



**U. S. Department of Housing and
Urban Development**

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OFFICE OF INSPECTOR GENERAL FOR AUDIT

Audit Related Memorandum
No. 97-DE-301-1802

May 30, 1997

MEMORANDUM FOR: Maxine Cunningham, Director, Office of Fair
Housing Initiatives and Voluntary Programs ,
EEF

FROM: W. D. Anderson, District Inspector General for Audit, 8AGA

SUBJECT: Council for Concerned Citizens
Fair Housing Initiatives Program Grantee
Great Falls, Montana

At the request of the HUD Office of Fair Housing Initiatives and Voluntary Programs, we have audited Council for Concerned Citizens' operations of its four HUD-funded Fair Housing Initiatives Program grants. The purpose of our audit was to determine whether: (1) Fair Housing Initiatives Program funds had been misappropriated and used for purposes not intended under the grant agreements; and (2) the grantee had violated provisions of subcontractual agreements paid for out of federal funds.

SUMMARY

To accomplish our objectives, we reviewed Council for Concerned Citizens' accounting books and records, as well as HUD's files. Our review also included interviews with Council for Concerned Citizens officials and personnel, and HUD officials.

During our audit we did not find any misappropriation of federal funds, nor any violations of subcontractual agreements. However, we have addressed a \$10,000 dispute between Council for Concerned Citizens and one of its subcontractors.

At the conclusion of our audit, Council for Concerned Citizens was closing out their four HUD-funded Fair Housing Initiatives Program grants, and subsequent to our audit, Council for Concerned Citizens dissolved as a non-profit corporation. Because of these events, we have also included information related to the close-out of Council for Concerned Citizens' four HUD-funded grants.

BACKGROUND

Council for Concerned Citizens, a non-profit corporation based in Great Falls, Montana, was established in 1982 for the purpose of reducing the causes of poverty through social, economic, and educational activities for the development of self-sufficiency. Council for Concerned Citizens' central focus was on the reduction and elimination of prejudice and discrimination by advocating and defending human and civil rights secured by law. Council for Concerned Citizens works toward their purpose through civil rights enforcement and education.

Council for Concerned Citizens was awarded four grants under HUD's Fair Housing Initiatives Program from August, 1994 through October, 1994. The Fair Housing Initiatives Program (FHIP) was established as a demonstration program by the Housing and Community Development Act of 1987 to strengthen HUD's enforcement of the Fair Housing Act and to further fair housing. The Housing and Community Development Act of 1992 established the Fair Housing Initiatives Program as a permanent program.

Council for Concerned Citizens' four HUD-funded Fair Housing Initiatives Program grants are listed below with specific grant information.

Grant Number	Grant Name	Office Location	Date Awarded	Grant Time Period	Total Grant Amount
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FH400G93-00022	Education and Outreach Initiative	Great Falls, Montana	08/17/94	18 mo.	\$116,191
FH700G93-00041	Private Enforcement Initiative	Great Falls, Montana Billings, Montana Helena, Montana	08/17/94	2 yrs.	\$448,200 \$447,666
FH900G93-00058	Fair Housing Organizations Initiative	Bismarck, North Dakota Fargo, North Dakota	08/17/94	2 yrs.	\$430,858
FH700G94-00093	Private Enforcement Initiative	Bozeman, Montana Havre, Montana	10/01/94	2 yrs.	
TOTAL HUD FUNDS AWARDED					\$1,442,915

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management control systems in place over the grants' activities in order to determine our auditing procedures and not to provide assurance on management controls.

During our audit we determined which management controls were relevant to the audit objectives, and assessed the management controls that ensured:

- Grant assets were safeguarded;
- Grant funds were properly expended;
- Reliable accounting data; and
- Compliance with the terms and conditions of the Grant Agreement and with HUD regulations and requirements.

The following audit procedures were used to evaluate the above controls:

- Interviews with auditee officials and staff;
- Review of files maintained by the auditee;
- Tests and evaluation of the auditee's operating policies and procedures as they relate to the identified relevant controls; and
- Review of the auditee's accounting and administrative records.

A significant weakness exists if management controls do not give reasonable assurance that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in the financial statements and reports.

During our review, some management control weaknesses were identified in the area of posting and reconciling accounting records and transactions. However, none of the weaknesses were considered significant to affect the implementation of the four HUD-funded grants. Furthermore, subsequent to our on-site review, Council for Concerned Citizens dissolved as a non-profit corporation, effective February 28, 1997. Because Council for Concerned Citizens' operations have ceased altogether, needed changes to Council for Concerned Citizens' management controls are no longer applicable, and are not being addressed in this memorandum.

RESULTS OF REVIEW

To accomplish our objectives, we reviewed Council for Concerned Citizens' accounting books and records, files, and other information maintained at their Great Falls, Montana office location. We analyzed accounting transactions and tested the accounting system of the grantee. The major operating areas reviewed included: cash; payroll; travel; subcontracts; and inventory. For each of these operating areas, we reviewed and tested selected transactions made during the audit period. In addition, we reviewed HUD files maintained for the grantee, as well as HUD regulations governing the Fair Housing Initiatives Program. We also reviewed applicable rules and regulations governing non-profit organizations. We also interviewed grantee officials, grantee Board of Director members, some of the grantee's past and present employees, third parties, and employees of HUD.

Our audit period generally covered grantee activities from August 17, 1994 through June 30, 1996. We conducted audit work from July, 1996 through May, 1997. The audit was conducted in accordance with generally accepted government auditing standards.

Overall, we determined that Council for Concerned Citizens had sufficient control over the operations of its four HUD-funded Fair Housing Initiatives Program grants.

Based on our audit, we did not identify any fraudulent activities. However, we have addressed a \$10,000 dispute between the Council for Concerned Citizens and one of its subcontractors, which has

arisen because of conflicting interpretations of contract provisions.

\$10,000 Dispute With Subcontractor

Council for Concerned Citizens contracted with Montana Human Rights Network, under HUD-funded grant number FH700G93-00041, for fair housing enforcement services to be provided in Helena, Montana. Under this contract, Montana Human Rights Network was to provide specific services for a specified amount of \$45,000. Because of conflicting interpretations of contract provisions, a dispute over final payment of \$10,000 resulted.

The purpose of this contract was for Montana Human Rights Network to conduct enforcement activities in Helena, Montana. The total contracted amount to be paid by Council for Concerned Citizens to Montana Human Rights Network was \$45,000. The contract provided for the completion of the following tasks:

- Hire/train Program Coordinator and staff;
- Promote awareness of services;
- Recruit/train testers;
- Complete Fair Housing Initiatives Program enforcement log;
- Submit financial expenditure report, written quarterly reports, and final report of activities;
- Conduct rental, real estate, lending, & insurance complaint-based tests;
- File complaints; and
- Suggest remedies that promote affirmative marketing.

The contract provided that as tasks were completed, payments to Montana Human Rights Network were to be made, within specific periods of time. The contract specified the following payment schedule.

PAYMENT SCHEDULE	
TIME	AMOUNT
30 Days	\$10,000
60 Days	\$5,000
180 Days	\$10,000
270 Days	\$10,000
320 Days	\$10,000

During the contract period, Montana Human Rights Network carried out required tasks of the contract agreement, and was paid \$35,000 of the contracted amount. Council for Concerned Citizens withheld the final \$10,000 contract payment. A dispute arose over the financial reporting requirements of the contract agreement at the end of the contract period.

Based on the contract agreement and the services provided, we found:

- Council for Concerned Citizens contracted for certain services;
- Payment was based on the completion of those services;
- Montana Human Rights Network provided those services; and
- Council for Concerned Citizens accepted and reported those services to HUD.

Subsequent to our site review, Council for Concerned Citizens and Montana Human Rights Network entered into an informal agreement to resolve the \$10,000 dispute. This informal agreement was reached in an effort to satisfactorily close out HUD-funded grant number FH700G93-00041.

The informal agreement provides for final settlement by substituting certain revenue and equipment in lieu of the \$10,000 final contract payment. With the complete execution of the agreement, the \$10,000 dispute between Montana Human Rights Network and Council for Concerned Citizens will be satisfactorily resolved.

At the conclusion of our audit, Council for Concerned Citizens was closing out their four Fair Housing Initiatives Program grants, and subsequent to our audit, Council for Concerned Citizens dissolved as a non-profit corporation. Because of these events, we have included the following information related to the close-out of Council for Concerned Citizens' four HUD-funded grants.

Information Related to the Close-Out of HUD-Funded Grants

During the audit period, Council for Concerned Citizens was administering four HUD-funded Fair Housing Initiatives Program grants. The four grants have since expired, and Council for Concerned Citizens has closed out the grants and submitted final reports for each grant to HUD. In addition, effective February 28, 1997, Council for Concerned Citizens dissolved as a non-profit corporation. Council for Concerned Citizens appeared to be following orderly close-out procedures, including the satisfactory resolution of the following areas:

- Department of Labor's overtime claim;
- Disposal of office furniture and equipment; and
- Settlement of outstanding liabilities.

Following is a brief discussion pertaining to each of the close-out areas.

Department of Labor's Overtime Claim

In November, 1996, the U.S. Department of Labor requested Council for Concerned Citizens perform a self-audit of their pay practices to determine if they were in compliance with the Fair Labor Standards Act. Based upon information from Council for Concerned Citizens, the determination was made that some employees were not exempt from overtime for time worked over a 40-hour workweek. Council for Concerned Citizens was requested to correct their pay practices by determining which employees were improperly paid. Based upon this determination, Council for Concerned Citizens has initiated steps, within their financial capabilities, to settle overtime claims owed to those employees who were improperly paid.

Disposal of Office Furniture and Equipment

Council for Concerned Citizens purchased various office furniture and equipment throughout the time period August, 1994 through August, 1996 under its four HUD-funded Fair Housing Initiatives Program grants. Since Council for Concerned Citizens closed out their four HUD-funded grants, and further dissolved as a non-profit corporation, Council for Concerned Citizens must properly dispose of its unneeded office furniture and equipment.

In disposing of its office furniture and equipment, Council

for Concerned Citizens has worked with HUD. Council for Concerned Citizens provided HUD with an inventory listing of office furniture and equipment purchased with Fair Housing Initiatives Program grant funds, and informed HUD of its action to donate the office furniture and equipment to other fair housing organizations, as well as other non-profit organizations.

Settlement of Outstanding Liabilities

According to Council for Concerned Citizens' Articles of Incorporation, as well as their Plan of Dissolution, upon corporation dissolution, the Board of Directors shall pay or make provisions for the payment of liabilities of the corporation.

In closing out the four HUD-funded grants, Council for Concerned Citizens has coordinated with HUD to satisfactorily disburse any remaining Fair Housing Initiatives Program grant funds.

The above items are not being controlled under the Department's Automated Audit Management System. Please provide us with copies of any additional correspondence relating to this memorandum.

We appreciate the courtesies and assistance extended by the Office of Fair Housing Initiatives Program officials, HUD Rocky Mountain Fair Housing Enforcement Center officials, as well as Council for Concerned Citizens officials and staff. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit at (303) 672-5452.

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