
AUDIT REPORT



MOUNT UNION COLLEGE ECONOMIC DEVELOPMENT INITIATIVE – SPECIAL PURPOSE GRANT (B-02-SP-OH-0555)

ALLIANCE, OH

HUD's Interest in \$1 Million in Grant Funds Awarded to The
College Was Not Secured

2005-CH-1018

SEPTEMBER 28, 2005

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	September 28, 2005
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Audit Report Number	2005-CH-1018
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TO: Francis P. McNally, Director of Congressional Grants, DECC

FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: HUD's Interest in \$1 Million in Economic Development Initiative - Special Purpose Grant Funds Awarded to Mount Union College Was Not Secured; Alliance, Ohio

HIGHLIGHTS

What We Audited and Why

We audited Mount Union College's (College) Economic Development Initiative - Special Purpose Grant (Grant). We initiated the audit in conjunction with our internal review of the U.S. Department of Housing and Urban Development's (HUD) oversight of Economic Development Initiative - Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the College's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative - Special Purpose Grants, in which 90 percent or more in funds were disbursed. Our objectives were to determine whether the College used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

What We Found

The College used the Grant funds in accordance with HUD's requirements. The College used \$1 million in Grant funds to pay for architectural fees for the construction of Bracy Hall, a science facility. However, the College did not place a covenant on the property title for Bracy Hall assuring nondiscrimination based

on race, color, national origin, or handicap. Further, HUD did not request the College to record HUD's interest on the property title for Bracy Hall.

What We Recommend

We recommend that HUD's director of congressional grants require the College to record a covenant on the title assuring nondiscrimination based on race, color, national origin, or handicap and record a lien on the property title for Bracy Hall showing HUD's interest in the assisted property. If the covenant and lien are not recorded, the College should reimburse HUD \$1 million from nonfederal funds for the Grant funds used to pay for Bracy Hall's architectural fees.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the College's vice president for business affairs and treasurer and HUD's staff during the audit. We held an exit conference with the vice president for business affairs and treasurer on September 14, 2005.

We asked the vice president for business affairs and treasurer to provide comments on our discussion draft audit report by September 16, 2005. The vice president for business affairs and treasurer provided written comments dated September 16, 2005. The vice president for business affairs and treasurer agreed to implement corrective action to address our finding. The complete text of the written comments can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Economic Development Initiative program. The U.S. Department of Housing and Urban Development's (HUD) Economic Development Initiative program includes noncompetitive Economic Development Initiative – Special Purpose Grants. HUD awards Economic Development Initiative – Special Purpose Grants to entities included in the U.S. House of Representatives' conference reports.

Mount Union College. Incorporated in 1878 as a nonprofit corporation under the laws of the State of Ohio, Mount Union College (College) is governed by a 55-member board of trustees, which includes the College's president. As of July 2005, the College's endowment was \$121 million. The U.S. House of Representatives' Conference Report 107-272 set aside \$1 million in Economic Development Initiative – Special Purpose Grant (Grant) funds to the College for a new science facility. In June 2002, HUD awarded the College the \$1 million Grant to pay for architectural fees for the construction of Bracy Hall. Bracy Hall is a four-floor science facility housing the College's Departments of Biology, Chemistry, Geology, Physics, and Astronomy. The facility contains 21 faculty offices, 20 laboratories, three lecture halls, and two classrooms. The College's Department of Business Affairs administers the Grant. The College's records for the Grant are at Beeghly Hall, located at 1972 Clark Avenue, Alliance, Ohio.

We initiated this audit in conjunction with our internal review of HUD's oversight of Economic Development Initiative – Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the College's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative – Special Purpose Grants, in which 90 percent or more in funds were disbursed.

Our objectives were to determine whether the College used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

RESULTS OF AUDIT

Finding: HUD's Interest in \$1 Million in Grant Funds Awarded to the College Was Not Secured

The College used \$1 million in Grant funds to pay for architectural fees for the construction of Bracy Hall; however, it did not place a covenant on the property title for Bracy Hall, a science facility constructed using Grant funds, assuring nondiscrimination based on race, color, national origin, or handicap. The College used \$1 million in Grant funds to pay for architectural fees for the construction of Bracy Hall. Further, HUD did not request the College to record HUD's interest on the property title for Bracy Hall. The College did not record the covenant on the title because it lacked effective oversight over applicable Grant requirements. As a result, HUD's interest in Bracy Hall is not protected.

The College Used \$1 Million in Grant Funds without Placing a Covenant on the Facility's Title to Ensure Nondiscrimination

Contrary to federal requirements, the College did not secure HUD's interest in \$1 million in Grant funds used to pay for architectural fees for the construction of Bracy Hall. Bracy Hall is a science facility housing the College's Departments of Biology, Chemistry, Geology, Physics, and Astronomy. The funds were disbursed from November 2002 through November 2003. The College failed to place a covenant on Bracy Hall's property title to assure nondiscrimination based on race, color, national origin, or handicap. The purpose of the covenant is to ensure nondiscrimination for the period that Bracy Hall is used for a science facility as outlined in the College's application for the Grant or for another purpose involving similar services or benefits. The recording of the covenant will provide HUD recourse if discrimination based on race, color, national origin, or handicap occurs in relation to Bracy Hall.

HUD's Interest in Bracy Hall Is at Risk

The College's vice president for business affairs and treasurer said HUD did not provide the College any directives or guidance regarding the securing of HUD's interest in Bracy Hall. Additionally, the vice president said the College lacked experience regarding HUD grants. However, the College assured it would place a covenant on the real property's title to assure nondiscrimination during the useful life of the project. The recording of the covenant will provide HUD recourse if

discrimination based on race, color, national origin, or handicap occurs in relation to Bracy Hall.

HUD Did Not Request the College to Record HUD's Interest on Bracy Hall's Title

HUD did not request the College to record HUD's interest on the property title for Bracy Hall. The recording of HUD's interest in the facility will help protect HUD in case the facility is sold or is no longer used for its intended purpose. The College's vice president for business affairs and treasurer certified in Standard Form 424D, Assurances – Construction Programs, section 3, that the College would record the federal interest in the title of real property in accordance with awarding agency directives.

HUD's Office of Congressional Grants' position is that the Standard Form only requires the College to record HUD's interest in Bracy Hall, if HUD issued a directive that requires applicants to record HUD's interest in real property or HUD specifically directs the College to record HUD's interest in Bracy Hall. HUD did not issue any directives requiring grant recipients to record HUD's interest in real property or specifically direct the College to record HUD's interest. However, HUD clearly has the authority to require a grantee to record HUD's interest in an assisted property. Therefore, HUD's interest in Bracy Hall is not protected in case the facility is sold or is no longer used for its intended purpose.

Recommendations

We recommend that HUD's director of congressional grants require the College to

- 1A. Record a covenant on the title assuring nondiscrimination based on race, color, national origin, or handicap and record a lien on the property title for Bracy Hall showing HUD's interest in the assisted property. The covenant and lien should help ensure that the College protects HUD's interest in the \$1 million in Grant funds for Bracy Hall.
- 1B. Reimburse HUD from nonfederal funds for the Grant funds used to pay for Bracy Hall's architectural fees if the covenant and lien are not recorded.

SCOPE AND METHODOLOGY

We performed the audit at the College's Department of Business Affairs' offices and Bracy Hall in July 2005. To accomplish our objectives, we interviewed HUD's staff and the College's employees.

To determine whether the College used Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property, we reviewed:

- U.S. House of Representatives' Conference Report 107-272,
- HUD's file related to the Grant,
- The College's financial records, and
- The College's and the State of Ohio Secretary of State's websites for organizational information on the College.

We also reviewed 24 CFR [*Code of Federal Regulations*] parts 1, 8, and 84; 56 *Federal Register* 16337; 70 *Federal Register* 35967; HUD Directives 1.5, 8.50, and 84.32; Office of Management and Budget Circulars A-21, A-87, A-110, and A-122; and HUD Handbook 2000.06, REV-3.

The audit covered the period from July 1, 1992, through June 10, 2005. This period was adjusted as necessary. We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- The College did not record the covenant on the title because it lacked effective oversight over applicable Grant requirements.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	<u>\$1,000,000</u>
Total	<u>\$1,000,000</u>

1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

AUDITEE COMMENTS



September 16, 2005

Mr. Brent G. Bowen
Assistant Regional Inspector General for Audit Region V
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, IL 60604-3507

Dear Mr. Bowen:

Please accept this letter as a response to your correspondence dated September 1, 2005, including the draft audit report by HUD's Office of Inspector General for Audit of Mount Union College's Economic Development Initiative – Special Purpose Grant (B-02-SP-OH-0555). Thank you for allowing management of the College to comment on the specific issues addressed in the audit report.

We understand the reason for the audit and the statistical sampling that was performed to select Mount Union College's grant to be audited.

Finding: *HUD's interest in \$1 Million in grant funds awarded to the College was not secured. It has been determined that the College used the grant funds to pay for architectural fees for the construction of Bracy Hall in accordance with proper procedure. Bracy Hall was completed and opened for classes in August 2003 and is a fine addition to the College's facilities. However, it has also been determined that the College did not place a covenant on the property title for Bracy Hall, assuring non-discrimination based on race, color, national origin, or handicap. Further, HUD did not request the College to record HUD's interest on the property title for Bracy Hall. According to the audit report, "the College did not record the covenant on the title because it lacked effective oversight of the Grant. As a result, HUD's interest in Bracy Hall is not protected."*

Response: Mount Union College acknowledges that the covenant was not recorded on the property title for Bracy Hall. In our review of the grant documents, we believed that guidance would be coming from HUD's Office of Congressional Grants as to what was required to be recorded, such as language for the covenant and the length of time required. Further, if HUD's interest was to be recorded on the title as well, we believed guidance would have been provided as indicated in the original grant documents. Since we did not receive such guidance from HUD on the matter, and seeing that we owned the title to the property prior to construction of the new facility, we did not record such documents. In addition, this grant provided for less than 5% of the overall cost of the project and we were unsure what to record and for what period of time. We do not believe that we lacked effective oversight on the grant since this was our first such grant from HUD, and its documents indicated that guidance would be forthcoming.

Office of Business Affairs

1972 Clark Avenue • Alliance, OH 44601 • (330) 823-6572 • Fax (330) 823-3457

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Action: Mount Union College did not intend to improperly handle placement of HUD's requirements and therefore will record a covenant on the title assuring nondiscrimination based on race, color, national origin, as required in Standard Form 424D, Assurances – Construction Programs, section 3. The form has been prepared and is attached as an "Affidavit" to this response letter. We will await guidance from HUD's Office of Congressional Grants, as identified in the Standard Form, to record its interest in the real property if they determine that HUD's interest is not properly protected on the property.

Please contact me at (330) 823-6572 or the College's Controller, Michelle Baker Sams at (330) 823-6564 if you should have any questions.

Sincerely yours,



Patrick D. Heddleston
Vice President for Business Affairs & Treasurer

Attachment

Appendix C

FEDERAL REQUIREMENTS

The College's grant agreement with HUD, article I, section B, states the grants funds must be made available in accordance with 24 CFR [*Code of Federal Regulations*] parts 1 and 8. Section E of article I states the College will comply with 24 CFR [*Code of Federal Regulations*] part 84.

According to 24 CFR [*Code of Federal Regulations*] 1.5(a)(2), in the case of real property, structures, improvements thereon, or interests therein, acquired through a program of federal financial assistance, the instrument effecting any disposition by the recipient of such real property, structures, improvements thereon, or interests therein shall contain a covenant running with the land assuring nondiscrimination based on race, color, or national origin for the period during which the real property is used for a purpose for which the federal financial assistance is extended or for another purpose involving the provision of similar services or benefits.

According to 24 CFR [*Code of Federal Regulations*] 8.50(c)(2), when no transfer of property is involved, but property is purchased or improved with federal financial assistance, the recipient shall agree to include a covenant in the instrument effecting or recording any later transfer of the property for the period during which it retains ownership or possession of the property to assure nondiscrimination based on a handicap.

HUD Directive 84.32 and 24 CFR [*Code of Federal Regulations*] 84.32(a) state title to the real property shall vest in the recipient as long as the recipient uses the real property for its authorized purpose and does not encumber the real property without HUD's approval. Part 84.32(c) states when the real property is no longer needed for the authorized purpose or cannot be used in other HUD-approved federally sponsored projects or programs with purposes consistent with the authorized purpose of the original project, the recipient shall request disposition instructions from HUD. HUD shall require the recipient to do the following: (1) retain title to the real property without further obligation to the federal government after it compensates the federal government the percentage of the current fair market value of the real property attributable to the federal participation in the project; (2) sell the real property and compensate the federal government for the percentage of the current fair market value of the real property attributable to the federal participation in the project; or (3) transfer title to the real property to the federal government or to an eligible third party and be entitled to compensation for its percentage of the current fair market value of the real property.

According to 56 *Federal Register* 16337, directive means a handbook (including a change or supplement), notice, interim notice, special directive, and any other issuance that the department may classify as a directive.

The College's vice president for business affairs and treasurer certified in Standard Form 424D, Assurances – Construction Programs, section 3, that the College would record the federal interest in the title of real property in accordance with awarding agency directives and would include a covenant in the title of real property acquired in whole or in part with federal assistance to assure nondiscrimination during the useful life of the project.