



Issue Date March 30, 2000
Audit Case Number 00-AO-201-1001

TO: Lee A. Palman, Director, Office of Public Housing, 3GPH

FROM: Sandra G. Elion, District Inspector General for Audit, Capital District, 3GGA

SUBJECT: Tenant Opportunity Program Grantees
District of Columbia Housing Authority
Washington, DC

At the request of the District of Columbia Housing Authority, we completed a review of seven Tenant Opportunity Program grantees in Washington, DC. We determined that the grantees lacked the knowledge and technical skills to manage TOP grant funds in accordance with Federal requirements.

Within 60 days, please provide us with a status report on each recommendation made in this report. The status report should include: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why the action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of this audit.

We are providing copies of this report to each grantee included in this review and to the DC Housing Authority. If you have any questions, please contact me or Joan S. Hobbs, Assistant District Inspector General for Audit, on (202) 501-1330.

Executive Summary

We completed an audit of seven Tenant Opportunity Program (TOP) grantees in Washington, DC. Our audit objective was to determine whether the seven grantees (James Apartments, Kentucky Courts Senior, Fort Lincoln, Knox Hill Senior, Horizon House Senior, Hopkins Apartments, and Garfield Terrace) managed TOP grant funds in accordance with Federal requirements. Our review covered the period January 1998 through September 1999.

We found that these seven TOP grantees lacked the knowledge and technical skills to manage their grants. Specifically, the grantees:

- Did not have adequate controls over their grant funds;
- Did not establish financial management systems;
- Did not retain adequate accounting records;
- Did not follow proper procurement procedures; and
- Paid consultants for services not performed.

We attribute these conditions to the lack of adequate monitoring and training of TOP grantees by the HUD DC Field Office and the DC Housing Authority. As a result, the seven TOP grantees spent \$144,038 on ineligible and unsupported items.

Recommendations

We are recommending that the following actions be taken to correct TOP grantee performance deficiencies:

- Recover ineligible and unsupported costs of \$144,038 unless documentation is obtained for the unsupported costs or unsupported payments are explained adequately and documented;
- Provide grantees with technical assistance on managing checkbooks, retaining source documents, and establishing procurement procedures;
- Require grantees to establish financial management systems to manage and account for TOP funds;
- Instruct TOP grantees to monitor the services provided by consultants and make payments after services are provided;
- Periodically verify future grant draw down requests against the source documents; and
- Inform the Grants Management Center of the inability of these TOP grantees to manage grant programs.

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Introduction

The overall purpose of the Tenant Opportunity Program (TOP) grant was to prepare residents to manage their housing projects and provide opportunities for economic development, self-sufficiency, improved living conditions, and enhanced social services for residents.¹ During FYs 1994 and 1995, HUD (through a competitive process) awarded TOP grants to 31 DC Housing Authority (DCHA) resident councils. Each resident council (TOP grantee) was awarded about \$100,000 that they could use to fund a variety of programs based on the needs of the residents in their respective public housing projects.

In 1995, HUD created the concept for the District of Columbia Technical Assistance Organization (DCTAO) to assist the grantees in administering the TOP grants. The DCTAO was based on the premise that a centralized organization could provide technical assistance and coordinate services among the resident council members for less cost and with minimal duplication of effort. However, the DCTAO was terminated in 1997 because it did not provide adequate services to its members. We reviewed the operation of the DCTAO and presented our results in Audit Report No. 97-AO-201-1001, dated February 26, 1997.

The HUD DC Field Office (DCFO) has overall responsibility for monitoring the TOP grantees' progress. This responsibility includes providing technical assistance when needed, authorizing grant fund draw downs based on line-items approved in the work plan and budget; and identifying appropriate training sources. Because of the changes in focus and staffing, the DCFO requested DCHA hire a coordinator to assist the grantees with day-to-day operations.

The DCHA TOP Coordinator was hired in October 1998 to provide TOP grantees with information on relevant training to administer the grant, as well as to provide assistance to ensure compliance with applicable regulations.

On January 1, 1998, the seven TOP grantees included in our review had a total of \$495,728 remaining on their TOP grants as reflected on the Line of Credit Control System (LOCCS). These grantees spent \$274,861 during the period January 1998 through September 1999. The grantees obtained their funds by periodically submitting payment vouchers to the DCFO for approval. After the payment voucher was approved, the funds were direct deposited into the TOP grantee's checking account. The status of the TOP grant funds we reviewed are as follows:

¹ The Resident Opportunities and Self Sufficiency (ROSS) grant program will replace the TOP grant in FY 2000. The purpose of the ROSS grant is to provide funding for supportive services, resident empowerment activities and activities to assist residents in becoming economically self-sufficient.

Status of TOP Grant Funds			
<u>TOP Grantees</u>	<u>Total Grant Award</u>	<u>LOCCS Balance at 1/1/98</u>	<u>Spent From 1/1/98-9/30/99</u>
James	\$ 97,000	\$ 82,164	\$ 32,391
Kentucky Courts	100,000	77,600	51,245
Fort Lincoln	100,000	74,747	43,234
Knox Hill	100,000	74,746	32,672
Horizon House	100,000	63,262	34,520
Hopkins	100,000	63,056	20,476
Garfield Terrace	<u>100,000</u>	<u>60,153</u>	<u>60,322*</u>
Total	<u>\$697,000</u>	<u>\$495,728</u>	<u>\$274,860</u>

*Garfield Terrace spent more funds than their LOCCS balance because they had funds in their checking account from a prior period.

Audit objectives,
scope, and
methodology

Our audit objective was to determine whether the grantees managed TOP grant funds in accordance with Federal requirements. The scope of our review was limited to seven TOP grantees (James Apartments Resident Council, Kentucky Courts Senior Resident Council, Fort Lincoln Resident Council, Knox Hill Senior Resident Council, Horizon House Senior Resident Council, Hopkins Apartments Resident Council, and Garfield Terrace Resident Council). To accomplish our objective, we reviewed grantee files maintained in the DCFO and interviewed appropriate DCFO staff, grantee personnel, and grantee consultants and contractors. We also examined the grantees' accounting records including bank accounts, checks, receipts, invoices and contracts.

Our audit covered the period January 1, 1998, through September 30, 1999. The field work was performed from July through December 1999. We conducted our audit in accordance with generally accepted government auditing standards.

TOP Grantees Lacked the Knowledge and Technical Skills to Manage Grants

The seven TOP grantees included in our review lacked the knowledge and technical skills to manage their grants in accordance with Federal requirements. The grantees did not have adequate controls over their grant funds, did not establish financial management systems, did not have adequate accounting records, did not follow proper procurement procedures, and paid consultants for services that were not performed. We attribute these conditions to the lack of adequate monitoring and training of the TOP grantees by HUD and DCHA. As a result, the grantees spent \$144,038 on ineligible or unsupported items.

Criteria

The FYs 1994 and 1995 notice of funding availability (NOFA) for TOP grants were published in the Federal Register on May 13, 1994, and March 1, 1995, respectively. The NOFAs state that the purpose of the TOP grant is to expand the range of the resident managed activities so that residents can set priorities based on the needs in their communities. These grants are to be used to fund training and other tenant opportunities, such as the formation of resident councils, identification of the relevant social support needs, and the securing of that support for residents of public housing. The NOFAs state that ineligible activities include such items as entertainment, purchase/rental of land or vehicles, payment of salaries of resident council staff, and fraudulent or wasteful expenditures. Activities for which funds from other sources are being provided or have been requested, can not be paid for with TOP grant funds.

The Office of Management and Budget Circular A-110 dated November 19, 1993, titled *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and other Non-Profit Organizations*, describes the requirements for financial management systems. Basically, grantees are required to maintain accurate, current, and complete financial records; records that identify the source and application of funds; and effective controls over and accountability for all funds.

Controls over grant funds not adequate

The seven grantees did not have adequate controls over TOP grant funds. We found that the grantees spent \$144,038 or 52 percent of their available funds on ineligible or unsupported items, did not safeguard checkbooks, did not

reconcile bank accounts regularly, wrote checks to cash, and allowed paid consultants to have access to the checkbook and prepare documentation to support the draw down of grant funds. Specifically:

- The seven grantees spent \$35,304 of TOP funds on ineligible items including a harbor cruise, a Christmas party, big screen televisions, subscriptions to cable television, a Las Vegas training trip, stipends to board members, digital cameras, and a bank account and employee health and life insurance premiums for a janitorial business (see Appendices A and B).
- The seven grantees spent \$108,734 for which they did not have any supporting documentation. In some cases the grantees could not even provide copies of checks or the completed check stubs to show to whom and for what the TOP funds were used. For example, over half (\$28,724) of the funds Kentucky Courts spent during the audit period could not be accounted for because they had neither receipts, checks nor check stubs. An additional \$19,716 was supported by check stubs but no receipts. The Kentucky Courts Resident Council blamed the consultant for the missing records. Allegedly, all documentation was lost when the consultant's basement flooded.
- Hopkins did not properly safeguard the TOP grant checkbook. As a result, the daughter of the Resident Council President stole \$3,500 of TOP grant funds by forging checks. The former Hopkins Resident Council President filed a police report but no formal charges were made and the funds were not recovered. The DCFO, upon learning about the incident from the grantee, froze the remaining TOP grant funds of the resident council. Hopkins also maintained a duplicate set of checks. Although the extra set of checks was never used, the Council President could not explain why they needed a duplicate set of checks. We also observed that a complete series of checks was missing from the TOP checkbook but no explanation was given for those missing checks.
- Hopkins did not routinely reconcile its TOP grant checking account. As a result, checks were written for \$1,610 in excess of the bank balance.

- James wrote a \$500 check to “cash” to pay for a Christmas party. When asked about this expense, the Resident Council President stated that the check written against the TOP account was made in error.
- The consultants for Kentucky Courts, Hopkins, Horizon House, Fort Lincoln and Garfield Terrace regularly had access to the checkbooks and prepared the requests for draw downs of grant funds from LOCCS. However, monitoring and controlling grant funds was outside the scope of the contracts for these consultants.

Financial management systems not established

The seven TOP grantees did not establish financial management systems to track and monitor their grant funds. Instead, the grantees used a checkbook ledger system and relied on HUD and the LOCCS program to maintain their grant balances. Although TOP grant funds could be used to hire a consultant to establish and maintain a financial management system that included budgeting, accounting, and auditing, the grantees chose not to use the funds for this purpose. One grantee, Fort Lincoln, purchased automated financial management software, but did not use it. As a result, the grantees had little accountability over their TOP funds.

Accounting records not adequate

The grantees did not retain adequate accounting records and documentation to support expenditures related to the TOP grant. For example, Kentucky Courts and Hopkins did not retain any source documents such as invoices, time sheets, checks or bank statements to support expenditures related to the grant.

Proper procurement procedures not followed

In general, the TOP grantees did not follow proper procurement procedures and did not maintain complete and proper documentation to support the process used in purchasing consultant services, equipment and furniture. Specifically, none of the grantees documented the number of quotes received, their evaluation of the quotes, the cost estimates and/or price analyses, or the basis for selecting their consultants. Consequently, we could not determine whether the \$46,886 Kentucky Courts, Horizon House, Fort Lincoln, and Garfield Terrace paid for consultant services was a fair and reasonable price and the most qualified consultant was selected.

Grantees also made computer and furniture purchases without maintaining evidence (such as price quotations from various vendors) to show that they obtained the most competitive prices. James spent \$10,534 on six computers and over \$6,000 on furniture, including a large screen television. Fort Lincoln spent \$3,338 on a large screen television. Horizon House spent \$4,188 on two computers. Since the grantees did not maintain supporting documentation, we could not determine whether TOP grant funds were used effectively.

Consultants paid for services not provided

Some consultants hired by the grantees did not always provide the contracted services for which they were paid. For example:

- Kentucky Courts and Garfield Terrace paid the same consultant \$16,309 and \$18,000, respectively. This consultant was hired to provide an assessment of the problems and social issues at the respective housing projects; provide training for the residents to become self sufficient; provide technical assistance needed by the residents; and to assist the resident council in applying for other resource opportunities. However, neither the grantee nor the consultant could provide any evidence that these services had been provided. In addition, the consultant had no receipts for purchases she made on behalf of the grantee. According to the office manager at Kentucky Courts, the consultant spent 2 hours a week at the site but did not provide any of the services for which she was hired; yet, Kentucky Courts paid her \$1,000 a month.
- Fort Lincoln paid \$1,150 to a consultant to apply for non-profit status for the resident council. The consultant did not complete and file the application with the IRS but received full payment.

Training and monitoring not adequate

The DCFO and DCHA did not provide adequate training and monitoring to the grantees. Upon the elimination of the DCTAO in 1997, each grantee became solely responsible for managing its remaining grant funds. Since the grantees clearly did not have the knowledge, understanding or experience to properly account for the grant funds, DCFO arranged additional training for TOP grantees, including four of the seven in our review.

For a few months after the elimination of the DCTAO, DCFO sent out informative newsletters with helpful tips on managing the grant. Helpful tips included discussions on procurement requirements, such as obtaining three quotes for major procurements and instructions on not writing checks to “cash;” retaining supporting documentation; and establishing a financial management system. However, DCFO recognized that those efforts were not sufficient to resolve the problems the grantees were having and in 1998, HUD requested DCHA hire a coordinator to oversee the day-to-day operations of the TOP grantees. The memorandum of understanding between DCHA and the resident councils states that the TOP coordinator will provide technical assistance and training. We found that the TOP coordinator had not provided adequate technical assistance and training to the grantees to improve accountability over the grant funds.

The DCFO did not effectively monitor the requests for grant draw downs and as a result, approximately 52 percent of the amount spent during the period of our review was on ineligible or unsupported items.

**Schedule of Amounts Spent and Ineligible and Unsupported Costs
from January 1998 through September 1999**

<u>TOP Grantees</u>	<u>Spent</u> <u>1/1/98-9/30/99</u>	<u>Ineligible and</u> <u>Unsupported</u> <u>Costs</u>	<u>Percentage</u>
Garfield Terrace	\$ 60,322	\$ 25,758	43
Kentucky Courts	51,246	51,246	100
Fort Lincoln	43,234	15,719	36
Horizon House	34,520	11,278	33
Knox Hill	32,672	7,497	23
James	32,391	12,848	40
Hopkins	<u>20,476</u>	<u>19,692</u>	96
Total	<u>\$274,861</u>	<u>\$144,038</u>	52

The LOCCS requests and the supporting documents did not always provide sufficient details of the expenses for which the grantees were requesting reimbursement. During our review, we found that approval for draw downs of funds was given even though details of the expenditures were not provided. In one case, the justification for reimbursement did not show the true expenditure. For example, Garfield Terrace spent \$2,890 to set up a janitorial business and pay health and life insurance premiums for employees of this business yet Garfield Terrace showed the expense on their details for the draw down as procurement of computers.



Conclusion

Given the significance of the problems found, we believe that none of the grantees we reviewed should be allowed to participate in the new ROSS grant program until they can demonstrate that they have the capability to manage grant programs.

Auditee Comments

HUD agreed with the finding but disagreed with our assessment of the cause and some of the recommendations. The HUD Director of Public Housing, DCFO, stated, “we very strongly disagree with your statement that the conditions found were due to ‘lack of adequate monitoring and training of TOP grantees by the HUD DC Field Office and the DC Housing Authority’.” Comments pertaining to the training and site visits include: (1) each of the seven grantees attended mandatory training in FYs 1994, 1995 or 1996 prior to being allowed to draw down funds; (2) 44 on-site visits were made to 31 DC resident councils between August 26, 1997, and April 20, 1999; and (3) the DCHA TOP Coordinator made 117 visits to the seven grantees between October 29, 1998, and September 16, 1999, and provided two group training sessions on financial management and preparing semi-annual reports.

The Director urged us “to remember that until the TOP grants were approved, these groups had had little to no experience in dealing with large sums of money. They were not experienced in dealing with the business world or with government rules. Many had never even had a personal bank account and were not conditioned to living within a framework of regulations and obviously, they resorted to unstructured practices when not under the direct supervision of the DCFO or DCHA.”

The DCFO agreed with only \$13,862 of the \$35,304 ineligible costs presented in Appendix B of the report. Detailed comments were also provided for each TOP grantee.

We have included DCFO's response in its entirety as Appendix C.

OIG Evaluation of Auditee Comments

Had adequate training and monitoring been provided to the grantees, we would not have found the number of problems we did during this review. We recognize that training was provided to the original resident council board members, however, many of the board members changed during the grant period and the new members were not always provided adequate training. The 44 on-site monitoring visits the DCFO made to 31 grantees means the seven grantees we reviewed were probably visited once or twice during the 20-month period. Two visits were not sufficient for these grantees. Even though the DCHA TOP Coordinator made numerous visits to the grantees, the visits made little impact on management of the grants.

We agree with the DCFO that the grantees had little to no experience in dealing with large sums of money. It is for this reason that we believe they should not be put in a position to manage future grants without the capacity to do so.

We discussed our results on ineligible and unsupported costs with the DCFO Senior Revitalization Specialist responsible for the TOP grants before we issued the draft report and had agreement on these costs until we received the DCFO's comments. We classified many of the items as ineligible because the grantees could not show that the items were used for TOP activities. Recommendation 1A requests recovery of these costs unless documentation is obtained or an adequate explanation is provided. Therefore, until a review of the documentation is made by the DCFO, the monetary amounts will remain as presented in this report.

Recommendations

We recommend that you ensure:

- 1A. Recovery of ineligible and unsupported costs of \$144,038 unless documentation is obtained for the unsupported costs or unsupported payments are adequately explained and documented.
- 1B. Each grantee is provided with adequate technical assistance on managing checkbooks, retaining source documents, and using proper procurement procedures.
- 1C. Each grantee establishes a financial management system to manage and provide accountability over TOP funds.
- 1D. TOP grantees monitor their consultants and make payments after services are provided.
- 1E. Future grant draw down requests are periodically verified against source documents before approval of funds is given.
- 1F. The Grants Management Center is informed of the inability of these TOP grantees to manage grant programs.

Management Controls

In planning and performing our audit, we considered the management controls of the TOP grantees in order to determine our audit procedures but not to provide assurance on internal controls.

Management controls include the plans, methods, and procedures adopted by management to ensure that the resources used are consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Relevant Management Controls

We determined that administrative and accounting controls in the following areas were relevant to our audit objective:

- financial controls over program funds,
- cash receipts and disbursements, and
- management controls over eligibility of program expenditures.

We assessed all relevant control areas identified above.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that the entity's goals and objectives are met; 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, maintained, and fairly disclosed. Based on our review, significant weaknesses exist with controls over grant funds, cash receipts and disbursements, and eligibility of program expenditures. These weaknesses are discussed in the finding.

Summary of Ineligible and Unsupported Costs

<u>TOP Grantees</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>
Kentucky Courts	\$ 2,806	\$ 48,440	\$ 51,246
Garfield Terrace	5,957	19,801	25,758
James	6,787	6,061	12,848
Hopkins	3,500	16,192	19,692
Fort Lincoln	7,735	7,984	15,719
Horizon House	4,427	6,851	11,278
Knox Hill	<u>4,092</u>	<u>3,405</u>	<u>7,497</u>
Total	<u>\$35,304</u>	<u>\$108,734</u>	<u>\$144,038</u>

Ineligible and Unsupported Costs for Grantees

Kentucky Courts

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Cleaning fee		\$ 900	1
Missing checks		28,724	1
Internet		340	1
Salary - office manager		1,460	1
Salaries to board member	\$2,640		2
Food	99		2
Consultant		17,016	1, 3
Cable TV	<u>67</u>	<u> </u>	4
Total	<u>\$2,806</u>	<u>\$48,440</u>	

Notes

1. No documentation
2. Ineligible under TOP
3. Procurement procedures not followed
4. Entertainment

Garfield Terrace

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Typing services		\$ 1,500	1
Office supplies		266	1
Training		35	1
T - Shirts	\$ 181		2
Salaries to board members	1,786		2
Child development training	1,100		3
Bank account for janitorial business	2,000		4
Insurance premiums	890		4
Consultant	<u> </u>	<u>18,000</u>	5
Total	<u>\$5,957</u>	<u>\$19,801</u>	

Notes

1. No documentation
2. Ineligible under TOP
3. Trainer not licensed
4. Activity not related to TOP
5. Procurement procedures not followed

James

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Transportation		\$ 750	1
Telephone		766	1
Software		364	1
Training instructor		450	1
Consultants		3,731	2
Furniture and office supplies	\$4,632		2
Large screen television	1,605		2, 4
Janitorial services	50		3
Christmas party	<u>500</u>	_____	4
Total	<u>\$6,787</u>	<u>\$6,061</u>	

Notes

1. No documentation
2. Procurement procedures not followed
3. Operating expense
4. Entertainment

Hopkins

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Office training		\$ 370	1
Office cleaning		465	1
Babysitting		30	1
Transportation		250	1
Office Secretary		2,400	1
Flyer		1,050	1
Telephone		100	1
Stamps		50	1
Supplies		50	1
Transportation to training		13	1
Office supplies		936	1
Missing checks		10,478	1
Forged Checks	<u>\$3,500</u>	_____	2
Total	<u>\$3,500</u>	<u>\$16,192</u>	

Notes

1. No documentation
2. Stolen funds

Fort Lincoln

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Office furniture		\$1,158	1
Filing fee - bylaws		45	1
Telephone		336	1
Office supplies		75	1
Large Screen TV/VCR	\$3,338		2, 3
Cable TV	246		2
Sewing & piano lessons	2,025		3
Consultant		5,870	3
Filing fee - nonprofit status		500	4
Iron bars	1,100		5
Training instructor	75		6
Office equipment	60		7
Computer upgrades	<u>891</u>	_____	8
Total	<u>\$7,735</u>	<u>\$7,984</u>	

Notes

1. No documentation
2. Entertainment
3. Procurement procedures not followed
4. Services not rendered
5. Building Improvements
6. Overpayment
7. Duplicate shredder
8. Excess cost

Horizon House

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Computer installation		\$ 481	1
Transportation for training		25	1
Books		345	1
Cable TV	\$ 41		2
Copier	1,380		3, 8
Consultant		6,000	3
Computer accessories	70		4
Alarm system	422		4
CD writer	322		5
Digital camera	955		5
Domain name	70		5
Web hosting	175		5
Trip to Las Vegas	882		6
Printer repair	<u>110</u>	<u> </u>	7
Total	<u>\$4,427</u>	<u>\$6,851</u>	

Notes

1. No documentation
2. Entertainment
3. Procurement procedures not followed
4. Items purchased but not used
5. Items used for non TOP purpose
6. Trip not pre-approved
7. Repair of printer purchased prior to award of TOP
8. Duplicate purchase

Knox Hill

	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Office equipment		\$ 750	1
Training		525	1
Paint services		100	1
Miscellaneous		100	1
Computer peripherals		180	1
TV and stereo	\$1,733		2
Harbor cruise	1,784		2
Cable TV subscription	440		2
Office cleaning	135		3
Consultant	_____	<u>1,750</u>	4
Total	<u>\$4,092</u>	<u>\$3,405</u>	

Notes

1. No documentation
2. Entertainment
3. Resident council members paid for services
4. No timesheets or support for consultant services

Auditee Comments



IN REPLY REFER TO: 3GPH-MFD

March 23, 2000

MEMORANDUM FOR: Saundra Elion, District Inspector General for Audit, Capitol
District, 3GGA

A handwritten signature in cursive script, appearing to read "Lee A. Palman".

FROM: Lee A. Palman, Director, Office of Public Housing, 3GPH

SUBJECT: Draft Report - Tenant Opportunity Program
District of Columbia Housing Authority
Washington, DC

Attached is our response to the draft report of your audit of seven Tenant Opportunity Programs operated by resident councils in the Washington, DC metropolitan area.

We are thoroughly dismayed with this draft report. We spent a considerable amount of time over a period of seven months discussing the intricacies of the TOP and providing documents for Agent Chandra Dey. At no time during the audit process did Agent Dey indicate that all our work would result in a negative report. When we met with you and Agent Dey on February 23, 2000, for four hours, we felt that you further understood and we were also under the impression that there would be considerable changes in the second draft. As I wrote to you in my e-mail on February 29, 2000, I couldn't believe how few differences there were in the two draft versions. Consequently, if your final report is not substantially changed from this draft, I feel it only fair that a copy of this response be forwarded to each entity on the cc: list.

Throughout the report, the OIG appears to take credit for discovering the theft of checks at Hopkins and the issues surrounding Dr. Betty Ezuma, when, in fact, we found the problems, took immediate and decisive action, and made certain that the OIG was informed of both the problems we discovered and the action we took. Be assured, that whenever we were made aware of problems, this office took action.

We agree with your conclusion that the seven grantees lacked the knowledge and technical skills to effectively manage their grants. We strongly disagree, however, that your recommendations will supply the needed resolution. Considering the time and training effort already invested in these programs by the DCFO and the DCHA, we do not believe that the TOP grantees would have benefited from more training and technical assistance.

Our response covers each area of the report in detail. If you have questions regarding this response, please call Mary Dunn, Senior Revitalization Specialist, at (202) 275-9200, extension 3174.

cc: Kenneth Darnall
Special Agent in Charge
Capitol District

FINDING: The seven TOP grantees included in our review lacked the knowledge and technical skills to manage their grants in accordance with Federal requirements. The grantees did not have adequate control over their grant funds, did not establish financial management systems, did not have adequate accounting records, did not follow proper procurement procedures and paid consultants for services not performed.

While we agree that your Finding is accurate, again, we very strongly disagree with your statement that the conditions found were due to “the lack of adequate monitoring and training of TOP grantees by the HUD DC Field Office and the DC Housing Authority”. HUD provided a multitude of training opportunities and although the DC Housing Authority was under no requirement to do so, they also provided training and volunteered a staff person to work with these groups beginning in November 1998.

Each of the seven grantees attended a mandatory training session provided by HUD Headquarters prior to their being allowed to draw funds. These sessions covered program requirements, financial management, and program goals. The FY 1994 grantees met in Atlanta, Georgia and the FY 1995 grantees met in Orlando, Florida. An additional week’s session was held in Cleveland, Ohio in FY 1996 and focused on the basic financial aspects of the program. Grantees were taught to write checks, reconcile bank statements, how to procure supplies and equipment, how to document their purchases, and how to keep necessary records. This training was sponsored by HUD Headquarters and used trainers from the EDTEC consulting firm.

Four of the seven resident councils were included in a group selected by HUD Headquarters in 1998 to attend a two-day session led by EDTEC. This training was followed by a succession of on-site visits and intense hands-on training conducted by the EDTEC Consultant for approximately six months in 1999.

In addition, DCFO provided sessions on General TOP Training, Use of the LOCCS, and the Preparation of Semi-Annual Reports, as well as, an over-view to the three groups not included of the training provided by EDTEC. The on-site training was meant to assure that the grantees had completed required steps of their grants and that their records documented their appropriate use of the TOP funds.

Between August 26, 1997 and April 20, 1999, our logs show a total of forty-four on-site visits to the thirty-one DC resident councils. Each of these visits was used to provide procurement information, assistance with budgets, program regulations, and at one time or another touched on every aspect of the TOP. Between April, 13, 1998 and September 24, 1999, telephone logs show a total of one hundred and thirty-three messages from these seven groups alone. This does not include the number of times we initiated the calls or when their calls were answered directly. Each of the returned calls was to address some aspect of TOP program management.

From January, 1998 through October, 1998, the DCFO produced and distributed a monthly newsletter that was written on a level intended to appeal to and instruct resident councils on the operation of TOP. It's purpose was to deliver information in a method that could be easily assimilated by the groups for which it was intended.

By early 1998, HUD was completing a reorganization effort and staff members who had been working in specialty fields were reassigned to general duties. Offices were downsized and some staff were shifted to other offices. With the increased workload and decreased staff, this office found it necessary to segment staff time according to the dollar value of programs. At the same time realizing that while it was not a high dollar program, TOP was vulnerable, we persuaded the DCHA to volunteer an employee to work hands-on with the TOP grantees.

DCHA added the TOP Coordinator to their staff in late October, 1998. According to DCHA logs this employee made 117 visits to the seven TOP resident councils between October 29, 1998 and September 16, 1999. The DCHA TOP Coordinator instructed individual groups, particularly the Senior groups, Knox Hill, Fort Lincoln and James Apartments, with hands-on procurement, financial records, and by arranging training efforts. DCHA also provided two group training sessions on Financial Management and the preparation of Semi-Annual Reports during 1999.

All of the above supports our position that an inordinate amount of time was spent providing training and technical assistance an array of subjects involving TOP. Not only were TOP grantees involved in the training activities, but we included TOP consultants who were working for the DC grantees.

Controls over grant funds not adequate, page 4

- Some of the items listed as ineligible are, in fact, eligible. Big screen televisions, cable subscriptions, and digital cameras are eligible. We agree that the other items are ineligible, but this office did not release funds for those ineligible purposes. Funds released for eligible purposes were diverted either knowingly or unknowingly by council officers for the ineligible activities. The harbor cruise was clearly ineligible and funds were not released by the DCFO for that purpose. The Christmas party should have been paid from another account held by the particular resident councils. That TOP account has been reimbursed.
- We first alerted your office to the activities of this particular consultant in conversations with agents when the OIG was involved in a PHDEP inquiry in May 1998. We followed up with e-mail messages to David Niemiec dated 1/6/99 and 2/1/99. When we learned of the Kentucky Courts situation, we took immediate action by relieving the officers of any rights or duties connected to TOP, by restricting access to LOCCS by those persons, and by assisting the residents to reorganize. We called in the consultant and asked that all records be turned over to us. We were told the same story of the records having been destroyed in a flooded basement.

- The incident at Hopkins was first reported to us by the former President who had been replaced only a short time prior to the incident. As soon as we learned of the theft, we e-mailed the OIG (Kenneth Darnall, 11/09/98) and froze the remaining TOP funds. We restricted the sitting President of any right or duty related to TOP. The resident council, however, refused to follow through and assign other members to leadership positions. Consequently, the Hopkins TOP account remains suspended.

Financial Management System not established

- As stated earlier, all the TOP grantees received training that included basic financial management. The required Semi-Annual reports covering the period January, 1999 through June 1999 showed the following:

James Apartments report dated 8/10/99

1. ***Financial Management System in place - 2/99***
2. ***Completed Financial Management Training - 1/99***
3. ***Had received 501 status - 4/99***

Knox Hill report dated 6/30/99

1. ***Financial Management System in place - yes***
2. ***Completed Financial Management Training - yes***
3. ***Had applied for 501 status - yes***

Horizon House report dated 7/28/99

1. ***Financial Management System in place - 12/98***
2. ***System certified by CPA - 12/98***
3. ***Completed Financial Management Training - (no date given)***
4. ***Had received 501 status - 2/99***

Fort Lincoln report dated 7/30/99

1. ***Financial Management System in place - 3/99***
2. ***Had received Financial Management Training - 2/99***
3. ***Applied for 501 status - 2/99***

Garfield report dated 7/15/99

1. ***Financial Management System in place - 4/97***
2. ***System certified by a CPA - 7/98***
3. ***Completed Financial Management Training - 6/98***
4. ***Received 501 status - 1997***

The Hopkins Resident Council has not submitted a report for the past several reporting periods. Kentucky Courts did acknowledge that they do not have a financial management system in place even though early reports state that they did. We would like to point out that both these groups used the same consultant during this time frame. We feel that this particular consultant

was exceedingly lax in providing or procuring the systems these resident councils obviously needed.

- The \$500 check that was written to pay for a Christmas party should have been written on the another account owned by the organization. It was a simple error made by the organization's treasurer when that person came into office. The error was corrected on November 23, 1999, with the deposit of \$500 drawn from the Resident Council account and deposited into the TOP account
- It seems obvious that the resident councils, in spite of numerous financial management training efforts have not grasped either the mechanics nor understood the importance of the financial aspects of operating a grant program. Consequently, it would seem that when a consultant attempted to assist the grantee in an area not included in the scope of their work, they have actually provided additional assistance for which they may not have been paid.

Accounting records were not adequate

All the grantees received training on the financial management aspects of their grants. Prior to the election of the current president, Hopkins did have copies of invoices, checks and bank statements. They were not properly filed and were, in fact, kept in boxes and bags. But they did exist. The former President advised that she organized the records after an on-site visit by our office and turned them over to a member of the newly elected Board when she left office. We have previously mentioned the alleged destruction of the Kentucky Courts records in the home of their consultant.

Proper procurement Procedures not followed

This office has routinely instructed TOP resident councils and their consultants to use a comparative procurement process when making purchases. We have provided a description of acceptable methods of procurement in group training sessions, one-on-one conversations, in resident council Board meetings and in newsletter issues. Not only have we have received enough unsolicited examples of procurement practices in use by these groups to believe that it was being done, but the DCHA TOP Coordinator was present when the bids were gathered for two of your specific examples - James Apartments and Fort Lincoln. We can only offer that the groups either did not understand what you were requesting or they somehow lost the documentation that they gathered when planning their purchases.

We do not believe that the expenditures listed for the items described are unreasonable and we have enough examples of the kind of comparative pricing being done by TOP grantees to believe that it was being done routinely.

Consultants Paid for Services not Provided

- Based on the Semi-Annual reports we received from these grantees, we had no reason to suspect that TOP grant activities at Kentucky Courts and Garfield Terrace were not progressing. When we first began to find the activities of this particular consultant to be suspect, we wrote (April 6, 1998) and asked that she report on the status of the grantees for which she worked. Her reply (April 28, 1998) indicated satisfactory progress was being made. Not being totally satisfied, we asked all of the eight grantees for which she was under contract to meet with us. The President of the Garfield RC did not attend, but the other seven did. In an open forum, we asked the groups about their relationship with the consultant, the services she was providing, and the fees she was charging. We gave them ample opportunity to inform/complain. No one did.

As soon as we had positive knowledge of the conditions at Kentucky Courts, we stopped all grant activities until the resident council was reorganized and forbade further payment to the consultant. We also notified your office by e-mail to David Niemiec (cc: Joan Hobbs) on January 6, 1999 and February 1, 1999 of what we had learned.

In the case of information received from the Kentucky Courts office manager, it seems unusual that you would accept information from one person as fact without assessing the role that person may have played in the incident or the relationship she may have had with those she was accusing.

- The Fort Lincoln Resident Council advised us that contrary to the information in your report, they received notification from the IRS that their application for non-profit status had been received by that Agency.

Training and Monitoring not Adequate

As we stated previously, both the DCFO and the DCHA spent an extraordinary amount of time and energy training the grantees and monitoring these programs. We refer you to the training and technical assistance already mentioned. We must reiterate that DCHA was under no obligation to provide any assistance to the TOP grantees and the DCFO did far more training and monitoring than we were required to do. For instance, we were not required to edit the LOCCS accounts, and while it increased the workload dramatically, we did so in order to have some control over the purchase of ineligible items. At the same time, it was not possible to monitor what was purchased once the money was released.

The example you gave of the difference between a LOCCS request by Horizon House of \$4,900 and their supporting documentation of \$11,000 is characteristic of the manner in which Horizon approached LOCCS drawdowns. Ordinarily, they submitted a proposal and we would eliminate the ineligibles before they actually made the request for funds. Rather than require them to resubmit the same documents, we released the drawdown based on the result of our negotiation.

We urge you to remember that until the TOP grants were approved, these groups had had little to no experience in dealing with large sums of money. They were not experienced in dealing with the business world or with government rules. Many had never even had a personal bank account. They were not conditioned to living within a framework of regulations and obviously, they resorted to unstructured practices when not under direct supervision by the DCFO or DCHA.

Conclusion

We appreciate the conclusion you reached, however, we don't know how an organization's "ability to manage a grant" might be determined without observing how they manage a grant. Therefore, restricting their participation in the ROSS program may not produce the results we would like to see.

We believe that a better structuring of the program's ground rules will result in a better program. We also believe that it is essential for a housing authority to be fundamentally involved in this program from the time the proposals are written in order to have a successful program.

I.G. Recommendations:

1A. Ensure recovery of ineligible and unsupported costs of \$143,038 unless documentation is obtained for the unsupported costs or unsupported payments are adequately explained and documented.

DCFO Comment: Our calculation reduced your ineligible figure from \$35,304 to \$13,862. Because we did not have the opportunity to review their records, we have made very few changes to the "unsupported" costs. We believe that we will be able to reduce that figure considerably as well. Because these groups do not have another source of funds, it is not reasonable to expect us to be able to collect any of the funds that were expended for whatever ineligible or unsupported costs remain.

1B. Ensure that each grantee is provided with technical assistance on managing checkbooks, retaining source documents and proper procurement methods.

DCFO Comment: We have provided an abundance of training to these groups already and since these grants will have a deadline of August 1, 2000, we do not feel that further training will produce the results we seek.

1C. Ensure that each grantee establishes a financial management system to manage and provide accountability over TOP funds.

DCFO Comment: We will require each grantee to use a financial software program.

1D. Ensure that TOP grantees monitor their consultants and make payments after services are provided.

DCFO Comment: We will instruct each TOP grantee to monitor their consultants and make payments to them after services are provided.

1E. Ensure that future grant draw down requests are periodically verified against source documents before approval of funds is given.

DCFO Comment: We will continue to verify grant draw down requests against source documents before approval of funds is given as we have done with approximately 40% of the drawdowns.

1F. Ensure that the Grants Management Center is informed of the inability of these TOP grantees to manage grant programs.

DCFO Comment: We will inform the Grants Management Center of your assessment and of our response to that assessment.

Ineligible and Unsupported Costs for Grantees

Kentucky Courts

	<u>OIG Ineligible</u>	<u>DCFO Ineligible</u>	<u>OIG Unsupported</u>	<u>Notes</u>
Cleaning fee			\$ 900	2
Missing checks			28,724	2
Internet			340	2
Salary-office manager			1,460	1
Salary Board member	2,640	2,640		2
Food	99	99		2
Consultant			17,016	1, 2
Cable TV	67			1
Total	\$ 2,806	\$ 2,739	\$ 48,440	

Notes:

1. Depending upon its use, cable TV is an eligible expense. Office Manager and Consultant salaries are eligible; there is no program requirement that time sheets be maintained. Internet access is eligible and encouraged.
2. Ineligible and unsupported items occurred during the tenure of Dr. Betty Ezuma. As soon as we learned of the conditions under her control, we notified your office and asked for assistance.

Ineligible and Unsupported Costs for Grantees

Garfield Terrace

	<u>OIG Ineligible</u>	<u>DCFO Ineligible</u>	<u>OIG Unsupported</u>	<u>Notes</u>
Typing Services			\$ 1,500	1
Office supplies			266	1
Training			35	1
T-shirts	181	181		3
Salaries to board members	1,786	1,786		3
Child Development Training	1,100			2
Bank account for business	2,000	2,000		3
Insurance premium	890	890		3
Consultant			<u>18,000</u>	3
Total	\$ 5,957	\$ 4,857	\$ 18,000	

Notes:

1. These are TOP eligible activities.
2. There is no program requirement that training be conducted only by licensed trainers, therefore this expense is not ineligible.
3. All other items listed as ineligible and unsupported occurred during the tenure of Dr. Betty Ezuma. (Your report shows the expenses for the janitorial business to be unrelated to TOP, while in reality, they are the very purpose of TOP. However, these particular, related items are not eligible ones.)

Ineligible and Unsupported Costs for Grantees

James Apartments

	<u>OIG Ineligible</u>	<u>DCFO Ineligible</u>	<u>OIG Unsupported</u>	<u>Notes</u>
Transportation			\$ 750	1
Telephone			766	1
Software			364	1
Training instructor			450	1
Consultants			3,731	2
Furniture and office supplies	\$ 4,632	-0-		2
Large screen television	1,605	-0-		3
Janitorial Service	50	-0-		4
Christmas Party	500	-0-		5
	<u>\$ 6,787</u>	<u>-0-</u>	<u>\$ 6,061</u>	

Notes

1. These are eligible TOP expenses.
2. According to the DCHA TOP Coordinator, he was present when the resident council received bids/proposals for the furniture and candidates for the consultant position. Procurement procedure was followed.
3. The television was purchased so that the resident council could offer low impact exercise classes for senior citizens. These classes are conducted two days each week for one hour sessions.
4. Regulations do not prohibit this kind of expenditure. We approved such expenditures so that at least one resident would experience employment and to promote order in the council's surroundings.
5. The check to pay for this expense was written in error. We have documentation that the TOP account has been reimbursed

Ineligible and Unsupported Costs for Grantees

Hopkins

	<u>OIG Ineligible</u>	<u>DCFO Ineligible</u>	<u>OIG Unsupported</u>	<u>Notes</u>
Office Training			\$ 370	1
Office Cleaning			465	1
Baby-sitting			30	1
Transportation			250	1
Office Secretary			2,400	1
Flyer			1,050	1
Telephone			100	1
Stamps			50	1
Supplies			50	1
Transportation to training			13	1
Office supplies			936	1
Missing checks			10,478	2
Forged checks	<u>\$ 3,500</u>	<u>\$ 3,500</u>		3
<u>Total</u>	\$ 3,500	\$ 3,500	\$16,192	

Notes:

1. These are eligible TOP expenses. Former Hopkins President, Ms. Kahlima Sabur advised that documentation did exist for the RC's financial activities prior to Ms. Sabur's leaving office. Staff from DCFO worked with Ms. Sabor on organizing that documentation and trained her and the Vice President on acceptable financial practices. Ms. Sabor advised that she delivered the records to the newly elected President after the election.
2. We need clarification on the "missing checks". Are these canceled checks?
3. Former Hopkins Resident Council President Kahlima Sabur advised us that the alleged perpetrator is in jail on a shoplifting charge. Ms. Sabur notified the Detective assigned to the theft/forgery action of her whereabouts and was told that a bench warrant for the theft/forgery would be served on her at the Municipal jail.

Ineligible and Unsupported Costs for Grantees

	Fort Lincoln			
	OIG <u>Ineligible</u>	DCFO <u>Ineligible</u>	OIG <u>Unsupported</u>	<u>Notes</u>
Office furniture			\$ 1,158	1, 2
Filing fee-bylaws			45	1
Telephone			336	1
Office Supplies			75	1
Large screen TV/VCR	3,338	-0-		2
Cable TV	246	-0-		3
Sewing and Piano lessons	2,025	-0-		4
Consultant			5,850	4
Filing Fee - Nonprofit status			500	5
Iron Bars	1,100	-0-		6
Training Instructor	75	-0-		7
Office Equipment	60	-0-		8
Computer peripheral	891	-0-		9
Total	\$ 7,735	-0-	\$7,984	

Notes:

1. These are eligible TOP expenditures.
2. The DCHA TOP Coordinator affirms that he was present when the TV was planned and purchased and that he assisted the resident council in securing quotes for this item. The television was purchased for the purpose of providing physical fitness and nutrition classes for the senior residents who occupy the building. It was therefore, procured properly and for an eligible purpose.
3. Cable TV is an eligible item. Access to cable for these senior citizens allows them many educational opportunities they might otherwise not have access to.
4. As in #1, the DCHA TOP Coordinator advises that he was present and assisted the resident council when they secured quotes for these items.
5. The President of the Fort Lincoln Resident Council has advised that they have received notice from the IRS that that agency had received their application for Federal tax exemption.
6. The DCFO takes full responsibility for approval of the installation of iron bars. Given the location of public housing properties and the kind of equipment being purchased, it seems only reasonable to try to protect that equipment.
7. Resident council officers advised that they were unaware of any overpayment to a consultant, but as soon as that consultant is identified to them, they would ask for reimbursement.
8. Resident Council officers denied ever having a duplicate paper shredder. They produced their receipt and determined that they had been charged twice for the same item. They agreed to discuss reimbursement with the vendor.
9. According to the DCHA TOP Coordinator, the item(s) listed as a computer peripheral is not the 19" monitor used by the resident council, but is a printer, scanner, and fax machine.

Ineligible and Unsupported Costs for Grantees

	Horizon House			Notes
	OIG Ineligible	DCFO Ineligible	OIG Unsupported	
Computer installation			481	3
Transportation for training			25	3
Books			345	3
Cable TV	41	-0-		1
Copier	1,380	-0-		3
Alarm System	422	-0-		2
Domain name and Web				
Hosting	1,522	-0-		3
Consultant			6,000	5
Computer accessories	70	-0-		3
Printer repair	110	-0-		4
Trip to Las Vegas	882	882		6
	\$ 4,427	\$ 882	\$6,851	

Notes:

1. As stated previously cable TV is eligible and can be very useful, especially with senior as a method of providing training activities.
2. Horizon House has been undergoing renovations for the past two years. The alarm could not be installed until the renovation was completed.
3. These items are eligible. TOP purposes are defined in part as activities that include the identification of social support needs of residents and the securing of such support. In that context, the HH Resident Council use the digital camera to identify maintenance needs of residents and secure the repairs. It is also used in the preparation and distribution of building news for resident consumption. The web site was created to solicit funds for the continuation of TOP activities after TOP funds are expended.
4. Using TOP funds to repair equipment purchased prior to TOP is eligible.
5. Horizon House was contacted regarding the other items on this report. They assured us they had the information, but had not supplied it at the time of the writing of this response.
6. As you are aware, the DCFO refused payment of the expenses for this trip. In the opening meeting with these TOP grantees, the IG advised Mr. Winter and his consultant, that "if you don't have it in writing (prior approval), you had better not go". This is another example of the diverting of TOP funds from eligible expenses to ineligible ones.

Ineligible and Unsupported Costs for Grantees

Knox Hill

	IG Ineligible	DCFO Ineligible	IG Unsupported	Notes
Office equipment			\$ 750	1
Training			525	2
Paint services		100	100	3
Computer peripherals			180	1
TV and stereo	1,733			4
Harbor Cruise	1,784	1,784		5
Cable TV	440			6
Office Cleaning	135			7
Consultant			<u>1,750</u>	8
Total	\$4,092	\$1,884	\$3,405	

1. The DCHA TOP Coordinator was present when the comparison pricing was done for these items. He assisted the resident council in gathering the information and securing the quotes.
2. This payment made for financial management training. DCHA TOP Coordinator was involved in arranging for the training.
3. This is an ineligible item.
4. These items were purchased for use in exercise classes and nutritional training activities. Used in that context, they are eligible.
5. This item is clearly ineligible and no funds were released by the DCFO for this purpose.
6. Cable TV is eligible and can be useful in a variety of ways to provide training and as an information source for seniors.
7. Employment for a limited number of residents is possible provided those residents are not elected Board members.
8. There is no requirement that a consultant provide timesheets for their time spent in providing their services.

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President, Hopkins Apartments Resident Council
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