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# AUDIT REPORT



## DRUG ELIMINATION FUNDS USED FOR CREATIVE WELLNESS PROGRAM

2001-AO-0003

AUGUST 29, 2001

OFFICE OF AUDIT, CAPITAL DISTRICT  
WASHINGTON, DC

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Issue Date	August 29, 2001
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TO: Alphonso Jackson, Deputy Secretary, SD  
Paula Blunt, Acting General Deputy Assistant Secretary for Public and Indian Housing, P

[SIGNED]

FROM: Saundra G. Elion, District Inspector General for Audit, Capital District, 3GGA

SUBJECT: Drug Elimination Funds Used for Creative Wellness Program

As a part of our audit plan to review Public and Indian Housing cooperative agreements, we reviewed the Creative Wellness Program developed by the National Institute for Medical Options (NIMO). Our audit objectives were to determine: whether funds were expended appropriately; if adequate monitoring and oversight over the creative wellness program agreements was provided; and if public housing drug elimination funds was an appropriate source of funding for a creative wellness program.

The report contains two findings and recommendations for corrective action.

Within 60 days, please provide us with a status report of corrective actions taken on each recommendation made in this report. The status report should be prepared in accordance with Appendix 6 of HUD Handbook 2000.06 REV-3 and should include the corrective action taken or proposed corrective action and the date to be completed, or why the action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this review.

Should you have any questions, please contact me at (202) 501-1330, extension 130.

# Executive Summary

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We completed an audit of the Creative Wellness Program that was funded through: (1) an interagency agreement with the U.S. Department of Health and Human Services (HHS); and (2) a cooperative agreement with HUD. Our specific objectives were to determine: whether funds budgeted in the agreements were expended appropriately; if the Office of Public and Indian Housing (PIH) provided adequate monitoring and oversight over the creative wellness program agreements; and if public housing drug elimination funds were an appropriate source of funding for the creative wellness program.

## Results of review

The Public and Assisted Housing Drug Elimination Act allowed funding for activities such as technical assistance and assistance training. However, we determined that HUD spent over \$1.1 million of public housing drug elimination funds on a wellness program that was not adequately justified and showed minimal impact on issues dealing with substance abuse or domestic and violent crime. We believe the Deputy Assistant Secretary for Public and Assisted Housing Delivery misused her position to secure funding for both the interagency agreement with HHS and the HUD cooperative agreement for the Creative Wellness Program. Inadequate monitoring of the cooperative agreement by both the Grant Officer and the Government Technical Representatives caused the National Institute for Medical Options (NIMO) to misspend \$98,110 on ineligible and unsupported items.

## Recommendations

We recommend that the Deputy Secretary take appropriate administrative and disciplinary actions against the Deputy Assistant Secretary for Public and Assisted Housing Delivery for her lack of impartiality and possible misuse of her position. We recommend that the Acting General Deputy Assistant Secretary for Public and Indian Housing establish adequate internal controls to ensure that alternative sources be explored before noncompetitive agreements are approved, work performed under agreements meet the conditions of the agreement and satisfy the intent of the Public and Assisted Housing Drug Elimination Act; recover the equipment and vehicle purchased with HUD funds; and recover \$98,110 in questioned costs from NIMO. We also recommend improvements in the management and oversight of cooperative agreements.

On June 5, 2001, we provided the Deputy Secretary and the Acting General Deputy Assistant Secretary for Public and Indian Housing with a copy of the draft report. The Deputy Secretary generally concurred with each recommendation and provided a written response to the draft report on August 6, 2001. We have summarized and evaluated his comments after each finding and have included the complete text of his response at Appendix A.

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## Abbreviations

DAS	Deputy Assistant Secretary
GTR	Government Technical Representative
HHS	Health and Human Services
IAA	Interagency Agreement
LOCCS	Line of Credit Control System
NIMO	National Institute for Medical Options
OMB	Office of Management and Budget
PIH	Public and Indian Housing

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# Introduction

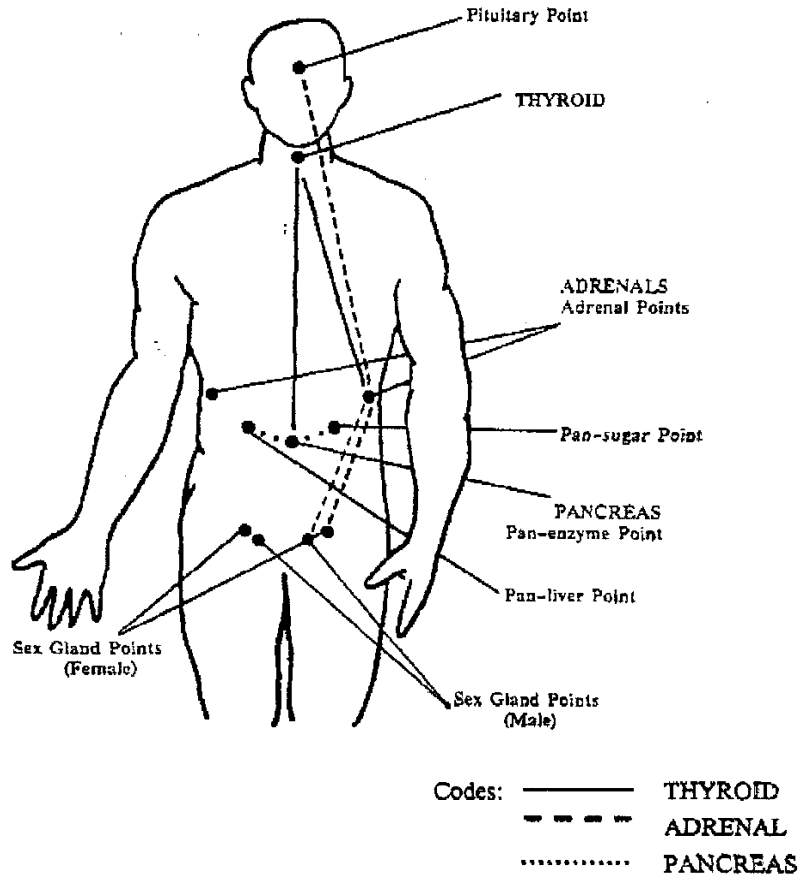
The National Institute for Medical Options (NIMO) was established as a nonprofit organization in July 1999<sup>1</sup> to train trainers in creative wellness techniques. NIMO's primary source of income was two sole-source awards, totaling over \$1.1 million, from HUD. The first award was made through an Interagency Agreement (IAA) between HUD and the U.S. Department of Health and Human Services (HHS). The IAA, signed on September 30, 1998, provided funding to NIMO for the development of a creative wellness training program to be given at four public housing agencies. During the 15-month period of the IAA, HUD and HHS provided \$295,000 and \$70,000, respectively to NIMO. Then, on October 13, 1999, HUD signed the second award, a 1-year \$860,000 noncompetitive agreement that allowed NIMO to expand the training started under the IAA to five additional public housing agencies. Funding for both awards was provided from the Public Housing Drug Elimination Program's discretionary funds.

**The "Creative Wellness Program."** NIMO developed the Creative Wellness Program as a model to train public housing residents. The program claims to focus on reducing stress, raising self-esteem, and improving overall health by using alternative therapies and applied kinesiology techniques to connect the body, mind, and spirit. NIMO professes to use body muscle reflexes to determine a participant's personality type. Each of the 14 personality types are named after Greek and Roman gods and goddesses; and identifies a unique profile for diet and exercise, the best colors to wear, and the appropriate gemstones and incenses to use to relieve stress. By applying the techniques of the program, NIMO contends that participants should make new healthy lifestyle choices, cope better with stress, and ultimately prevent or eliminate destructive behaviors that might lead to illness.

NIMO claims to use the endocrine system glandular points to first determine each participant's personality type. On the first day of training, the trainers ask each participant, "May I touch you?" By touching various parts of the person's body, the trainers claim they can physically evaluate the person's muscle dexterity and determine their personality type. The glandular points, thyroid, adrenals, and pancreas, are the basis for the Creative Wellness Program's 14 personality types. Once the trainer identifies the glandular points, subpoints are used to delve further into personality types. The following chart shows the glandular points and the names of the gods and goddesses representing the 14 personality types.

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<sup>1</sup> NIMO obtained a nonprofit status for the sole purpose of performing work for HUD.

**Personality Types:****Thyroid**

Athena  
 Apollo  
 Artemis  
 Mercury

**Adrenal**

Iris  
 Neptune  
 Venus  
 Bacchus

**Pancreas**

Minerva  
 Atlas  
 Aphrodite  
 Eros  
 Diana  
 Hermes

**HHS Interagency Agreement.** Under the IAA, the goal of the Creative Wellness Program was to train and certify 24 service providers in four public housing communities. These trainers would conduct similar training at their respective housing sites for the public housing staff and residents. NIMO would provide technical and teaching assistance at all training sites and an Advisory Board would provide guidance, direction, and oversight by attending several meetings during the IAA. The members of the board included representatives from NIMO, HUD, area housing agencies, Health Management Resources, Inc.<sup>2</sup>, and HHS.

In August 1999, HUD's Deputy Assistant Secretary (DAS) for Public and Assisted Housing Delivery met with HHS to discuss continuing the IAA for another year. However, HHS had concerns about the appropriateness of the Creative Wellness Program and subsequently obtained an independent assessment. As a result of the assessment, HHS did not extend the IAA or contribute any additional funds for creative wellness.

**HUD Cooperative Agreement.** Because the IAA with HHS was not extended, on October 13, 1999, the DAS approved a sole-source 1-year cooperative agreement with NIMO to continue the

<sup>2</sup> Health Management Resources, Inc. was an HHS prime contractor selected to manage the interagency agreement as a separate task order using NIMO as the pre-selected subcontractor.



training initiative. The cooperative agreement provided for 3 option years and included goals to add five training sites and to certify 105 trainers. The budget was as follows:

**HUD's Cooperative Agreement with NIMO  
Budget Line Items**

<b>Budget Line Items</b>	<b>Original Budget (10-13-99)</b>	<b>Amended Budget (10-13-00)</b>	<b>Difference</b>
Personnel	\$395,000	\$430,993	\$35,993
Fringe Benefits	77,064	86,004	8,940
Travel	87,596	27,868	(59,728)
Supplies	73,450	48,243	(25,207)
Equipment	8,000	17,500	9,500
Contractual	119,760	91,116	(28,644)
Other	21,500	98,593	77,093
Indirect Cost	77,630	59,683	(17,947)
<b>TOTAL</b>	<b>\$860,000</b>	<b>\$860,000</b>	<b>\$ 0</b>

**Audit objectives, scope,  
and methodology**

Our specific audit objectives were to determine:

- Whether funds budgeted in the IAA and cooperative agreement were expended appropriately;
- If PIH had provided adequate monitoring and oversight over the creative wellness program agreements; and
- If public housing drug elimination funds were an appropriate source of funding for a creative wellness program.

The audit period covered August 1998 through December 2000. We performed the audit fieldwork at HUD's office of PIH, HHS, and NIMO from November 2000 through April 2001. Our audit methodology included:

- Interviewing officials from HHS and Health Management Resources, Inc.;
- Interviewing staff in the Office of PIH and NIMO;

- Interviewing public housing residents and trainers randomly selected from creative wellness training logs and rosters; and
- Analyzing financial records, budgetary data, and supporting expense documentation.

We conducted our audit in accordance with generally accepted government auditing standards.

# Drug Elimination Funds Were Used For A Wellness Program

The Office of Public and Indian Housing (PIH) did not adequately justify its decision to award, without competition, over \$1.1 million in Public Housing Drug Elimination Program discretionary funds to the National Institute for Medical Options (NIMO) for a wellness program. The program did not adequately address issues pertaining to substance abuse, domestic violence, or violent crime as required by the interagency and cooperative agreements. These conditions occurred because the Deputy Assistant Secretary (DAS) for Public and Assisted Housing Delivery did not act with impartiality and misused her position in awarding funds for wellness activities. Specifically, the DAS personally arranged for NIMO to be the recipient of an interagency agreement with the U.S. Department of Health and Human Services and a subsequent follow-on cooperative agreement with PIH. As a result, drug elimination funds, totaling over \$1.1 million, were used to fund activities that did not have a measurable effect on substance abuse prevention or intervention, or the associated side effects, such as crime, plaguing public housing.

## Criteria

**Discretionary Grant and Cooperative Agreement Policies and Procedures.** HUD Handbook 2210.17 states that if an unsolicited proposal meets the criteria for a grant or cooperative agreement and the activity decides to fund the proposal, the Head of the Awarding Activity shall execute a written determination justifying the restriction of eligibility to one source if competition is not feasible. Grant Officers shall solicit applications for discretionary grants and cooperative agreements in a manner which provides for the maximum amount of competition feasible, in consonance with program purposes.

**Standards of Ethical Conduct for Executive Branch Employees.** Basic obligation of public service, 5 C.F.R. § 2635.101 (1998), states that the following general principles apply to every executive branch employee "... (8) Employees shall act impartially and not give preferential treatment to any private organization or individual; ... (14) Employees shall endeavor to avoid any actions creating the appearance that they are violating the law or the ethical standards set forth in this part. Whether particular circumstances create an appearance that the law or these standards have been violated shall be determined from the perspective of a reasonable person with knowledge of the

relevant facts.” Section 2635.702 (1999) states that “An employee shall not use his public office for his own private gain, for the endorsement of any product, service or enterprise, or for the private gain of friends, relatives, or persons with whom the employee is affiliated in a nongovernmental capacity...”

**Public Housing Drug Elimination Funds.** The 1998 HUD Appropriations Act authorized \$310 million in grant funds to be awarded to public housing agencies for use in eliminating drugs and crime in public housing projects. Of the \$310 million, \$10 million was to be used for grants, technical assistance, contracts and other assistance, training, and program assessment and execution for or on behalf of public housing agencies and resident organizations. These funds are referred to as discretionary funds and are available until expended.

The Public and Assisted Housing Drug Elimination Act of 1990 (42 U.S.C. 11903) states that eligible activities for grants may be used in public housing or other federally assisted low income housing projects for “programs designed to reduce use of drugs in and around public or other federally assisted low-income housing projects, including drug-abuse prevention, intervention, referral, and treatment programs.”

**Noncompetitive awards  
were not adequately  
justified**

PIH did not adequately justify or document why NIMO received two awards of public housing drug elimination funds without competition. The two awards, arranged by the DAS were an IAA that HUD established with HHS and a sole-source cooperative agreement with HUD.

**Interagency Agreement.** Based on an unsolicited proposal received from NIMO during 1998, HUD initiated a partnership with HHS to develop a demonstration model for a train-the-trainer creative wellness program. The partnership resulted in the IAA. NIMO was included in the IAA as the developer of the demonstration model that lasted from September 30, 1998, to December 31, 1999.

Under the IAA, HHS agreed to provide \$70,000 and PIH agreed to provide \$150,000 for the demonstration project. On December 10, 1998, PIH provided an additional \$145,000 for the project. The Director of the Bureau of

Primary Health Care at HHS stated that the DAS led her to believe that NIMO was already providing the Creative Wellness Program to HUD at the time HHS entered into the IAA. The Director also stated that HHS' approval to collaborate with HUD on the project was based solely on the recommendations of the DAS.

At the time HHS and HUD signed the IAA, NIMO had no experience in working with HUD or any other Federal Agency. HHS agreed to the IAA and established NIMO as a subcontractor under Health Management Resources, Inc., one of its existing prime contractors. Under this arrangement, Health Management Resources, Inc. managed NIMO as a subcontractor for a fee.

At the end of the IAA, HHS paid \$50,000 to contract for an independent assessment of the Creative Wellness Program. Based on evidence presented in the contractor's report, the Director of the Bureau of Primary Health Care at HHS decided not to provide additional funding for the Creative Wellness Program.

**Cooperative Agreement.** PIH signed an \$860,000 1-year cooperative agreement with NIMO on October 13, 1999. This 1-year agreement with 3 option years, was essentially a follow-on to the work NIMO performed under the IAA. Even though HUD Handbook 2210.17 stated that the Grant Officer shall solicit cooperative agreements to the maximum extent feasible, PIH made this award to NIMO without competition, and NIMO was expected to continue providing a wellness program to public housing residents just as it had under the IAA. According to PIH officials, the cooperative agreement was based on an unsolicited proposal; however, we do not believe this proposal was "unsolicited" since the program had already been running for over a year. PIH justified its sole-source selection of NIMO by essentially restating the requirements of HUD Handbook 2210.17, paragraph 2-11, and personalizing each of the following items to reflect the requirements of the cooperative agreement:

- "(a) unique and innovative methods, approaches, and ideas originated by the applicant;

- (b) overall technical, socioeconomic, anti-drug and anti-crime reduction, domestic violence reduction, youth violence reduction, through the training and wellness merits of the applicants program;
- (c) applicant's proposal has good contribution to the Department's short and long range program to provide residents a safe and drug free environment;
- (d) the applicant has the qualifications, capabilities, related experience, techniques, and a unique combination of these integral factors for achieving the overall cost effective goals of HUD. Applicant has the ability to provide public housing residents in various training techniques the proposed objectives of the cooperative agreement. The applicant, through the proposed training techniques, meets the Department's goals of providing a safe and healthy environment in public housing."

The DAS (the appointed Grant Officer) did not consider any other sources before noncompetitively awarding this agreement to NIMO because she did not think there were any other sources that would be willing to provide training in dangerous public housing facilities. Additionally, the original Government Technical Representative (GTR) stated that he checked the Internet for alternative sources but did not find any. This Internet search was not documented in the cooperative agreement files. However, our review of the Internet showed multiple sources that could have provided the same or similar services as NIMO.

We selected three Internet sources located in the Washington, DC area that had unique and innovative methods, techniques, and ideas for addressing concepts similar to NIMO's program. At least one of the three sources was available on the Internet in 1999 but all three were in business in 1999 when the cooperative agreement began. According to the Grant Officer, the concepts employed by NIMO were to result in the public housing residents feeling better about themselves and therefore less likely to be involved with drugs, domestic violence or violent crime. This concept could have been true for any of the three alternate sources we found. Also, since the work performed under this cooperative agreement was to take place at public housing agencies nationwide, the

cooperative agreement did not have to be with a source in the Washington, DC area.

Based on our review of the requirements included in the cooperative agreement and the availability of sources in the Washington, DC area, it was feasible for PIH to have publicly announced the funding for these services. Therefore, the sole-source selection was not justified.

**Creative wellness program did not address drug elimination issues**

NIMO's Creative Wellness Program did not adequately address the drug elimination objectives specified in the IAA and the cooperative agreement. PIH used over \$1.1 million in public housing drug elimination discretionary funds to pay for a personal wellness program under both the IAA (\$295,000) with HHS and the PIH cooperative agreement (\$860,000). Even though the cooperative agreement states the "grantee shall provide targeted technical assistance and training on Creative Wellness as it relates to youth violence, domestic violence, substance abuse and other related prevention issues to public housing agencies..." the technical assistance was not targeted and did not adequately address any of these issues. Based on discussions with the trainers, flyers announcing the training were circulated door-to-door or placed on bulletin boards and did not target specific groups of people.

The training consisted of determining a person's personality type based on:

- Assessing the functions of three glands (thyroid, pancreas, and adrenal);
- Using the personality profiles, saying affirmations, and burning candles and incense to help achieve goals;
- Establishing nutritional needs and exercises for glandular types; and
- Using colors, gemstones, aroma-therapy, and meditation to reduce stress and enhance physical well-being.

The Creative Wellness training manual had over 135 pages but dedicated only two pages, at the back of the manual, to addressing domestic violence, substance abuse, and ending

destructive behaviors. NIMO's President acknowledged that the program does not independently strive to reduce crime or drugs; it only complements other existing public housing programs.

Interviews with several residents and trainers supported our conclusion that the program materials did not specifically target the training towards substance abuse problems. For the most part, residents liked the program, but did not relate the training they received as having any direct correlation with substance abuse or violent crime. Most of the residents thought the creative wellness classes were targeted at stress reduction or promoting good health habits.

**HHS' Independent Review of the Program.** The Director of the Bureau of Primary Health Care at HHS stated that she had concerns about the appropriateness of the Creative Wellness Program and hired a contractor to independently evaluate the results. HHS' evaluation of NIMO's program focused on the content of the training. Some of the independent evaluators' concerns about the Creative Wellness Program were:

- “Trainers have no way of knowing the medical problems that participants may have. Conversely, trainees (whether or not they are attached to a primary health care provider) may leave training with the belief that following the Program's suggested practices is all that is needed to assure health. We worry that without a vehicle for tailoring the Program and primary care interventions to the patient in a coordinated way, undesirable outcomes are inevitable.”
- Although the Program probably does no harm and customers have fun and enjoy heightened self-esteem, “we are concerned that many of the tools used (gemstones, aromatherapy) have no demonstrated efficacy in clinical health improvement.”
- “We see no evidence, however, that change is sustained among participants once they are no longer engaged in the Program.”
- Data did not definitively show objective improvements in patients' health status. Trainees actively



participating in the Program were asked to self-report on how they felt. Since Creative Wellness paid a contractor to administer and evaluate the results, objectivity is unclear.

- Burning candles and incense in public housing developments raises safety concerns.
- Without a substantial controlled scientific evaluation of this methodology, the evaluators could not recommend it. The positive benefits resulting from increased self-esteem, exercise and better nutrition could be derived through more proven interventions.

Evidence presented in the report was used as justification by HHS to “not fund this program again.” Interestingly, none of the evaluators’ comments related to drug prevention or intervention.

**NIMO’s Report on Creative Wellness.** NIMO and two of its consultants (paid from cooperative agreement funds) evaluated the services provided under the cooperative agreement and presented the results to PIH in a report dated November 15, 2000. The report discusses the program and the philosophical reasons why the program should work to reduce stress. The report also summarizes the positive results of the wellness surveys the participants completed before and after the training. However, the report from the HHS independent evaluator states that, “although there is absolutely nothing to indicate that this study was anything but professionally carried out, it should be noted that the founders of Creative Wellness contracted with the researchers to complete the study. One might consider requiring the replication of the SF-36<sup>3</sup> study using an independent contractor.”

The Public and Assisted Housing Drug Elimination Act allows for funding of activities that will address drug prevention and intervention and the cooperative agreement stated that these issues would be addressed during the Program. However, we did not find proof that the funds were used for the intended purpose.

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<sup>3</sup> The SF-36 is a health survey questionnaire used by NIMO to assess the overall health of the participants.

**DAS selected NIMO**

The DAS lost her impartiality and misused her position when she entered into the interagency agreement with HHS and the cooperative agreement with HUD and arranged for NIMO to be the recipient of over \$1.1 million in funding. We believe that the actions she took to award funding to NIMO went far beyond what a prudent government official should have done. The DAS provided preferential treatment to NIMO by not determining whether other sources were available and due to her long-standing relationship with the President of NIMO, created the appearance that she violated ethical standards.

The DAS used her position to endorse services by NIMO, a nonprofit organization with whom she is affiliated in a nongovernmental capacity. Specifically, the DAS and NIMO's President are listed as ministers of the Community Center for Wholistic Healing, located in Herndon, VA. Other records show that the DAS and NIMO's President worked together in other capacities as early as 1991. Also, in a letter dated June 1998, 3 months before the interagency agreement was signed, the NIMO President thanked the DAS for her ongoing assistance as an Advisor to the proposed National Institutes of Health research protocol (HHS agreement). In our opinion, NIMO's proposals would not have been sent to HUD and approved for sole-source funding if the personal relationship between the DAS and NIMO's President had not existed. The DAS signed reservations of funds for both the IAA and cooperative agreement, thereby recommending NIMO for funding.

**Drug elimination funds could have been put to better use**

The \$1.1 million in drug elimination funds PIH spent on the two agreements with NIMO could have been put to better use. The two agreements did not produce any measurable effect on substance abuse prevention or intervention, or the associated side effects plaguing public housing residents. On December 15, 2000, NIMO's President stated that the training costs per resident was about \$1,500 for the IAA and about \$425 for the cooperative agreement. In our opinion, this represents an excessive and ineffective use of public housing drug elimination funds with no measurable benefits.

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The Deputy Secretary agreed with the finding and was responsive to the individual recommendations. A synopsis of the Deputy Secretary's response follows.

The Deputy Secretary:

- Relieved the DAS of all independent decision making authority and plans to review additional options for personnel and/or disciplinary actions upon completion of ongoing investigations;
- Acknowledged the need for procurement training;
- Agreed to have the Department/PIH diligently follow all existing regulations and policies relating to noncompetitive cooperative agreements;
- Agreed that all work performed under interagency and cooperative agreements should meet the conditions of the agreements and satisfy the intent of the Public Housing Drug Elimination Act; and
- Concurred that all existing and future programs should be evaluated by an independent source after the first year.

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OIG Evaluation of  
Auditee Comments

We commend the Deputy Secretary for relieving the DAS of all independent decision making authority. However, some of the responses did not address the specific actions to be taken.

For example, the Deputy Secretary stated that the Department/PIH would follow existing regulations and policies before entering into noncompetitive agreements. We found that PIH did not adequately follow the Handbook procedures; therefore, we requested that PIH explore alternative sources before making noncompetitive awards.

The Deputy Secretary should also specify how PIH will ensure the work performed meets the terms and conditions of the agreement.

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## Recommendations

We recommend that the Deputy Secretary:

1A. Take appropriate administrative and disciplinary actions against the DAS for her apparent misuse of her position and loss of impartiality in making awards to NIMO.

We recommend that the Acting General Deputy Assistant Secretary for Public and Indian Housing:

1B. Establish adequate internal controls to ensure that:

- Alternative sources are explored before entering into noncompetitive cooperative agreements;
- Work performed under interagency and cooperative agreements meet the conditions of the agreements and satisfy the intent of the Public Housing Drug Elimination Act; and
- All existing and future programs, such as creative wellness, are evaluated by an independent source after the first year to determine whether PIH should continue to fund the option years.

# PIH Did Not Effectively Manage NIMO's Cooperative Agreement

NIMO used drug elimination funds inappropriately. Specifically, NIMO commingled personal funds with cooperative agreement funds, submitted vouchers in excess of actual costs, and procured consultant services and equipment without following proper procurement procedures. PIH did not properly establish funding in the Line of Credit Control System (LOCCS), and did not provide the monitoring and oversight one would expect for a first time recipient of Federal funds. As a result, NIMO expended approximately \$98,110 on ineligible and unsupported items.

## Criteria

**OMB Circular A-110**, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, states that: (1) recipients should avoid purchasing unnecessary items; (2) where appropriate, conduct an analysis of lease and purchase alternatives to determine which would be most economical and practical procurement for the Federal Government; (3) conduct some form of cost or price analysis and document every procurement action in the procurement files; and (4) justify the lack of competition when competitive bids or offers are not obtained.

**LOCCS** is a cash management and disbursement system developed for the Department to assist the Office of Finance and Accounting in planning, accounting for, and evaluating HUD disbursements within specific program areas. The GTR is responsible for establishing the cooperative agreement in LOCCS by entering the information in the Procurement Accounting System that feeds into LOCCS. Once funds are established in LOCCS, grantees request their funds through an automated Voice Response System using a touch-tone phone. The requested amount is checked against the grant's available balance to ensure that the request does not exceed the grant's authorized funding limit.

**HUD Handbook 2210.17**, Discretionary Grant and Cooperative Agreement Policies and Procedures, states that the Grant Officer is responsible for: (1) negotiating and executing amendments to existing awards; (2) monitoring

recipient compliance with all assistance terms and conditions; (3) assuring that recipients account for proper use and accounting of program income; (4) reviewing recipient payment requests, financial, cash management, and performance reports, and taking appropriate action as necessary; (5) approving voucher payments promptly; and (6) suspending and terminating awards when appropriate.

The GTR is responsible for: (1) monitoring the recipient's performance, including progress against the recipient's work plan, performance schedule, and budget; (2) reviewing the recipient's payment requests and financial reports; (3) reviewing the vouchers promptly to assure that costs claimed for reimbursement are reasonable and allocable; and (4) identifying any direct costs that appear to have no connection with the project.

A cooperative agreement is to be used as the legal instrument reflecting a relationship between HUD and a State or local government or nonprofit whenever the principal purpose of the relationship is the transfer of money, property, services, or anything of value to recipients to accomplish a public purpose of support or stimulation authorized by federal statute and substantial federal involvement is anticipated.

**OMB Circular A-122, Cost Principles for Nonprofit Organizations.** The principles we used to perform our evaluation were: (1) payroll and fringe benefit costs, provided such benefits are granted in accordance with established written organization policies; (2) costs of meetings and other events related to fund-raising are unallowable; (3) contributions and donations by the organization to others are unallowable; (4) equipment with a unit cost of \$5,000 or more requires prior federal approval, generally approval is in writing; (5) costs incurred for interest on borrowed capital are unallowable; and (6) expenditures such as incorporation fees, broker's fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization are unallowable except with prior approval of the awarding agency.

**Personal funds commingled with cooperative agreement funds**

NIMO's President used her personal line of credit to establish and maintain a NIMO checking account for the cooperative agreement and charged HUD \$2,340 for service fees and finance charges related to maintaining this line of credit. On October 14, 1999, only 1 day after signing the agreement, NIMO's President opened a personal line of credit and deposited those funds into the NIMO business checking account. On November 29, 1999, the GTR retroactively approved NIMO's request for a line of credit. By this time, NIMO's President had already made two withdrawals from her personal line of credit and deposited the funds into the NIMO checking account.

On December 16, 1999, NIMO received two voucher payments from HUD totaling \$98,284. These funds were deposited into the NIMO checking account containing funds from the President's personal line of credit. Although the cooperative agreement allowed for an initial 5 percent or \$43,000 drawdown from LOCCS for initial start-up costs, NIMO could not access LOCCS because the funds had not been established properly by the GTR. But, once NIMO began receiving funds from HUD, NIMO's President should have stopped using her personal line of credit to fund the cooperative agreement activities. Clearly by this time, start-up costs should have been completed. Instead, NIMO maintained the line of credit account throughout the entire agreement, transferring in additional funds when needed and charging HUD \$2,340 for service fees and finance charges.

The cooperative agreement indicates that HUD funds may not be commingled with funds from other Federal agencies; however, NIMO went one step further and commingled personal funds with HUD funds, thereby losing accountability over Federal funds. The Grant Officer or GTR should have explored other options to provide start-up costs rather than approving a line of credit which resulted in the commingling of funds.

**NIMO filed inaccurate claims for payment**

NIMO filed 15 payment vouchers with HUD that contained inaccuracies that ranged from \$16,010 in underpayments to \$38,353 in overpayments. Although the cooperative agreement clearly states that NIMO should submit a payment voucher (HUD-50080) to draw down funds based

on actual needs, NIMO consciously submitted vouchers to HUD that contained unrealistic estimates.

NIMO stated they divided some of the cooperative agreement budget line items by 12 to arrive at the monthly totals claimed on the vouchers. However, we could not validate these calculations because NIMO had no record of how the amounts were computed and could not provide an adequate explanation for the estimated amounts claimed.

**NIMO did not follow procurement procedures to hire consultants and purchase equipment**

NIMO did not follow proper procurement procedures when hiring consultants and purchasing equipment. NIMO chose friends or colleagues as consultants without competition. Such actions are contrary to the Management Work Plan, dated December 17, 1999. This plan states, "NIMO will contract with outside vendors and conduct competitive bidding as required." NIMO stated that it conducted competitive bidding for its vendors, specifically a writer and fiscal analyst. However, supporting documentation later provided by NIMO showed that "no competitive bidding took place" for these two consultants. We found that NIMO hired a number of Assistant Trainers who were ministers of the Community Center for Wholistic Healing where NIMO's President was the Pastor. By not conducting competitive bidding, NIMO gave preferential treatment to its consultants and violated the requirements of OMB Circular A-110. In addition, PIH has no assurance that the cost NIMO incurred for consultant services was fair and reasonable or that NIMO obtained the most qualified consultants to do the work.

Further, NIMO did not obtain HUD approval to purchase equipment with a unit cost over \$5,000. NIMO purchased unauthorized assets and failed to prepare lease versus purchase cost analyses for a \$9,500 copier and an \$18,586 van. The purchase of an expensive copier 2 months prior to the end of the original agreement was unreasonable for such a short duration. In addition, price quotes were not obtained to ensure the Government received the most economical and practical price. As for the purchase of the van, no cost analysis was done to support the need to purchase a van or determine if a lease or rental car would be more practical for this 1-year cooperative agreement. In support of the decision to purchase the van, NIMO stated that the Grant Officer verbally approved the purchase. However, the Grant Officer denied she gave NIMO



approval. Inadequate monitoring by the Grant Officer and the GTR allowed NIMO to make unauthorized purchases. The unauthorized purchase of the van was not detected until the GTR made a site visit on November 1, 2000, almost 6 months after the purchase.

**Funding not established properly in LOCCS**

The Grant Officer and GTR knew that the cooperative agreement funds were not established properly by budget line item in LOCCS, but neither pursued the problem to resolution. Therefore, the GTR could not monitor the expenditures by budget line item unless she manually calculated the amounts. As a result, NIMO was allowed to exceed its budget line item amounts.

**Grant Officer and GTRs did not adequately monitor NIMO's activities**

The appointed Grant Officer and GTRs did not adequately monitor NIMO's activities or perform their duties in compliance with HUD Handbook 2210.17. Had the Grant Officer or GTRs periodically monitored NIMO's activities, the conditions presented in this report could have been corrected. They would have also seen that: (1) NIMO accumulated over \$90,000 in its checking account as a result of requesting payments in excess of actual expenditures (in violation of agreement terms to disburse funds within 7 days of receipt); (2) the training NIMO provided did not relate to substance abuse or domestic violence as described in the agreement; and (3) NIMO's purchases of services and equipment were not within the terms and conditions of the agreement. Furthermore, since this was NIMO's first agreement with the Federal Government, it would have been prudent to provide more upfront monitoring to ensure that NIMO had the capacity to manage this agreement. Instead, many of the problems were retroactively corrected at the end of the agreement.

**Grant Officer Amended Agreement Retroactively.** The Grant Officer approved an amendment to the agreement on October 13, 2000, that retroactively covered many of NIMO's misclassification errors and purchases made without approval, and redistributed the remaining funds. NIMO requested the amendment after the actions occurred and PIH approved the request without verifying the need for the amendment.

**Grant Officer Did Not Take Appropriate Actions When Warranted.** On November 1, 2000, nearly 1 year after the

agreement was signed, the Grant Officer directed the GTR to conduct an on-site review of NIMO's records. The GTR found the following situations where NIMO was in violation of the cooperative agreement:

- Accumulated over \$90,000 of HUD funds in its checking account;
- Commingled funds from a personal line of credit with Federal funds;
- Purchased a van;
- Misclassified expenditures to the wrong budget lines; and
- Kept accounting records in disarray.

In our opinion, the Grant Officer should have suspended payments of NIMO's vouchers since NIMO had breached the terms of the agreement. Instead, on November 28, 2000, the Grant Officer executed a second amendment that extended the agreement period to April 30, 2001, ostensibly, to allow NIMO more time to spend the remaining funds. By this time, NIMO had already completed the deliverables required under the cooperative agreement, with the exception of a training video. NIMO did not request this amendment until December 11, 2000, which was after the date the Grant Officer had already approved the extension.

On February 21, 2001, we recommended that the Grant Officer cease payments to NIMO and on February 22, 2001, provided her a list of ineligible expenses. Even though HUD's Office of General Counsel advised the Grant Officer that she "could delay the release of the funds citing administrative problems," the Grant Officer chose to not stop payment of a \$16,852 voucher. This payment was made as a direct deposit to NIMO's checking account on February 26, 2001.

**GTRs Did Not Monitor Agreement Adequately.** The GTRs assigned to this agreement did not effectively or adequately monitor NIMO's performance or safeguard the use of HUD funds. For example, of the 15 vouchers NIMO submitted for payment from November 1999 to December 2000, some included amounts that exceeded the 110 percent allowed under the cooperative agreement. Had the GTR properly monitored NIMO's expenditures and

activities by periodically reviewing receipts and accounting records, comparing the monthly vouchers to the budget in the agreement, and conducting routine site visits, they would have detected and prevented most of the financial discrepancies we found during this review.

Cooperative agreements allow the GTRs to become substantially involved in the recipients' operations. According to HUD Handbook 2210.17, substantial involvement includes "close agency oversight and control beyond routine Federal stewardship of funding in the management of the project." The GTRs did not provide close agency oversight to NIMO. In fact, each GTR only met with NIMO twice, at most, during this 1-year agreement. These meetings occurred mostly at the beginning of each GTR's term. Continued oversight, such as visiting NIMO to review receipts, financial records, and performance, should have occurred on a routine basis.

**Ineligible and unsupported items charged to cooperative agreement**

Our review of NIMO's financial records showed that as of December 31, 2000, NIMO spent \$49,745 on ineligible items, exceeded its budgeted limits by \$47,276<sup>4</sup> on five line items, without obtaining PIH approval, and had \$1,089 in unsupported costs. The total questioned costs of \$98,110 could be greater because our analyses only covered transactions through December 31, 2000; however, NIMO incurred additional expenses through April 30, 2001.

#### **NIMO's Questioned Costs**

<sup>4</sup> The cooperative agreement stated that NIMO could not exceed the budgeted line item amounts by more than 10 percent without HUD approval. We allowed for the 10 percent overage in calculating the questioned costs.

as of December 31, 2000

<b>Budget Line Item</b>	<b>Ineligible Costs</b>	<b>Excess Over 110% Approved Budget</b>	<b>Total Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Total Questioned Costs</b>
Indirect Costs	\$24,348		\$24,348		\$24,348
Contractual	21,720	\$8,895	30,615	\$945	31,560
Supplies	1,617	7,287	8,904	144	9,048
Fringe Benefits	840	7,786	8,626		8,626
Travel	210	22,756	22,966		22,966
Other Costs	79		79		79
Equipment		552	552		552
<b>Subtotal</b>	<b>\$48,814</b>	<b>\$47,276</b>	<b>\$96,090</b>	<b>\$1,089</b>	<b>\$97,179</b>
Overpayment	931		931		931
<b>TOTAL</b>	<b>\$49,745</b>	<b>\$47,276</b>	<b>\$97,021</b>	<b>\$1,089</b>	<b>\$98,110</b>

**Ineligible Costs.** The major portion of the \$49,745 ineligible costs was in the budget categories of indirect and contractual costs. NIMO bought a van for \$18,586, paid \$2,340 in interest and other fees for the President's personal line of credit, and paid \$3,358 for fund raising activities. NIMO also paid \$11,952 for legal advice on copyrights and trademarks, and \$9,708 to consultants who prepared NIMO's budget proposals for the next option year of the cooperative agreement. The remaining ineligible costs were for flowers, food, donations, and expenses of its parent company (Creative Wellness, Inc.). None of these costs are allowable under OMB Circular A-122. In addition, HUD overpaid NIMO by \$931 for miscalculations on LOCCS vouchers and transposition errors.

**Ineligible Excess Costs.** NIMO exceeded its budget for five of eight line items by more than the 10 percent allowed by the cooperative agreement. On October 11, 2000, NIMO requested a budget revision. On October 13, 2000, the Grant Officer approved a redistribution of the remaining funds based on expenditure information provided by NIMO. However, the expended amounts NIMO provided to the GTR were inaccurate and the GTR relied on these figures to reallocate the remaining funds. Therefore,

redistributing the funds based on NIMO’s request caused the budget line item limits to be exceeded.

The following chart shows how NIMO exceeded five of its budget line items by \$47,276. We reduced the excess over the revised budget by the ineligible and unsupported costs to eliminate duplicate questioned costs.

**NIMO's  
Expenditures Exceeding Budget Lines  
as of December 31, 2000**

Budget Line Item	Revised Budget	110% of Budget Line	Actual Costs	Excess a	Ineligible Costs b	Unsupported Costs c	Total Excess a-(b+c)
Fringe Benefits	\$86,004	\$94,604	\$103,230	\$ 8,626	\$ 840		\$ 7,786
Travel	27,868	30,655	53,621	22,966	210		22,756
Supplies	48,243	53,067	62,115	9,048	1,617	\$144	7,287
Equipment	17,500	19,250	19,802	552			522
Contractual	91,116	100,228	131,788	31,560	21,720	945	8,895
<b>TOTAL</b>							<u><u>\$47,276</u></u>

**Unsupported Costs.** NIMO had no supporting documentation for supply and contractual expenses totaling \$1,089. According to NIMO’s financial statements, these costs were for conference expenses to attend a Primary Health Care Providers Conference and consulting fees to assist NIMO with networking its web site.

**Conclusion**

The DAS approved funding for a cooperative agreement without ensuring that NIMO had the knowledge and capacity to manage Federal funds as a nonprofit organization. As a result, NIMO commingled personal and Federal funds; filed vouchers containing inaccurate costs; used improper procurement procedures; and expended \$98,110 on ineligible and unsupported items.

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**Auditee Comments**

The Deputy Secretary was generally responsive to each of our recommendations. He agreed to enforce both OMB and HUD Handbook requirements. However, he felt that leasing versus buying decisions should be left up to each program office. PIH will be required to monitor all grants within staff resources and the time constraints afforded each grant. Finally, once an independent close out audit is conducted of the Creative Wellness Program, PIH will take action to recover all ineligible payments.

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**OIG Evaluation of Auditee Comments**

We believe that the Deputy Secretary's response to Recommendation 2A could have been more responsive had he described the specific actions the Department will take, including implementation of new procedures, to assure that:

- Interagency and cooperative agreements are monitored in accordance with HUD Handbook 2210.17;
- OMB Circular A-110 requirements are complied with; and
- Grantees demonstrate their previous experiences and qualifications.

We do not believe that "seeking every available training resource and utilizing methods to enhance GTR skills" adequately addresses Recommendation 2B.

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**Recommendations**

We recommend that the Acting General Deputy Assistant Secretary for Public and Indian Housing:

2A. Enforce the existing requirements to ensure that:

- Grantees conduct competitive bidding procedures in selecting consultants;
- Grantees consider leasing alternatives and provide adequate justification prior to making major purchases;
- The GTR monitors the establishment of funding in LOCCS to ensure accuracy of the budget line item limits;

- The Grant Officer and the GTR adequately monitor all future cooperative agreements; and
  - Grantees have the knowledge and capacity to manage their agreements.
- 2B. Require GTRs to periodically examine the accuracy and completeness of supporting documentation before approving payments.
- 2C. Recover the equipment and vehicle NIMO purchased with drug elimination funds.
- 2D. Recover \$97,021 in ineligible expenses and \$1,089 in unsupported costs.<sup>5</sup>

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<sup>5</sup> The market value of the recovered equipment and vehicle should be used to offset the amount of NIMO's ineligible expenses.

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# Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that the resources used are 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 reports. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performances.



We determined that administrative and management controls over the following areas were relevant to our audit objectives:

- Financial controls over program funds;
- Management controls over procurement procedures; and
- Management controls over eligibility of program expenditures.

## Significant weaknesses

A significant weakness exists if management controls do not provide reasonable assurance that the organization's goals and objectives are met; resources used are consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Significant weaknesses identified by our audit are discussed in the findings.




# Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
THE DEPUTY SECRETARY  
WASHINGTON, D.C. 20410-0050

August 6, 2001

MEMORANDUM FOR: David C. Williams, Acting Inspector General, GA

FROM: Alphonso Jackson  Deputy Secretary, SD

SUBJECT: Response to Draft Report – Drug Elimination Funds Used for Creative Wellness Program

This responds to the Draft Report, Drug Elimination Funds Used for Creative Wellness Program, the accompanying memorandum dated June 5, 2001, and the clarification of July 24, 2001. Before addressing each recommendation included in the report on an individual basis, let me state for the record that I concur with the majority of the recommendations included in the Draft Report. In fact, upon learning of the case at hand, the Secretary's Chief of Staff immediately suspended the Creative Wellness Program and the Deputy Assistant Secretary (DAS) in question was removed from the position of Acting General Deputy Secretary for Public and Indian Housing (PIH). The DAS is currently relieved of all decision-making authority with respect to sole source agreements and cannot independently obligate any non-competitive program funds without concurrence from the Deputy Secretary. This prohibition will remain in place pending a complete review of the PIH technical assistance grant process and issuance of the final HUD OIG report. **It should also be noted that our comments on specific HUD OIG recommendations take into account that HUD policies and procedures used for unsolicited proposals and discretionary funding during the previous Administration are undergoing significant review and revision by the Department's current Administration.**

Let me assure you that although my intent was not to impede or to interfere with the HUD OIG's handling of this case, based on my independent findings, the NIMO program will no longer operate with Public Housing Drug Elimination Program (PHDEP) funds and we have no future plans for renewal of this contract.

# Auditee Comments

The aim of this response is to constructively address the key issues raised in the subject report. Recommendations in the Draft Report have been objectively reviewed and the responses indicate the Department's willingness to address those areas in which we agree positive change would prevent future problems, and improve the capacity within PIH to adequately monitor cooperative agreements. We have used the same numerical reference system used in the Draft Report to respond to each recommendation as follows:

**1A. Take appropriate administrative and disciplinary actions against the DAS for her apparent misuse of her position and loss of impartiality in making awards to NIMO:**

In May of this year, the DAS for PAHD was removed from the position of Acting General Deputy Assistant Secretary for PIH (in which she had been acting since January 2001) as a result of information provided to my office that is also contained in this report. The DAS was also relieved of all independent decision making authority with respect to sole source contractual agreements and must now obtain concurrence from the Deputy Secretary before final execution of any non-competitive grant awards. I will review additional options for personnel and/or disciplinary actions upon completion of presently ongoing investigations.

In addition, the circumstances detailed in your report illustrate a need for orientation and training of HUD employees as to relevant procurement procedures. PIH will review its procurement procedures and staff training plans to reduce the possibility of future problems.

**1B. Establish adequate internal controls to ensure that:**

- **Alternative sources are explored before entering into noncompetitive cooperative agreements:**

The Department/PIH will diligently follow all existing regulations and policies relating to noncompetitive cooperative agreements. HUD Handbook 2210.7 clearly delineates the process for competitive and non-competitive cooperative agreements.

- **Work performed under interagency and cooperative agreements meet the conditions of the agreements and satisfy the intent of the Public Housing Drug Elimination Act:**

We are in agreement with this recommendation that all work performed under interagency and cooperative agreements meet these standards to ensure a comprehensive record of compliance and customer satisfaction.

- **All existing and future programs, such as creative wellness, are evaluated by an independent source after the first year to determine whether PIH should continue to fund the option years:**

# Auditee Comments

I agree with this recommendation, however, the extent to which sufficient funding resources are available is important to being able to do this. Independent evaluations are the more costly over other alternatives that may also ensure that all current and future programs have results or potential results that are based upon measurable goals and objectives. Therefore implementation of separate evaluations of every grant is contingent upon the availability of resources for that specific purpose. At minimum, PIH will implement a policy to require independent review by the Deputy Assistant Secretary prior to continuing funding of discretionary programs authorized under the PHDEP.

## **2A. Enforce the existing requirements to ensure that:**

- **Grantees conduct competitive bidding procedures in selecting consultants:**

Interpretation, implementation and enforcement of the existing OMB Circular requirements and procurement regulations related to this issue and the use of a sole source process will be the standard for PIH. We assure you that they will be followed.

- **Grantees consider leasing alternatives and provide adequate justification prior to making major purchases:**

I agree this is a policy decision that should be made by the program office based upon the particular factors that exist at the time of the decision.

- **The GTR monitors the establishment of funding in LOCCS to ensure accuracy of the budget line item limits:**

There is agreement that monitoring of any initiative would ensure accuracy of all budget line items. PIH will continue to utilize all available staff resources to effectively monitor all grants in an acceptable manner.

- **The Grant Officer and the GTR adequately monitor all future cooperative agreements:**

The Department is in agreement with the recommendation within the constraints of staff resources and time afforded to each grant within a staff member's portfolio.

- **Grantees have the knowledge and capacity to manage their agreements:**

The Discretionary Grant and Cooperative Agreement Policies and Procedures require a description of the organization's previous experience in the field. PIH will adhere to this policy and require all grantees to demonstrate their previous experiences and qualifications.

## **2B. Require GTRs to periodically examine the accuracy and completeness of supporting documentation before approving payments:**

# Auditee Comments

I agree with the recommendation. Indeed, PIH will continue to seek every available training resource and effectively utilize methods of enhancing the skills of all assigned GTRs in their duties and responsibilities.

**2C. Recover the equipment and vehicle NIMO purchased with drug elimination funds:**

Recovery of all but a nominal amount of non-liquidated equipment including the vehicle and computers has been completed.

**2D. Recover \$97,020 in ineligible expenses and \$1,089 in unsupported costs:**

An independent audit for closing out this Grant will be implemented to assist in reconciling any and all ineligible expenses and unsupported costs. Once such audit results are obtained, PIH can appropriately take action where indicated to recover any ineligible payments in accordance with existing regulations.

I conclude by thanking you for bringing this matter to my attention.

cc: Sandra G. Elion, District Inspector General for Audit, Capital District, 3GGA  
Paula Blunt, Acting General Deputy Assistant Secretary for Public and Indian  
Housing

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# Distribution

General Deputy Assistant Secretary, Office of Public and Indian Housing, P  
NIMO Systems, 481 Carlisle Drive, Herndon, VA 20170  
Principal Staff  
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Street, NW, Room 4011, Washington, DC 20552  
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Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515  
Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212,  
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United States General Accounting Office, 441 G Street NW,  
Room 2T23, Washington, DC 20548  
Steve Redburn, Chief Housing Branch, Office of Management and Budget,  
725 17<sup>th</sup> Street, NW, Room 9226, New Executive Office Bldg., Washington, DC 20503  
Andrew R. Cochran, Senior Counsel, House Committee on Financial Services,  
2129 Rayburn House Office Bldg., House of Representatives, Washington, DC 20515