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OFFICE OF INSPECTOR GENERAL FOR AUDIT

MEMORANDUM NO:
2002-DE-1805

August 21, 2002

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

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

SUBJECT: Congressionally Requested Audit of the Section 514 Outreach and Technical Assistance Training Contract, C-OPC-21280, awarded to Cox & Associates, Washington, DC

INTRODUCTION

We completed a review of Cox & Associates, Washington, District of Columbia – Section 514 Outreach and Technical Assistance Training Contract, C-OPC-21280, Cox Contract. The objectives of the review were to determine if Cox & Associates used Section 514 grant funds for only eligible activities as identified in Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), their agreements, and/or other requirements to further the Mark-to-Market Program. Specifically we wanted to determine if Cox & Associates expended Section 514 funds for any lobbying activities. MAHRA specially identified lobbying as an ineligible activity.

METHODOLOGY AND SCOPE

We reviewed Cox & Associates' records and files maintained by the Department of Housing and Urban Development (HUD) as they pertained to our objectives for the period September 30, 1998 through May 31, 1999. Cox & Associates, LLC, terminated their business operations and sold all of the assets and operations of the company at the beginning of 2002 in order to settle an outstanding lien by the Internal Revenue Service. We were able to accomplish our objectives by reviewing and evaluating Cox & Associates Bi-Weekly Reports and Drawdown Invoices under the Cox Contract. We reviewed all available records relating to these objectives maintained by the Department of Housing and Urban Development, and interviewed HUD staff in the Office of Multifamily Housing Assistance and Restructuring (OMHAR) and Procurement Management

Division. We performed the on-site review work during July 2002. This audit was performed in accordance with the Generally Accepted Government Auditing Standards.

BACKGROUND

Congress mandated HUD's Office of Inspector General (OIG) to perform an audit of each Section 514 activity. Specifically, Section 1303 of the fiscal year 2002 Defense Appropriation Act (PL 107-117) required HUD's OIG to audit each provision of technical assistance obligated under the requirements of Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA, PL 105-65) over the last 4 years (fiscal years 1998 through 2002).

Housing subsidy contracts are expiring on thousands of privately owned multifamily properties with federally insured mortgages. Many of these contracts set rents at amounts higher than those of the local market. As these subsidy contracts expire, the Mark-to-Market (M2M) program will reduce rents to market levels and will restructure existing debt to levels supportable by these rents.

The Office of Multifamily Housing Assistance Restructuring (OMHAR) was established by the MAHRA to administer the M2M program and was mandated to sunset September 30, 2001. OMHAR was extended for three years to September 30, 2004 and the M2M program will continue for two additional years to September 30, 2006.

OMHAR works with property owners, Participating Administrative Entities (PAEs), tenants, lenders, and others with a stake in the future of affordable housing.

The MAHRA authorizes the Secretary to 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. These procedures 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. This will give such parties an opportunity to provide comments to the PAEs. The procedures developed require consultation with tenants of the project and other affected parties in connection with at least the following:

- (a) The mortgage restructuring and rental assistance sufficiency plan;
- (b) Any proposed transfer of the project; and
- (c) The rental assistance assessment plan.

Under the terms of the Cox Contract, awarded on September 30, 1998, Cox & Associates was to provide financial management technical assistance training to Outreach Technical Assistance Grant (OTAG) and Intermediary Technical Assistance Grant (ITAG) organizations selected under the Notice of Funds Availability (Super-NOFA) and provide Mark-to-Market information to interested parties. The Contract was for the base year with two one-year options. The ceiling amount of the contract was for \$1,248,140, however the amount of funds that were available under the original task order was for \$100,000. There were three modifications to the original contract:

- (a) Modification 1, signed 11/21/98, changed the payment address;
- (b) Modification 2, signed 12/23/98, obligated an additional \$250,000 in funds; and
- (c) Modification 3, signed 5/28/99, obligated an additional \$300,000 in funds.

The total amount of monies disbursed to Cox & Associates under this contract was \$541,472.21.

RESULTS OF REVIEW

Based upon the review and analysis of the Drawdown Invoices and the Bi-Weekly Activity Reports, we determined that all of the funds obligated, drawn down, and paid to Cox & Associates, for services provided under the Cox Contract, were for authorized costs. These costs consisted of salaries, consulting fees, travel expenses, and materials associated with the financial management technical assistance training of OTAG/ITAG grantees. There was no evidence of spending of Section 514 monies on unauthorized activities. In addition, we did not discover any evidence of lobbying activities.

We discussed this memorandum with officials from the Office of Multifamily Housing Assistance and Restructuring (OMHAR) on August 19, 2002. The officials stated that they had read and discussed the draft memorandum on Cox & Associates and they have no comments concerning the memorandum.

We appreciate the courtesies and assistance extended by the personnel of the Office of Multifamily Housing Assistance and Restructuring (OMHAR) and Procurement Management Division. Should you have any questions, please contact Ernest Kite, Assistant Regional Inspector General for Audit, at (303) 672-5452.

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The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Bldg., United States Senate, Washington, DC 20510

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

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

Andy Cochran, House Committee on Financial Services, 2129 Rayburn H.O.B., Washington, DC 20515

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