Issue Date
August 27, 2001
Audit Case Number
2001-FW-1005

TO: Anne Golnik
Director, Community Planning and Development, 6FD

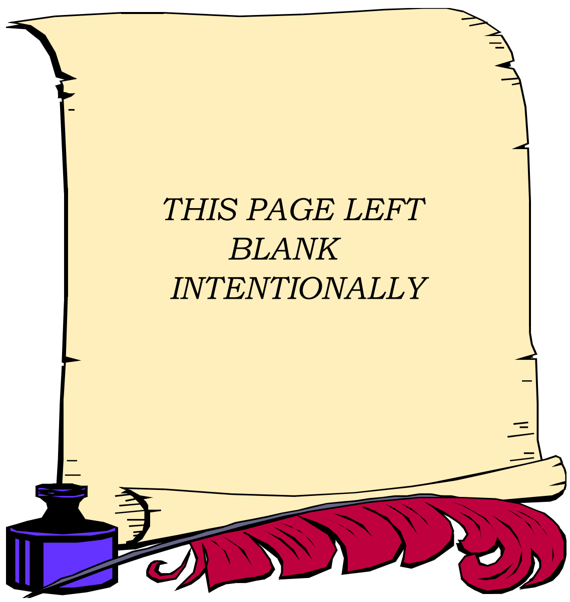
/SIGNED/
FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Supportive Housing Program
Harmony House, Incorporated
Harrison, Arkansas

Between July 2000 and February 2001, we performed an audit of Harmony House, Incorporated 1998 Supportive Housing Program. The audit covered Harmony House's financial transactions for the period October 1, 1998, through July 17, 2000. We conducted the audit in response to an anonymous complaint received through the HUD Hotline alleging Harmony House, Incorporated and the Newton County Housing Council (Housing Council) used Supportive Housing Program funds more to sustain their agencies than to help the communities served by the grant. In general, our audit substantiated the allegations. The audit report contains two findings.

Within 60 days please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued that relate to this audit.

If you have any questions please contact William Nixon, Assistant District Inspector General for Audit, at (817) 978-9309.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Executive Summary

In response to an anonymous complaint, we performed an audit of the Harmony House, Incorporated (Harmony House) of Harrison, Arkansas. The complainant alleged Harmony House and Newton County Housing Council (Housing Council) used Supportive Housing Program (Program) funds more to support their agencies than to help the communities served by the grant. Specifically, the complaint alleged the Executive Director of Harmony House used the grant funds for inappropriate and ineligible costs but withdrew employment assistance from needy participants, and the Executive Director of Harmony House and the Director of Housing Council did not effectively utilize properties rented for transitional housing. Except for the withdrawing of employment assistance, the audit substantiated the allegations. With respect to the withdrawing of employment assistance, Harmony House paid Program funds to ineligible participants.

Overall, the Harmony House Executive Director did not properly administer Program funds.

The Executive Director of Harmony House disregarded regulations and spent $157,066 in unsupported and ineligible costs. Specifically, the Executive Director of Harmony House used $114,005 of Program and other Harmony House funds[1] for ineligible and unsupported costs and paid $43,061 for three persons that did not qualify for Program assistance.

The Harmony House Executive Director and the Director of Housing Council did not perform in accordance with the HUD-approved agreement. Either Harmony House and Housing Council had not provided transitional housing to qualified homeless persons, or there was not a significant demand for scattered site transitional housing for the homeless in the area covered by the Program grant. This audit questions the demand for housing for the homeless in the area because of the limited number of houses the directors leased, the relatively low occupancy rates of the houses that it did lease, and housing practices that permitted at least two nonqualified families to occupy leased houses.

We recommend HUD recover $119,803 of ineligible funds, obtain support or recover another $37,263 of funds, reevaluate the demand for transitional housing in the area served by Harmony House, and monitor Harmony House activities.

[1] Funds from Emergency Shelter Grants, Department of Justice grants, and Harmony House's General Account.

We provided a draft of the report to the Newton County Resource Council on June 13, 2001. We received a written response with attachments on July 3, 2001. We held an exit conference with representatives of the Resource Council, Harmony Housing, and Housing Council on July 18, 2001. Overall, they disagreed with the findings. We have attached the Newton County Resource Council's response sans attachments. We considered both the written and verbal response in finalizing this report.

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Abbreviations

CFR	Code of Federal Regulations
GTR	Government Technical Representative
HHI	Harmony House, Incorporated
HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

Background.

Title IV of the Stewart B. McKinney Homeless Assistance Act (Act) authorized the Supportive Housing Program (Program). Under the Act, Program funds may be used for supportive housing, supportive services, and the cost to operate and administer the grant. The Act defines supportive housing as housing used to transition[2] the homeless into permanent housing and innovative housing that meets the immediate and long-term needs of homeless persons. Program supportive services to the homeless include employment assistance, childcare, food, case management, assistance in obtaining permanent housing, and other appropriate services. HUD implemented the Act in 24 CFR 583.

In response to an anonymous complaint, we performed an audit of the Harmony House, Incorporated (Harmony House) of Harrison, Arkansas. The complainant alleged Harmony House and Newton County Housing Council (Housing Council) used Program funds more to support their agencies than to help the communities served by the grant. Specifically, the complaint alleged the Executive Director of Harmony House used the grant funds for inappropriate and ineligible cost but withdrew employment assistance from needy participants. Further, the Executive Director of Harmony House and Housing Council's Director did not effectively utilize properties rented for transitional housing.

On September 26, 1995, HUD executed a $556,500 Program grant agreement with the Newton County Resource Council (Resource Council). Under the 3-year grant, the Resource Council would provide transitional housing and supportive services in the Newton County, Arkansas area. HUD provided funds to renovate a structure to be used by Harmony House for a battered women shelter and to purchase a van to transport homeless persons. The Resource Council's application showed: (1) Harmony House would provide housing at the shelter, transportation, counseling, and other services; (2) the Housing Council would provide case management, housing counseling, property management of leased units for transitional housing, and other services; and (3) Harmony House and

2 Within a 24-month period.

Housing Council would approve all support services provided by other agencies.

On March 26, 1998, HUD executed a $569,327 renewal of the Program grant agreement with the Resource Council to continue to provide supportive housing and services to homeless persons in Newton County, Arkansas. HUD allocated funds for the 3-year (fiscal years 1999, 2000, and 2001) grant as follows:

Activity	Total Amount	Approximate Annual Amount
Operating Cost	**$ 36,693**	**$ 12,231**
Supportive Services	**461,028**	**153,676**
Leasing	**44,496**	**14,832**
Administration Costs	**27,110**	**9,037**
Totals	**$569,327**	**$189,776**

On July 28, 1998, HUD approved the transfer of responsibility for administering the grant from the Resource Council to Harmony House. The Resource Council, Harmony House, and Housing Council executed a contract on July 20, 1998, detailing the transfer and Harmony House and Housing Council's responsibilities under the grant. The contract showed:

- Harmony House would administer the Program grant.
- Harmony House and Housing Council would provide transitional housing and supportive services to the homeless in Newton County and the surrounding counties.
- The contract period included the 3-year grant period.
- For each of the 3 years, contract payments from Program funds to Harmony House and Housing Council were $47,500 and $40,500, respectively. The $88,000 came from the supportive service line item and did not include the other Program line items that Harmony House administered. The contract payments covered the following activities.

Program Grant Activity	Annual Contract Amount to Harmony House	Annual Contract Amount to Housing Council
Outreach	**$ 4,000**	**$ 4,000**
Case Management	**16,000**	**16,000**
Life Skills	**4,000**	**4,000**
Housing Counseling	**0**	**8,000**
Follow-up	**500**	**500**
Domestic Violence Services	**15,000**	**0**
Subtotals	*39,500*	*32,500*
VISTA (Job Training)	**8,000**	**8,000**
Total Annual Payments	$47,500	$40,500

The Housing Council, a nonprofit membership-based organization, was formed in 1993 as a spin-off of the Resource Council. The Housing Council has one employee (the Director) and is located in Jasper, Arkansas. The Housing Council and the Resource Council were co-applicants of the initial (September 1995) Program grant.

Harmony House became independent of the Resource Council in 1996. During fiscal year 2000, Harmony House moved their offices from Jasper, Arkansas, to Harrison, Arkansas. Harmony House is a recipient of various federal grants focusing primarily on services to women and children. Harmony House employees include the Executive Director and a support staff that ranged from 7 to 16 employees.

Audit Objectives, Scope, and Methodology.

Overall, our objective was to support or refute the allegations. Specifically, we assessed whether Harmony House used Program funds in accordance with federal regulations and evaluated the Program eligibility of persons whom Harmony House provided employment assistance. We also determined if the Executive Director of Harmony House and the Director of Housing Council had effectively utilized properties rented for scattered site transitional housing.

To achieve the objectives we:

- Interviewed HUD staff and reviewed HUD's files containing the grant applications, agreements, technical submissions, and fiscal year 1999 progress report.

- Reviewed audited financial statements.
- Interviewed the Harmony House and Housing Council directors and staff.
- Reviewed the Harmony House and Housing Council Minutes of Board Meetings.
- Reviewed judgmentally selected case files of participants provided housing and supportive services assistance to determine if the participants were eligible for Program funds.
- Examined financial records covering the period October 1, 1998, through July 17, 2000.
- Reviewed selected disbursement transactions and assessed the eligibility of costs paid from Program funds.
- Reviewed leases for rental units for transitional housing and records of occupancy of those units to determine whether the units were effectively used to house homeless participants.
- Determined the accuracy of the fiscal year 1999 report showing the number of program participants.
- Reviewed applicable parts of 24 CFR and OMB Circular A-122, Cost Principles Applicable to Grants, Contracts and Other Agreements to identify cost eligibility requirements.
- Reviewed fiscal years 1999 and 2000 financial data for Emergency Shelter Grants administered by the State of Arkansas.

We conducted the audit from July 2000 through February 2001 in accordance with generally accepted government auditing standards. Due to the condition of Harmony House's books and records, we included some expenditures that were made from other grants. We have noted in the findings where this occurred. Throughout the audit, we reviewed various computer-generated data. However, we did not perform any tests on the validity or reliability of such data except as noted in the findings and management controls. The audit covered Harmony House and Housing Council operations from October 1, 1998, through July 17, 2000, and certain documents provided by Harmony House during the period August 7, 2000, through February 1, 2001.

Harmony House Disregarded Federal Requirements

Disregarding federal requirements and its grant agreement, the Executive Director of Harmony House paid $157,066 for ineligible and unsupported expenses. Specifically, the director:

- **Used $114,005 of Program and other Harmony House funds for unsupported and ineligible costs.**
- **Paid $35,780 of Program employment assistance funds and $7,281 of other costs for three persons that did not qualify for Program assistance.**
- **Did not perform the Program contract in accordance with the agreement approved by HUD.**

Because HUD has a grant agreement with the Resource Council, HUD should seek reimbursement or support for the expenditures. Further, HUD should require the Resource Council to better manage their grant.

Criteria

Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122), established principles for determining costs of grants, contracts, and other agreements with nonprofit organizations. The 1998 Program renewal grant agreement (grant agreement) required Harmony House to comply with Circular A-122. Under Circular A-122, allowable costs must:

- Be reasonable and allocable to the grant.
- Conform to any limitations or exclusions set by the awarding agency on types or amount of cost items.
- Be determined in accordance with generally accepted accounting principles (GAAP).
- Be adequately documented.

In the grant agreement, HUD also incorporated 24 CFR 583 provisions that prohibited Harmony House from: (1) shifting more than 10 percent of funds from one approved type of Program activity to another, or making any other significant change, without the prior written approval of HUD and (2) engaging in conflict of interest.

Under 24 CFR 583, Harmony House was required to comply with administrative standards established in the Office of Management and Budget Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Circular A-110). Circular A-110 required Harmony House to:

- Maintain a financial management system that ensured Harmony House's accounting records adequately identified the source and application of funds and that the records were supported by source documentation.
- Obtain HUD's approval, when equipment is being replaced, for the trade-in or sale of equipment purchased with Program grant funds.

Harmony House paid ineligible and unsupported expenses totaling $114,005.

The Executive Director of Harmony House ignored federal requirements and inappropriately used $114,005 of funds for:

- Ineligible vehicle purchases ($25,900).
- Ineligible consulting/contract fees and other costs ($50,842).
- Unsupported transfers from Program funds ($37,263).

Ineligible vehicles.

During fiscal year 2000, Harmony House inappropriately spent $25,900 from Program funds for vehicles. On February 16, 2000, the Executive Director of Harmony House used $24,500 for partial payment on the purchase of two used 1998 sports utility vehicles. She did not obtain HUD's approval. Harmony House needed HUD's approval because: (a) Harmony House made the purchase through the sale and trade-in of vehicles purchased with Program funds[3] and, (b) the purchase was a shift of more than 10 percent from one approved activity to another.[4] HUD had approved only $10,000 each year for transportation costs (mileage at 25 cents per mile). The $24,500 ineligible cost was comprised of a:

[3] Circular A-110, subpart C, paragraph 34(e).
[4] 24 CFR 583.405.

- Check ($3,900) from the Program bank account.
- Cash ($9,000) from sale of a vehicle purchased in 1998 with Program funds.
- Trade-in ($8,300) of another vehicle purchased in 1998 with Program funds.
- Trade-in ($3,300) of a 1991 Isuzu Rodeo acquired in January or February 2000 with Program funds.[5]

The Executive Director of Harmony House and the Director of Housing Council co-signed a $28,000 1-year note payable for the remaining costs of the vehicles.[6] Harmony House did not provide sufficient documentation to support the need of the purchases. The Executive Director of Harmony House explained they purchased the vehicles because the two vehicles purchased in 1998 had “a lot of mileage and were in bad condition” and the transmission in one vehicle was “going out.” In contrast to her statement, she advertised both vehicles as being in “Excellent Condition.”

Need for a vehicle was questionable.

Housing Council’s level of Program services did not appear to justify the cost of a vehicle. Harmony House had significantly reduced Housing Council’s level of service, including reducing the number of leased houses Housing Council managed for transitional housing from five to one. Further, the minutes of the Housing Council Board of Directors’ meeting showed Housing Council generally focused on the construction and rental of duplexes Housing Council owned in another town, and opportunities to construct new apartments and other rental facilities. The minutes of Housing Council’s meetings from September 1999 through April 2000 mention the Program only twice.

In accordance with A-122, vehicle costs for personal use and use allocable to other activities are not allowable Program costs.

Harmony House gave conflicting stories regarding the purchase of the vehicles. First, the Executive Director of Harmony House wrongly explained the purchase was in accordance with the grant requirements. Later, on July 24, 2000, she stated she thought the purchase was allowable because HUD had approved Harmony House’s 1998 purchase of vehicles, under its 1995 grant. In contrast, the responsible HUD official stated HUD had not been asked to approve the February 2000 acquisition of vehicles. Harmony House should repay the grant $24,500.

[5] This relates to a $4,700 vehicle acquisition discussed below. The $4,700 was paid from the 1998 Program grant.
[6] Total purchase price of $52,500.

Harmony House lost $1,400 in vehicle purchase and trade transactions with family members of the Director of Housing Council. Harmony House's loss resulted from the purchase ($4,700) of one vehicle from the Director's mother and the credit ($3,300) received less than 2 months later from the trade-in of another vehicle. Specifically, on December 21, 1999, the Executive Director of Harmony House paid the Director of Housing Council $4,700 for a 1994 Toyota. The Director of Housing Council stated she purchased the vehicle from her mother. Prior to February 16, 2000, the Director traded this vehicle to her son-in-law for a 1991 Isuzu. The Directors stated this transaction occurred because the motor in the 1994 Toyota became damaged. Harmony House's records did not contain any documentation on the sale or trade of this vehicle. However, the February 16, 2000 sales invoice for one of the sports utility vehicles showed Harmony House traded-in the 1991 Isuzu. We recommend Harmony House either support this $1,400 or repay the grant $1,400.

Harmony House engaged in numerous conflict-of-interest situations that resulted in at least $50,842 of ineligible costs to be paid for consulting fees and other services.

During fiscal years 1999 and 2000, Harmony House paid:

PAYMENTS MADE TO:	PURPOSE	AMOUNT
Harmony House Executive Director	Consulting and training fees	$10,250
Harmony House Board Member	Consulting fees	$ 4,820
Harmony House Employees	Consulting fees	$ 5,562
Harmony House Employee	Rent of a portion of home	$ 3,737
Housing Council Director	Consulting fees and moral boost	$11,565
Family Members of Harmony House Executive Director	Data entry and building materials	$11,408
Various Others	Miscellaneous	$ 3,500
TOTAL		**$50,842**

The Harmony House Executive Director and the Harmony House Board of Directors ignored federal conflict of interest regulations. Harmony House made most of these payments from Program funds. However, in some cases, Harmony House used funds from Emergency Shelter Grants, Department of Justice Grant, or the Harmony House General account.

Harmony House records were not adequate[7] to determine if Harmony House later reimbursed the other accounts from the periodic transfers from Program funds to the Harmony House general fund and other accounts. Consequently, the audit included the total payments in the amounts identified as ineligible costs.

Harmony House made questionable payments to the Executive Director, Employees, and Board Members totaling $20,632.

During fiscal year 1999, Harmony House paid $9,062 in ineligible consulting fees to the Executive Director ($3,500) and five Harmony House employees ($5,562). Harmony House made the payments from the Harmony House General fund. The director made the payments in accordance with an undated fiscal year 1999 document that listed “Benefits approved at the July board meeting: Quarterly consulting fees.” The document listed specific amounts of quarterly fees the Board approved for the director and each of the five applicable employees.

In fiscal year 2000, the Harmony House Board of Directors continued to approve ineligible costs. The Board approved payments for consulting/contract fees to the Executive Director and to Board members. Specifically, the minutes of the October 30, 1999 Board meeting showed the Executive Director would “ . . . be allowed to train contractually with Harmony House and other agencies and receive those funds for personal use” and that “Board Members will be allowed to work on a contract basis. The contract dollar amount shall not exceed $6,000 per year and must be fair market value.”

Accordingly, during the period October 24, 1999, through January 24, 2000, Harmony House paid its Executive Director $6,750 for “Training Fees” from Harmony House’s grant from the Department of Justice. The Executive Director, in her unsigned and undated “contract” with Harmony House, stated: “Personal or compensatory time will be taken or training’s will be held at night or on the weekends as to not interfere with . . . job duties at HHI.”

During the period December 15, 1999, through July 17, 2000, Harmony House paid the Vice Chairman of the

7 Circular A-110 required Harmony House to maintain records that identified the source and use of funds, and to ensure the expenditures were supported by adequate documentation.

Board of Directors for contract work totaling at least $4,820.[8] The contract stated:

> . . . (the Vice Chairman) will work a 24-hour shift each week to begin on Saturday a.m. at 8:00 and end Sunday a.m., at 8:00. For this shift work contract, . . . (the Vice Chairman) will be paid $325 per pay period (semi-monthly) until other full-time or another person can be located to work this shift.

Payments for contract work by the Executive Director, her employees, and Board members are ineligible in accordance with federal regulations covering conflict of interest. Section 330, paragraph (e) of 24 CFR 583 prohibits Harmony House employees, officers, and Board members from contracting with Harmony House during their tenure and for 1 year thereafter. Further, the Harmony House Board of Directors' actions were questionable. For at least the last 2 years, the Harmony House Executive Director's cousin was the Chairman of the Board. In addition to the questionable actions of the Board shown above, the Board, on October 30, 1999, also increased the Executive Director's annual salary from $36,400 to $50,000 (37 percent increase).

Ineligible payments to the Director of Housing Council totaled $10,565.

Between October 1998 and February 2000, Harmony House paid the Director of Housing Council $10,565 for ineligible consulting fees. Harmony House made the payments from Program ($7,965), Emergency Shelter Grant ($2,325), and General ($275) funds. The Housing Council Director's invoices showed her name as the consulting service and her home address. The Housing Council Director's monthly invoices for October 1998 through December 1998 stated: "Consulting Services. . . In accordance with our agreement for the consulting services rendered, the following is now due and payable." Harmony House paid the director's monthly fees that ranged from $100 to $875. On February 3, 2000, Harmony House paid her $2,625; this payment apparently prepaid her fees for the period February through June 2000. Harmony House's records did not indicate what services she provided.

[8] $3,845 Program funds; $975 General funds.

The Harmony House Executive Director paid family members $11,408.

The Executive Director of Harmony House used Program, Emergency Shelter Grant, and the Harmony House General fund to pay family members $11,408 for services provided to Harmony House. These payments were made to:

- Brother: During the period January 31, 2000, through June 30, 2000, Harmony House paid $3,025 to the brother of the Harmony House Executive Director. The Executive Director had made a contract with her brother that stated "Beginning January 31, 2000 . . . will be paid $300 per pay period until all data entry for the program is entered..." Harmony House used at least $925 of Program funds and $2,100 of other funds to make the payments.

- Sister-in-Law: From January 31, 2000, through May 17, 2000, Harmony House paid $2,383[9] to the sister-in-law of the Harmony House Executive Director. Harmony House paid the sister-in-law for data entry services. Harmony House charged the payments to Program grant administration and operations costs and to the General fund contract labor costs.

- Spouse: From December 31, 1998, through February 28, 1999, Harmony House paid $6,000 to the spouse of the Executive Director of Harmony House. Harmony House made the payments from Emergency Shelter Grant funds. The Executive Director stated the payments were for materials to remodel a building acquired to expand Harmony House's battered women shelter to another county, and that her spouse had donated about $3,500 in labor to the project.

Harmony House spent $3,737 to establish a questionable shelter in an area of an employee's home.

During the period August through December 1999, the Executive Director of Harmony House paid an employee at least $3,737 of ineligible Emergency Shelter Grant funds for rent ($2,400), security deposit ($400), and food/utilities ($937). The Executive Director made the payments in accordance with a lease she executed with the employee's spouse. In accordance with the lease, the Executive Director would use areas in the employee's home for an emergency shelter for homeless families and individuals in

[9] $1,959 Program funds; $424 General funds.

Searcy County, Arkansas. In the lease, the Executive Director stated: "Two bedrooms, living area, and kitchen facilities will be provided as needed. A private bath will be provided." Harmony House made the last payment to the spouse on December 28, 1999, for the January 2000 rent. The Executive Director explained the employee and spouse had "determined that they could no longer allow clients to stay in their home" and terminated the lease. Considering Harmony House utilized the "shelter" only 63[10] (34 percent) of the 184 applicable rent days, the need for the "shelter" was questionable. Harmony House should repay this $3,737 because of the conflict of interest.

The Executive Director of Harmony House paid other ineligible costs totaling $4,500.

The Executive Director of Harmony House used $4,500 of Program funds for the following ineligible expenditures:

- On December 10, 1998, Harmony House withdrew $2,000 (in cash) of Program funds from the Program bank account. Harmony House charged the cost to "moral boost". The Executive Director stated the cash was used to pay: (a) the cost of the Harmony House Christmas party at a local facility and (b) cash bonuses to Harmony House employees. However, Harmony House did not keep the invoices to support the cost of the party (food/beverage, etc.) nor allocate the bonuses and party costs to other Harmony House grants and activities. Under Circular A-122, costs must be adequately documented and allocable to the Program grant.

- On December 7, 1999, the Executive Director used $1,500 of Program funds to pay a "Moral Boost" to the Housing Council Director ($1,000) and to a Housing Council employee ($500). Under Circular A-122, costs must be reasonable i.e., it is not reasonable to pay bonuses to employees of other organizations.

- On January 12, 2000, the Executive Director of Harmony House inappropriately used $1,000 of Program funds for scholarships ($500 each) to a Harmony House employee and the employee's son. Although the employee and her son had previously been

[10] Harmony House reported the use as "shelter nights" as follows: August: 8; September: 0; October: 23; November: 76; December: 2; January: 0. For this report, we used each shelter night as 1 day. Because the number of shelter nights in November exceeded applicable days, we counted the entire month as occupied.

Program participants, they had not qualified for Program benefits since the employee's remarriage the prior year. In addition, the scholarships exceeded the $250 per person amount approved by HUD. On July 18, 2000, the Executive Director stated she awarded the scholarship to the employee and her son because no one else applied for the scholarships. However, the Executive Director's award of the scholarships violated 24 CFR 583 provisions that prohibit such payments to employees and family members.

Harmony House did not properly administer $43,061 of Program funds by providing job training and other services to ineligible participants.

Harmony House inappropriately used $35,780 of Program employment assistance funds and $7,281 of other Program funds for three ineligible participants. The $35,780 payments consumed 65 percent of the $54,632 total funds HUD had approved for employment assistance for fiscal years 1999 and 2000. Harmony House employed two of the three participants including the daughter of Housing Council's Director. For these two employees, Harmony House paid their rent and other expenses. In both cases, Harmony House paid utility and childcare costs. Harmony House did not maintain adequate records to determine the total amount paid for utility and childcare costs for these ineligible participants. The Executive Director of Harmony House permitted ineligible persons to receive Program assistance either because she was not aware of the program requirements or she simply disregarded the requirements. The following is a summary of Harmony House payments and other data concerning these three persons.

<u>Daughter of Director of Housing Council</u>: During the period October 1, 1998, through June 30, 2000, Harmony House used $25,017 of employment assistance funds to employ the daughter of the Director of Housing Council. From other Program funds, Harmony House paid her a $500 bonus and used over $3,935 to pay her health insurance, rent, butane gas for heating, utilities, and childcare costs. This daughter did not qualify for Program assistance because in October 1998 she was not homeless. The following table presents a summary of Program assistance provided to the daughter.

Time Period of Payments	*Description*	*Totals*
October 1998 through June 2000	Salary	$25,017
December 1999	Bonus	$500
April 1999 through June 2000	Health Insurance	$2,310
November 1999 through March 2000	Rent	$1,625
November 1999 through March 2000	Utility Costs	Unknown
October 1998 through June 1999	Childcare ($9 daily)	Unknown

Harmony House payments to/for the daughter were also ineligible because her mother, the Director of Housing Council, was responsible for the management of significant aspects of the housing program under the Program grant. According to the Director of Housing Council, Harmony House put her daughter on the Harmony House payroll because Harmony House provided health insurance benefits and Housing Council did not.

Harmony House Employee: From April 7, 1999, through November 15, 1999, Harmony House used $6,227 of Program employment assistance funds to pay an ineligible Program participant for office work at Harmony House. This Harmony House employee was not eligible for employment assistance because she was not homeless and had job skills. Specifically, her job application showed she lived with her spouse and children and had skills including "computer, word perfect" and other office skills. After November 15, 1999, the Executive Director discovered Harmony House's fiscal year 2000 payments from employment assistance funds were likely to exceed the HUD authorized amount and began paying this employee from other Harmony House funds.

Harmony House paid other ineligible costs for this employee. Specifically, Harmony House used $2,400 of Program funds to provide her housing, $446 for her tuition cost at a local college, and an unknown amount of childcare and utilities.[11] Harmony House's records did not contain any documentation to show the employee and family had ever qualified for transitional housing benefits or other Program benefits. Instead, Harmony House records only

[11] Harmony House's payments to the childcare facility for the employee's children ranged from $6 to $113; one electric bill was $73.

showed the employee was not homeless. The Executive Director of Harmony House stated, "When it was learned by the case management staff that the husband (employee's) exceeded the income limit, she was immediately removed from the program."

Third Ineligible Participant: Harmony House used $4,536 of Program funds to pay 10 months (March 24, 1999, through January 15, 2000) of employment assistance to a participant that did not qualify for assistance. In this case, Harmony House did not employ the participant but paid her salary while she worked for another employer. However, this participant did not require job skill training because she had a Bachelor of Business Administration (accounting and business), proficient computer skills, and she was not homeless. Harmony House's December 15, 1998 case notes showed the participant lived with her parents, did not request housing assistance, and wanted to stay at home with her 4-week-old infant son "as long as she can". Almost 1 year later (December 11, 1999), Harmony House's case notes stated the participant had "decided to put off looking for housing for a while."

Harmony House transferred $37,263 of Program funds to other Harmony House bank accounts.

Harmony House made $37,263 of unsupported transfers from the Program fund to other Harmony House bank accounts. Harmony House had not complied with Circular A-110 provisions requiring Harmony House to maintain documentation to support transfers. Harmony House records did not identify specific Program expenses relating to the transfers. The following table lists specific dates and amounts of the transfers.

Unsupported Transfers	
DATE	**AMOUNT**
March 8, 1999	$ 5,163
July 15, 19999	10,000
October 1, 1999	3,000
October 18, 1999	3,000
October 24, 1999	3,100
November 18, 1999	6,500
November 30, 1999	6,500
TOTAL	**$37,263**

The Directors of Harmony House and Housing Council decreased Housing Council's services without HUD's approval.

Between July 1, 1998, and February 1, 2000, the directors agreed to eliminate many services Housing Council was to perform. Housing Council's decreased level of services brings into question whether they provided adequate Program services. Specifically, the Resource Council's July 20, 1998 contract with the director's stipulated Housing Council would provide transitional housing and supportive services. However, Harmony House and Housing Council later executed contracts reducing Housing Council's services. The table below shows the decrease in services.

HOUSING COUNCIL SERVICES AND RESPONSIBILITIES TO THE PROGRAM			
DESCRIPTION	REQUIRED BY THE RESOURCE COUNCIL'S JULY 20, 1998, CONTRACT	REQUIRED BY HARMONY HOUSE'S FEBRUARY 25, 1999 CONTRACT (Effective 1/1/1999)	REQUIRED BY HARMONY HOUSE'S UNDATED "CONTRACT" (Effective 2/1/2000)
Outreach	Yes	No	No
Case Management	Yes	Yes	Yes
Life Skills	Yes	No	No
Housing Counseling	Yes	Yes	No
Follow-up	Yes	No	No
Provide leased units for transitional housing	Yes (5 units)	Yes (3 units)	No
VISTA (provide job training, etc)	Yes	No	No
Monthly contract payment to Housing Council	$3,375	$2,750	$1,270

The directors did not obtain approval from the Resource Council or from HUD for these contract changes. Harmony House should request approval from the Resource Council and HUD for these changes. Furthermore, in its requests, Harmony House should inform the Resource Council and HUD whom will be performing the necessary grant activities.

Auditee Comments

Overall, the auditee disagreed with the finding. Officials disagreed they misspent funds or disregarded federal rules and regulations. Furthermore, they stated they received verbal approval from HUD for purchase of the vehicles, for the consulting fees, and for the morale boost paid to the Director of Newton County. In general, Harmony House considered the "allegations" made by the audit to have foundations based in personal attacks.

However, officials agreed that one participant was ineligible. Also, Harmony House agreed the Program needed improvement and formally requested training and technical assistance from HUD.

During our July 18, 2001 exit conference, they emphasized that HUD officials had not properly monitored the Program and had not provided assistance when requested. Further, they contended they only reduced the level of services under the contract, but did not stop providing them. Officials believe they met the intent of the Program.

OIG Evaluation of Comments

We made minor changes to the draft findings based upon the auditee's response. However, the bulk of the documents supplied in the response did not modify the facts as presented in the report.

Recommendations

We recommend HUD:

1A. Require the Resource Council to repay HUD the $119,803 of ineligible costs.

1B. Require the Resource Council to support or repay from nonfederal funds the $37,263 of unsupported costs.

1C. Instruct the Resource Council to: (1) ensure Harmony House does not pay future consulting/contract fees to Harmony House officers, employees, and Board members or to family members of the Harmony House Executive Director; (2) establish procedures to ensure Program funds are used for only allowable cost; (3) provide training for the Program to the Harmony House officers, employees, and Board members; (4) verify the eligibility of future Program participants for employment assistance and transitional housing assistance prior to Harmony House expending

Program funds; (5) monitor Harmony House grant activities to ensure conflict-of-interest situations do not reoccur; and (6) request HUD approval for the decrease in Housing Council's services and identify to HUD who provided these services.

Harmony House and Housing Council Did Not Fully Utilize Its Scattered Site Transitional Housing.

Of the 1,738 days that Harmony House and Housing Council paid rent on the scattered site housing, the units were only occupied 1,049 days (60 percent). This occurred either because Harmony House and Housing Council had not provided transitional housing to qualified homeless persons, or there was not a significant demand for scattered site transitional housing for the homeless in the area covered by the Program grant. This is based upon the limited number of houses the directors leased, the relatively low occupancy rates of the houses that were leased, and housing practices that permitted at least two ineligible families to occupy leased houses. Throughout the period October 1998 through July 2000 (fiscal year 1999 and part of fiscal year 2000), the directors did not lease five houses as shown in the grant application. Instead, the directors leased only four such houses during fiscal year 1999, and only three houses during fiscal year 2000. Further, the directors generally terminated these leases within 4 to 7 months of the initial lease date. As of June 30, 2000, the directors had terminated all but one of the leases. HUD was not aware the directors had reduced their housing capacity, nor of any decrease in housing demand, because the Executive Director of Harmony House submitted an annual report that overstated the number of persons housed. HUD should reassess the demand for transitional housing in the area served by Harmony House and require Harmony House to submit accurate annual performance reports.

Criteria

Among other factors, HUD used the Resource Council's application to determine whether to fund a renewal of the Program grant. The Resource Council's August 18, 1997 application showed it did not expect to increase its current capability to house 49 persons (17 adults; 32 children) through the use of five leased houses (30 beds) and the Harmony House battered women shelter (15 beds).

House Leased from Housing Council.

The HUD Hotline allegations were true that Harmony House: (1) leased a house from Housing Council for transitional housing even though the house was vacant for several months and (2) during those months, the Director of Housing Council would not permit the house to be occupied, but when her daughter needed housing, did approve her daughter and family to occupy the house. Specifically, the Director of Housing Council had not placed homeless persons in the house for 274 consecutive days (January 31, 1999, through October 31, 1999). According to the Director of Housing Council, she did not move anyone into the house because she was concerned about the safety of a deck on the back of the house. The Director stated she had the deck removed to resolve the safety issue. The Director also explained the last family in the house moved out June 28, 2000, because of bugs, since that time there had been no demand for housing in the area.

During the 274-day period the house was not tenantable, Harmony House continued to pay Housing Council the $325 monthly lease payment even though the lease required Housing Council to ” . . . make all repairs to the property necessary to make the premises tenantable.” Further, the Executive Director of Harmony House could have terminated the month-to-month lease at any time through September 30, 1999, because the lease was on a month-to-month basis. Instead, on October 1, 1999, she extended the lease to June 30, 2000. If the house was not habitable, then Harmony House should not have paid the rent.

The directors used questionable housing practices when on November 1, 1999, they permitted the Director of the Housing Council Housing Council’s daughter (and her family) to move into the house. During the 5-month period the family occupied the house, Harmony House paid $325 in monthly rent to Housing Council even though the family did not qualify for Program housing assistance. First, the family was not homeless. Second, Harmony House violated federal regulations prohibiting a conflict of interest by employing and housing the Director of Housing Council’s daughter.[12]

Excluding the 5-month period the Director of Housing Council’s daughter and family occupied the house, Harmony House and Housing Council only utilized the house 21 percent of the time for eligible homeless participants. The Executive Director of Harmony House stated she terminated the Housing Council lease on June 30, 2000. At this time, Harmony House had leased the house for 638 days and paid Housing Council $6,825 from Program housing funds.

[12] See Finding 1.

Other Houses Leased – Fiscal Years 1999-2000

After terminating the Housing Council lease on June 30, 2000, the directors only had one house leased for scattered site transitional housing. Due to the house not being occupied for the first 5 months of the lease, the demand for transitional housing in the area appears to be questionable. Further, the directors had terminated leases on all other houses/units leased for transitional housing within 4 to 7 months of the initial lease dates. The following table depicts the occupancy data for all transitional housing leases[13] in effect during the period October 1, 1998, through July 17, 2000.

OCCUPANCY DATA FOR ALL OTHER LEASES FOR TRANSITIONAL HOUSING OCTOBER 1, 1998 – JULY 17, 2000					
TYPE OF RENTAL UNIT	**RENT PER MONTH**	**TIME PERIOD OF HARMONY HOUSE RENT PAYMENTS**	**NUMBER OF RENT DAYS PAID**	**NUMBER OF DAYS OCCUPIED**	**NUMBER OF DAYS VACANT**
Trailer *	$250	10/1/1998 – 1/31/1999	123	56	67
Apartment **	$300	12/15/1998 – 6/15/1999	182	152	30
House***	$300	11/12/1998 – 7/17/2000	613	403	210
House****	$400	10/8/1999 – 4/7/2000	182	182	0
TOTALS			**1,100**	**793**	**307**

* Lease terminated January 31, 1999.
** Lease terminated June 15, 1999.
*** This house had not been occupied since May 16, 2000.
****Unit leased for a Harmony House employee; lease terminated April 7, 2000.

In one case, Harmony House apparently leased the house specifically for another Harmony House employee and her family. However, the employee and family did not qualify for Program housing. Similar to the Director of Housing Council's daughter, the family was not homeless and the family income exceeded the Program income limitation for Newton County. The Executive Director of Harmony House stated she was not aware the employee did not qualify for Program assistance until she overheard the employee discussing her spouse's income and recognized the family earnings exceeded Program income limitation.

[13] Does not include the Housing Council house.

The Executive Director stated she then immediately dropped the employee from the program.

The Executive Director of Harmony House submitted an inaccurate progress report to HUD.

HUD officials were not aware the directors had reduced their housing capacity because the Executive Director of Harmony House had overstated to HUD the number of persons housed. Specifically, in the fiscal year 1999 progress report to HUD, the director reported Harmony House had 241 (50 single individuals; 93 families) persons housed on September 30, 1999, in scattered site transitional housing and at the Harmony House women's shelter. However, Harmony House did not have the capacity to house more than 30 persons (15 beds) at the Harmony House women shelter and at September 30, 1999, Harmony House had only two persons in the Harmony House leased units. Therefore, Harmony House could not have had more than 32 persons housed on September 30, 1999.

On January 25, 2001, HUD requested Harmony House to submit a listing of persons housed on September 30, 1999. On February 1, 2001, the Executive Director of Harmony House submitted a list. The list did not address HUD's request. The Executive Director's list did not specifically identify persons housed on September 30, 1999. Instead, the director listed 50 single individuals and 93 (284 persons) families who had received various types of Program services during the period January 1997 through December 1999. The list identified Harmony House provided housing to 131 (18 single) individuals and 38 families (113 persons) persons during fiscal year 1999.[14] Of the 131 persons, Harmony House housed only 6 families (12 persons) in the scattered site transitional housing.

Harmony House did not have adequate records to support the data submitted to HUD. During July 2000 discussions, the Executive Director of Harmony House stated she did not keep the housing data after preparing the annual progress report. She stated each year "we pick a day" and the Harmony House staff gathers the case files for all Program participants and extracts the housing data from each file. In any case, Harmony House's case files were incomplete. In one of three files reviewed, there was no

[14] This included: (a) payments for various individuals' and families' rent when landlords threatened eviction or their first month rent and rent/utility deposits at a new residence; (b) shelter for battered women; and (c) leased scattered site transitional housing.

documentation to show Harmony House provided housing to the participants that Harmony House had included on the housing list. In another file, the Harmony House's case file did not show the dates the participant moved in/out of the Harmony House leased house.

Auditee Comments

The auditee categorically disagreed with the finding and recommendations. They maintained the services provided under the Housing Council's reduced contracts payments were consistent with the original contract from the Resource Council. During the July 18, 2001 exit conference, they said the Director of Housing Council did the work without pay. They also contended HUD did not have any requirements that the units are occupied everyday.

OIG Evaluation of Comments

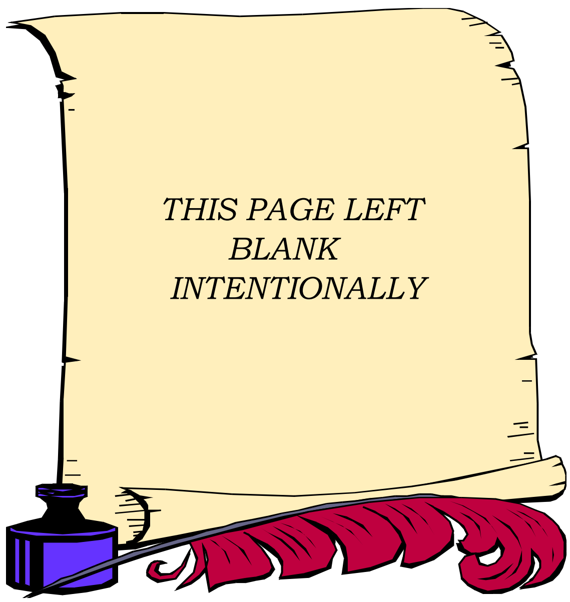
The plethora amount of documents did not support the auditee's contentions. While we agree HUD has no requirement that Harmony House must maintain the units at full occupancy, we disagree the purpose of the program was to house family members and ineligible participants. We noted the occupancy rates of the units to demonstrate the need for the auditee to more effectively utilize its properties and grant funds.

Recommendations

We recommend HUD:

2A. Reevaluate the demand for transitional housing in the area served by Harmony House.

2B. Require Harmony House to provide documentation to support housing data in future annual reports.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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls.

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

- Allowable costs.
- Conflict of interest.
- Transitional housing practices.

We evaluated all the relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

Significant Weaknesses.

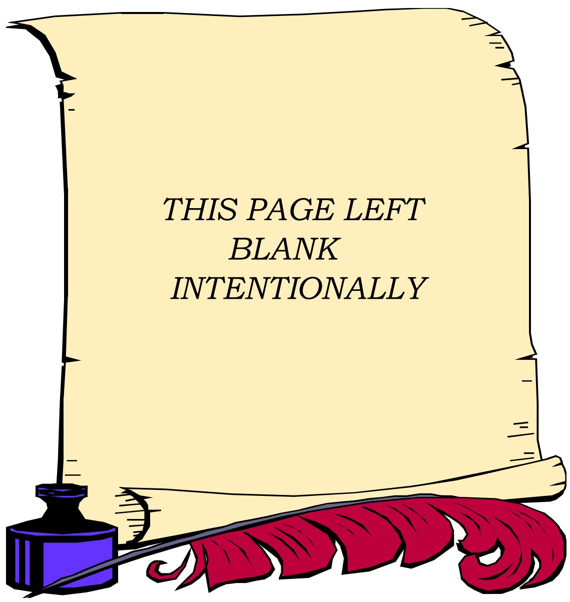
It is a significant weakness if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Based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

- Allowable costs

- Conflict of interest

- Transitional housing practices

These weaknesses are more fully described in the findings' section of this report.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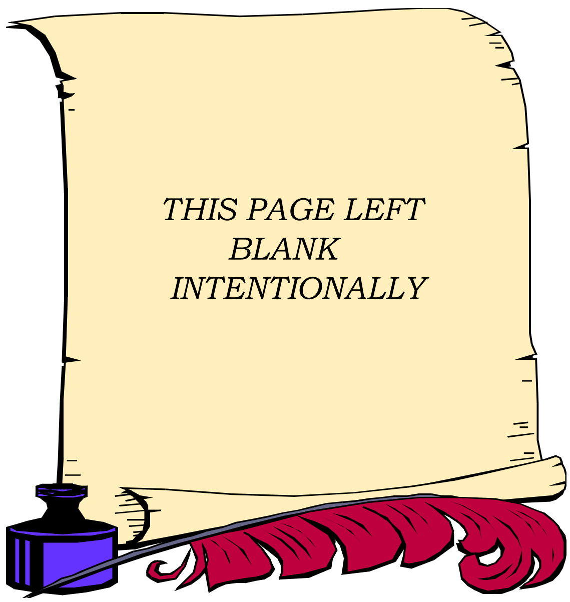
Schedule of Questioned Costs

Issue	Type of Questioned Costs Ineligible [1/]	Unsupported [2/]
1A Ineligible costs	$119,803	
1B Unsupported costs		$37,263

[1] Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or federal, state, or local policies or regulations.

2 Unsupported costs are costs questioned by the auditor because the eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of Departmental policies and procedures.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Auditee Comments

NCRC

Newton County Resource Council
P.O. Box 513 Jasper, Arkansas 72641 • Telephone: (870) 446-5898 • Fax: (870) 446-2701

July 3, 2001

Mr. D. Michael Beard
District Inspector General
U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Room 13A09
Ft. Worth, TX 76102

Dear Mr. Beard,

Enclosed you will find our written response to your audit we received dated June 13, 2001. I have been in contact with Faye Sullins and our meeting is tentatively set for July 17, 2001 at 1:00 at the Newton County Resource Council office in Jasper.

You will see we addressed each point made in the audit and that we disagree with most if not all of them. The Harmony House and Newton County Housing Council's staff have spent many, many hours researching this response in a short period of time while your office had over 10 months to compile your findings. We feel that there are many points in the audit that are factually wrong. We have much documentation that was never looked at or asked for that will shed new light on the situation.

I look forward to our meeting and a chance to present our side of this story. Please contact me if I can provide any additional information.

Sincerely,

Kevin Middleton
Executive Director
Newton County Resource Council

Harmony House, Inc.
Shelter Systems for Battered Women & their Children

June 29, 2001

Mr. Kevin Middleton
Executive Director
Newton County Resource Council
PO Box 513
Jasper, AR 72644

Dear Kevin:

Enclosed please find a copy of the response to the HUD OIG Draft Audit of June 2001. As you can clearly see we have indeed kept documentation needed to respond to the draft findings. This document has been reviewed and revised by a HUD Consultant, HHI CPA Larry Keeter and HHI Attorney Brenda Austin. We look forward to meeting with representatives from HUD and HUD OIG to respond to the allegations made by a disgruntled former employee.

Let me know if the exit interview will be held on July 17, 2001, at 1:00 p.m. as tentatively set by your office. There are several representatives of HHI and NCHC that will be in attendance. Thank you for your cooperation in this matter.

We ask that you not allow this document to be copied or distributed to anyone other than officials for its review and comment.

Sincerely,

Susan Wyatt

Susan Wyatt
Executive Director

Enclosure: Response to Draft Audit

Cc: HHI Board of Directors
Brenda Austin, Attorney at Law
Larry Keeter, CPA
Representative Asa Hutchinson

106 West Stephenson
P.O. Box 1901
Harrison, AR 72601

Information to refute allegations:

Vehicle Purchases of $25,900
At the Homeless Conference held in Little Rock, Arkansas on September 15, 1999, Sue Middleton and Susan Wyatt were told by Charles Blevins to trade the vehicles in if we needed to. We tried on many occasions to get written permission for cost revisions from Mr. Blevins, to no avail. Since we have never received anything in writing from the LR Field Office other than approval for the administration change, we believed that all we had to do was speak with Mr. Blevins. We are sorry that Mr. Blevins said he doesn't remember this conversation. However, when we met with Mr. Blevins on June 25, 1998 at Jasper, we believed all we had to do was actually get bids and other documentation marked Exhibit 1, and believed we had fulfilled the requirements to purchase the vehicle(s) as per his earlier instructions. Please see the exhibits for a copy of three telephone conversations documenting dates and times of conversations regarding the SHP requesting information for this project cost with Mr. Blevins. We have never received anything in writing from HUD until the draft audit, other than information passed along from NCRC.

We maintain 24 CFR 583.405 was not relevant to this transaction. According to this code "a recipient many not make any significant changes to an approved HUD program". This transaction in no way made a significant change as the vehicles were approved in the original application and further approved by the LR Field Office. Also this was not over the ten percent requirement of the entire grant application as is reflected in the attached letter from Mr. Billy Parsley citing this code to Dr. Haller previous to our administration. Also funds were used as obligated through this grant application, as the vehicle trade in amounts should not be noted as funds expended over the $10,000 per year line item.

As far as the questioned need for the vehicles, this was approved in the original application of which we had no input. We have transported many battered women and their children in these vehicles. We have been able to save lives by having dark windows. No one can see inside the vehicles to know whom we are transporting and this makes the victims of violence feel much safer. The battered women and children we serve are different from other homeless clients without these issues. If we transport them in personal vehicles and the victim(s) are seen by batterers it puts Harmony House and Housing employees at-risk personally as batterers have been known to threaten HHI and Housing employees. As a matter of fact three men targeted Mr. Larry Watson and beat him with a baseball bat. He suffered a broken nose and bruising as well as multiple contusions from the beating. He resigned shortly thereafter. Susan Wyatt has been to court on three separate occasions seeking restraining orders against men that have threatened to kill her. One actually faced criminal charges, was convicted and received a fine along with jail time. As a matter of fact, during a board meeting a man entered with an assault weapon (gun) and threatened all of us, but was specifically after anyone helping his wife at the shelters.

As further justification for vehicles, as stated previously this was requested in the original grant of 1995, of which we had no input. After a discussion with Mr. Charles Blevins June 25, 1998 in Jasper telling us we could carry over $30,000 and a telephone call back around the first of July 1998 from Mr. Blevins telling us he was wrong and we could not carry over these funds. He allowed us to spend the extra funds for the vehicles. He did not send us this in writing however. He did note the need for four wheel drive vehicles due to rugged terrain. We believed this was the protocol for purchasing equipment and vehicles for the program. The vehicles in question have been and are still being used for a five-county project for homeless clients suffering domestic violence and homeless families. Without the vehicles we would be unable to adequately operate the program for the entire region. How do you justify the vehicles in return for the cost of human lives, both clients and employees that have been saved by providing transportation to battered women and abused and neglected children.

One of the directors involved in the operation of the SHP acquired tuberculosis from a homeless family in 1997. She was on medication (that damages your liver) for six months. During this time she did not have health insurance and paid all the medical fees from her own funds.

The other director used her personal vehicle (with cloth seats) to transport battered women and the directors child got head lice from this family that was transported by her. We actually have continued to work through this audit laced with personal attacks with people threatening to kill us, taking diseases and vermin from homeless participants. We work over 50 hours each week while being accused of taking advantage of the SHP when actually, we put more of our own funds into working with homeless people rather than eating the food we purchase wholesale as alleged. Working with homeless people is a challenge. As HUD employees you know the challenges.

This experience has been traumatic, as we believe that we are actually helping women and children stay alive, while being accused of disregarding federal regulations. We have helped many homeless families move into permanent housing. As HUD employees we are sure you are aware of some of the dangers of working with victims of crime made homeless by domestic violence. We have continued with this program as good faith to both NCRC and HUD.

The advertisement placed in the newspaper was to encourage people to come and see as well as drive the vehicles. However, even with the placement of "excellent condition" only one person called regarding the vehicles. We have never seen an advertisement for a used vehicle stating they worn out and are at risk of costing an exorbitant amount to repair. Please see Exhibit 1 showing the board minutes regarding the actual condition of the vehicles. Hudspeth Motors told HHI and NCHC what the ads should say and how much to ask for them. The amounts were checked in the Kelley Blue Book and were consistent with the cost of what the vehicles should bring. Mr. Jackie Chisum (no longer works at Hudspeth Motors but can be reached upon request) when test driving one of the trade-in vehicles, reported to us that the gas feed hung and almost caused him to have a serious accident. This vehicle was also the one that the transmission was going out. We are certain you can understand that going to women's homes, picking them up from the crime scene, and transporting them to a shelter is traumatic to all concerned. The need for a vehicle to transport them in excellent working condition is both a necessity and a safety requirement. All concerned must trust that the transportation provided will actually make the entire trip. We are sure you understand the liability associated with this if the vehicle in which a HHI or NCHC employee is transporting clients demands that the vehicle be in good repair.

As far as a reduction in service, please refer to Mr. Charles Blevins of the LR Field Office. Susan Wyatt contacted Mr. Blevins by telephone to let him know that a former employee had drawn down $28,000 but had not recorded it in the draw down sheet. HHI and NCHC were forced to review all expenditures that this former employee had paid without authorization. See attached audit for documentation. This former employee is one of the informants alleging inappropriate expenditures. Her anonymity was obliterated after the OIG Auditor told us the person(s) name making the allegations. Please see the contract amounts paid at the end of this being Exhibit 3.

The vehicles in question were <u>never</u> used for "personal use" as stated in the draft audit. Since there are no specific allegations we do not know how to respond to this broad interpretation.

The $4,700 cost of the 1994 Toyota Tercel was paid to Sue Middleton, who in turn gave the check to Ella Summers for the purchase of her car. Soon after purchasing the car, the motor locked up due to no oil in the car. We traded the car for the ISUZU. Please see Exhibit 1.

As far as the minutes from the Newton County Housing Council board meetings, we were prohibited from speaking with Dr. Nancy Haller regarding the SHP. Since Dr. Haller was chairman of the board, it was almost impossible for this to be brought up in the minutes of the meeting. Please see Exhibit 1.

There are over 2000 square miles of roads for this five county region. In addition, there are 2,000 square miles of dirt road. Without the vehicles, this project would be incapacitated. There is no public transportation and almost none of the clients of the project have transportation. Directors for both programs are on call 24 hours per day, seven days per week, and sometimes take the vehicles to their home due to their homes being centrally located to all five counties served to return to the workplace in another location.

Exhibits

1. Documentation of telephone calls to HUD LR Field Office - Charles Blevins
2. 24 CFR 583.405
3. July 1, 1996 Billy Parsley Letter to Nancy Haller
4. Feb 2, 2000 Board Minutes and addendum
5. Memo regarding transportation of SHP participants
6. Documentation of Advertising for vehicles
7. Documentation of problems with the 1996 Explorer
8. Documentation of Ella Summers purchase for 1994 Toyota Tercel

ALLEGED INAPPROPRIATE PAYMENTS FOR CONTRACTS RESULTING IN A CONFLICT OF INTEREST

Harmony House paid consulting fees to the director and six employees. CPA Larry Keeter was contacted regarding this transaction. As noted in the draft audit, these fees were paid from HHI general funds. These funds were given in lieu of retirement funds. Larry Keeter told us to keep this consistent with other fees paid though this line item in previous year's transactions for retirement. These costs were taken from HHI General Fund and are not subject to repayment to HUD as these costs were not incurred or expended from the SHP program. Please cite the federal code or regulation regarding payment of funds from a general account to HUD if these costs are outside the context of the grant.

Training fees from the DOJ program were expended as a "sole source" provider. This application was written for a "certified domestic violence trainer". Susan Wyatt was the only provider of this service at the beginning of the award. As soon as Lori Bradshaw moved back to Arkansas, she performed the training's as she and Susan Wyatt were the only two people to our knowledge at that time, that were certified instructors for domestic violence general studies for law enforcement. Lori Bradshaw, (Certified Instructor) was given the contract after her return to Arkansas in February 2000. Contracts were given to Tim Daley, a certified law enforcement trainer (outside of dynamics of domestic violence), Dr. Merlin Leach for child abuse reporting and with North Arkansas Partnership for Health Education. We are unable to understand why HUD OIG believes we should repay general funds (not directly related to HUD) back to them. We ask that you cite code and regulation regarding the request for payment of funds not within the grant application and funds expended from general account or other funds not from HUD.

Please see the attachment of the contract to show that Susan Wyatt contacted Larry Keeter, CPA, for approval of this expense. She received that approval on October 24, 1999. The board of directors approved this at the October 30, 1999, board meeting. Lisa Dixon abstained from voting on this or on Susan's salary. Lisa Dixon is a cousin to Susan Wyatt. However, Carolyn Reeves is no relation to either party. Please see the attachment regarding this. All three parties are certifying there is no relation between Carolyn (vice-chairman) and Lisa (chairman) as stated in the draft audit. As a matter of fact we have no idea where this information came from. We believe we followed CFR 583.325 (e) (iii) "Whether the affected person has withdrawn from his or her functions or responsibilities, or the decision making process with respect to the specific activity in question."

All across the United States the practice of cousins working together is commonplace and this does not constitute "conflict of interest." This is especially true for rural communities. Please see Exhibit 2 regarding ***familial*** definition and discrimination. As far as board members waiting for one year to be employed this practice is commonplace as well. As a matter of fact two emergency shelters in the Northwest Region of Arkansas (within the last two years) have fired the directors of the emergency shelters and the board chairman has taken that position. There is a state coalition in Arkansas just completing the hiring of the former chairman of the board. We believe that holding HHI to this rule would constitute "selective enforcement" and maintain that if you hold us to the rule noted, you must audit all emergency shelters in the state to assure that all are in compliance with this federal requirement. Please see the attached copy of the HHI audit and the related party transaction clause.

When HHI began operation in July 1996, it was hard to get anyone to be a board member or work on the weekend at the shelters. Lisa Dixon helped start HHI from scratch. She has a master degree in education, and is fully qualified to be a board member and completely abstains from any matter directly relating to Susan Wyatt. As a matter of fact, we believe we followed the non-competitive awards rule when HHI contracted with Ms. Wyatt as a sole source provider and believe we showed good faith by conferring with Larry Keeter, CPA as to the appropriateness of this cost. The work was done, separate from other duties at HHI and this cost was appropriate. Ms. Wyatt has over 3,200 compensatory hours and will never be able to be compensated for all those hours. We prevailed upon Ms. Dixon who at first was hesitant about being on this board. She is fully qualified and will maintain her position on the board. We maintain that a cousin relationship is not covered by this code and again refer you to the "family" definition attached from the dictionary.

Regarding the raise in salary, grantors agreed to pay portions of Susan Wyatt's salary based on this wage. Most of the directors of battered women shelters make a minimum of $35,000 per year. Ms. Wyatt is the director of five emergency shelters, supervises a domestic violence task force, performs training's and presentations not covered by contracts, but in the regular line of service.

Carolyn Reeves resigned from the board of directors in August 2000. She holds a master degree in education. She sits in during board meetings as a representative of the shelters. She is there for input only and does not have a vote. She was the only person we could get to work Saturday's at the shelter. We have had this problem since 1992. You must understand this is a small community. We have a hard time keeping good employees. This will be even harder if we cannot hire from within applicants being known to the executive director. Please check with other service providers within the state.

To the best of our knowledge most providers have a standard practice of hiring former board members without the one-year waiting period. Again we maintain that you must audit all Emergency Shelter Grant awards prior to making the determination that we have disregarded federal regulations by hiring from the board of directors, as it is commonplace throughout the state.

Charles Blevins approved the consulting fees for Sue Middleton to help complete the annual report. We contacted Mr. Blevins in August 1998 and he approved this request. As far as the contract for housing counseling from ESG, Sue Middleton was a sole source provider, not an employee of HHI and was performing "prevention services" not allowed under the SHP but under ESG. You must know as HUD employees that prevention services are allowable under the ESG. These costs were approved by the Little Rock DHS office, as we were told that SHP and ESG funds must be kept separate, thus the separate contract. Had the HUD OIG Auditor fully understood this and had she not disregarded the previous information sent to her this expense would have been fully allowable. Both the DHS County Administrator and the DHS Monitor have approved this expense. Again, we do not believe general funds should be repaid to SHP when they were not expended from this project.

We called Charles Blevins and asked if we could draw down funds for the quarter or if we should only make a draw for the month, and his answer was "I don't think it matters." Sue Middleton received the funds for housing counseling that were drawn down by this expenditure from SHP. Sue Middleton's address on the consulting fees expense is immaterial to this expense. All the work was done and documented.

Funds paid to Susan Wyatt's brother. On October 11, 1999, an ad was sent to the Harrison Daily Times requesting applications from an administrative assistant. No one applied. HHI was working under an emergency status as a previous employee had paid over $75,000 in unapproved costs. Please see the audit stating the ED had to hand re-code at the invoice level. Charles Blevins was notified of this problem. No one applied and the invoices were re-coded and we had to have someone put the information into quick books and develop a database. He was the only person known to the organization that had the expertise to develop a database. This man agreed to do the work and did the work timely and efficiently. This was approved by the board of directors and should not be questionable. This was an emergency and the work and grant reports had to be completed. Again, we do not believe that general fund costs should be repaid to the SHP. The same holds true for the sister in law of Susan Wyatt. We had to have this information entered and it had to be correct. There was no offer of a "job". We had to have this done. There was nothing else we could do. We believe that working on a database when almost no other organizations have one, shows a good faith effort. This was only a temporary position and is no longer needed as we have the capacity for this in our office at the present time. Again, we adamantly object to paying HUD general operating funds of HHI. Please see the attached documentation regarding the costs associated with building a database and data entry costs. We had an employee that worked to build a database and she was unable to do so. We hired a man for $40.00 an hour and he worked four hours and didn't return. We were at our wits end on working to get our numbers to be actually correct. The bookkeeper that would have put the checks from 1998 and 1999 into the computer was charging $25.00 per hour for this service. This service was received for $15.00 per hour, providing a service for anywhere between $10 to $25 cheaper for the brother to provide the service. According to Larry Keeter, CPA, the real issue is whether the work was done. Indeed the work was completed in a timely and efficient manner. Documentation of timesheets and work completed are available upon request. This can be accomplished by simply reviewing the 1998-99 expenses put into the computer and documented on quickbooks that was given to the HUD OIG Auditor.

Spouse of Susan Wyatt. This expense has been monitored and accepted by DHS Administrator Brad Bailey of Carroll County and the ESG program monitor Everlean Porter. (Please see copies of the monitoring reports.) We accepted bids and they were exorbitant. (Please see the attached copies of the bids.) We were five and one half months into the grant. Please see the attached monitoring report from DHS and a letter from Dr. Merlin Leach owner of the house. Please see the attached 1998 October ESG Monthly Report completed by Julie Milner, one of the "anonymous" informants to HUD OIG. Tim Wyatt donated more time than he was paid for. We followed the small purchase method prescribed by HUD stating the "grantees or subrecipients select the most advantageous offer ". This expense was approved by DHS and the funds were received from DHS. Again we believe these costs are reasonable and are not questionable. This shelter is not closed, and has been fully operational and open since 1999. Perhaps HUD OIG Auditor was referring to the closing of the Mary Martha House, which does not have any relationship to HHI and basically was the reason we had to open a shelter in Carroll after their closure. Please review newspaper clippings and support letters documenting need. Please note for the record there has been no domestic violence related deaths since the HHI shelter opened in early 1999. Here again, the OIG Auditor was mistaken regarding the closure of the shelter. According to CFR 583.325 (e) (3) (i) whether the exception would provide a significant cost benefit or an essential degree of expertise to the project would otherwise not be available." Susan Wyatt prevailed upon her husband and his friend to do this work. They performed this work with a high degree of quality and they definitely were the most advantageous for HHI and the Carroll County Community. According to CPA Larry Keeter, the evidence of grantee monitoring and approval from both the local and state level will be enough documentation of their knowledge and approval of this expense.

ED paid $3,737 to establish a "questionable" shelter in employee's home. We searched Searcy County for over 2 months to find a home to use for emergency shelter. We were unable to find anything that was not substandard as most rental properties are in Searcy County. HHI entered into a lease with Leonard Snow. This was a stop gap measure. When we found another place to put the shelter we terminated the lease. The request for termination was mutual. The reason the Snow's wanted to get out of the lease, was some homeless clients destroyed parts of the house. As to the number of shelter nights provided, we ask that you audit all the emergency shelters across the state of Arkansas prior to formalizing this request for repayment of ESG funds. Here again, if you do not, it would be "selective enforcement" of this federal guideline. It is not only standard practice for shelters to have nights that they are empty, it is the norm for service in a new area of the state, (or for that matter the entire United States) which this was. Thirty-four percent occupancy for a shelter that was only opened within the last three months in this rural area is actually very good. When you are dealing with battered women and their children you cannot insist that they stay at the shelter when they need to have their own home or lose their children. That is the case most of the time. We continued to give support service to these women. If all battered women shelters and emergency shelters operated on the premise that they must be full to receive funding, then all of the shelters across the United States would have to close. As HUD employees, we are sure you are aware that no where in any of the applications or guidelines does it state that you must meet an occupancy standard. This ESG project has been monitored by DHS and this expense was considered acceptable and allowable. Both the husband and the wife were volunteering their time to provide this service. The amount charged for this service was well within the cost of comparable facilities. Again, the state and local monitoring report will prove this cost was acknowledged and approved by the granting agency.

ED withdrew $2,000 of program funds for Christmas Bonus or morale boost. HHI denies that they did not keep proper documentation. These bonuses were handed out as cash, but taxes were taken from each employee's paycheck. See the attached documentation to prove the expense of these funds. These funds were actually withdrawn by the assistant director (Babs DeChant) and handed out at the Christmas Party. Susan Wyatt's father had recently died and she was out of the office during this period. She was also out working on the final report for HUD and the SHP. See the attached list of people receiving a morale boost of $100 each. Certainly a record was kept of this transaction and would have been made available to the HUD OIG Auditor upon request. Documentation was not only kept, but this amount was added into the salary for each and taxes were withheld as this documentation clearly shows. This expense was taken from the salary line item. According to SHP guidelines, this would not be more than the ten-percent line item change. The documentation of this expense is in exhibit 2.

Moral Boost for NCHC. Upon approval of Charles Blevins, the NCHC was given funds for morale boosts to help with the overwhelming tasks of preparation of the annual report. This permission was given on October 31,1998 for time put into the reporting process, we do not believe that it is unreasonable to pay project employees for extra work not covered by over-time as they are low salaried employees.

Scholarship Funds. This is not exactly what transpired when Faye Sullns was at our office. Susan Wyatt did tell Faye that "Trina and her son were the only two applicants". But this has been taken completely out of context. Trina and her son were attending North Arkansas College and Arkansas Tech respectively. They were participants in the homeless program. According to information in the book given out at training in LR, which we were not invited to attend, says that there will be annual evaluation of income. Trina's husband did not work, and was another person added into her transitional household. We followed protocol set by NCRC for the scholarship program. The $250 limit was in the technical submission not seen by NCHC or HHI personnel until November 20, 2000. Please see the attached documentation showing the amounts of the scholarships of $375 on September 6, 1996. We believed we had discretion on the amounts - up to ten per cent of the line item. There was $2,000 in the original line item. Several scholarships in excess of $250 were given to program participants in earlier years. We do not believe we violated 24 CFR 583 as the people in question were in a SHP and therefore eligible for this scholarship. Both went on to move into permanent housing and have good jobs. As HUD employees we are sure you understand that this is the intent of the SHP.

Daughter of the Newton County Director. To begin, Kitty Martin was put into the homeless program by Dr. Nancy Haller. She was determined eligible by Larry Watson, case manager of the SHP. She and her family came into the program on 6/4/97 and were on the program when HHI took over the administration of the SHP in August of 1998. Kitty, Justin (her husband) and Nickia were living in a travel trailer 12 foot in length. Kitty and her husband were sixteen years old. They were unable to get employment due to having the baby and no job skills. There was no bathroom in the trailer. Kitty and her family were in a serious car crash. Kitty's back was injured, along with knocking out several of her teeth. Nickia was thrown from the vehicle. Justin suffered minor injuries. This occurred on June 10, 1997. After Kitty's injury, she was unable to work for several months. According to their 1997 tax return their combined income was $2,038. Kitty Martin worked in employment assistance from October 1, 1998 until late January 2000. An extension past the original 24-month program was extended due to disabilities Kitty and her family suffered in the automobile accident. She was indeed homeless, and deserved the same benefits other homeless people have available to them. She was determined homeless by someone other than her mother, (Dr. Haller) and remained so for quite some time. The house they were living in had substantial hazard to their health including massive water leaks and they had to pay for over 10,000 gallons of water due to the leak. The family was rendered homeless by this substandard condition. The landlord would not fix the leaks and in addition raised their rent and they were unable to pay. They were at substantial risk of homelessness as defined by HUD, as being evicted within one week. Kitty passed her GED test; however, Justin has been unable to do so. According to the CFR and as HUD employees we are sure you are aware that we cannot discriminate against "familial" status. American Heritage Dictionary defines familial as "of or pertaining to the family". This clause comes from the 1964 Civil Rights Act as well as the Fair Housing Act.

The participant moved into the transitional house in late November 1999 and left March 2000. She was given a position for fulltime employment with SHP as a case manager in January and not employment assistance as alleged by Faye Sullins. Ms. Martin worked at NCHC office due to the fact the HHI Jasper Office was under inspection by OSHA after the assistant director called them in due to illness associated with "fumes".

The family's 1998 income was $9,025. See attached tax returns. This income amount is eligible for a family of three in Newton County to receive services through the SHP contrary to what the OIG Auditor claims. We are attaching the income scale for Newton County.

The Martins income was re-evaluated in 2000. Kitty had her tax return in to HHI office in early March 2000 for the tax year 1999. Her income was $19,014 and was still within adjusted income limits for Newton County. However, since she was now operating under the case manager line item instead of the employment assistance line item, a decision was made to move her from the transitional house into permanent housing. The Martins purchased a home in March of 2000. See attachment of 1999 adjusted gross income guidelines. We adamantly disagree with any finding regarding this family. They were eligible for services and received those services without prejudice to them. She and her family were in the program three separate times since the original date of 6/5/97.

The bonus received by Ms. Martin was for her assistance during the annual report stage of the project and it is well within the limits of the program income limitations in Newton County. Her salary for case management was below the income limits at $15,987.84 per year. Her husband was not working during this time and has only been able to work sporadically since entrance into the program. This family moved from a 12-foot travel trailer in 1997 into a home of their own in 2000. We are sure upon review you note that this is not only an allowable expense but this was a tremendous success story. Ms. Martin now is employed with Alltel and she and her family are totally independent due mainly to the SHP. This is the true intent of the SHP. This expense was reviewed during the 9/30/99 audit by Larry Keeter CPA, and he agreed with the determination of elgibility.

Ineligible employee. This participant was not an employee, but a worker under the employment assistance line item. This has been explained on more than one occasion. This woman was not married at time of entrance into the program.

She was staying with a niece in Newton County and was at risk of homelessness within one week due to eviction. The information in the draft audit is questionable and frankly, we do not know where the auditor got her information. The woman was homeless by self-declaration, which is entirely allowable. She was a battered woman. We keep vague notes on women that are at-risk of losing their children to a batterer. The male moved in with her after marrying the woman. We could not discriminate (Fair Housing Act and Civil Rights Act) against the male once in the household. Information from our files (contrary to what the HUD OIG auditor says and we can have documented by a prosecutor or judge) can be subpoenaed. As a matter of fact we have had this happen. This man had taken custody from a previous wife and would not have hesitated to do so against his girlfriend. Tuition costs were allowable as a scholarship. This woman was eligible and all costs associated are allowable. Here again, this participant has moved into permanent housing, has a good job at DHS and is a success story for the SHP. Battered women have special needs, and this participant qualified as a battered woman. See attached documentation. This was audited in FY 99 and determined by CPA Larry Keeter as an eligible participant.

Third ineligible participant. Shanna Lee was put into the program by an employee with ties to the library board. The former employee was a "bookkeeper" and was not a "case manager" and wasn't allowed to "enter" participants into the program. The previous employee was terminated and is the person calling HUD OIG telling them we drop participants from the program. We are seeking recovery of these funds from our employee dishonesty bond insurance. While we accept that this transaction was perpetrated by an employee that was not a case manager and did not have proper authorization to proceed with this placement at the library, we want to explain that we "tagged" this file after speaking with Larry Keeter, CPA. See attached documentation from her file. This participant Shanna Lee and Julie Milner, a previous employee, terminated by HHI board of directors and the directors of NCHC and HHI respectively. As soon it became apparent Ms. Milner had paid over $75,000 without drawing funds from the grants and drew down funds from some grants to cover expenditures that were not documented. As stated previously, we contacted all of the grantors, and had extensions for the annual reports. Charles Blevins received the information in August 1999. Action was taken immediately to terminate Ms. Milner and Ms. Lee. Ms. Milner was a friend of Shanna Lee who was working at the library through this program. This is a dishonesty issue and it is currently being addressed. We determined in early January 2000, that Shanna Lee was ineligible for this program and are seeking to recoup these funds from our insurance company as well.

As with all of the above "ineligible" costs, we brought the three files of the participants mentioned above to HUD OIG. We simply knew after being told who was responsible for these claims that these were the files she would need to see.

We deny that our files are incomplete and cannot address this without specific allegations

EXHIBIT 2

1. DOJ training contract for Susan Wyatt
2. Documentation regarding cousin relationship of chair and vice chair
3. 24 CFR 583.325 (e) (iii)
4. Definition of "familial
5. 1999 Audit
6. Advertising for administrative assistant
7. Advertising for renovation (ESG)
8. Copies of bids
9. Letter from Dr. Leach regarding closure of the shelter
10. 24 CFR 583.325 (e) (3)
11. Newspaper clippings and letters documenting need of Carroll County Shelter
12. Documentation of monitoring report from DHS monitor, Everlean Porter and DHS County Administrator Brad Bailey
13. Christmas Bonus Documentation
14. Documentation from training book from HUD regarding allowability of morale boosts
15. Documentation of scholarships
16. 24 CFR 583 regarding the intent of SHP
17. Documentation of eligibility of Kitty Martin, tax returns & income limits
18. Documentation of eligibility for Aaron Tucker
19. Tuition costs allowability (scholarship)
20. Shanna Lee "tagged" file information
21. SHP Intake and Data Forms created by HHI and NCHC

Directors of NCHC and HHI decreased Newton County's services without HUD's approval. We categorically deny this allegation. These services were consistent with the contracts from NCRC and specific expenses were paid from the appropriate line items. Simply because it wasn't listed in the contract does not mean we were not providing the service. After Ms. Milner overdrew our grant funds, we were forced to raise some funds locally to ensure that the SHP and other grants were completed with the utmost care. All of the services and responsibility line items were provided as we documented to the HUD OIG Auditor. Had she been trained for the HUD programs prior to auditing us, we maintain she would have better understood our filing and payment schedule. This OIG Auditor told us she was going for two weeks of training the following week. We submit, she did not understand the differences between ESG and SHP and could not effectively audit our organizations. The auditor totally disregarded the information given to her and only submitted bits and pieces to Will Nixon for review.

Transfer of funds: The following is a complete explanation of each transfer noted by HUD OIG.

1 March 18, 1999 $5,163 was transferred into 9-302-1 (general account) from SHP by check 1414. A copy of the check stub clearly notes that $582 was for operation expense $2,000 for administration and $2,581 was for support services provided by the general fund.

2 A&B July 15, 1999 AND JULY 21, 1999: Check number 1726 for $10,000 was put into account 9-302-1. On July 21, 1999, check number 2847 from 9-302-1 was returned to the SHP account and was documented as "drawn too early. The remainder of the sum was $4,500 for the September contract and $2,500 transfer on 11/22/99. This was not paid earlier, as the previous bookkeeper had confused all the accounts and didn't note on all transfers what they were for. This was found after a review by the management.

3 October 1, 1999 was a $3,000 transfer from one general account to the other. One account was at First Federal and one at Bank of the Ozarks. The bank account at First Federal was later used for a federal VAWA grant.

4 October 18, 1999 was a $3,000 check from 9-989-5 into 9098119807 (First Federal) which was repaid on 11/22/99 from SHP check 2056.

5 October 24, 1999 was a $3,100 payroll transfer from SHP into the general account to repay payroll from payrolls previously paid from general funds. This is not a supplanting issue as the funds from another grant were used by mistake by a new bookkeeper.

6 November 18, 1999 check for $6,500 was repaid November 22, 1999 by a bank draft of $2,900 from bank officer George Landrum, $700 from the payroll account, $2,000 cash and the other $900 was applied to payroll taxes.

7 November 30, 1999 transfer for $6,500 from 9-989-5 into First Federal 9098119807 to be applied to employment assistance amount of $8,239.23.

Harmony House, Inc. reports reflect that HHI did not receive the entire contract amount due them. Please see Exhibit 3 for the documentation regarding this. The bookkeeper (Ms. Julie Milner) drew down $28,000 without documentation of the draw in 1999. Harmony House was shorted $27,000 in the next fiscal year. However, services were provided and have continued to be provided. We are awaiting repayment of these expenses.

The major portion of this was due to working through the budget on the grant application and not having the technical submission until 11/20/2000. When Mr. Blevins worked with us in 1998 and came up to help us make sure we had the right information, we asked him if the grant was all we needed. He told us we had everything we needed and to keep doing what we had been doing. We asked him what information we needed to have to document eligibility in the event of monitoring. He stated "Who's gonna monitor you, I'm the only one that can do that and I don't have the funds." While we did not try to take advantage of this statement, we believe that this was very inappropriate for him to say this and not provide the technical assistance needed and requested. There were at least ten witnesses to this statement.

EXHIBIT 3

1. Documentation of transfers
2. Documentation from NCRC previous reports

SUMMARY

Please consider our answers in regard to allegations made by disgruntled former employees. We would have gladly given any information prior to this draft if asked. We consider the allegations made by OIG to have foundations based in personal attacks. Does this project need improvement? Yes. We are always open to suggestions and formally request training and technical assistance. We will fully comply with all HUD rules and regulations or pursue any actions HUD feels necessary to improve operations of this project.

When we took over this program it was in shambles. We only agreed to take it to prevent loss of the program for the community. We were told by the NCRC board of directors to have no contact with Dr. Haller on this project. The NCRC board did not want this contact due to what they believed were improprieties and inconsistencies in both record keeping and falsifying records or as Dr. Haller called it on many occasions, fudging. Not only was she a former employee of the NCRC, she was vice chairman and then chairman of NCHC which constituted a real conflict of interest. The NCRC board believed that she was moving this program to HHI and NCHC so she could continue to control this project as a board member and through Babs DeChant then assistant director of HHI and supervisor of the SHP in August 1998 - July 1999.

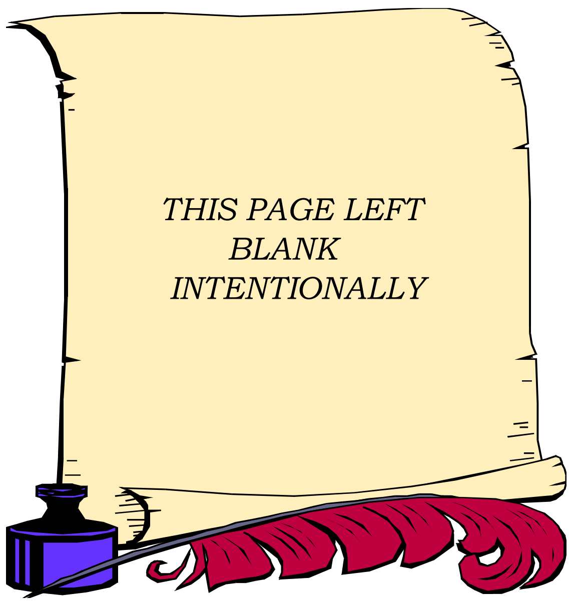
We made improvements to the project with the addition of a database. The existence of this database should completely refute the claim by the OIG Auditor that the executive director of HHI stated we "pick a day" to complete the annual report. As employees at HUD, we are sure you know the time needed to properly complete the report. As for the allegation that the report submitted contained inaccurate figures, we offer this explanation. We thought the question meant the number of persons placed in housing as of the September 30, 1999 date. At any rate, the explanation by the OIG auditor apparently takes into account only one HHI shelter and not all five. Her figures must be incorrect as well. When Mr. Blevins called asking for this information, he stated that this was a confusing question, and he understood how it could be misunderstood. The figures were not of the people served 1997 through 1999, but simply listed the date entered into the SHP. Please see previous reports by NCRC containing similar figures. Please note only one emergency shelter prior to 1999.

We did not offer to show any thing extra to OIG after the auditor insisted upon arrival that our recording keeping "Sucked" and that NCHC's bookkeeping "Double Sucked". (The record keeping that "sucked" was records kept by Ms. Milner the person responsible for this audit in first place.) This was entirely unprofessional behavior and we have been treated badly through this whole ordeal and we believe discriminated against due to working with battered women. This must be true as we are forced to explain why some of the case notes are not fully documented after complete disclosure to the OIG Auditor previously regarding this issue.

We asked Mr. Blevins what information we needed to record. He said there were no forms at the local level for data collection. He told us to "keep on doing what you've been doing." Please see the attached forms created by HHI and NCHC to try to effectively gather data.

We believe we have done the best job we can without training and little technical assistance. We have been unable to discuss any issue surrounding this audit with the LR Field Office and have been completely cut off from the technical advisor since October 2000. The LR Field Office has discussed these matters with Porter Young reportedly representing himself as a representative of the NCRC board of directors when he was not authorized to do so. It should be noted that Mr. Young is the husband of Dr. Haller and served on the NCRC board while she was chair of the NCHC board. This constitutes a real conflict of interest. We followed protocol set forth in by-laws and personnel policies. We have had no "conflict of interest" as the contracts performed were the most advantageous to the program. Many times the people were prevailed upon to actually do this work because we couldn't get anyone else to do it. We advertised, we contacted and disclosed in board minutes as well as contracts to any relationship that could be questionable. Again, we adamantly oppose any repayment of funds other than the Shanna Lee ineligibility question.

Please cite all codes as requested in the body of this project. Please contact us by writing only at the HHI address. We also ask that you fully explain any appeal process in any finding resulting in repayment of SHP funds. Again, we do not oppose a fair and just audit report. Please confirm exit interview date in writing to HHI as several people representing us will attend.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