



Issue Date: December 9, 2002
Audit Case Number: 2003-AO-1002

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

[Signed]

FROM: Sandra G. Elion, Director, Headquarters Audits Division, GAH

SUBJECT: Congressionally Requested Audit of the Outreach and Training Assistance Grants  
Awarded to the National Housing Trust

### **INTRODUCTION**

We completed an audit of the Outreach and Technical Assistance Grants (OTAGs) awarded to the National Housing Trust (NHT). The audit identified that NHT properly accounted for the direct costs charged to the OTAGs. However, NHT overcharged the OTAGs over \$29,000 for employee services and included indirect costs in its billing rates that had not been approved. In addition, NHT did not maintain records to account for non-billable hours and received \$946 in duplicate payments. However, we did not identify any costs related to lobbying activities. Our report contains seven recommendations to address the issues identified in the report and other recommendations to strengthen management controls over the grantees.

Section 1303 of the FY 2002 Defense Appropriations 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 OTAGs and Intermediary Technical Assistance Grants (ITAG) administered by the Office of Multifamily Assistance Restructuring. Consistent with the Congressional directive, we reviewed the eligibility of costs with particular emphasis on identifying ineligible lobbying activities.

Our objective was to determine whether NHT expended Section 514 grant funds for only eligible activities as prescribed in MAHRA, the Notice of Funding Availability (NOFA), the Grant Agreement, or other HUD requirements to further the Mark-to-Market Program. Because Section 514 specifically prohibits the use of grant funds for lobbying Congress, we also evaluated whether NHT expended funds for 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 NOFA, the OTAG grant agreements, HUD's requirements for grant agreements for nonprofit entities, and Office of Management and Budget's guidance on the allowability of cost for nonprofit grantees. Additionally, we reviewed: applicable sections of the FY 2002 Department of Defense Appropriations Act; IRS Publication 557, "Tax Exempt Status for Your Organization;" NHT's applications, project activities, and quarterly and financial reports.

NHT was awarded \$474,800 for 21 grants to conduct outreach and technical activities in 14 states. We reviewed a representative selection of 11 of the 21 grants (52 percent) awarded to NHT. During our audit period NHT expended \$336,660 of OTAG funds for activities related to all 21 grants. Of the \$336,660, \$172,235 or 51 percent was expended on OTAG activities for the 11 grants in our sample. We also reviewed the salaries charged to all 21 OTAGs.

The audit covered the period October 1, 1998, through May 31, 2002. We performed the fieldwork at NHT's Office in Washington, DC, from June through August 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 NHT during our review.

We provided our draft report to NHT for their comments on November 18, 2002. On November 25, 2002, NHT provided their written comments. NHT acknowledges and concurs with the report findings, is prepared to repay all ineligible funds that they received, and has engaged a CPA firm to establish its indirect cost rate. In addition, NHT will not make any draw down request under the OTAG program until OMHAR approves its indirect cost rate. We summarized NHT's written comments to our draft report after each finding and included the complete text in Appendix B.

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 (202) 708-1342.

### **SUMMARY**

Our audit identified that NHT properly accounted for the direct costs charged to the OTAG. However, NHT: (1) overcharged the OTAGs over \$29,000 for employee services; (2) included unallowable and questionable costs in its indirect cost pool; (3) did not maintain records of employee's total activities; and (4) received \$946 in a duplicate payment. We did not find any activity or cost related to lobbying.

## **BACKGROUND**

The Multifamily Assisted Housing Reform and Affordability Act of 1997 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 40 grantees (a total for 83 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 NOFA in FY 1998 and a second in FY 2000 to provide opportunities for nonprofit organizations to participate in the Section 514 programs. HUD provided two types of grants, the Intermediary Technical Assistance Grant (ITAG) and the Outreach and Training Assistance Grants (OTAG). The NOFA 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 their jurisdictions. The OTAG NOFAs 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 regulations at 24 Code of Federal Regulations 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 the Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations," 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 cost 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 activities of lobbying. 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).

NHT was established in January 1986 to preserve the existing stock of federally assisted housing throughout the United States for long-term low and moderate income use. NHT received 21 OTAGs (7 in FY 1998 and 14 in FY 2000) to provide outreach and technical assistance activities in 14 states. The total amount awarded for the grants in FY 1998 was \$255,000 and \$219,800 in FY 2000. The period of performance for the grants was 3 years.

The grantees' requirements were defined in the NOFA. OTAG grantees had to identify their specific jurisdiction and the activities they would undertake to accomplish their objectives. Some of the activities included:

- Identifying residents and resident groups living in eligible Mark to Market and enforcement properties with rents greater than market rents;
- Providing outreach and training to tenants to explain the Mark to Market Program and residents' homeownership options;
- Organizing residents of eligible low-income housing so the tenants can effectively participate in the Mark to Market process;
- Establishing an information clearinghouse as a resource to resident organizations, community groups, and potential purchasers within their assign jurisdiction; and
- Assisting tenants and others approved by HUD to understand their rights under the Section 8 renewal or opt-out process.

In addition to the OTAGs, NHT received four ITAGs and \$1,617,000 from non-Federal sources. The majority of NHT's support came from grants, consulting income, and interest on notes receivables. For example, NHT received \$585,000 from the Fannie Mae Foundation and \$735,000 from the Ford Foundation.

NHT received annual financial audits of their activities for the years ending June 30, 1998, through 2001. The auditor rendered an unqualified opinion for each of the four years.

**FINDING 1**  
**OVERCHARGES OF INDIRECT COSTS MADE TO GRANTS**

NHT overcharged the OTAGs for employee services. These overcharges occurred because NHT used budgeted amounts for the indirect costs included in the billable rate calculations for each employee. As a result, \$29,436 of OTAG funds were improperly used.

In accordance with OMB Circular A-122, Attachment B, Paragraph 7, “Compensation for Personal Services,” reasonable compensation and fringe benefits to employees are grant-fundable costs. Compensation for employees on federally sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities. OMB Circular A-122 also states that budget estimates do not qualify as support for charges to the grant.

NHT overcharged the OTAGs because the billing rates charged to the grants exceeded the actual billing rates<sup>1</sup> as determined by NHT. The individual billing rates NHT used to charge the OTAGs were based on NHT's projected operating budgets, not actual expenses. However, during our review, NHT realized it should have made adjustments to its billing rates (to reflect actuals) and took action to correct this deficiency. NHT's corrective action resulted in the preparation of new billing rate schedules<sup>2</sup> that were based on the actual costs incurred for indirect activities. Table 1 shows the difference between the OTAG charges and the actual billing rates that caused NHT to overcharge the OTAGs by \$29,436 during the period July 1998 through March 2002.

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<sup>1</sup> NHT's methodology for calculating actual billing rates is discussed in Finding 2.

<sup>2</sup> On August 20, 2002, NHT prepared four new billing rate schedules for the period July 1998 through June 2002. The schedules included the billing rates for all NHT professional staff (these schedules were not restricted to employees who charged the OTAGs).

**Table 1: Overcharges to OTAGs**

<b>Year</b>	<b>Employee</b>	<b>Actual Billing Rate<sup>1</sup></b>	<b>Rate Billed to OTAGs<sup>2</sup></b>	<b>Difference</b>	<b>Hours Billed</b>	<b>Overcharges<sup>3</sup></b>
1999	1	\$ 59.00	\$ 70.00	\$ 11.00	167.80	\$ 1,845.80
	2	120.00	130.00	10.00	38.46	384.60
	3	71.00	70.00	(1.00)	20.50	(20.50)
	4**		60.00	60.00	1.40	84.00
2000	1	63.00	70.00	7.00	430.46	3,013.22
	1~	63.00	80.00	17.00	99.25	1,687.25
	2	138.00	130.00	(8.00)	138.06	(1,104.48)
	5	97.00	130.00	33.00	16.00	528.00
2001	1	62.00	80.00	18.00	999.10	17,983.80
	2*	148.00	130.00	(18.00)	202.32	(3,641.76)
	3	78.00	85.00	7.00	15.00	105.00
	4**		60.00	60.00	16.00	960.00
2002	1	67.00	80.00	13.00	667.33	8,675.29
	2*	141.00	130.00	(11.00)	195.56	(2,151.16)
	3	87.00	100.00	13.00	83.00	1,079.00
	5	119.00	120.00	1.00	7.80	7.80
<b><u>Total</u></b>						<b><u>\$ 29,435.86</u></b>
<p>**Administrative Staff salaries and benefits are included in Indirect Costs.  ~ Employee #1 charged 2 different rates.  * Rate excludes car allowance.</p> <p><sup>1</sup> Rate NHT calculated based on actual costs.  <sup>2</sup> Rate NHT charged OTAGs based on projected operating budgets. The billing rate includes the annual salary, fringe benefits and payroll taxes, and indirect costs for NHT's employees.  <sup>3</sup> Charges through March 2002.</p>						

These funds could have been used to further the Mark-to-Market Program by providing training to residents and tenant organizations.

**AUDITEE COMMENTS**

The Executive Director for NHT agrees with our audit finding regarding the overcharges and unallowable costs and is prepared to immediately repay \$29,436 to HUD.

In regard to Recommendation 1B, the Executive Director states that he believes this recommendation has been resolved by the program methodology established by NHT in cooperation with its CPA firm, Reznick, Fedder and Silverman (RF&S). Actual expenses, rather than budgeted expenses will be utilized in establishing NHT's indirect cost rate. RF&S will perform an annual audit of this rate for compliance with the OMB Circular and NHT will submit this rate to OMHAR for approval. With OMHAR approval and the use of actual audited

expenses, NHT intends to meet its burden of controls. In addition, NHT will not make any draw requests under the OTAG program prior to obtaining OMHAR approval on its cost allocation plan.

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

We believe the actions NHT has taken and plans to take should correct the identified deficiencies; therefore, we revised Recommendation 1B.

### **RECOMMENDATIONS**

We recommend that the Director of OMHAR:

- 1A. Require NHT to repay the \$29,436 in overcharges made to the OTAGs.
- 1B. Obtain documentation assuring that NHT has developed an indirect cost rate in compliance with OMB Circular A-122 as outlined in their response. If you are unable to obtain such assurances in a timely manner, consider suspending future grant funding.

**FINDING 2**  
**INDIRECT COSTS NOT IN COMPLIANCE WITH OMB CIRCULAR A-122**

NHT's indirect cost pool included unallowable and questionable costs. This occurred because NHT did not comply with the requirements of OMB Circular A-122. As a result, we could not determine the extent to which the indirect costs may have been overstated.

OMB Circular A-122 provides that if a nonprofit organization decides to claim indirect costs, it must have an approved indirect cost rate. A nonprofit organization, such as NHT, which has not previously established an indirect cost rate with a Federal agency, must submit an indirect cost proposal to that agency immediately after notification of an award, and in no event should the proposal be submitted later than 3 months after the effective date of the award. OMB Circular A-122 also describes the types of allowable costs that may be included in indirect costs, the conditions under which costs may be claimed, and the various methods that nonprofit organizations can use for allocating indirect costs.

NHT established annual billing rates for each of its program staff members<sup>3</sup> as a means of recovering operating costs. The billing rates included annual salary, benefits, and payroll taxes as well as a pro rata share of indirect costs for each program staff member. These costs (direct and indirect) were divided by 1600 hours, the annual billable hours, to determine the individual billing rates. We concluded that the direct costs (annual salary, benefits, and payroll taxes) were reasonable and supported; however, we could not verify the reasonableness of the indirect costs claimed and the base used to calculate the billable rates.

Initially, NHT used budgeted amounts for indirect costs, but during our review, revised those costs to show actual expenses, and to comply with OMB Circular A-122. However, after making these corrections, NHT still did not submit an indirect cost proposal to OMHAR for approval as required by the Circular.

NHT's indirect cost consisted of an overhead pool that included the expenses shown in Table 2.

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<sup>3</sup> Program staff included all professional personnel. Administrative and temporary staff were included as indirect costs.



**Table 2: Indirect Costs Included in the Billing Rates**

	1999	2000	2001	2002
Office Rent/Storage	\$ 50,261	\$ 58,227	\$ 81,477	\$ 97,491
Administrative Staff	11,209	40,716	59,347	72,233
Administrative Temps	19,495	8,778	10,454	18,099
Consultants-Personnel				2,922
Computer Assistance	5,643	3,863	2,608	10,365
Maintenance/Rent/Repair	1,813	1,984	2,146	3,000
Legal/Accounting/Payroll	4,841	8,802	25,520	18,358
Insurance	5,112	5,389	5,835	7,064
Travel/Meetings	17,199	14,441	11,431	9,153
Subscriptions/Dues/Misc.	4,796	5,226	4,767	5,933
Telephone	6,321	8,053	15,123	13,563
Office Supplies	8,900	13,655	9,978	9,886
Postage/Shipping	2,102	1,651	2,735	2,352
Printing & Copying	2,090	9,420	7,187	12,156
State Franchise Taxes	195	325	190	417
Resident Services	16,326	48,638		28,763
Interest on Loans	20,500	25,124	25,000	24,375
Depreciation	7,200	7,224	8,183	8,183
<b>Actual Indirect Costs</b>	<u>\$184,003</u>	<u>\$261,516</u>	<u>\$271,981</u>	<u>\$344,313</u>

While we did not examine supporting documentation for each line item in NHT's indirect cost calculation, we did identify certain costs that should not have been included in the indirect cost pool.

- Unallowable Costs. OMB Circular A-122 states that interest on loans is unallowable; therefore, the interest (\$94,999) should be excluded from the indirect cost pool.
- Questionable Costs. NHT billed the OTAGs directly for telephone, travel and meetings, and printing and copying expenses. The OTAGs included in our sample were charged \$30,884 for these costs. These and any other similar costs directly charged to specific funding sources should be excluded from the indirect cost pool before allocating them to all projects.
- Allocation Bases. More than one base may be appropriate for NHT. For example, a more reasonable base for allocating office rent would be square footage, in lieu of equally distributing it among professional employees. Also, allocating indirect costs based on 1600 hours may have inflated the billing rates. NHT used 1600 hours as the base for calculating the annual billable rates for each employee. We believe NHT should have used 2,080 (the total annual billable hours an employees can work) less the actual time for vacation, holiday, sick, and personal leave as the base for determining each employee's annual billing rate.

NHT should obtain an approved indirect cost rate because NHT has multiple funding sources, many of which are not on a reimbursable basis such as the OTAGs and ITAGs. HUD is NHT's only Federal funding source. Private entities, such as the Ford Foundation and the Fannie Mae Foundation, are not charged the same billing rates as those charged to the OTAGs. According to

the NHT Controller, the grants from private sources have different rates because they are not cost reimbursable. Consequently, we have no assurance that the indirect costs charged to the OTAGs represent a fair and equitable distribution of NHT's costs.

As a result of these deficiencies, we could not determine the reasonableness of the indirect costs (included in the billing rates) that NHT charged to the OTAGs.

### **AUDITEE COMMENTS**

The Executive Director and RF&S concur that interest on loans should not have been included in NHT's billing rates. The Executive Director further states that RF&S did not discover any other unallowable costs in the overhead pool. Furthermore, RF&S has developed an indirect cost rate method that complies with the OMB Circular. Upon approval by OMHAR, NHT will utilize the rate in all applications for grant funds.

On behalf of NHT, RF&S calculated \$6,329 in overcharges made to the OTAGs from 1999 through 2002 because NHT included interest on loans in its overhead pool. NHT is prepared to repay this amount immediately as interest on loans has been deducted from all staff overhead for the 4 years of the grant. The Executive Director states that with the help of RF&S' compliance audits, there will be no more recurrence of this type of misstep.

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

We acknowledge that NHT has taken preliminary corrective actions to comply with OMB Circular A-122 and to address the intent of our finding. However, to ensure that NHT fully implements the requirements, we revised our recommendations.

### **RECOMMENDATION**

We recommend that the Director of OMHAR:

- 2A. Ensure that NHT submits its indirect cost proposal for approval by December 31, 2002.
- 2B. Require NHT to repay the \$6,329 in unallowable interest on loans charged to the OTAGs.
- 2C. Review NHT's indirect cost proposal and determine the reasonableness of the proposed allocation methodology. Recover any additional excessive, unallowable, and unsupported charges to the grants (that were not specifically addressed in this report).

**FINDING 3**  
**EMPLOYEES' TOTAL ACTIVITIES NOT ACCOUNTED FOR**

NHT did not maintain records of employees' total activities. Specifically, NHT did not record non-billable hours worked by employees. This occurred because NHT only required its staff to maintain hours that were billed and reimbursed by a client. As a result, NHT may not have properly accounted for hours charged to OTAG activities.

OMB Circular A-122 places specific salary recordkeeping requirements on the grantee. The grantee must maintain personnel activity reports that account for the total activity for which an employee is compensated for in the fulfillment of obligations to the organization. The report must reflect an after the fact determination of actual activity for each employee. 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.

Although NHT has the capacity to capture total time by employee, it only maintained records of billable hours worked by each employee. "Timeslips" (an automated timekeeping system) was used to record and track the professional staff members' project-specific work for third party clients or specific funding sources. Timeslips not only captured the hours worked but calculated the amount to be charged to each project based on established billable rates.

NHT's employees did not account for hours spent performing non-billable activities. According to NHT's President, the staff was not required to enter hours that could not be billed back to a client as this process was time consuming and non-productive to enter hours into Timeslips for charges that would not be reimbursed.

From July 1998 through March 2002, NHT charged a total of 3,098 hours for five<sup>4</sup> employees who performed activities relating to the 21 OTAGs. Table 3 shows the number of hours each employee charged to OTAG.

**Table 3: Total Hours Charged to OTAGs**

<b><u>Employee</u></b>	<b><u>Years</u></b>				<b><u>Total</u></b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	
1	168	530	999	667	2,364
2	38	138	202	196	574
3	21	-	15	83	119
4	1	-	16	-	17
5	-	16	-	8	24
<b>Total Hours Charged by NHT</b>					<b>3,098</b>

NHT's President stated that the vast majority of the staff time was spent performing non-billable activities that were not project specific or designated to benefit any particular funding source. These activities included community and nonprofit educational programs and forums, fund

<sup>4</sup> NHT's staff consisted of from four to eight professional employees.

raising, administration, and public benefit work. However, it should be noted that these activities are indirect costs that were included in the billable rate calculation.

NHT's policy to not require employees to account for non-billable hours is contrary to the requirements of OMB Circular A-122 which specifically requires that all time be accounted for. As a result, NHT employees may have charged HUD for hours spent performing activities unrelated to the grant.

### **AUDITEE COMMENTS**

NHT has revised its timekeeping policy to include a more comprehensive timekeeping system. The Executive Director of NHT will require employees to maintain detailed timesheets to record all daily activity.

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

The proposed timekeeping system appears to be comprehensive and in compliance with OMB Circular A-122.

### **RECOMMENDATION**

We recommend that the Director of OMHAR:

- 3A. Ensure that NHT prepares and maintains salary recordkeeping reports in accordance with OMB Circular A-122.

**FINDING 4**  
**DUPLICATE PAYMENT RECEIVED**

NHT received \$846 as a duplicate payment for the same activities. This duplicate payment occurred because adequate controls had not been established for reviewing and approving payment requests. As a result, OTAG funds were disbursed unnecessarily, and could have been put to better use by providing additional regional outreach activities.

24 CFR, part 84.21(3), “Standards for Financial Management Systems,” states that recipients’ financial management systems shall provide for effective controls over and accountability for all funds, property, and other assets.

The NHT Controller advised us that she encountered problems when she initially attempted to make an electronic draw down for \$846. Because she did not believe the transaction had been accepted, she did not send a payment voucher to OMHAR for approval. However, she did inform the OMHAR official responsible for approving vouchers of this and was told he would take care of the problem. OMHAR released the \$846 to NHT’s account; but, according to the Controller, NHT never received notification. Therefore, the Controller submitted the \$846 voucher along with six other vouchers for payment the following month. OMHAR approved this voucher, thereby creating the duplicate payment.

OMHAR should have controls to prevent grantees from receiving payments without submitting vouchers.

NHT acknowledged that it received this duplicate payment and agreed to adjust its next payment voucher by \$846 to account for the overpayment.

**AUDITEE COMMENTS**

The Executive Director concurs with our conclusion and agrees to repay \$946 for the duplicate payments received. This repayment includes an administrative error of \$846 and a duplicate billing of \$100 for a conference fee charged twice to the Wisconsin OTAG.

**OIG EVALUATION OF AUDITEE COMMENTS**

We were aware of the additional \$100 duplicate payment and agree that this amount should also be included as a duplicate payment. We revised our recommendation to include this change.

**RECOMMENDATION**

We recommend that the Director of OMHAR:

4A. Request NHT to remit \$946 to HUD.

## **MANAGEMENT CONTROLS**

In planning and performing our audit, we considered the management controls relevant to NHT'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 for assistance,
- Controls and documents to support costs of assistance provided, 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:

- Ineligible costs and duplicate payments charged to the grant,
- Indirect cost pool included unallowable and unsupported costs, and
- Salary and time records did not comply with OMB Circular A-122.

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

The Office of Inspector General performed no previous audit of the National Housing Trust.

**SCHEDULE OF QUESTIONED COSTS**

<b>Recommendation Number</b>	<b>Type of Questioned Costs</b>	
	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A	\$29,436	
2B	6,329	
4A	946	
Total	\$36,711	

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

## Memo

**To:** Sandra G. Elion  
 Director  
 Headquarters Audit Division

**Re:** HUD IG Audit

**From:** Michael Bodaken

*Michael Bodaken*

**Date:** November 25, 2002

Once again, thank you and your staff for their courtesy and thoroughness during your audit of the National Housing Trust (the "Trust"). It was an opportunity for our accounting and professional staff to discuss and pay very close attention to our record keeping methods, as well as our method of tracking costs for the work we do – not only government projects, but for community groups and other nonprofits as well. I know that I now have a better understanding of the actual cost to the Trust of its work. I also note that your review has also been the catalyst for our request to our auditors that they evaluate our current cost accounting methods and assist in development of a revised program. By their attached memorandum, you will see that we have now established an indirect cost rate methodology, which meets the requirements of any government funding program in which the Trust takes part. While it does not differ significantly from our previous method, it will be based on actual audited numbers, will benefit from our newly designed timekeeping method (explained below), and the fact that Reznick, Fedder & Silverman ("RF&S") has now been engaged specifically to perform audits for compliance with OMB Circular A-122 (the "OMB Circular").

While our prior cost allocation did in fact provide substantial compliance with OMB A122 requirements, we concur with the mistakes that the auditors found. RF&S has also concluded, in their review, that those mistakes existed. The mistakes resulted from certain unallowable costs and the use of budgeted numbers rather than actual numbers in estimating overhead.

This circumstance occurred for two reasons: (1) Despite attempts by our staff to obtain clarification from OMHAR during the early phases of the OTAG program on appropriate billing methods, nearly no direction could be obtained; and (2) in this void, we developed what we believed to be an accurate methodology for application of charges to OTAG funds, in compliance with the OMB Circular. Without having better direction, the Trust utilized budgeted numbers for yearly overhead costs, in the belief that prior year expenses did not reflect an accurate basis on which to establish the succeeding year's billable rates. While this may be true, we have now, in compliance with your findings, implemented the use of actual expenses in calculating indirect cost rates. In addition, your staff's findings of unallowable costs have been



concurrent with RF&S. We have agreed with your audit findings as to overcharges and unallowable costs, and (as explained below) have further adjusted that number to remove interest expense and unallowable benefits included in any of the billable charges. As noted in our August 26, 2002 memorandum to you, our rates calculated utilizing actual overhead costs, as cited in your draft audit report, include only expenses that are not properly billed directly to any individual funding source. I hasten to add that, in its review, RF&S has neither discovered "double billing" nor application of unallowable costs other than those already noted by your thorough staff and addressed below.

Given this, I want to briefly address each of your findings.

**FINDING 1 – Overcharges of Indirect Costs Made to Grants**

While we acknowledge that our use of budget projections rather than actual costs in establishing our overhead rates did not comply with the OMB Circular, we note that, at the time of billing to OTAG funds we were unable, despite requests, to obtain guidance from OMHAR on this matter. The calculation of rates used by the Trust provided what Trust staff believed to be the best information available at the time.

As noted above, however, we concur with your findings with respect to overcharges. We note that the differences between rates actually charged and those provided by us in the revised rate schedule are the result of our use of budgeted expectations. To the extent our budgeting expectations varied from actual costs, there were overcharges and undercharges. These aggregate to \$29,435.86 during the four-year period in which the Trust received OTAG funds. As stated above, we have worked with RF&S to develop a rate calculation that will meet the OMB Circular mandate that actual, rather than budget costs be used. In order to meet this requirement, because it is impossible to know actual overhead costs for any year prior to the end of that year (prior to our year end audit), the Trust will now utilize the prior year's audited actual expenses to establish the indirect cost rate to be applied (e.g., FY 2002 actual expenses will be assumed into the indirect cost rate for FY 2003 billing).

Our audited statements for FY2002 are nearly complete. Upon their completion, we will submit our calculation of indirect cost rate to OMHAR for approval. Once approved, that rate will be used for overhead allocation. As explained in the RF&S memorandum attached, this method will ensure compliance with the requirements of the OMB Circular.

Finally, on this finding, I want to address your recommendations specifically:

1. We agree with the overcharges set forth in Table 1. The Trust is prepared to repay immediately the amount of \$29,436, which represents the aggregate of overcharges resulting from the differential between budgeted and actual costs as applied to OTAG funding.

2. With respect to suspension of the Trust's grant funding, we believe that this recommendation is in response to a circumstance that has been resolved by the program and methodology established by the Trust in cooperation with RF&S. As noted above, actual expenses, rather than budgeted expenses will now be utilized in establishing the Trust's indirect cost rate. That rate will be further supported by an annual RF&S audit for compliance with the OMB Circular. The appropriateness of the rate will further be confirmed by submission to OMHAR for approval. With OMHAR approval and use of actual audited expense number, the Trust intends to meet its burden of controls. The Trust will not make any draw requests under the OTAG program prior to obtaining OMHAR approval on its cost allocation plan.

**FINDING 2 – Indirect Cost not in Compliance with OMB Circular A-122**

As noted above, we have asked our auditors, RF&S, to review our methodology and calculations for application of overhead costs. They have concurred with your auditor's conclusion that interest on loans and unallowable benefits cited in Table 1 should not have been included in our billing rates. They have discovered no other unallowable costs, as contained in our overhead pool. Nor have they discovered examples of "double billing" other than those addressed in your draft report.

In addition, as addressed in the RF&S memorandum attached, our auditors have developed an indirect cost rate method that complies with the OMB Circular, and upon its approval by OMHAR will be utilized by the Trust in all applications for grant funding.

We note also that RF&S has performed the financial audits of the Trust each year, has found no material misstatements, and has been specifically engaged to perform an annual review of the Trust's compliance with the OMB Circular.

With respect to its current review, RF&S has calculated that the inclusion of interest in our overhead pool resulted in charges to OTAG of \$680 in 1999; \$1,384 in 2000; \$2,553 in 2001; and \$1,712 in 2002. This caused an overcharge the Trust's OTAG billing in the amount of \$6,329. All interest expense has been deducted from all staff overhead for the 4 years of the grant. I understand from your draft audit report and from our accountants that this amount should be repaid by the Trust, and the Trust is prepared to make repayment immediately. With the help of our engaged compliance audits by RF&S, there will be no recurrence of this type of misstep.

**FINDING 3 – Employees' Total Activity Not Accounted For**

There was no doubt raised by your auditors that my professional staff charged to OTAG only those hours that were actually worked on OTAG projects. Indeed, the total sum of hours billed by all individuals represents only a small fraction of the time that they have worked at the Trust. In addition, no professional time spent on any activity other than OTAG (such as fundraising,



nonprofit education forums or administration) was included in the Trust's overhead pool. If Scott Kline or I, for example, worked on any general administrative matter, that time was not allocated to billable projects, such as the OTAG grants.

Nevertheless, I understand your desire that the Trust maintain a more comprehensive time keeping system. Although we do keep detailed records of all "billable" work, it has not been our policy to require staff to maintain detailed timesheet records of all daily activity. While I know that those who work at the Trust are honest, thoughtful and active with their time, we have nevertheless revised our timekeeping sheets. The monthly timesheets that will be completed by all Trust employees provide a breakdown of all hours spent per day. Included in the timesheets is a separate column for OTAG hours. Other non-federally funded activities that are broken out on the sheets include: Administration, Fundraising, Ford PRI Loan Fund, Program Services, NHT/Enterprise Consulting, NHT/Enterprise Illinois, and Legislative Advocacy. If the Trust receives any additional federal grant monies in the future, separate columns will be added for these funds as well (please see attached samples).

Thank you for your review and thoughtful direction on this matter.

**FINDING 4 – Employees' Total Activity Not Accounted For**

The Trust and our auditors concur with your conclusion regarding this administrative error, and agree that this amount (\$846) should be repaid by the Trust. In addition, one additional similar mistake has been discovered, by which the Wisconsin OTAG was inadvertently billed \$100 for conference fee both under travel expenses and as a separate item. The Trust will also repay this amount immediately.

In closing briefly, I again want to state that I believe your staff and their work has been carried out with professional conduct, and although we have differed, those disagreements were not unreasonably based on behalf of either of us. Your findings have also led the Trust to implement new and important cost monitoring and oversight that will benefit this organization.

The plans of this memo, as well as the methodology and details set forth in the attached memo from our auditors, Reznick, Fedder & Silverman were issued in direct response to your draft audit. I respectfully request that you take this response and the memo from our accountants into account prior to issuance of your final report to OMHAR.

**EXTERNAL REPORT DISTRIBUTION**

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