U. S. Department of Housing and Urban Development
New York/New Jersey Office
Jacob K. Javits Federal Building
26 Federal Plaza – Room 3430
New York, New York 10278-0068

MEMORANDUM NO:
2004-NY-1804

September 15, 2004

MEMORANDUM FOR: Joan K. Spilman, Director, Public Housing Division, 2CPH

Alexander C. Malloy

FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

SUBJECT: Micro Loan Program
Buffalo Municipal Housing Authority
Buffalo, New York

INTRODUCTION

We conducted a limited review of the Micro Loan Program that was sponsored by the Buffalo Municipal Housing Authority (BMHA), but administered by the Temple Community Development Corporation (TCDC). The review initiated from information obtained during our review of complaints filed with the Office of Inspector General's (OIG) Hotline. The results of our evaluation of the complaints are reported in a separate memorandum. However, in addition to determining whether the complaints have validity, we also evaluated BMHA's monitoring of TCDC's administration of the program, as well as, TCDC's compliance with the terms of its contract with the BMHA to administer the Micro Loan Program. The results of this evaluation are contained in this memorandum.

METHODOLOGY AND SCOPE

We performed our on-site work at the office of the BMHA, the TCDC, and the Buffalo Field Office of the United States Department of Housing and Urban Development (HUD). Generally, the review covered the period between January 1, 2001 and December 31, 2003; however, it was extended as necessary. Our on-site review work was conducted between June and August 2004.

We interviewed: members of HUD's staff; employees of the BMHA; representatives of the TCDC; a BMHA contracted investigator; and a complainant. Also, we reviewed program records maintained at HUD, the BMHA, and the TCDC.

BACKGROUND

The Micro Loan Program was part of a $500,000 1997 Economic Development and Supportive Services grant that HUD awarded the BMHA under the Combined Notices of Funding Availability for fiscal year 1997 for the Public and Indian Housing Economic Development and Supportive Services Program, NY06EDS0020197. The BMHA entered into a subrecipient agreement with the Buffalo Urban League to act as a micro loan administrator for $87,000 of loan funds. The purpose of the program was to provide funds to public housing residents wishing to start or expand their own small business operation. The Buffalo Urban League did not make any loans during the term of its agreement. The BMHA then entered into an agreement with the TCDC to administer the same $87,000 of loan funds.

RESULTS OF REVIEW

Our review disclosed deficiencies pertaining to the BMHA's monitoring and TCDC's administration of the Micro Loan Program. Specifically, we found that the BMHA (1) did not adequately monitor the contract performance of TCDC, (2) paid administration fees to TCDC that were unreasonable, (3) overpaid TCDC for loan-servicing fees, and (4) did not ensure that the TCDC had an adequate system in place to track the status and repayments of loans.

Additionally, we noted that TCDC did not meet the performance goals set forth in the contractual agreements. According to the agreements, TCDC was to administer and maintain a minimum of seventeen loans to residents of the BMHA. The original $87,000 was to be loaned no later than October 1, 2001. By the end of the contracts in December 2002, TCDC was only administering and maintaining nine loans totaling $39,100. Thus, $47,900 of program funds has not been utilized for its intended purpose.

Also, we noted that the BMHA paid TCDC a total of $38,334 in administration fees and $19,050 in loan-servicing fees from its Capital Funds Program. The original contract called for a maximum of $20,000 in administrative fees, which was amended to provide additional administration fees of $8,334. The second contract provided for a maximum of $10,000 in administrative fees. The BMHA paid the maximum in administrative fees even though the TCDC did not meet its performance goals for any of the contracts. We believe that the $38,334 in administrative fees was excessive and unreasonable since TCDC failed to meet established performance goals.

Pursuant to the terms of the contracts, the TCDC was to be paid a loan-servicing fee of 15 percent of each loan amount. The TCDC administered and maintained $39,100 in loans and should have received $5,865 (15 percent of $39,100) in loan-servicing fees. However, BMHA paid the TCDC $19,050 in loan-servicing fees, which was $13,185 in excess of fees that the TCDC earned. Therefore, the amount of unearned loan service fees of $13,185 is considered an ineligible cost to the Capital Funds Program.

In June 2003, the BMHA requested reimbursement of the unused Micro Loan Program funds from the TCDC. By October 2003, the TCDC had returned the $47,900 in unused loan funds to the BMHA. In May 2004, the BMHA requested the TCDC to provide the status of the loan recipients. The TCDC responded with information on the nine recipients including the amount of repayments made by them. The TCDC wrote a check to the BMHA on May 26, 2004 for $5,541.27 that represented program income from the loan repayments. However, we could not verify the accuracy of any of the program income because the TCDC did not maintain adequate records on the loan recipients' repayment activities.

The results of our review were discussed with officials of the BMHA during an exit conference held on September 7, 2004. Although we requested written comments, officials of the BMHA chose not to provide any for inclusion in this memorandum.

RECOMMENDATIONS

We recommend that the Director of Public Housing Division, Buffalo Field Office:

1A. Make a determination on the appropriate accounting and usage of the $47,900 in unexpended grant funds since the Economic Development and Supportive Services grant has been closed out.

1B. Determine whether the $38,334 in administrative fees was excessive since the TCDC failed to meet established performance goals. If the amount is determined to be excessive, the BMHA should require the TCDC to reimburse the excessive amount to BMHA's Capital Funds Program from non-Federal funds.

In addition, we recommend that the Director of Public Housing Division, Buffalo Field Office instruct the Buffalo Municipal Housing Authority to:

1C. Reimburse the Capital Funds Program from non-Federal funds the $13,185 in unearned service fees paid to the Temple Community Development Corporation.

1D. Implement adequate management controls and monitoring procedures over the TCDC, to ensure that adequate records of loan repayment activities are created and maintained.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation in this memorandum, 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 issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of our review.

Should you or your staff have any questions, please contact Garry Clugston, Assistant Regional Inspector General for Audit at (716) 551-5755, extension 5901.

Schedule of Questioned Costs

Recommendation Number	Ineligible Costs 1/	Unsupported Costs 2/	Funds Put to Better Use 3/
1A	---0---	---0---	$47,900
1B	$13,185	---0---	---0---
1C	---0---	---0---	---0---
1D	---0---	$38,334	---0---
Total	$13,185	$38,334	$47,900

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 whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation. A legal opinion or administrative determination may be needed on these costs.

3/ Funds put to better use are costs that will not be expended in the future if our recommendations are implemented, for example, costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.