooperation with the staff of the Rocky Mountain District Office of HUD and the Office of the Inspector General, will review the files of clients receiving excess assistance.

Finding 4: Questionable Use of \$80,330 HUD Funds to Refinance an Existing Project Acquisition Debt.

Comments:

1. The City is discussing the use of funds for refinancing and the definition of refinancing with HUD.
2. Technically, this transaction was a refinancing. However, it was not to refinance a "seasoned loan" that would allow the borrower to take money away from the table. After funding was approved by the Community Development Agency, a short-term bridge loan from the non-profit's line-of-credit from a local bank was used to purchase the property. This was done to expedite the process because the City funds could not be made available in time to meet the closing date for the purchase. It should be noted that in this housing market, a property can be lost if the buyer does not close on the prescribed closing date. Nearly all properties have several back up contracts. The line-of-credit loan was not a long term loan and if it had been it would have carried an interest rate that would have been so high, the project would not have been financially feasible.
3. The staff person who chose to use the Rental Rehab Program has since left the City. However, given the various deadlines on spending federal funds, we believe we can safely assume that at the time Rental Rehab Program funds were used, it was because we were trying to meet deadlines for the expenditure of funds.

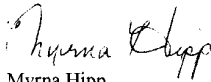
4. Our recollection of the Rental Rehab Program is that refinancing was allowable so long as it could be demonstrated that the refinancing was necessary to keep the units affordable and so long as funds were also being used to rehabilitate the property. We will clarify this issue with HUD field staff.

Finding 5: Project Did Not Meet Housing Quality Standards

1. The Community Development Agency has always done inspections at the completion of construction. The Building Department also does inspections before providing a Certificate of Occupancy.
2. For many years, the Community Development Agency has performed annual inspections of properties to assure that properties are maintained at a level somewhat higher than HQs. In some instances the property may be inspected several times within a year to assure that corrections are made and maintained.
3. The Humboldt property was inspected by both the Building Department and the Community Development Agency at completion of construction. However, the property did not receive the first annual inspection. Between completion of construction and your inspection, tenants had made inappropriate changes to the property and failed to remove their trash from the property.
4. As part of our overall changes to our database, we are addressing the issue of assuring that our inspector receives all addresses that will need annual inspections. We have also asked Continental Divide Management not to wait until tenants call to report problems with units, but rather make regular site visits to assure that tenants are not destroying or damaging the property. We will also advise other property managers to do the same.

The Community Development Agency staff has begun meeting with Dave Jacops of the HUD District Office to resolve issues and to implement any additional changes that may be needed. If you need additional information or clarification, please call me at 303-640-5717.

Sincerely,



Myrna Hipp
Director, Community Development Agency

Cc: Guadalupe Herrera, Director
Rocky Mountain District Office of
Community Planning and Development

Appendix 2 - Schedule Of Questioned Amounts

<u>Finding</u>	<u>Ineligible Amount (1)</u>	<u>Unnecessary Cost (2)</u>
1		(a) 52,704
3	\$37,857	
4		80,330
Total	\$37,857	\$133,034

(a) amount of annual commercial rents

Questioned costs include ineligible costs, unsupported costs, and unnecessary/unreasonable costs:

- 1. Ineligible costs are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.**
- 2. Unnecessary costs are those which are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by the ordinarily prudent person in the conduct of a competitive business.**

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Appendix 3 - Audit Distribution List

City and County of Denver

Assistant Secretary for Community Planning and Development, Room 7100

Director, Office of HIV/AIDS, Room 7154

Secretary's Representative, 8AS (2)

Deputy Secretary, SD, Room 10100

Chief of Staff, S, Room 10000 (2)

Office of Administration, S, Room 10110

Assistant Secretary for Congressional and Intergovernmental Relations, J, Room 10120

Senior Advisor to the Secretary, Office of Public Affairs, S, Room 10132

Deputy Assistant Secretary for Public Affairs, W, Room 10222

Counselor to the Secretary, S, Room 10234

General Counsel, C, Room 10214

Office of Policy Development and Research, R, Room 8100

Assistant Deputy Secretary for Field Policy and Management, SDF, Room 7106

Chief Procurement Officer, N, Room 5184

Chief Information Officer, Q, Room 3152

Chief Financial Officer, F, Room 2202

Deputy Chief Financial Officer for Operations, FF, Room 10166

Director, Office of Budget, FO, Room 3270

Departmental Audit Liaison Officer, FM, Room 2206

Headquarters Audit Liaison Officer, Housing, HF, Room 9116

Acquisitions Librarian, Library, AS, Room 8141

Director, Office of Information Technology, AMI, Room 160

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen
Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706
Hart Senate Office Building, United States Senate, Washington, DC 20510

Honorable Dan Burton, Chairman, Committee on Governmental Reform, 2185 Rayburn Bldg.,
House of Representatives, Washington, DC 20515

Henry A. Waxman, Ranking Member, Committee on Governmental Reform, 2204 Rayburn
Bldg., House of Representatives, Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House
Office Building, Washington, DC 20515

Mr. Pete Sessions, Government Reform and Oversight Committee, Room 212, O'Neil House
Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting
Office, 441 G Street, NW, Room 2474, Washington, DC 20548 (Attention: Judy
England-Joseph)

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street,
NW, Room 9226, New Executive Office Building, Washington, DC 20503

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