



Issue Date:
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Audit Case Number:
2002-AT-1005

TO: Charles H. Williams, Director, HUD's Office of Multifamily Housing Assistance Restructuring, HY

FROM: Nancy H. Cooper  
Regional Inspector General for Audit, Region 4, 4AGA

SUBJECT: Congressionally Requested Audit of the Outreach and Technical Assistance Grants and Intermediary Technical Assistance Grants awarded to the North Carolina Low Income Housing Coalition, Inc., Raleigh, North Carolina

### **INTRODUCTION**

We completed an audit of the two Outreach and Technical Assistance Grants (OTAG) and three Intermediary Technical Assistance Grants (ITAG) awarded to the North Carolina Low Income Housing Coalition, Inc. (Grantee). The audit found that the Grantee overcharged the grants \$63,457 for ineligible costs, and did not comply with other requirements under the Office of Management and Budget's (OMB) Circular A-122, Cost Principles for Non-Profit Organizations. Our report contains nine recommendations to address the issues identified in the report and strengthen management controls over the Grantee.

Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117) requires the Department of Housing and Urban Development (HUD) Office of Inspector General to audit all activities funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). The directive would include OTAG and ITAG administered by the Office of Multifamily Housing Assistance Restructuring (OMHAR). Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities.

In conducting the audit, we reviewed the Grantee's accounting records and interviewed responsible staff. We also reviewed the requirements in MAHRA, the OTAG Notice of Fund Availability, the OTAG grant agreement, HUD's requirements for grant agreements for nonprofit entities, and Office of Management and Budget's guidance on the allowability of costs for nonprofit grantees.

The audit covered transactions and grant activity that occurred during the period October 1998 through June 2002. We performed the fieldwork at the Grantee's offices located at 3948 Browning Place, Suite 210, Raleigh, North Carolina, 27609 during June and July 2002. We conducted the audit in accordance with generally accepted government auditing standards.

We appreciate the courtesies and assistance extended by Grantee personnel during our review.

We provided our draft report to the Grantee for their comments on August 22, 2002. The Grantee provided their written comments on September 12, 2002. The Grantee indicated they have taken a number of corrective actions to address the findings. The Grantee's comments are summarized in each of the findings and included in Appendix B.

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

Should you or your staff have any questions, please contact James D. McKay, Assistant Regional Inspector General for Audit, at (404) 331-3369.

## **SUMMARY**

We did not identify any ineligible lobbying activities. However, the Grantee obtained advances in excess of program needs, claimed reimbursement for expenditures not paid, and claimed reimbursement for the same expenses twice, resulting in overcharges to the grants of \$52,083. Also, the Grantee did not use a cost allocation method or plan that complied with guidance in OMB Circular A-122. The lack of an adequate cost allocation plan resulted in overcharges to the grants of at least \$9,030. Furthermore, the Grantee hired a nonprofit organization to conduct portions of the grant activities under a cost reimbursable type contract. Of the invoices submitted by the contractor in the amount of \$166,470, we determined \$73,361 was not adequately supported. Without adequate supporting documentation, the \$73,361 represents potential overcharges to the grants. In addition, we determined that \$2,344 in contractor salaries and benefits represents overcharges to the grant. Our report contains recommendations to address these issues and to strengthen management controls over the Grantee. We recommend you consider suspending grant funding until the Grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for the expenditures complies with OMB Circular A-122.

## **BACKGROUND**

MAHRA established OMHAR within HUD. Utilizing the authority and guidelines under MAHRA, OMHAR's responsibility included the administration of the Mark-to-Market Program, which included the award, and oversight of the Section 514 Outreach and Training Assistance and Intermediary Technical Assistance Grants. The objective of the Mark-to-Market Program was to reduce rents to market levels and restructure existing debt to levels supportable by these reduced rents for thousands of privately owned multifamily properties with federally insured mortgages and rent subsidies. OMHAR worked with property owners, Participating administrative entities, tenants, lenders, and others to further the objectives of MAHRA.

Congress recognized, in Section 514 of MAHRA, that tenants of the project, residents of the neighborhood, the local government, and other parties would be affected by the Mark-to-Market Program. Accordingly, Section 514 of MAHRA authorized the Secretary to provide up to \$10 million annually (\$40 million total) for resident participation, for the period 1998 through 2001. The Secretary authorized \$40 million and HUD staff awarded about \$26.6 million to 38 grantees (a total for 81 grants awarded). Section 514 of MAHRA required that the Secretary establish procedures to provide an opportunity for tenants of the project and other affected parties to participate effectively and on a timely basis in the restructuring process established by MAHRA. Section 514 required the procedures to take into account the need to provide tenants of the project and other affected parties timely notice of proposed restructuring actions and appropriate access to relevant information about restructuring activities. Eligible projects are generally defined as HUD insured or held multifamily projects receiving project based rental assistance. Congress specifically prohibited using Section 514 grant funds for lobbying members of Congress.

HUD issued a Notice of Fund Availability in fiscal year 1998 and a second in fiscal year 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants - ITAG and OTAG. The Notice of Fund Availability for the ITAG states that the program provides technical assistance grants through Intermediaries to sub-recipients consisting of: (1) resident groups or tenant affiliated community-based nonprofit organizations in properties that are eligible under the Mark-to-Market program to help tenants participate meaningfully in the Mark-to-Market process, and have input into and set priorities for project repairs; or (2) public entities to carry out Mark-to-Market related activities for Mark-to-Market-eligible projects throughout its jurisdiction. The OTAG Notices of Fund Availability state that the purpose of the OTAG Program is to provide technical assistance to tenants of eligible Mark-to-Market properties so that the tenants can: (1) participate meaningfully in the Mark-to-Market program, and (2) affect decisions about the future of their housing.

OMHAR also issued a December 3, 1999, memorandum authorizing the use of OTAG and ITAG funds to assist at-risk projects. OMHAR identified these as non-Mark-to-Market projects where the owners were opting out of the HUD assistance or prepaying the mortgages.

HUD's regulations at 24 Code of Federal Regulations (CFR) Part 84 contain the uniform administrative requirements for grants between HUD and nonprofit organizations. The regulations (24 CFR 84.27) require that nonprofit grantees utilize OMB Circular A-122, Cost Principles for Non-Profit Organizations, in determining the allowability of costs incurred. OMB Circular A-122 outlines specific guidelines for allowability of charging salaries and related benefits to the grants and the records needed to support those salaries. For indirect costs charged to the grant, the Circular establishes restrictions for indirect costs, and specific methods and record keeping requirements to support the allocation of costs.

The Circular also establishes the unallowability of costs associated with Federal and state lobbying activities. Simply stated, the use of federal funds for any lobbying activity is unallowable. OMB Circular A-122 identifies some examples of unallowable lobbying activities. These include any attempt to influence an elected official or any Government official or employee (Direct Lobbying) or any attempt to influence the enactment or modification of any actual or pending legislation by propaganda, demonstrations, fundraising drives, letter writing, or urging members of the general public either for or against the legislation (Grassroots Lobbying).

The Grantee received two separate OTAGs. HUD awarded the first grant<sup>1</sup> in fiscal year 1998 in the amount of \$250,000. HUD awarded the second grant<sup>2</sup> in fiscal year 2000 in the amount of \$450,000. Funding under both grants was for a period of 3 years. Only \$270,000 of the second grant has been authorized. The Grantee submitted vouchers to OMHAR for reimbursement of expenditures. As of June 30, 2002, the Grantee had requested and received reimbursements totaling \$250,000 under the 1998 OTAG. For the 2000 OTAG, the Grantee had requested and received reimbursements totaling \$121,043.

In addition to the OTAG funds, the Grantee received three ITAGs awarded through the Low Income Housing Fund (an intermediary Grantee). Each of these ITAGs was awarded in the amount of \$20,000. As of June 30, 2002, the Grantee had requested reimbursements totaling \$29,683 under the ITAGs.

The Grantee also received grants from non-federal sources, such as the North Carolina Housing Finance Agency, and several local foundations as well as donations, dues, fees, interest income, and other miscellaneous funds.

The Grantee's financial statements were audited by a Certified Public Accountant (CPA) for each of the years ending June 30, 1999, June 30, 2000, and June 30, 2001. The CPA provided an unqualified opinion for each of the years. The audit reports did not identify a cost allocation method used by the Grantee.

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<sup>1</sup> FFOT98022NC

<sup>2</sup> FFOT00025NC

## FINDINGS AND RECOMMENDATIONS

### **FINDING 1 – GRANTEE OBTAINED ADVANCES IN EXCESS OF PROGRAM NEEDS, CLAIMED REIMBURSEMENT FOR EXPENSES NOT ACTUALLY PAID, AND CLAIMED SOME EXPENSES TWICE.**

The Grantee requested and received two advances but failed to account for these advances when submitting subsequent requests for reimbursement of expenditures. Furthermore, the Grantee lacked support to show that these advances represented immediate program needs. Subsequently, the Grantee did not offset expenditures against the advances, claimed reimbursement for expenses it did not actually pay, and claimed reimbursement for some expenses twice. The Grantee's failure to maintain adequate accounting records and reconcile expenditures per the accounting records with the payment vouchers submitted for reimbursement allowed the advances and overcharges to go undiscovered. The advances and incorrect reimbursement requests resulted in overcharges to the grants totaling \$52,083.

OMB Circular A-110, Paragraph 22 (b), states that recipients of grants can be paid in advance provided the advances are limited to the minimum amounts needed and timed to be in accordance with the actual, immediate cash requirements in carrying out the purpose of the approved program or project. Furthermore, the Outreach and Training Grants Payment Voucher form contains a certification statement that: "I certify the data reported and funds requested on this voucher are correct and the amount requested is not in excess of immediate disbursement needs for this program. In the event the funds provided become more than necessary, such excess will be promptly returned, as directed by HUD."

Furthermore, Paragraph 21 (b) (2) provides that the recipient's financial management system shall provide for records that identify adequately the source and application of funds for federally sponsored activities. Paragraph 21 (b) (7) states that the system must provide accounting records including cost accounting records that are supported by source documentation.

#### Advances in excess of program requirements.

On October 26, 1999, the Grantee submitted Payment Voucher 084000193 requesting total reimbursement of \$26,386 for the period of July 1, 1999, through September 30, 1999. Of this total, \$25,000 was requested as an advance and the remaining \$1,386 was for reimbursement of expenditures under the grant. The payment voucher contained notations identifying \$25,000 as an advance and identifying the person at OMHAR who had given verbal approval for the advance.

On September 18, 2001, the Grantee submitted Payment Voucher 084000804 requesting total reimbursement of \$18,587 for the period of April 1, 2001, through September 30, 2001. Of this total, \$5,755 was requested as an advance and the remaining \$12,832 was for reimbursement of expenditures under the grant. The \$5,755 was used to bring the total amount of reimbursements under the 1998 OTAG up to the \$250,000 award amount. The Grantee was in the process of closing out the grant and drawing down the full award amount.

We reviewed the subsequent payment vouchers submitted by the Grantee through June 2002 and determined that neither of these advances was ever offset against subsequent expenditures. Thus, the advances totaling \$30,755 remain outstanding. The Grantee lacked documentation to support that these advances represented immediate cash requirements for the OTAG Program as required by OMB Circular A-110.

Neither of these advances was properly accounted for in the financial records and therefore was not identifiable as outstanding advances. The current Executive Director stated that she was not aware of the first advance. She was not employed by the Grantee at the time the advance was requested and received. She said she was aware of the second advance but understood there were offsetting expenditures.

Duplicate requests for reimbursement, and request for expenses not actually paid.

Our review of the payment vouchers submitted by the Grantee identified that the Grantee had included the same \$5,657 in expenditures on two different vouchers; included expenditures of \$9,064 for the month of October 2001 twice in one voucher; and requested reimbursement of subcontract expenses of \$6,607 that were not paid. These items resulted in overcharges to the grants totaling \$21,328.

We determined that the Grantee did not maintain financial accounting system records in compliance with requirements of OMB Circular A-110. The Grantee's accounting records did not identify adequately the source and application of funds for federally sponsored activities. The Grantee's lack of adequate accounting records, and failure to reconcile expenditures per the accounting records with the payment vouchers submitted for reimbursement allowed the overcharges to go undetected and remain unresolved.

**AUDITEE COMMENTS**

The Grantee responded that it had incurred at least \$10,000 in direct and indirect costs relating to the 1998 grant that had not been requested. The Grantee said it would ask OMHAR to allow it to offset the unclaimed costs against the \$25,000 advance.

The Grantee responded that it had extended a contract by \$10,000 for the period July 1, 2001, to October 2001 but inadvertently charged the costs to the 2000 grant. The Grantee plans to reclassify the costs to the 1998 grant, offset the costs by the \$5,755 advance and \$5,657 claimed twice, and reimburse the difference of \$1,412.

The Grantee said it would reimburse the \$6,607 for subcontract expenses that were not paid.

The Grantee said it had obtained a new CPA firm and that they were reviewing all documentation to ensure all expenditures are appropriately reflected on the payment vouchers. The new CPA is also assisting the Grantee in strengthening internal controls, establishing an accounting system to track all funding sources and expenses, and implementing a grant reimbursement method to prevent any future excessive grant draws.

## **OIG EVALUATION OF AUDITEE COMMENTS**

The Grantee's response did not address the total overcharges of \$52,083. Given the mistakes discussed in this finding and the deficiencies in the supporting documentation for contractor and subcontractor expenses discussed in this finding and Finding 3, we question whether the Grantee can fully support the amounts claimed with adequate documentation.

The Grantee must keep in mind that OMB Circular A-122 specifies that expenses must be incurred specifically for the award. Expenses cannot be shifted from one award to another for the purpose of satisfying a deficiency identified in an audit report.

The Grantee must provide OMHAR documentation to support their claim for any additional expenses and provide assurances that these expenses have not already been claimed against the OTAG or other grants.

## **RECOMMENDATIONS**

We recommend your office require the Grantee to:

- 1A. Repay the grant \$52,083 for advances in excess of program needs, expenses claimed twice, and expenses not actually paid, or offset the reimbursements by properly supported costs.
- 1B. Reconcile expenditures per the accounting records with the payment vouchers submitted for reimbursement.
- 1C. Maintain fund accounting systems and records that clearly identify the source and application of grant funds.

**FINDING 2 – GRANTEE FAILED TO USE A COST ALLOCATION METHOD THAT COMPLIED WITH OMB CIRCULAR A-122**

The Grantee did not use a cost allocation method that complied with the guidance in OMB Circular A-122, Attachment A, to allocate indirect costs to the grants. Instead, the Grantee used methods based on estimates and predetermined percentages, and the methods, estimates, and percentages were not always supported by adequate documentation. Due to the lack of an adequate cost allocation method and deficiencies in the accounting records, the Grantee could not support the appropriateness of allocating much of the indirect costs to the grants. These same deficiencies prevented us from determining the exact extent of the overcharges to the grants. However, we concluded that the lack of an adequate cost allocation plan resulted in overcharges to the grants of at least \$9,030.

Title 24 CFR 84 contains the administrative requirements for grants between HUD and nonprofit organizations. Title 24 CFR 84.27 requires that nonprofit Grantees use OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, in determining costs that are allowable to be charged against grants. The Circular establishes restrictions for indirect costs, and provides specific cost allocation methods and record keeping requirements to support the allocation of costs.

Recipients of Federal Grants are also subject to OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*. Circular A-110, Sub Part C, *Financial and Program Management*, Paragraph 21 (b) (2) provides that the recipient's financial management system shall provide for records that identify adequately the source and application of funds for federally sponsored activities. Paragraph 21 (b) (7) provides that the system must provide accounting records including cost accounting records that are supported by source documentation.

**Grantee's various allocation methods**

The Grantee used several different methods to allocate indirect costs to the grants. Due to incomplete and inadequate supporting documentation, we were unable to identify all the methods used by the Grantee, but did identify some of them. During the first 15 months of the grant (October 1998 – December 1999) it appears the Grantee allocated salary expenses, plus a fixed 20 percentage for fringe benefits, based on the number of hours individual employees worked on the various programs. These hours were also the basis for determining the percentages to be used for allocating other indirect costs. In theory, this method would comply with most of the principles of a valid cost allocation method under OMB Circular A-122, except for the use of the fixed percentage for fringe benefits.

From the period January 1, 2001, to June 30, 2001, the Grantee allocated salaries based on 25 percent of the Executive Director's time. Although there were no formal records to support the allocation method, we reviewed the time sheets for this period and determined that the Executive Director spent at least 25 percent of her time on OTAG activities.

From July 1, 2001, to the present time, the Grantee used an estimate of time various employees spent on each program to allocate salaries, payroll taxes, insurance, and retirement costs. This method and resulting percentages was applied to the salary and fringe benefits expenses for the Executive Director, Executive Assistant, Associate Director, Program/Policy Associate, and a temporary worker. These percentages were adjusted in October 2001 but remained relatively the same throughout the entire period. By averaging the individual percentages for these employees, the Grantee developed an overall percentage for use in allocating other indirect costs to the grants. These percentages also remained relatively the same throughout the period. The Grantee's accounting system automatically distributed the costs to various programs based on the predetermined (estimated) percentages.

We tested the reasonableness of the estimates of time spent by employees on the OTAG Program. To accomplish this, we obtained and reviewed the time sheets for the Executive Director and Associate Director for the period of July 2001 to June 2002. The salaries and benefits for these two individuals accounted for the majority of the total salaries and fringe benefits charged to the grants. Both these individuals performed project specific activities as well as administrative functions, thus their charges represented a combination of direct costs and indirect costs.

Using the time sheets, we calculated the total hours spent on the various programs by these two individuals and the percentage of time spent on the OTAG Program. We then compared our results with the percentages used by the Grantee to allocate indirect costs. Our comparison showed that the Grantee over charged the grants by at least \$9,030 in salaries and benefits during the period of July 1, 2001, through June 30, 2002. The Grantee's payment vouchers did not directly relate to the accounting system records, thus, we were not able to allocate the overcharges between the two individual grants. The Grantee was continuing to use estimated time rather than actual time. Therefore the actual overcharge to date is more than \$9,030.

The time sheets contained the necessary detail that would allow them to be used to formulate a cost allocation method that complied with OMB Circular A-122. However, the Grantee chose to use predetermined percentages based on estimates. The Executive Director stated that she has support for the estimates and predetermined percentages used to allocate indirect costs, including salaries and fringe benefits. However, the support was not provided as of the completion of our fieldwork.

The Executive Director stated that the time sheets we reviewed did not reflect the full amount of time she actually worked on the OTAG Program. She said the time sheets only accounted for a normal 8-hour workday. She said that she did not record additional time she worked because she did not think she could. Additionally, the Executive Director provided additional time sheets for the period from July 2000 to December 2000 when none of her time was charged to the grants. These time sheets reflect that the Executive Director spent approximately 5 percent of her time on OTAG activities, which would amount to approximately \$1,562 for this period. These time sheets were not prepared in accordance with OMB Circular A-122 requirements because they showed only a notation of time charged to the OTAG Program and did not account for time spent on other Grantee programs. In other words, her total time was not accounted for or allocated among the various programs.

We considered the information presented by the Executive Director concerning her time. However, we did not make any adjustments because the time keeping records were not in compliance with OMB Circular A-122. Also, since all of the Executive Director's salary should have already been distributed to the various programs, there would be no basis for applying the results of any analysis without adjusting all programs where the Executive Director's salary and benefits had been charged. The condition of the accounting system records would not permit this to be accomplished in a reasonable timeframe, if at all.

Allocation of other indirect costs was not supported.

Other indirect costs were allocated to the grants based on usage by the employees. This method resulted in various percentages. For example, rent was allocated at 44 percent while office supplies was allocated at 50 percent. The Executive Director said she kept notes on how she determined the percentage of usage, but these were not formal and were not available at the completion of our fieldwork. We were not able to tell from the accounting records how much other indirect costs had been charged, and therefore, we were unable to determine the reasonableness of these other indirect costs charged to the grants.

**AUDITEE COMMENTS**

The Grantee said it would request OMHAR to allow a \$9,030 adjustment to the next draw request for the overcharges in salaries and benefits during the period of July 1, 2001, through June 30, 2002.

The Grantee said it had hired a new CPA firm who had assisted in the development of a new cost allocation plan. The Grantee said it had submitted the new cost allocation plan to OMHAR and would charge future costs to the grant based on OMHAR approved methodology.

**OIG EVALUATION OF AUDITEE COMMENTS**

The Grantee has begun to take actions that should correct the deficiencies noted in the accounting system, management controls, and documentation of expenditures charged against the Grants.

**RECOMMENDATIONS:**

We recommend your office:

- 2A. Determine whether the Grantee's new cost allocation method complies with OMB Circular A-122 before allocating any more indirect costs to the OTAG Program.
- 2B. Require the Grantee repay the grants \$9,030 for ineligible costs and any additional overcharges after June 2002 or offset the overcharges against future draws.

**FINDING 3 – GRANTEE CLAIMED REIMBURSEMENT FOR INADEQUATELY SUPPORTED CONTRACTOR EXPENSES**

The Grantee claimed reimbursement under the OTAG for contractor expenses without having adequate support. The Grantee hired a nonprofit organization to conduct portions of the grant activities under a cost reimbursable type contract. The contractor in turn hired subcontractors to perform portions of the grant activities. The contractor submitted invoices to the Grantee and requested reimbursement for cash advances and expenses incurred by the contractor and subcontractors. The Grantee did not verify that the contractor had supporting documentation required by OMB Circulars A-122 and A-110 before paying these invoices or claiming reimbursement under the OTAG. The Grantee claimed reimbursement for a total of \$166,470 based on contractor invoices. Of this total, \$73,667 was for the subcontractors. We determined that \$73,361 for subcontractor expenses was not adequately supported. Without adequate supporting documentation, the \$73,361 represents potential overcharges to the grant. In addition, we determined that \$2,344 in contractor salaries and benefits represents overcharges to the grant.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, General Principles, Paragraph 2 (g), provides that for costs to be allowable, they must be fully documented. Attachment B, Paragraph 7 m (1), Support of salaries and wages, provides in part that charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the organization. OMB Circular A-122, Paragraph 3 (b) states that the requirements of the Circular also apply to subcontracts if the subcontractor is a non-profit organization.

Recipients of Federal Grants are also subject to other OMB Circulars including OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*. OMB Circular A-110, Sub Part C, Financial and Program Management, Paragraph 21(b)(2) provides that the recipient's financial management system shall provide for records that identify adequately the source and application of funds for federally sponsored activities. Paragraph 21(b)(7) provides that the system must provide accounting records including cost accounting records that are supported by source documentation.

With the resignation of its executive director in July 1999 the Grantee contracted with the North Carolina Justice and Community Development Center (Justice Center), a nonprofit organization, to operate the OTAG Program until a new executive director could be hired. This arrangement with the Justice Center began in October 1999 and continued until March 2001. The Justice Center subcontracted with several other nonprofit organizations to perform portions of the OTAG activities in various parts of the state. The Justice Center submitted quarterly invoices that requested reimbursement for activities performed by it and its subcontractors. These invoices generally included a request for an advance for the next quarter, plus a settlement for the current quarter based on actual expenditures offset by previous advances.

We reviewed all of the LOCCS Payment Vouchers totaling \$250,000 submitted by the Grantee under the 1998 OTAG and determined that \$166,470 was based on invoices from the Justice Center. Of this total, \$73,667 was for the subcontractors and the balance was for expenses incurred by the Justice Center. We requested supporting documentation for these invoices from the Grantee and Justice Center. In response to our request, we were provided a copy of a budget report, a summary cost ledger listing OTAG expenditures, invoices from the subcontractors, and other documentation. The Justice Center also provided time sheets for its employees whose time was charged to the grant.

We reviewed the information provided by the Grantee and Justice Center, and found that only \$306 of the \$73,667 for the subcontractors was adequately supported. In addition, we determined that \$2,344 in salaries and benefits claimed by the contractor represented overcharges to the grant.

#### Payments to subcontractors

Only \$306 of the \$73,667 the Justice Center claimed to have paid to subcontractors was adequately documented. The unsupported costs included charges for salaries and fringe benefits that were not supported with time records prepared in accordance with OMB Circular A-122, payments that were based on budgeted amounts instead of actual costs, and costs that had no support at all. For example, the Justice Center submitted an invoice on January 29, 2001, for \$52,748.65. The invoice included payments to three subcontractors for \$11,244.18, \$7,353.25, and \$6,587.49. A discussion of the documentation for the payments follows:

The documents provided to support the \$11,244.18 payment included a check for \$11,106.34 and a breakdown of this amount. The breakdown showed the \$11,106.34 included expenses of \$11,696.34, and a 3-month advance of \$9,835.85, less a prior request of \$10,425.85. There was nothing to support the expenses of \$11,696.34, and the prior request of \$10,425.85. The \$9,835.85 was based on budgeted amounts.

The documents provided to support the \$7,353.25 included only an invoice for \$7,353.25 and two payments to the subcontractor for prior period costs that were not related to the current invoice.

The documents provided to support the \$6,587.49 payment to the subcontractor included time sheets that showed six people charged time to the contract. However, the time sheets did not show what the individuals worked on. The documents showed the subcontractor charged 1/6 of its rent to the contract. There was no lease provided to show what the actual rent was and how the proration was computed. The documents showed the subcontractor also charged \$232 for office supplies. There were no invoices to support the expenses.

We found similar conditions in the other invoices we reviewed. The net unsupported costs amounted to \$73,361 (\$73,667 - \$306).

### The Justice Center over charged the grant for salaries and fringe benefits

The Justice Center charged the grant with salaries and fringe benefits for three of its employees - the OTAG Project Director, a consultant/supervisor, and an accountant. The Project Director worked full time on grant activities and his salary and fringe benefits were charged 100 percent to the grant. The consultant/supervisor and the accountant only worked part time on the grant and their salaries and fringe benefits were only partially charged to the grant. The charges for these two individuals were based on budgeted amounts, not actual time spent working on the grant.

We obtained the time records to identify the actual time spent on the grant by the consultant/supervisor and the accountant. We reviewed the consultant/supervisor time records for the period December 1, 1999, to October 31, 2001, and the accountant's time records for the period October 1, 1999, to December 31, 1999. Using the time records, we determined the percentage of time each employee actually spent on the OTAG Program and calculated what the actual charges should have been. The Justice Center charged \$2,497 and \$1,248 per quarter for the consultant/supervisor and accountant, respectively. Based on the actual time, the quarterly charges should have been \$2,231 and \$1,046, respectively. The quarterly overcharges amounted to \$266 for the consultant/supervisor and \$202 for the accountant, or a total of \$468 per quarter. Thus, the Justice Center over charged the grant by \$2,344 for the period we reviewed.

### **AUDITEE COMMENTS**

The Grantee concurred it did not consistently verify that the contractor had supporting source documentation before paying invoices or claiming reimbursement under the OTAG. The Grantee contended that it had obtained source documentation to support the majority of subcontractor costs, and would provide the documentation to OMHAR.

The Grantee concurred in the \$2,344 overcharge for salaries and fringe benefits and agreed to repay that amount.

The Grantee agreed to maintain supporting documentation for all OTAG expenditures.

### **OIG EVALUATION OF AUDITEE COMMENTS**

We have concerns whether the Grantee has obtained the necessary supporting documentation for the subcontractor costs. We reviewed several submissions of the Grantee's documentation during the audit and report process, and found that the documentation did not comply with OMB Circular A-122. We advised the Grantee of the inadequate support on numerous occasions, both during the audit and subsequent to the issuance of the draft report.

### **RECOMMENDATIONS:**

We recommend your office:

- 3A. Require the Grantee to obtain and provide supporting documentation for the unsupported subcontractor payments totaling \$73,361, or repay any unsupported costs to the grant.

- 3B. Require the Grantee repay the grant \$2,344 for overcharges of salaries and benefits, or offset the overcharge against future draws.
- 3C. Require the Grantee maintain supporting documentation for all OTAG Program expenditures in accordance with OMB Circulars A-110 and A-122.
- 3D. Consider suspending grant funding until the Grantee develops and implements appropriate management controls to ensure that only eligible activities receive funding and that the documentation for expenditures complies with OMB Circular A-122.

## **MANAGEMENT CONTROLS**

In planning and performing our audit, we considered the management controls relevant to the Grantee's Section 514 Program to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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

- Identification of projects and activities eligible under Section 514,
- Controls and documents to support costs of assistance provided, and
- Controls and procedures over the reporting of activities and cost.

A significant weakness exists if management controls do not provide reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

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

- Lack of controls to account for and requisition advances.
- Lack of controls to assure payment vouchers were accurately prepared and did not include expenses that were previously requested or that had not been paid.
- Lack of controls to assure expenditures are properly supported.
- Lack of controls to assure its method for allocating indirect costs complied with OMB Circular A-122.
- Lack of controls to assure its accounting system and records clearly identify the source and application of grant funds as required by OMB Circular A-110.

All of these weaknesses are addressed in the body of our report with corresponding recommendations for corrective actions.

### **FOLLOW-UP ON PRIOR AUDITS**

The Office of Inspector General performed no previous audit of the Grantee.

### **SCHEDULE OF QUESTIONED COSTS**

Recommendation Number	Type of Questioned Costs	
	Ineligible <sup>3</sup>	Unsupported <sup>4</sup>
1A	\$52,083	
2B	9,030	
3A		\$73,361
3B	2,344	

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<sup>3</sup> Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State or local policies or regulations.

<sup>4</sup> Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. The decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

**AUDITEE COMMENTS**



**North Carolina  
Low Income  
Housing Coalition**

Chris Harper-Fahey, President  
The Affordable Housing Group  
Lenora Jarvis-Mackey, Vice President  
River City CDC  
Loris Seibel, Treasurer  
Durham Affordable Housing Coalition  
Willis E. Williams, Secretary  
Bertie, Martin, Washington CDC  
Little M. Brown-Doggett  
Habitat for Humanity of Greensboro  
Lanier Blun  
Triangle J Council of Governments  
John Bryson  
Centura Bank  
Dede Carney  
Pitt County Housing Coalition  
Joe Crocker  
Wachovia Bank  
Jackie Edwards-Walton  
UJAMMA, Inc.  
Susan Ellinger  
Moore & Van Allen PLLC  
Irvin Henderson  
National Community Reinvestment Coalition  
Charles Holloway  
Davidson County Community Action, Inc.  
Daniel W. Kornells  
Forsyth County Department of Housing  
Maxecine Mitchell  
EmPOWERment, Inc.  
Helen Moore  
Self-Help Credit Union  
Miranda Moore  
Housing Advocate/Beneficiary  
Eileen Rogers  
Bank of America  
Kate Rumely  
Brick Capital CDC  
Mark Shelburne  
Carolina Affordable Housing Equity Corporation  
Sallie Surface  
Choanoke Area Development Association  
Debra Taylor  
NC Community Development Initiative  
Keith Walker  
East Carolina Community Development, Inc.  
Andrea Schmidt (Board Liaison)  
US Department of Housing & Urban Development  
Constance Stancil  
Executive Director

September 12, 2002

Ms. Nancy Cooper  
U.S. Department of HUD  
Region IV Office of Inspector General  
Office of Audit  
Richard B. Russell Federal Building  
75 Spring Street, S.W., Room 330  
Atlanta, GA 30303-3388

Dear Ms. Cooper:

Attached is the North Carolina Low Income Housing Coalition's response to the HUD OTAG draft report dated August 22, 2002.

Our response addresses all audit findings through operational improvements, which include:

- retained a new CPA specializing in nonprofit fund accounting and federal funding;
- revised allocation plan in response to audit findings;
- payment voucher reconciliation; and
- enhanced internal control procedures

We are confident that the Coalition's action plan in response to the audit will address the findings and more importantly will establish a basis for the Coalition to effectively move forward with our mission while complying fully with HUD requirements and federal regulations.

Sincerely,

*Constance Stancil*

Constance Stancil  
Executive Director

*Christine Harper-Fahey*

Christine Harper-Fahey  
President, Board of Directors

Enc.

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**NORTH CAROLINA LOW INCOME HOUSING COALITION  
HUD OTAG AUDIT RESPONSE**

As administrator of the Outreach Training and Assistance Grant program, the North Carolina Low Income Housing Coalition staff and organizers work directly on-site with residents of privately owned communities receiving Section 8 rental subsidy. There are 651 properties with expiring section 8 contracts that provide a place to call home for thousands of North Carolina families. The North Carolina Low Income Housing Coalition has provided outreach and technical assistance to families in 130 properties throughout the state.

**FINDING I. GRANTEE OBTAINED ADVANCES IN EXCESS OF PROGRAM NEEDS; CLAIMED REIMBURSEMENT FOR EXPENSES NOT ACTUALLY PAID AND CLAIMED SOME EXPENSES TWICE.**

There were two OTAGs (1998) and (2000) awarded to the North Carolina Low Income Housing Coalition.

**Grantee's Response – OTAG 1998.**

In January 2002, the Coalition submitted a request to “close out” the 1998 program to the U.S. Department of Housing and Urban Development, Office of Multifamily Housing Assistance Restructuring Outreach Training. The Coalition expected to make any required adjustments at that time.

**A. Advances in excess of program requirements.**

*Payment voucher 084000193 was submitted October 26, 1999 requesting a total of \$26,386 of which \$25,000 was an advance.*

The Coalition has incurred direct and indirect costs relating to the OTAG 1998 program during the period of April 1, 2000 through March 8, 2001. These costs which are at least \$10,000 include personnel, space, telephone, telecommunication, copying and printing, accounting, audit, travel, training, postage, equipment lease/maintenance, office supplies, relocation expense, etc. The Coalition can provide the original source documents to substantiate those expenses that were actually incurred for the program, yet were not requested. The Coalition request that the amount of the excessive grant draw is adjusted based on the information submitted to HUD OMHAR.

**B. Advances in excess of program requirements & duplicate requests for reimbursement.**

*On September 18, 2001 payment voucher 084000804 was submitted for \$18,587 of which \$5,755 was an advance. \$5,657 in expenditures on two different vouchers.*

As indicated by the audit report, the Coalition staff understood that there were offsetting expenditures. In July 2001, the Coalition extended the contract with one of its subcontractors in the amount of \$10,000 for the period of July 1, 2001 to October 2001 to be charged against the 1998 grant.

Based on a review of the records, the Coalition staff became aware that \$5657 had mistakenly been submitted twice. The Coalition staff determined that the remaining funds from the 1998 grant of \$5755 and \$5657 totaling \$11,1412 would allow the Coalition to extend the contract for services with one of the subcontractor. After reclassification of \$10,000 of expenses inadvertently charged to OTAG 2000, the Coalition will reimburse the difference of \$1,412.

#### **C. Request for expenses not actually paid**

The Coalition requested reimbursement, which included \$6,607, based on invoices received from a subcontractor that provided outreach training assistance to tenants. The Coalition requested additional supportive documentation from the subcontractor before the prepared check was submitted to the subcontractor. The Coalition did not receive requested information from the subcontractor and in January 2002 voided the check. The Coalition will reimburse \$6,607.

In January 2002, the Coalition submitted a request to “close out” the 1998 program to the U.S. Department of Housing and Urban Development, Office of Multifamily Housing Assistance Restructuring Outreach Training. The Coalition expected to make any necessary adjustments at that time.

#### **Grantee's Response – OTAG 2000**

Expenditures for \$9,064 in October 2001 were included twice as an oversight on one voucher. The \$10,000 expense incurred by the subcontractor designated for the 1998 grant was inadvertently charged to OTAG 2000. A reclassification was made in the June 2002 accounting records to appropriately assign the \$10,000 to OTAG 1998.

Since the OTAG 2000 is an open active grant, the Coalition request the opportunity to apply \$19,064 of cash on hand to the expenditures for the OTAG 2000 that were incurred during the quarter of April 1, 2002 through June 30, 2002. The Coalition has spent a total \$29,045.09 of direct costs during that quarter and has not drawn any cash for that period. The Coalition will submit a payment voucher for indirect costs upon approval of the Coalition's cost allocation plan by HUD OMHAR.

### **Action Plan**

The Coalition has and continues to maintain all of its source documentation in an orderly and sequential manner. To correct any deficiencies in the reconciliation of the payment vouchers and accounting system, the Coalition and the current CPA firm are reviewing all documentation to ensure all expenditures are appropriately reflected on the payment vouchers. We are upgrading the accounting system and improve project specificity for the period of July 1, 2002 – June 30, 2002 to reflect the revised cost allocation plan submitted to HUD OMHAR.

The Coalition has changed the CPA firm that maintained its accounting system and has hired a new CPA who specializes in working with nonprofits that have major federal funding. The new CPA has assisted the Coalition in taking appropriate measures to strengthen internal controls, established an accounting system that tracks all funding sources and expenses for each program and implemented a grant reimbursement method to prevent any future excessive grant draw.

### **FINDING 2 – GRANTEE FAILED TO USE A COST ALLOCATION METHOD THAT COMPLIED WITH OMB CIRCULAR A-122.**

The Coalition used a multiple allocation basis approach to allocate indirect costs that were necessary, ordinary and based on benefits to each program activity. The Coalition provided a formal allocation description method during the audit process. However, the auditors determined that the Coalition's allocation methodology used in the allocation of indirect costs was not in compliance with OMB Circular A-122.

The draft audit report recommended repayment of \$9,030. Since the OTAG 2000 is an open active grant, the Coalition will request an adjustment in the amount of \$9,030 to the next draw request for funds under this grant.

### **Plan of Action**

Since the receipt of the draft audit report, the Coalition has hired a different CPA firm who has assisted the Coalition in the development of a new cost allocation method under the guidance of the OMB Circular A-122.

The cost allocation methodology description has been submitted to HUD OMHAR. The Coalition has instituted measures to make adjustments as necessary to indirect costs based on the new cost allocation methodology. Reconcile payment expenditures per the accounting records with the payment vouchers for reimbursement.

The Coalition is upgrading the accounting system and improving project specificity for the period of July 1, 2001- June 30, 2002 to reflect the revised cost

allocation methodology submitted to HUD OMHAR. The Coalition will work with appropriate agency to make necessary adjustments.

The Coalition will charge all future allowable indirect costs to the grant based on the cost allocation methodology approved by HUD OMHAR.

**FINDING 3 – GRANTEE CLAIMED REIMBURSEMENT FOR  
INADEQUATELY SUPPORTED CONTRACTOR EXPENSES**

The Coalition concurs that it did not consistently verify that the contractor (the North Carolina Justice and Community Development Center) had supporting source documentation before paying invoices or claiming reimbursement under the OTAG. However, the Coalition does not concur that only \$306 of the total amount paid to subcontractors by the contractor was adequately documented. The Coalition maintains that source documentation is available to support the majority of subcontractor costs reimbursed under the OTAG. The Coalition respectfully requests that consideration be given this documentation in connection with the audit of OTAG activities. Upon instruction, the Coalition will provide the supporting source documentation to the appropriate agency.

The Coalition concurs with the finding that the Justice Center inadvertently overcharged the grant by \$2,344 for salaries and related fringes and agrees to repay that amount.

The Coalition agrees to maintain supporting documentation for all OTAG Program expenditures in accordance with OMB Circulars A-110 and A-122

**MANAGEMENT CONTROLS**

The Coalition has taken the following measures to ensure management controls exists to provide reasonable assurance that the entity's goals and objectives are met; that resources used are consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse, and that reliable data are obtained, maintained, and fairly disclosed in reports.

- Retained a new CPA who specializes in working with nonprofits that have major federal funding.
- Established accounting system that tracks all funding sources and expenses for each program in accordance with OMB Circular A- 110 and A - 122.
- Implemented a grant reimbursement method to prevent any future excessive grant draw.
- Maintain supporting documentation for all OTAG Program expenditures in accordance with OMB Circulars A-110 and A-122.
- Use allocation methodology description as approved by HUD OMHAR

**DISTRIBUTION OUTSIDE OF HUD**

Executive Director, North Carolina Low Income Housing Coalition, Raleigh, North Carolina

The Honorable Barbara A. Mikulski  
Chair, Subcommittee on Veteran Affairs, HUD and Independent Agencies

The Honorable Christopher S. Bond  
Ranking Member, Subcommittee on Veterans Affairs, HUD and Independent Agencies

Sharon Pinkerton, Senior Advisor  
Subcommittee on Criminal Justice, Drug Policy & Human Resources

Stanley Czerwinski, Director  
Housing and Telecommunications Issues

Steve Redburn, Chief Housing Branch  
Office of Management and Budget

Linda Halliday (52P)  
Department of Veterans Affairs

William Withrow (52KC)  
Department of Veterans Affairs  
OIG Audit Operations Division

The Honorable Joseph Lieberman  
Chairman, Committee on Government Affairs

The Honorable Fred Thompson  
Ranking Member, Committee on Governmental Affairs

The Honorable Dan Burton  
Chairman, Committee on Government Reform

The Honorable Henry A. Waxman  
Ranking Member, Committee on Government Reform

Andy Cochran  
House Committee on Financial Services

Clinton C. Jones, Senior Counsel  
Committee on Financial Services

Jennifer Miller  
Professional Staff, House Committee on Appropriations