



Issue Date: September 26, 2002
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Audit Case Number: 2002-SF-1005
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TO: Charles H. Williams, Director HUD's Office of Multifamily Housing Assistance Restructuring, HY

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FROM: Mimi Y. Lee, Regional Inspector General for Audit, 9AGA

SUBJECT: Audit Memorandum - Congressionally Requested Audit of the Outreach and Training Assistance Grants Awarded to the Housing Rights Committee of San Francisco/Tides Center, San Francisco, CA, Grant Numbers FFOT98004CA and FFOT00005CA.

### **INTRODUCTION**

We completed an audit of the Housing Rights Committee of San Francisco (HRCSF) and Tides Center's Outreach and Training Assistance Grants. The Tides Center monitors the HRCSF's OTAG activities and performs all grant administration on behalf of the HRCSF. The audit identified that the grantees did not comply with administrative and accounting requirements under the applicable Notices of Funds Availability (NOFA), Office of Management and Budget's (OMB) Circulars, Codes of Federal Regulations (CFR), and the grant agreements. In addition, the grantees participated in conferences that included lobbying activity, but there was no information to show the grantees violated the enabling legislation or OMB Circular A-122, Cost Principles for Non-Profit Organizations. Our report contains five recommendations to address the issues identified in the report and strengthen the management controls of the grantees.

Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117) requires the 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 the Outreach and Training Assistance Grants (OTAG) and Intermediary Technical Assistance Grants (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.

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In conducting the audit, we reviewed the grantees 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 OMB Circular guidance on the allowability of cost for nonprofit grantees.

The audit covered the period of October 1998 through June 2002 for the OTAG grant. We performed the fieldwork at the Housing Rights Committee of San Francisco and the Tides Center offices located in San Francisco, California, between May and July 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We appreciate the courtesies and assistance extended by the personnel of the HRCSF and Tides Center during our review.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the 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.

Should you or your staff have any questions please contact me at (415) 436-8101.

### **SUMMARY**

The HRCSF and the Tides Center jointly submitted a grant application to HUD, and were awarded grant FFOT00005CA. HUD had actually awarded grant FFOT98004CA to the Los Angeles Center for Affordable Tenant Housing (LACATH), but the funds were transferred to the HRCSF and Tides Center with HUD's approval. Our audit identified the grantees did not maintain salary records in accordance with OMB Circular A-122. Instead, the grantee charged payroll costs based on a predetermined budget amount, resulting in an apparent overcharge of at least \$4,114. The grantees also did not maintain general ledger accounting records in accordance with OMB Circular A-110 or 24 CFR 84.21. The grantee did not submit timely quarterly progress reports to HUD in the format required by the grant agreements, the NOFA, OMB Circular A-110, or 24 CFR Part 84. Finally, the HRCSF participated in conferences and teleconferences conducted by the National Alliance of HUD Tenants (NAHT) which included lobbying related activity and discussions. However, there was no information to show the grantees participated in or charged the grant for any material lobbying related activity. Our report contains recommendations to address the issues identified in the report and strengthen management controls.

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## **BACKGROUND**

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) established the Office of Multifamily Housing Assistance Restructuring (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 awarding, 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 notice in fiscal year 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants: (1) the Intermediary Technical Assistance Grant (ITAG), and (2) the Outreach and Training Assistance Grants (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.

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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 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 Organization, in determining the allowability of costs incurred to the grant. 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 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 HRCSF has been in operation for 23 years. Its goal is to "empower tenants to secure fundamental rights to habitable and widely affordable housing in San Francisco." The HRCSF is currently a Tides Center project. The Tides Center is a California nonprofit, tax-exempt 501(c)(3) organization, established in 1996. The Tides Center provides project management, financial, administrative, and human resources services to charitable and educational organizations for a fee. The Tides Center currently provides services to around 350 organizations, including the HRCSF.

Grant FFOT98004CA for \$110,000 was provided to the HRCSF through the LACATH in 1998 [Note: OTAG and ITAG grants awarded to LACATH were reviewed under a separate concurrent audit]. The HRCSF began expending funds for OTAG grant activity in January 1999. The HRCSF directly applied to HUD for OTAG funding in May 2000, and was awarded \$400,000 under grant FFOT00005CA. As of June 17, 2002, the HRCSF had withdrawn \$108,115 from grant FFOT98004CA and \$85,465 from grant FFOT00005CA for expenditures up through September 30, 2001. In June 2002, the Tides Center and the HRCSF were in the process of generating requests of funds for the period of October 1, 2001 through March 31, 2002. The Tides Center received annual financial audits of their activities for the year ending December 31, 1999 and 2000. The auditor provided an unqualified opinion for each of the two years. The HRCSF did not receive a financial audit, nor was one required.

The HRCSF performs tenant outreach, organization, and training to Mark-to-Market projects under the OTAG grant. The HRCSF also performs activity unrelated to the grant, funded from non-Federal sources, including tenant counseling and local lobbying. For example the HRCSF received \$117,660 from the State of California.

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**FINDING**  
**The Grantees Did Not Comply With HUD and OMB Requirements**

**The HRCSF and Tides Center charged payroll to the grant based on budget instead of actual time spent on grant activities. The grantees also did not maintain adequate general ledger accounting records, and did not submit timely or complete quarterly reports to HUD. As a result, the grantee overcharged the grant \$4,114 in payroll costs for sample months tested, and there is no assurance payroll charged to other months was reasonable. The grantees believed the reporting and records maintained complied with HUD's requirements.**

**Payroll**

OMB Circular A-122, Attachment B, Paragraph 7, Compensation for Personal Services, states that reasonable compensation and fringe benefits to employees are grant fundable costs. The Circular also places specific salary record keeping requirements on the grantee. The grantee must maintain reports that account for the total activity an employee is compensated for in fulfillment of their obligations to the organization. The reports must reflect an after the fact determination of actual activity for each employee. Budget estimates do not qualify as support for charges to the grant. Grantees must also maintain reports reflecting the distribution of activity of each employee (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. The Circular also requires the employee or a reasonable supervisor sign the reports. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate.

The HRCSF and Tides Center did not charge the grant for HRCSF's payroll based on actual time spent on OTAG activity as required by OMB Circular A-122. Instead, the Tides Center allocated HRCSF's payroll to the grant based on percentages pre-designated by the HRCSF for each employee, based on the amount of time the employee was budgeted and assigned to spend on the OTAG program.

Although the Tides Center does not require its projects to produce timesheets, the HRCSF did maintain activity reports showing hours spent on OTAG activities. However, all activity reports for staff were not consistently available. Activity reports were not available for 1999, and only a summarized listing for one staff member was available for January 1999 through September 1999. Likewise, in year 2000 there were only intermittent activity reports available for the same employee, and no reports were prepared for other staff spending time on the OTAG program. Although activity reports were available for HRCSF staff in 2001, staff only listed time spent on OTAG activity and not on other activities.

The Tides Center was in the process of reconciling HRCSF's payroll during our review. However, their calculations were still partially based on budgeted percentages of time employees

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were supposed to spend on the OTAG program. As a result, the Tides Center reconciliation could not be relied upon to determine appropriate payroll charges.

A review of three sample months in 2001 showed the Tides Center approved excessive HRCSF payroll charges to the OTAG. We determined the HRCSF's payroll costs that should have charged to the grant were \$18,814, based on available activity reports and actual salary and benefits expenses for a sample of three months, including March, June, and September 2001. However, the HRCSF and Tides Center drew \$22,928 in HRCSF payroll from the OTAG grants for the same period. As a result, the grant was overcharged \$4,114 during the sample period, as summarized in the following table:

Month	Charged	Actual	Difference
March 2001	6,814	6,709	\$ 105
June 2001	7,960	7,402	\$ 558
Sept. 2001	8,154	4,703	\$ 3,451
TOTAL:	\$ 22,928	\$ 18,814	\$ 4,114

Although the HRCSF and Tides Center charged the grant for payroll expenses incurred, portions of the expense should have been allocated to non-OTAG funds. As a result, less funding was available for other eligible OTAG activities. Since all time sheets were not available, actual time spent on OTAG activities during the entire term of both grants could not be determined. Therefore, we are uncertain whether the total payroll charged to the grants over the entire term was greater than the amounts that should have been charged.

This occurred because the HRCSF and Tides Center officials had an alternate understanding of OMB requirements. The HRCSF believed activity reports should be prepared, but payroll charged to the grant did not have to reflect the time listed in those reports. Both Tides Center and HRCSF staff believed charging payroll costs based on budgeted and assigned allocations was an acceptable method for computing payroll. The grantees also believed if the entire term of the grants were reviewed, the amounts charged to the grant would be less than the actual payroll attributed to the grant. In addition, HRCSF claimed HUD staff verbally informed them charging payroll based on budget was an acceptable. However, no written approval from HUD was available.

### **General Ledger Accounting Records**

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, Standards of Financial Management, Section 21, requires grantees to maintain financial management systems to provide accurate, current and complete disclosure of financial results; records that adequately identify source and application of funds; and effective control over and accountability for all funds. Likewise, 24 CFR 84.21 include the same requirements and also states records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.

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Although all significant expenses charged to the grant were actual costs incurred by the HRCSF, our review of the HRCSF general ledgers, prepared by the Tides Center, showed the expenditures listed did not match amounts requested for reimbursement from the grant. As a result, the general ledger was unreliable for determining expenses applicable to the OTAG program.

The Tides Center allocated HRCSF costs to different programs in the general ledger. General ledger account numbers included those established for the OTAG grants (0929 200 and 0929 201) and the HRCSF general account (0929 999). Review of the general ledger showed a number of expenditures attributed to OTAG accounts were not requested from the OTAG grant. These costs were never reversed or adjusted in the general ledger to show they were not withdrawn from the grants. A complete reconciliation of the general ledger could not be performed during the course of our review, but the following examples of unclaimed costs were identified:

- AMTRAK train expense of \$416 posted to the OTAG 0929 200 account in the general ledger on June 30, 2000.
- Airline ticket costs of \$776 posted to the OTAG 0929 200 account on October 31, 2000.
- Airline tickets costs of \$751 posted to the OTAG 0929 200 account on May 8, 2001.
- Professional services of \$293 posted to the OTAG 0929 200 account on April 30, 2001.
- USPS Bulk costs of \$2,780 posted to the OTAG 0929 200 account on May 11, 2001.

Conversely, in some cases, costs reimbursed by the OTAG grant exceeded the amounts recorded as OTAG expenses in the general ledger. All OTAG related expenses were not consistently allocated to the OTAG accounts in the general ledger. This included office rent requested for reimbursement from the grant, but was never listed as OTAG expense in the general ledger. The draw requests show the HRCSF allocated a reasonable portion of monthly office rent costs to the grant. HRCSF included \$825 per month on draws submitted to HUD for the months of January 2001 through September 2001. However, the Tides Center only recorded office rent costs of \$800 to OTAG general ledger account 0929 201 on July 1, 2001, August 1, 2001, and September 1, 2001. No rent was recorded under the other six months. The resulting amounts reimbursed by the grants far exceeded the amounts attributed to the grants in the general ledger.

Likewise, the HRCSF charged the OTAG grant \$360 per month for a portion of office rent between January 2000 and June 2000, then \$720 per month between July 2000 and November 2000. The amounts charged to the grant were reasonable, and increased due a charge in the location of HRCSF's office. However, these amounts did not correspond to the monthly rent allocated in the general ledger under OTAG account 0929 200 between January 2000 and September 2000, which was only \$300.

Discrepancies occurred because Tides Center staff performed the accounting function and prepared the general ledger while the HRCSF prepared the requests for grant funds. Consistent reconciliations were not performed by the Tides Center or the HRCSF to ensure the amounts in the general ledger corresponded to the withdrawals from the grant. The Tides Center also did not have sufficient staff to monitor Federal grants, or place sufficient emphasis on ensuring the general ledgers matched the amounts requested from the grants. The Tides Center has recently

hired additional staff to monitor grant activity, which it believes will help resolve any accounting deficiencies.

**Quarterly Progress Reports**

The 1998 and 2000 NOFAs require grantees to submit quarterly performance reports to the Director of OMHAR. The grantees need to report on the properties and number of tenants assisted by the OTAG activities performed that quarter. The reports need to include a narrative identifying activities conducted, beneficiaries of assistance provided, and results achieved.

The grant agreement for grant FFOT00005CA was signed by the HRCSF and the Tides Center in January 2001. The agreement requires the grantee to submit progress reports every three months, including both performance and financial progress reports. The financial reports must be submitted on Standard Form 269 and a breakdown in costs on Standard Form 424A or a form to be provided by HUD.

Federal regulations at 24 CFR Part 84 and OMB Circular A-110, Parts 51 and 52, both state quarterly performance reports are due 30 days after reporting period, and grantees must use the SF-269 or SF-269A to report the status of funds for all non-construction projects or programs.

The HRCSF and Tides Center did not submit timely quarterly progress reports to HUD in a consistent manner. In addition, standard forms SF 269 and SF 424A were not completed and submitted to HUD. Progress report narratives were only submitted with draw requests for funds. As a result, progress reports were not submitted timely for the period of January 1999 through December 1999 and January 2001 through June 2001. The following table summarizes which reports were submitted timely and whether standard forms were included:

Quarter	Progress Report Submitted to HUD	Report Timely	Submitted SF 269	Submitted SF 424A
Jan. 1999 – March 1999	2/4/00	No	No	No
April 1999 - June 1999	2/4/00	No	No	No
July 1999 - Sept. 1999	2/4/00	No	No	No
Oct. 1999 - Dec. 1999	3/2/00	No	No	No
Jan. 2000 – March 2000	3/2/00 & 4/14/00	OK	No	No
April 2000 - June 2000	5/00 & 7/12/00	OK	No	No
July 2000 - Sept. 2000	8/00, 9/00, & 10/3/00	OK	No	No
Oct. 2000 - Dec. 2000	11/00, 12/18/00	OK	No	No
Jan. 2001 – March 2001	Jan submitted 9/4/01, others prepared 10/29/01	No	No	No
April 2001 - June 2001	Prepared 10/29/01	No	No	No
July 2001 - Sept. 2001	Prepared 10/29/01	OK	No	No

Due to the lack of complete and timely reporting, there was insufficient information available for HUD to monitor the program and track progress. However, there was also no information available to show HUD attempted to enforce compliance by holding funds due to non-

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submission, and only issued correspondence to the grantee concerning this matter in January 2002. Both the HRCSF and the Tides Center maintain they received little guidance or input from HUD on the report submission. As a result, the HRCSF and the Tides Center believed it was sufficient to only submit progress information as part of their draw requests, and standard forms were not required.

### **The HRCSF Participated in Activity Which Included Elements of Lobbying**

MAHRA specifically prohibits the use of Section 514 funds to lobby members of Congress or their staff. However, HRCSF staff participated in NAHT annual conferences and teleconference calls that included elements of lobbying on a Federal level. The NAHT organization performs lobbying on housing issues, including the development of a grass roots tenant movement to shape housing policy. NAHT coordinates annual conferences which encourage participants to lobby, but also include training and information pertinent to the Mark-to-Market and OTAG program. The HRCSF staff attended the national conferences and charged the travel costs to the OTAG grants. However, there was no evidence the HRCSF participated in lobbying activity.

NAHT also coordinates routine national teleconferences, sponsored by members. Teleconference agendas showed NAHT scheduled brief discussions related to lobbying on a Federal level. HRCSF participated in the teleconferences, incurring long distance telephone and staff charges. In addition, the HRCSF sponsored a teleconference, and as of June 27, 2002, planned to request a withdrawal of \$469 from the OTAG grant as reimbursement. HRCSF staff stated they only listened to the teleconferences for information on current legislation, and were not lobbying. The amount of time actually spent discussing lobbying could not be determined based on available information. However, we believe the expense involved would not be material to the grants. There is also no information to suggest HRCSF staff were actively involved in NAHT's lobbying activities or the HRCSF violated program requirements.

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

We provided our draft report to the auditees for its comments on August 30, 2002. The auditees provided their comments on September 10, 2002. An additional response was provided on September 23, 2002, due to the addition of recommendation 1D to the draft report. We also obtained further clarification during an exit conference discussion with Tides Center officials on September 24, 2002. We included the auditees' written comments in Appendix B of the report. The management controls response included four attachments. We did not include the 12 additional pages associated with these attachments since they were not directly relevant to our conclusions and recommendations. The documents included information on the Tides Center's written procedures to ensure projects do not engage in lobbying activities, and its accounting structure and procedures.

The HRCSF and Tides Center generally agreed with our conclusions, but they included additional comments and requested minor adjustments to the report. We considered the auditees' requests and appropriate changes are reflected above.

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The Tides Center attributed the problems with its reconciliation of grant expenses to its growth in grant programs and search for experienced staff. However, we note the reconciliation problem spanned the two-year period of 2000 to 2001, and had still not been resolved while the audit was in process in June 2002. We believe the reconciliations and adjustments could have been performed by accounting staff (whether existing or additional contracted assistance), and did not require the auditees to wait until new government grant experienced staff were recruited. As a result, we conclude the auditees did not attribute sufficient emphasis on ensuring the reconciliations were performed so the general ledger would reflect the actual expenses attributed to the grant.

### **RECOMMENDATIONS**

We recommended that you:

- 1A. Require the HRCSF and Tides Center to develop procedures to maintain accurate activity reports identifying all time spent on the OTAG program, and charge the grant for the payroll costs attributable to the actual time spent on OTAG activity.
- 1B. Require the HRCSF and Tides Center to reconcile payroll charged to the grant to the amounts that should have been charged based on available activity reports. Demonstrate amounts charged in other periods were less than actual, to offset the excessive \$4,114. Return any excessive amounts collected to the OTAG.
- 1C. Require the HRCSF and Tides Center ensure amounts attributed to the OTAG in the general ledger correspond to amounts requested for reimbursement through the performance of periodic reconciliations.
- 1D. Consider suspending grant funding until the grantee develops and implements appropriate management controls to ensure only eligible activities receive funding and the documentation for the expenditure complies with OMB Circular A-122.
- 1E. Require the HRCSF and Tides Center to comply with reporting requirements and submit future quarterly reports following OMB, CFR, NOFA, and grant agreement requirements, including submitting reports in a timely manner and using the prescribed Standard Forms 269 and 424A.

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## **MANAGEMENT CONTROLS**

In planning and performing our audit, we considered the management controls relevant to the HRCSF and Tides' 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:

- Controls and procedures over grant activities and related disbursements,
- Controls and procedures over grant receipts, and
- Controls and procedures over the reporting of activities and cost.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

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

- Lack of a procedures to ensure grant activities are properly recorded in the general ledger accounting system,
- Lack of polices and procedures to ensure that salaries and time records met the standards of OMB Circular A-122, and charges to the grant are based on those records,
- Lack of a procedures to ensure activities and financial information is reported to HUD in a timely fashion, and

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

The Office of Inspector General performed no previous audit of the HRCSF or the Tides Center.

**SCHEDULE OF QUESTIONED COSTS**

Recommendation Number	Type of Questioned Costs	
	Ineligible 1/	Unsupported 2/
1B		\$4,114

- 1/ 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.
- 2/ 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. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

AUDITEE COMMENTS



Mimi Y. Lee  
Regional Inspector General for Audit, (AGA)  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
Pacific/Hawaii District  
450 Golden Gate Avenue, Box 36003  
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September 10, 2002

Dear Ms. Lee:

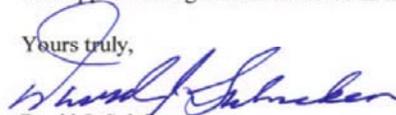
On behalf of The Tides Center, I want to acknowledge receipt of the draft audit of our project, the Housing Rights Committee of San Francisco and express our appreciation for the opportunity to respond to the findings and recommendations contained therein. Our staff that participated in the audit process have made a point to me of commending the professionalism of your auditing staff under the leadership of [REDACTED]

Being the subject of an audit is never easy and the intense scrutiny involved can at times create both concern and tension. Your audit corresponded with our own review of our internal controls and processes. The number of government grants received by our projects had grown exponentially in recent times and the need to expand our own staff and resources has been apparent to us. We were already beginning to implement the recommendations of our own auditors and consultants when your audit took place.

We are preparing as an attachment our comments to the draft audit. While we may seek the correction of some of the language and findings of the audit, we are prepared to accept and fully implement the recommendations presented by the audit team. We hope we will be able to fully demonstrate both our concern and cooperation by providing you promptly with the requested documentation of the steps we are prepared to take and have already taken.

We look forward to a continued dialogue with your office to insure our full compliance with applicable regulations involved in these grants.

Yours truly,

  
David J. Salniker  
Executive Director

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## **FINDING**

### **The Grantee Did Not Comply with HUD and OMB Requirements**

The Tides Center Payroll allocation and the general accounting process for government grants was established with the intent to show separation in receipts from various funding sources in accordance with OMB Circular A-110 Subpart C .21(1) – (4). The implementation of Cost Centers designations was to show not only employee budgeted salary amount but also the time assigned to spend on the project activity. This was considered to be adequate. The Tides Center government grants projects between 1996 and October 1999 consisted of six government grants.

Primary focus of the staff accountant was to insure that the terms and conditions of the grants as well as the reporting requirements were complete and submitted in a timely manner. However, the requirements of HUD regulations at 24 CFR Part 84.27 were thought to be satisfied with our compliance of OMB Circular A-110.

The Tides Center did utilize OMB Circular A-122 for its guide for the unallowability of costs associated with Federal and state lobbying activities.

The government grants were incorporated as part of the general accounting process. Tides Center had only a few grants during this time. The necessity to incorporate a separate government grants component wasn't feasible.

The exponential growth of government programs in 2000 and 2001 made us aware of the need for additional staff and the need to strengthen our government grants area. The rapid growth and the search for experienced staff were the main reasons for our delayed reconciliation of our financial statements. It was not our lack of attention or our emphasis on compliance of federal grants.

As stated in the cover letter, we would like to discuss the language used specifically under FINDINGS, Payroll, page 5, 2<sup>nd</sup> paragraph--based on the amount of time the employee was budgeted (*insert and assigned*) to spend on the OTAG program; also on page 6, 3<sup>rd</sup> paragraph--payroll cost based on budgeted (*insert and assigned*) allocations was.... Additionally, General Ledger Accounting Records, page 7 last paragraph- - and placed little emphasis on ensuring the general ledgers matched the amounts requested from the grants. We request consideration that this language be deleted for the substantial and reasonable explanation mentioned above.

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## **RECOMMENDATIONS**

### **RESPONSE 1A.**

For purposes of payroll payments to employees, The Tides Center, by law, does not require its exempt employees to complete timesheets. However, HRCSF employees have and continue to prepare monthly time sheets showing all time being spent on the OTAG program. The Tides Center will monitor this process to ensure that the grant is charged for the actual time spent on the grant.

### **RESPONSE 1B.**

Prior to the HUD-OTAG audit, The Tides Center had engaged in reconciliation activity with regard to all HRCSF financial activity. The HUD-OTAG grant was already identified as a priority for this process. It is our intention to bring into alignment all the costs associated with this project. In so doing, we will compare the billings submitted to reconciled and proven costs, and make necessary corrective adjustments in upcoming billings. To facilitate our process, it would be helpful to have a complete breakdown of the composition of \$4,114 variance identified in the audit.

### **RESPONSE 1C.**

The Tides Center and HRCSF are committed to providing accurate record of all costs incurred, such that, the general ledger corresponds to amounts requested for reimbursement. Once past reconciliation's are up-to-date, the general ledger would automatically reflect any current billings. Periodic reviews will be performed to ensure up-to-date true and accurate reporting. As well as financial reporting, HRCSF is sincere in its mission to help the less fortunate, by fulfilling its contractual obligations programmatic activities.

### **RESPONSE 1D.**

The Tides Center and HRCSF have experienced delays in keeping up with reporting requirements. A considerable delay was imposed by HUD-OTAG itself, where funds were frozen for several months, and only this past Spring was HRCSF given notice that billing and reporting could resume. Subsequent delays were experienced with our focus and attention to the OIG Federal audit. Tides Center and HRCSF are currently in the process of bringing forms 269 and 424A reports up-to-date, and submitting them in a timely manner will ensure our compliance with all federal regulations and guidelines.

The reconciliation of Tides Center/HRCSF OTAG grants is currently in process. In accordance with HUD Handbook 2000.6 REV-3, and the time allocated, it will take Tides Center the full 120 days to complete the reconciliation. We acknowledge that you will require periodic progress reports and we agree to provide the status at such time. We request the 120 days calendar to begin October 1, 2002 and the completion and submission no later than January 31, 2003.

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## MANAGEMENT CONTROLS

In accordance with OMB Circular A-122, in regards to the section on lobbying and political activities, Tides Center exercises due diligence with each of our projects on the conditions and criteria of lobbying and political activities. Our Operations Manual Section 3:Administration, page 6; Political Activity;(attached 1) reference OMB A-122 about not using Federal funding for lobbying and political activities. Section 9:Ownership of Products; pages 19,20 Political Activity, (attached 2) gives caution as to conditions for lobbying.

The Tides Center grant management structure, which oversees the compliance of OMB Circular A-122 and all other government grant requirements, is vested in the Finance Department Government Grants and Contracts sub-component. In order to be compliant with OMB Circular A-122, all costs, documentation and invoices associated with a grant must be reviewed and approved before being submitted for reimbursement.

The Tides Center Finance Department Government Grants and Contracts procedures (attached 3) are the Administrative and Financial processes which meets the compliance of OMB Circular A-122. The Pre-Award chart (1) depicts prior internal control of grant acceptance. The Post-Award process provides for establish financial control of the grant award. The Billing and Receivable chart depicts actual monitoring process, starting with review of grant terms and conditions, regulatory criteria, and reporting requirements.

Tides Center technical capacity (computer system) is presented to support the means of implementing the separation in government awards from non-governmental awards. The chart (2) (attached) shows that our system is established by designated departments and cost centers. The Pre and Post-Award process continually monitors all financial activity to appropriately place them in prospective departments and cost centers. Additionally, our general accounting structure (attached 4) explains the designations of the chart of accounts.

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Regional Inspector General  
U.S Department of Housing and Urban Development  
Office of the Inspector General  
Pacific/Hawaii District  
450 Golden Gate Avenue  
San Francisco, California

Tides Center/Housing Rights Committee of San Francisco requests that funding for our OTAG Programs continue in effect. We have reviewed the HUD Audit Findings and are in the process of doing our corrective actions. Our cover letter supported the Audit Findings and mentioned our prior implementation and restructuring of our government grants component. We ask that our pro-activeness and the documentation submitted in response to the Audit Findings be given consideration. The Tides Center's current government grant structure provides the management controls including checks and balances which will effectively ensure that HUD OTAG grant administration is completely compliant with OMB Circular A-133, Circular A-110, Circular A-122 and HUD 24CFR Part 84.27.

Although the Audit Findings pointed out weaknesses in our internal control, more importantly, what the Audit Findings also pointed out was that there was no willful or intentional actions or efforts by Tides Center, which could have been determined to be unethical or illegal. Additionally, HRCSF provide activities of great service to HUD tenants of San Francisco, and is very instrumental in HUD MAHRA's national objectives to impact affordable housing. The greater damage to suspending our current funding would be to the HUD tenants of SF, which depends on the advocacy of HRCSF for their tenant rights. Currently, Tides Center, by reference of our response to the audit findings, has:

- Developed time and activity tracking system
- Completed the time and effort reports for 2001 3<sup>rd</sup> and 4<sup>th</sup> Quarter
- Completed the time and effort reports for 2002 1<sup>st</sup> and 2<sup>nd</sup> Quarter
- Begun the reconciliation process of all OTAG grants

Additionally, Tides Center, in accordance with the final and approved OMB Circular A-133 Compliance Supplement in particular the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report) which reference the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements supports that those five components are present in our OTAG grant administration. We realize that expansion in our government grants and staffing were the most significant causes in weaknesses of our management controls. However, Tides Center had begun the implementation and analysis and corrective action prior to the HUD audit.

We sincerely request your consideration and support to keep our funding for the HRCSF in effect.

**EXTERNAL REPORT DISTRIBUTION**

The Honorable Christopher S. Bond, Ranking Member, Subcommittee on Veterans Affairs, HUD and Independent Agencies, United States Senate, 274 Russell Senate Office Building, Washington, DC 20510

The Honorable Barbara A. Mikulski, Chairwoman, Subcommittee on Veterans Affairs, HUD and Independent Agencies, United States Senate, 274 Russell Senate Office Building, Washington, DC 20510

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

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

The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs, (senator\_lieberman@lieberman.senate.gov)

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, (senator\_thompson@thompson.senate.gov)

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, (Sharon.Pinkerton@mail.house.gov)

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