



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388
(404) 331-3369

January 16, 2002

2002-AT-1806

MEMORANDUM FOR: Virginia Peck, Director, Community Planning and Development,
Knoxville, TN, 4JD

FROM: Nancy H. Cooper 
District Inspector General for Audit–Southeast/Caribbean, 4AGA

SUBJECT: Citizen's Complaint
Chattanooga Neighborhood Enterprise, Inc. (CNE)
Chattanooga, Tennessee

In response to a citizen's complaint, the Office of Inspector General (OIG) conducted an audit survey of CNE's operations. Our review focused primarily on CNE's HOME and Community Development Block Grant (CDBG) Programs. We also reviewed other activities as appropriate. Our objectives were to determine if the complainant's allegations were valid and if additional audit work was warranted.

BACKGROUND

The complainant made numerous allegations regarding CNE and City officials. The primary allegation was that CNE and City of Chattanooga officials improperly forced homeowners, primarily elderly homeowners, to sell their properties to CNE or other entities. The allegations generally centered around CNE or persons affiliated with CNE or the City purchasing properties, rehabilitating them, and reselling them at much higher prices in an isolated area of North Chattanooga.

The complainant also alleged that a partner of Tremont Street Properties, Inc., used his positions as a City housing board member and a CNE employee to harass a citizen into selling properties. Allegedly, the individual used his positions to direct City building inspectors to fine the owner for property code violations, which would require expensive property repairs. Further, it was alleged that a meeting took place with City officials and others at which the owner was pressured to sell the properties to Tremont.

CNE held partnership interests with several for-profit companies. The complainant believed there might be problems with the creation and operation of the companies.

HUD provided CDBG and HOME funds to the City of Chattanooga, Tennessee, to administer various HUD approved programs. The City entered into an agreement with CNE whereby the City would provide grant funds to CNE to administer affordable housing programs. During our review period, the City provided the following funds to CNE:

FY	CDBG (million)	HOME (million)	TOTAL (million)
1999	\$1.8	\$1.5	\$3.3
2000	1.8	1.3	3.1
2001	1.1	1.3	2.4

SCOPE AND METHODOLOGY

We focused our review primarily on CNE’s CDBG and HOME Programs, but also reviewed other areas to address the allegations and other concerns. Allegations that were not relative to HUD programs or were insignificant, we did not review. To accomplish our objectives, we interviewed the complainant, CNE staff, City of Chattanooga, Tennessee staff, and others as necessary. We also reviewed documents obtained from the complainant, CNE, the City and others. We also:

- Inspected a sample of properties to assess the quality of CNE’s rehabilitation work;
- Interviewed the seller and reviewed documentation regarding the sale of properties to Tremont Street Properties, Inc.;
- Reviewed loan origination for CNE’s homeownership rehabilitation loans;
- Reviewed the corporate structure of CNE’s partnership interests to determine the risk, if any, to HUD; and,
- Reviewed the purchase and subsequent sale of HUD foreclosed properties.

Our survey generally covered the period July 1, 1998, through June 30, 2001. We extended the review to other periods when appropriate. We conducted our survey from June 28, 2001, through August 30, 2001. We conducted our review in accordance with generally accepted government auditing standards.

SUMMARY

We found that CNE generally administered its affordable housing programs in compliance with HUD requirements. However, during its fiscal year ended June 30, 2001, CNE inappropriately charged \$15,900 of ineligible administrative expenses to the programs. As discussed in the Finding, this occurred because CNE did not have adequate written procedures for allocating

program costs, and staff misunderstood management's oral instructions. Also, CNE inadvertently submitted duplicate claims for reimbursement. We believe these were isolated instances and were not intentional program violations. However, because the funds were misspent, they were not available for the benefit of the intended recipients.

The allegation that a partner of Tremont Street Properties, Inc., used his positions as a City housing board member and a CNE employee to direct inspectors to fine the owner for code violations was not valid. The seller stated that he was never fined for code violations. Our review of City records did not indicate inspectors harassed the owner. The seller did confirm that a meeting was held at which he felt pressured to sell the properties. However, the purchaser claimed the sale of the properties was not discussed at the meeting, and no notes were maintained from the meeting. Thus, we could not substantiate whether the allegation was valid. The Tremont partner was not a CNE employee at the time the properties were sold. Thus, he did not use his position as a CNE employee to force the sale. Since he was a City housing board member at the time, his involvement in the purchase of the properties was a conflict of interest.

We found that although CNE could improve its rehabilitation work, it was acceptable. We also found no deficiencies with respect to either CNE's loan origination activities or its purchase and subsequent sale of HUD foreclosed properties.

We did not find any concerns with CNE's partnership interests in the for-profit companies.

Details of our finding and recommendations are in Appendix A. We recommended that you require the City of Chattanooga to ensure the \$15,900 was repaid to the programs and that you require CNE to develop and implement detailed procedures to ensure only eligible expenses were charged to its programs. In response to our draft report, CNE agreed with the recommendations, repaid the \$15,900, and revised its written policies and procedures. Based on this response, no further action is required of you or of CNE.

We provided a copy of this memorandum to CNE and the City of Chattanooga.

If you have any questions, please contact me at (404) 331-3369 or Gerald Kirkland, Assistant District Inspector General, at (865) 545-4368.

Appendices:

- A – Finding and Recommendations
- B – CNE Comments
- C – HUD Comments
- D – Distribution

FINDING AND RECOMMENDATIONS

Finding – CNE Charged \$15,900 of Ineligible Expenses to Its Programs

CNE charged \$15,900 of ineligible expenses to its affordable housing programs. This occurred because CNE did not have adequate written procedures for allocating program costs and staff misunderstood management's oral instructions. Also, CNE inadvertently submitted claims for costs that had previously been reimbursed by the City. As a result, the funds were not available for the benefit of the intended recipients.

The City of Chattanooga executed agreements with CNE wherein the City provided CDBG and HOME funds to CNE for its affordable housing programs. The agreements required CNE to expend funds only for eligible direct and indirect expenses.

We reviewed CNE's Time and Mileage Reports for the fiscal year ended June 30, 2001, to determine their eligibility. We determined that CNE improperly charged \$5,400 and \$400 of administrative charges to the CDBG and HOME Programs, respectively. The costs were associated with other CNE activities; however, CNE inappropriately allocated them to the CDBG and HOME Programs. Thus, CNE violated its agreements with the City. We believe these were isolated instances that occurred because CNE did not have adequate written procedures for allocating costs, and accounting department staff misunderstood management's oral instructions. CNE recognized the problem and prior to our completing fieldwork, began utilizing a computer software package for its time and mileage charges. CNE also began addressing weaknesses in its written procedures.

We also found that in fiscal year 2001 CNE submitted claims and was reimbursed \$10,100 for CDBG Program costs which the City had already reimbursed. We believe CNE inadvertently submitted the claims. Because the costs are immaterial compared to CNE's total funding, we did not expand our review to other fiscal years.

CNE Comments

In its December 13, 2001, response to the draft report, CNE agreed with the finding and recommendations. CNE provided a copy of a \$15,900 check payable to the City of Chattanooga showing repayment of the ineligible costs. CNE also provided evidence of revised procedures for employee time charges. Excerpts from CNE's response are included as Appendix B. We did not include a copy of the revised procedures, however they are on file and available for review.

HUD Comments

In its November 13, 2001, response to the draft report, HUD generally agreed with the finding, suggesting minor changes to the finding and a revision to the draft recommendations. HUD's response is included as Appendix C.

OIG Response to Comments

All necessary corrective actions have been taken to address our recommendations.

Recommendations:

We recommend you:

- 1A. Advise the City of Chattanooga of the finding, and require them to contact CNE for repayment of the \$15,900 of ineligible expenses. (Action completed)

- 1B. Require CNE to develop improved written procedures to ensure only eligible expenses are charged to its programs and to ensure the expenses are properly allocated. (Action completed)

CNE COMMENTS



1301 Market Street, Suite 100
Chattanooga, Tennessee 37402-4058
(423) 756-6201 • Fax (423) 756-3851

December 13, 2001

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Mr. Charles Pagano
Office of the Inspector General
John Duncan Building
710 Locust St
Knoxville, TN. 37902

Dear Charles:

After completion of a reconciliation of the project delivery for last year with all corrections made, we are in agreement that CNE inadvertently charged \$15,900 to program delivery and enclosed is a copy of our check to the city for reimbursement.

Also enclosed is a copy of the new automated time sheet entry pages and a copy of the actual time sheet produced by CNE to avoid errors for the future. This is the system that you saw when you were in our office.

Although our administration of the project delivery is covered in several sections of our operating policy, we have enclosed excerpts that will demonstrate that we now have written policies that will help avoid errors in the future.

If you are in need of any additional information, please feel free to give me a call.

Sincerely,

Kenneth A. Gross
Enclosures

HUD COMMENTS



U. S. Department of Housing and Urban Development

Knoxville Field Office, Region IV
John J. Duncan Federal Building
710 Locust Street, Suite 300
Knoxville, Tennessee 37902 - 2526

January 4, 2002

MEMORANDUM FOR: Nancy H. Cooper, District Inspector General for Audit
Southeast/Caribbean, 4AGA

FROM: Virginia Peck, Director, Office of Community Planning and Development
State of Tennessee, 4JD

SUBJECT: Citizen's Complaint
Chattanooga Neighborhood Enterprise (CNE)
Chattanooga, TN

Thank you for sending me the draft report of your Office's review of CNE's operations, received in my Office on October 24, 2001. This Office had previously met with a complainant making similar allegations as were discussed in your report. I am pleased to see that your review addressed these concerns.

The memorandum stated that two copies were enclosed; however, this Office only received one copy. My staff and I have reviewed the comments and findings relative to the review and offer the following.

With respect to the finding of ineligible Administrative Costs to the HOME program and the recommendation that this Office require CNE to repay these costs to the HOME program, I do not believe this Office can take this specific action, since our contract is not with CNE but with the City of Chattanooga. The City of Chattanooga has responsibility for oversight and monitoring of their subrecipient, CNE.

I recommend that the corrective action be revised to require this Office to advise the City of Chattanooga of this finding and require them to contact CNE with respect to the ineligible cost. Any disallowed costs are the responsibility of the City. The City may be able to recover these costs from their subrecipient; however, the repayment to the HOME account should come from the City. Additionally, the City should be required to conduct annual monitoring reviews of their subrecipients to assure that the subrecipients are in compliance with the applicable HUD regulations.

The oversight of the HOME program subrecipients has been a concern of this Office in the past year and will be an area in which we intend to conduct an onsite monitoring review in the coming year in Chattanooga. The result of your audit helps

confirm the identification of this program as a high risk for purposes of onsite review and technical assistance.

I appreciate the opportunity to comment on the draft report. I have always enjoyed a positive working relationship with the Office of Audit and look forward to working with you in the future. Please do not hesitate to contact me at (865) 545-4391, extension 121, if I may provide any assistance to you or if you have any questions.

cc: Gerald Kirkland, Assistant District
Inspector General for Audit

DISTRIBUTION

Chattanooga Neighborhood Enterprise, Inc.
 Mayor, City of Chattanooga, Tennessee 37402
 Secretary, S
 Deputy Secretary, SD (Room 10100)
 Chief of Staff, S (Room 10000)
 Assistant Secretary for Administration, S (Room 10110)
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 General Counsel, C (Room 10214)
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 Assistant Secretary for Community Planning and Development, D (Room 7100)
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 Chief Procurement Officer, N (Room 5184)
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 Director, Office of Multifamily Assistance Restructuring, Y, 1280 Maryland Avenue, SW,
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The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Dan Burton, Chairman, Committee on Government Reform,
United States House of Representatives, Washington DC 20515-6143
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,
United States House of Representatives, Washington, DC 20515-4305
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Andy Cochran, House Committee on Financial Services, 2129 Rayburn House Office Bldg,
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