


Report No. 95-17

Date: August 1, 1995

CORPORATION

FOR NATIONAL

 SERVICE

OFFICE OF THE INSPECTOR GENERAL

Audit of

ACORN Housing Corporation


Chicago, Illinois

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANT #94ADN1L001

This report is issued to an Corporation for National and Community Service Management Official to resolve. Following OMB Circular A-50, the Corporation must make a final management decision within 180 days of the report. Consequently, the auditor's findings do not necessarily represent the final resolution of the issues presented or the amount of disallowed costs.

The Inspector General must approve any request for public release of the report.

Office of the Inspector General
Report Number 95-17

CORPORATION
FOR NATIONAL
 SERVICE

August 1, 1995

Eli Segal, Chief Executive Officer
Corporation for National Service

Dear Mr. Segal:

As you requested, we have examined certain activities and financial records regarding CNS AmeriCorps grant to ACORN Housing Corporation. My letter to you, dated April 20, 1995, established an understanding between the Corporation for National Service (CNS) and the Office Inspector General (OIG) that we would conduct audit work in the following areas:

- Determining whether any of AHC's AmeriCorps Members participated in the demonstration in Washington, D.C. sponsored by the Association of Community Organizations for Reform Now (ACORN) on March 6, 1995.
- Ascertaining whether AHC and ACORN are separate entities.
- Determining whether AHC used AmeriCorps grant funds to benefit ACORN either directly or indirectly.
- Examining costs charged to the AmeriCorps grant to determine if AHC has an accounting system that supports Federal reporting requirements and properly accumulates grant charges in the AHC general ledger, and, to the extent possible, testing the propriety of data maintained in the system.

Summary

We found no evidence that AmeriCorps Members participated in the March 6 demonstration sponsored by ACORN; however, the scope¹ of our work in this area was impeded, because AHC placed conditions on our interviews that limited our ability to develop reliable information. We have

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Telephone 202-606-5000

¹ The scope of our audit is described in detail in the Scope and Methodology section of this report. That section describes other actions by AHC that limited our ability to obtain all the information necessary to allow us to provide complete assurance on this matter and to conclude on the propriety of certain charges to the grant.

determined that AHC and ACORN are separate corporate entities, but that they do not always operate at "arms length". Finally, the documentation and information provided to support approximately \$95 thousand of costs charged to the grant as of April 28, 1995, is inadequate to establish that these costs are allowable under the grant and applicable regulations.

Background

The Corporation For National and Community Service (CNS), pursuant to the authority of the National and Community Service Act of 1990 (NCSA), as amended, awarded AmeriCorps Grant Agreement Number 94ADNIL001 to the ACORN Housing Corporation (AHC). The grant budget provided for Federal funding of \$822,596 to support the program directly; \$198,450 for post service educational benefits; and \$122,500 for child care services available to AmeriCorps Members who meet eligibility requirements established by the NCSA. The budget anticipated \$605,817 in non-Federal matching funds.

The purpose of the grant was to expand AHC's existing loan counseling efforts by allowing them to train 42 AmeriCorps members in thirteen nationally located work-sites to identify low-income families interested in purchasing homes, assist these families in identifying suitable properties for purchase, and advising these families in securing financing for these homes.

The grant was awarded for the period June 24, 1994 through September 30, 1995. However, CNS records indicate that the program's start up was delayed and most of the AmeriCorps Members began their service after January 1, 1995. At the time of our audit, AHC had 38 AmeriCorps members located in nine work-sites: Philadelphia, Denver, Houston, Dallas, New Orleans, Chicago, Brooklyn, Phoenix, and Washington DC.

On March 6, 1995, the Association of Community Organizations for Reform Now (ACORN) sponsored a demonstration at the Washington Hilton Hotel that disrupted the National Association of Counties conference. Questions arose regarding participation in, and support for, the demonstration by AHC because it receives, through its grants from CNS and the Department of Housing and Urban Development (HUD), Federal funding. At the request of CNS management, AHC provided written assurance that none of its AmeriCorps Members had participated in the demonstration. (Exhibit A.) However, at least one member of CNS' Board of Directors, the press and other interested individuals continued to question whether CNS should continue its funding of AHC loan counseling activities.

As described above, OIG agreed to perform an audit to provide additional information regarding AHC staff and AmeriCorps Member's participation in the demonstration and certain other issues that were raised by concerned individuals. CNS requested that we complete our audit in time for CNS to consider the results while reviewing AHC's application for renewal of its AmeriCorps grant. Regrettably, AHC's actions resulted in considerable delay in the completion of the audit. CNS management informed AHC that it would not proceed in its evaluation of the proposal until the audit was completed.

Moreover, during the course of our audit, OIG received a Hotline complaint alleging actions by AHC that violated CNS policies and regulations and the grant agreement. OIG investigated the matter and found that AHC directed AmeriCorps Members to engage in activities, and that pursuant to those directions AmeriCorps Members did engage in activities, that directly benefit ACORN, a non-profit organization whose activities substantially involve the attempt to influence legislation and political activity. Such activities are specifically prohibited by the National and Community Service Act of 1990, as amended, CNS' regulations and the grant agreement. On July 18, 1995, CNS notified AHC that it was suspending the grant and of its intent to initiate termination actions. As explained in Exhibit I, CNS' response to a draft of this audit report, the grant was terminated on August 29, 1995 as of September 1, 1995.

Scope and Methodology

We performed our audit from April 20, 1995 through July 21, 1995, under Generally Accepted Government Audit Standards issued by the Comptroller General. However, the scope of our work has been restricted; specifically,

- To address the issues of participation in the March 6th demonstration we relied primarily on interviews with AmeriCorps Members and AHC staff assigned to the program and reviews of travel expenditures. Our audit notification letter issued on April 26, 1995, advised AHC that our procedures would include interviewing AmeriCorps Members and AmeriCorps grant-funded AHC staff at each AHC location participating in the AmeriCorps program. During our audit, we conducted 12 interviews in private. However, on May 10, 1995, we were contacted by AHC's outside counsel, who stated that we must make all further requests for information regarding AHC through him. After discussions with AHC's counsel, we conducted an additional six interviews in the presence of AHC's counsel.

We also advised CNS as well as AHC's counsel that, under our governing auditing standards, interviews conducted in the presence of third parties are not considered as reliable as private interviews. Given this lower level of reliability, OIG subsequently decided that the expense of conducting further interviews in AHC's offices in Dallas, Houston, Phoenix, Denver and Chicago was not warranted and agreed to accept affidavits from the AHC AmeriCorps Members and staff in those cities. We received declarations signed under penalty of perjury from 17 current AmeriCorps Members and AHC staff in those cities, all of whom state that they did not participate in the March 6 demonstration. We were unable to locate three individuals who are no longer working for AHC: one AmeriCorps Member (in Philadelphia) and two AHC supervisors (one in New York and one in Denver).

- Although AHC provided “management representation” letters² in response to OIG’s request, the letters (Exhibits D and E) received from AHC and Citizens Consulting, Inc. (CCI, an ACORN-related corporation that provides accounting and legal services to AHC) omit confirmation of certain information OIG requested (Exhibit C). The requested confirmations were related to AHC’s announced basis for the restrictions imposed on our interviews of AHC staff and AmeriCorps members, irregularities involving management or employees, and compliance, or disclosure of noncompliance, with laws and regulations.
- Further, although AHC provided copies of the by-laws and minutes of AHC Board of Directors meetings, we were not allowed to review the original documents, and AHC failed to provide the separate certification by the Corporate Secretary of AHC, which OIG requested: *that the copies provided to us were true and correct copies.*

We have considered the impact of these restrictions on the scope of our audit in the findings we are reporting. In addition, we added recommendations to this report that considered CNS’s announced intent to terminate the grant.

We provided a draft of this report to AHC and CNS for their comments. CNS’s response (Exhibit I) reports the termination of the grant. AHC’s response (Exhibit H) included additional information including a consultant’s report related to the cost OIG is questioning. OIG will consider AHC’s views and the other information related to the questioned costs during the close-out audit of the grant (see Finding 3.)

Findings

I. *Regarding AmeriCorps Member participation in the March 6 demonstration.* Because of the constraints placed upon our ability to freely interview AHC staff and AmeriCorps Members, OIG can report only that we found no evidence that AmeriCorps Members participated in the demonstration. The restrictions placed upon our ability to privately interview AHC’s AmeriCorps Members and grant-funded staff are discussed in the Scope and Methodology section of this report. During our interviews, a grant-funded AHC supervisor in AHC’s Washington, D.C. office stated that she took an unpaid “personal day” to participate in the March 6 demonstration. This employee’s time sheet for the month of March reflects that the employee did not record any time worked on March 6, 1995.

Our review of AHC’s financial records found no evidence that AHC used AmeriCorps grant funds to pay for travel expenses that would have placed AHC staff or AmeriCorps Members in Washington, D.C. on March 6, 1995.

² In a representation letter management acknowledges its responsibility for the accuracy of information provided to an auditor. Auditing standards require that auditors obtain a representation letter to confirm information provided to them during the audit and to reduce the likelihood of misunderstandings.

II. *Regarding whether AHC and ACORN are separate entities.* We have established that they are separately incorporated. AHC is a Louisiana nonprofit corporation incorporated on March 13, 1985. ACORN is an Arkansas nonprofit corporation chartered on January 5, 1977. However, it appears that AHC and ACORN do not always operate at “arms-length” from one another. Not only have we found references to ACORN having “created” AHC to serve purposes common to both organizations³, we noted numerous transactions and activities involving AHC and other “fraternal” ACORN-related corporations. These transactions include some of the questioned costs discussed below.

III. *Regarding the final two issues related to application of AHC’s AmeriCorps grant funds.* We found that of the approximately \$460 thousand in AmeriCorps program costs that AHC recorded from October 1, 1994 to April 28, 1995 (Exhibit B⁴), approximately \$95 thousand is not properly supported. Information provided to us by AHC from its accounting records and other sources has not established that these costs are allowable under the grant agreement and applicable regulations. Certain of these costs appear to have been paid to AHC or ACORN related parties.

On June 30, 1995, we advised AHC of our concerns related to these costs, and advised AHC that without additional documentation or information to support these costs, CNS may disallow them as charges to the AmeriCorps grant (Exhibit F). On July 19th, we advised AHC that any information that AHC wished to submit in response to our prior requests must be submitted to our offices by July 21st. AHC’s attorneys responded on July 28th (Exhibit G). We have reviewed AHC’s response and the additional documentation provided. We have given the letter and the documentation to CNS grants management staff for their further consideration.

All things considered, however, OIG questions the allowablilty of these costs and recommends that CNS disallow these costs because

- AHC has failed to provide sufficient evidence that, as required by OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, these costs are allowable, reasonable in nature and amount, allocable to the grant-funded activity, adequately documented, and consistent with policies that apply uniformly to both Federally funded and other activities.
- The grant agreement and CNS regulations require AHC to have financial management systems that provide written procedures for determining the allowability of costs under Circular A-122. Our audit found no evidence of such written procedures.

Furthermore, we recommend an audit of all charges to the grant. Our review of charges to the grant covers only the period from start-up through April 28th. During that period AHC submitted two

³ As discussed in the Background section of this report, the coordination of AHC and ACORN activities was also the subject of an OIG investigation which led to the termination of the grant.

⁴ Exhibit B provides detailed information on the grant budget, the costs we reviewed, and additional information regarding the costs we are questioning.

financial status reports (FSR). Those reports which we reviewed during our audit, reported costs only through March 31, 1995. Therefore, a significant amount of charges to CNS have not been audited.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, incorporated in CNS' regulations as 45 CFR Part 2543, requires each recipient of a Federal award to maintain a system that provides for (1) the accurate, current and complete disclosure of financial results for each Federally-sponsored program, (2) records that adequately identify the source and application of funds, (3) effective controls for accountability to safeguard all related assets, (3) comparisons of outlays with budget amounts for each award, (4) written procedures, and (5) records that are supported by source documentation.

We found that AHC's general record keeping and file maintenance is less than adequate. Although invoices and required documents were produced for our review, retrieval was an arduous process. CCI staff and AHC's auditors stated that AHC did not file many of its financial documents during calendar year 1994. Personnel files were incomplete. Several lease agreements and contracts were undated, missing or unsigned. Not all records were supplied to OIG auditors on a timely basis; in some cases we waited for weeks for CCI or AHC staff to produce supporting documentation for charges (including the shared costs discussed above) to the CNS grant. Even the documentation supplied by AHC's attorneys on July 28th included a contract (purported to support charges for CCI's services) that was signed, but not dated.

In addition, we examined certain records related to equipment purchases and found that AHC has purchased computers, printers and fax machines costing about \$19 thousand. Circular A-110 and provisions of CNS' Post-Award, Close-out, and Termination regulations require that AHC and CNS determine the disposition of this equipment and that AHC either transfer the equipment to CNS (or, at the direction of CNS, to another party) or compensate CNS for its fair value.

In summary, because all costs charged against the grant could not be audited prior to the termination, we recommended CNS consider, as part of its termination proceedings, establishing specific requirements for a close-out audit to determine allowable charges and appropriate property disposition. Now that the grant has been terminated, OIG is arranging for a close-out audit of the grant.

Please contact me if you or CNS staff have any questions about this report.



Luise Jordan
Inspector General

**ACORN
HOUSING
CORPORATION**

117 W. Harrison Chicago Illinois 60605 312-939-1611(voice) 312 939-4239 (fax)

March 7, 1995

Mr. Eli Segal
Chief Executive Officer
Corporation for National Service
Washington, DC

Dear Mr. Segal,

Over the last 24 hours it has come to our attention that the Washington Times has questioned whether federal funds from the AmeriCorps program have been used to fund protests and demonstrations against Republican congressional proposals. Specifically, we understand that questions have been raised as to whether or not funds from the ACORN Housing Corporation's AmeriCorps program were used to pay for a demonstration held yesterday in Washington, DC.

We wish to assure you that The Washington Times' allegations are completely without basis in fact. ACORN Housing Corporation was not a party to this, nor any other demonstration. Furthermore, absolutely no AmeriCorps members who are under the supervision of ACORN Housing Corporation participated in this protest in any way. The one AmeriCorps Member serving yesterday in Washington, DC, was working to inform real estate agents and churches of our homeownership program.

As you know, our program helps low income, mostly minority families acquire the American Dream of homeownership. Our AmeriCorps program works in partnership with some of the nation's largest lenders, including FannieMae, Citibank, Nationsbank, and First Fidelity. Through December, our AmeriCorps partnership had helped 84 families become first time homeowners. As a result, over \$4.2 million in private mortgage money was pumped into seriously distressed communities.

Please don't hesitate to call should you have any questions.

Sincerely,


George Butts
President


Mike Shea
Executive Director


Bruce Dornagan
AmeriCorps Project Director

ACORN Housing Corporation
Schedule of Budgeted, Incurred, Questioned, and Accepted Costs
For the Period October 1, 1994 through April 28, 1995

<u>Cost Category</u>	<u>Budgeted</u>	<u>Incurred</u>	<u>Questioned</u>	<u>Accepted</u>	<u>Notes</u>
Stipends	\$ 660,500	\$131,259	\$	\$131,259	
Payroll & Taxes	318,770	142,586		142,586	
Travel	84,724	48,648		48,648	
Rent	75,600	36,425	36,425		(1)
Member Health Care	50,400	6,001		6,001	
Administrative Support	40,024	23,745	23,745		(2)
Phone	38,400	15,372	14,325	1,047	(3)
Audit	27,989	16,327	16,327		(4)
Performance Bonus	24,000				
Equipment	20,000	19,521	1,500	18,021	(5)
Supplies	8,100	6,103		6,103	
Copier/Phone leases	6,000	4,522	3,022	1,500	(6)
Other Misc & Overnight Mail	<u>73,771</u>	<u>9,386</u>	<u> </u>	<u>9,386</u>	
Subtotal	1,428,278	459,895	95,344	364,551	
Child Care	122,500				
Education Awards	<u>198,450</u>	<u> </u>	<u> </u>	<u> </u>	
Total Budget	\$ <u>1,749,228</u>	\$ <u>459,895</u>	\$ <u>95,344</u>	\$ <u>364,551</u>	(7)
Federal Share	1,143,411				
Non-Federal Share	<u>605,817</u>				
Total Budget	\$ <u>1,749,228</u>				

Notes to Exhibit B:

(1) Rents: \$36,425

AHC has claimed rental costs for its purported share of the various facilities in which the AmeriCorps program requires space. Generally, these charges result from shared space with other ACORN and/or other AHC projects. Except for one location occupied by AHC in Denver during the period September through October 1994, lease agreements were provided for AHC's AmeriCorps worksites. However, the leases were often incomplete and did not fully explain the basis for determining the rents that were charged. In addition, it appeared that most, if not all, of the lessors are ACORN affiliated organizations. Because charges for space usually result from estimated allocations having a cost basis for which AHC did not provide adequate support, and we could not effectively determine that a fair basis for allocation was used, we have questioned these costs in total.

(2) Administrative Support: \$23,745

AHC obtains its financial, legal, and management support services from Citizens Consulting Inc. (CCI), an organization that essentially provides the same services to ACORN and all of its affiliates, and appears to be a related party of ACORN. Invoices billed to AHC provide no detail for the specific services rendered and/or hours incurred and appear to be billed based solely on the grant's budget. On July 28th, AHC sent us a copy of a contract between CCI and AHC as support for the amounts charged. The contract, which is undated, provides no information as to the basis for the "flat fee" charges. Because we are unable to assess the reasonableness or accuracy of these charges, we have questioned them in total.

(3) Phone: \$14,325

AHC allocated organizational phone costs based on estimated use by both AmeriCorps staff and members. Although costs are supported by invoices and it is clear that phone charges are incurred as part of the grant, we were unable to assess the accuracy or reasonableness of the allocations. Phones are found in common areas with little control to access and these same sites support other AHC and/or ACORN projects. Because we could not determine that AmeriCorps was absorbing its fair share of these costs, we have questioned all allocated phone charges.

(4) Audit: \$16,327

AHC budgeted \$27,989 for anticipated audit charges for a future A-133 audit of its fiscal year 1995 financial reports. Charges to date represent funds moved into a reserve by writing a monthly check to cover the estimated expenses. Although the AHC is required to obtain an audit, the audit would cover all Federal funding including grants from the Department of Housing and Urban Development. Therefore, logically only some part of the audit expense would be an allowable charge to the grant (subject to the five percent cap on administrative expenses). After repeated requests, on July 28,

Notes to Exhibit B (*Continued*)

1995, AHC sent us an estimate for audit services that it had requested from its present independent accounting firm. The estimated amount, \$15,000, was not supported by an engagement letter or other contract, and there was no information as to whether the estimated amount was an estimate of the entire audit fee or an allocation. Moreover, because its original estimate for these charges was considerably higher, as of April 28, 1995, AHC had already charged the grant \$16,327 for estimated audit costs. Consequently, we have concluded that because AHC has not incurred these costs and has failed to properly support its estimates and the related charges, the total amount should be questioned.

(5) Equipment \$1,500

AHC claimed \$1,500 for leases related to telephone equipment purportedly used by AmeriCorps in AHC's Denver office. Adequate documentation was not provided to support these costs; therefore, we have questioned them in total.

(6) Copier Leases \$3,022

AHC claimed lease expenses for copiers in Philadelphia, Denver, Chicago, and Dallas. The lease in Chicago (\$1,231) was not properly documented. Audit issues related to usage and cost allocations for the lease arrangements in Philadelphia, Denver, and Dallas (\$1,791) could not be resolved prior to the completion of the audit; for example, although only one copier was available to provide service to all tenants, the entire cost would be charged to the grant. Consequently, because we have not received basic information from which to determine if there is a equitable and consistent basis for allocating these costs, we have questioned all copier lease costs.

(7) Total Costs Incurred, Questioned and Accepted

The grant budget provides for a splitting of costs for each budget category between CNS and AHC, and allocation percentages vary. For example, the grant agreement and the budget indicate that AHC will match (or bear) 54 percent of the cost of stipends paid to AHC AmeriCorps Members. According to the grant budget, stipends were expected to account for about 46 percent of program costs. Furthermore, administrative costs borne by the grant are subject to a five percent cap. Because of the complexities of these matters and the significant amount of administrative costs included in costs charged to the grant through April 28, 1995 that we are questioning, OIG recommends that allocation of costs accepted between CNS and AHC should be resolved by a close-out audit.

July 19, 1995

Mr. Michael Shea
Executive Director
ACORN Housing Corporation
117 West Harrison Street, 2nd Floor
Chicago, Illinois 60605



Dear Mr. Shea:

As you are aware, we have been conducting an audit of the Corporation for National Service AmeriCorps grant awarded to ACORN Housing Corporation (AHC). The objectives of our audit were described in our April 26, 1995 notification letter to you. During our audit, AHC representatives have provided us with certain documents and records, as well as other information including oral representations.

Government auditing standards require auditors to obtain a written representation letter from an auditee in order to confirm representations and to reduce the likelihood of misunderstandings. Therefore, we ask that you provide us a letter acknowledging that, to the best of your knowledge and belief, the information provided to the Office of the Inspector General (OIG) in support of the audit was complete and accurate.

As a minimum, we ask that you specifically include in your letter the statements enumerated as follows:

- 1) AHC acknowledges that the OIG was not allowed unencumbered access to AHC's financial documents, corporate documents, personnel, and files. AHC informed the OIG that it had over 40 separate checking accounts and multiple projects that were independent of the AmeriCorps grant. At the outset of the audit, the AHC Executive Director informed the OIG that non-AmeriCorps related information would be withheld from the OIG for reasons of confidentiality.

AHC staff independently determined what organizational accounts from its general ledger—for both revenue and expenditures— were related to the AmeriCorps program and made them available to the OIG. The AHC-produced AmeriCorps transaction reports were taken from the AHC general ledger. That listing is complete and accurate.

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National Service Corps

AHC acknowledges that it is solely responsible for the fair and complete representation of documents, records, representations and other information provided for OIG review. The information provided represents our current, accurate, and complete disclosure of all AmeriCorps grant related transactions and expenditures through the audit period ended April 28, 1995. We have not knowingly withheld from you any financial records or related data that, in our judgement, would be relevant to the purpose of your audit.

- 2) Private access for OIG interviews of both AmeriCorps members and staff was deemed inappropriate by AHC management. Conditions were placed on these interviews which required the presence of the AHC legal counsel and a management official. AHC initiated this condition to ensure the accuracy of any statements provided the OIG.
- 3) Except as discussed herein, no AmeriCorps members or AHC staff participated in the March 6, 1995 ACORN-sponsored demonstration in a manner inconsistent with the laws and regulations applicable to AHC. An AHC staff member from Washington, D.C. did indicate participation at the demonstration, however, her timesheet for the period indicates that she did it on her own time.
- 4) We confirm that:
 - (a) There are no irregularities involving management or employees who have or had a significant role in the grant or the related activities audited.
 - (b) There are no irregularities involving other employees of AHC regarding areas within the scope of the audit.
 - (c) We have disclosed all related party transactions that could have a material influence on the findings resulting from the audit.
 - (d) There are no transactions—including travel expenditures—that have not been properly or timely recorded in the accounting records or disclosed to the OIG's auditors that may impact your audit conclusions.
 - (e) We have complied or disclosed any noncompliance with all laws and regulations pertaining to areas within the scope of the audit.

Although there is no comprehensive list of items that should be included in a representation letter, the specific statements shown above must be included.

Your representation letter should be signed by those individuals who are responsible for and knowledgeable about the items and information provided to the OIG and its staff. We believe that the letter should be signed by you, the AHC Executive Director, the AmeriCorps Project Director, Mr. Bruce Dorpalen, and the two CCI contractors who provided all of the financial data from your New Orleans finance center, Mr. Dale Rathke and Mr. Spencer Livingston.

In addition, we ask that you provide us a certification by the Secretary of AHC that copies of the AHC corporate records (bylaws and minutes of the Board meetings) provided to us are true and correct copies.

We are closing our field work on this audit as of 5:00 pm Eastern Standard Time on July 21, 1995. The representations requested in this letter, as well as any other information AHC wishes to submit in response to our prior requests, must be received by this office before that time in order to be considered in our audit report.

Sincerely,



Luise S. Jordan
Inspector General

cc: Steve Gordan, Holland & Knight

CITIZENS' CONSULTING, INC.
1024 ELYSIAN FIELDS AVENUE
NEW ORLEANS, LOUISIANA 70117-8402

July 20, 1995

Luise S. Jordan
Inspector General
Corporation for National and Community Service
1201 New York Avenue NW
Washington, DC 20525

Re: ACORN Housing Corporation

Dear Ms. Jordan:

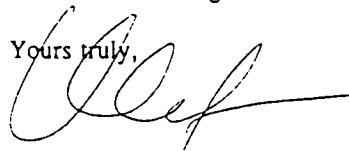
We are in receipt of a copy of your July 19, 1995, letter to Michael Shea, Executive Director of ACORN Housing Corporation. Your letter requests that certain written representations be made by Citizens' Consulting, Inc., as one of "those individuals who are responsible for and knowledgeable about the items and information provided to the OIG [Office of the Inspector General] and its staff." Accordingly, ACORN Housing Corporation has requested that Citizens' Consulting, Inc., respond with respect to the materials and information provided to the OIG and its staff on behalf of ACORN Housing Corporation and at the request of ACORN Housing Corporation.

Accordingly, Citizens' Consulting, Inc., hereby represents that, to the best of its knowledge and belief:

1. The ACORN Housing Corporation AmeriCorps reports -- for both revenue and expenditures -- produced to OIG in the course of the audit were taken from the AHC general ledger and are complete and accurate.
2. The information provided to OIG for review represents an accurate and complete disclosure of all AmeriCorps grant-related transactions and expenditures through the audit period ending April 28, 1995. No financial records or related data have been withheld knowingly from OIG that, in our judgment, would be relevant within the scope of the audit of the ACORN Housing Corporation AmeriCorps grant. I note, however, that in response to your June 30, 1995, letter to Steven D. Gordon, Esq., raising concerns about the documentation of certain costs charged in the grant, we are in the process of assembling and producing to the OIG additional financial records and data.
3. All related party transactions that could have a material influence on the findings resulting from the audit have been disclosed to OIG or will be disclosed in response to your June 30, 1995, letter to Steven D. Gordon, Esq.

4. There are no transactions -- including travel expenditures -- that have not been recorded in an appropriate and timely fashion in the accounting records.

Yours truly,

A handwritten signature in black ink, appearing to read "Dale Rathke", with a long horizontal flourish extending to the right.

Dale Rathke
Citizens' Consulting, Inc.

cc: Mr. Michael Shea



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Loan Counseling Training Center: 846 N. Broad, Philadelphia, PA 19130 (215) 765-1221

July 20, 1995

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, N.W.
Washington, D.C. 20525

Dear Ms. Jordan:

In response to your letter of July 19, 1995, requesting that certain representations be made by ACORN Housing Corporation regarding the audit of AHC, we represent that, to the best of our knowledge and belief:

1. No AmeriCorps members or AHC staff participated in the March 6, 1995, ACORN-sponsored demonstration in Washington, D.C. in a manner inconsistent with the laws and regulations applicable to AHC. As you are aware, one AHC staff member from Washington, D.C. did attend the demonstration but did so on her own time, as indicated by her timesheet for March 6, 1995.

2. The AHC corporate records provided to the Office of Inspector General in the course of the audit are true and correct copies.

Sincerely,

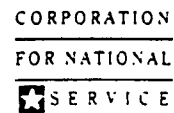
A handwritten signature in cursive script that reads "Michael D. Shea".

Michael D. Shea
Executive Director



June 30, 1995

Steven D. Gordon, Esq.
Holland & Knight
2100 Pennsylvania Ave., N.W.
Washington, D.C. 20037



Dear Mr. Gordon:

As you are aware, this office has been conducting an audit of AmeriCorps grant number 94ADN1L001 between ACORN Housing Corporation (AHC) and the Corporation for National and Community Service. This letter is to advise you that we have serious concerns regarding the documentation of certain costs that AHC has charged to the grant.

General Comments

Under the terms of the grant, AHC costs charged to the grant are allowable only as provided in OMB Circular A-122, Cost Principles for Nonprofit Organizations, 45 Fed. Reg. 46022 (1980) (A-122). A-122 generally states that for grant costs to be allowable, they must be reasonable in nature and amount, allocable to the grant-funded activity, adequately documented, and consistent with policies that apply uniformly to both federally funded and other activities. In addition, the grant and Corporation for National and Community Service regulations¹ require AHC to have financial management systems that provide written procedures for determining the allowability of costs under A-122.

Based on our review of AHC's accounting records for the period of October 1, 1994 to May 28, 1995, and additional information and documentation provided to us to date, we have serious concerns about whether the following AHC costs are allowable as charges against the AmeriCorps grant.

Rent and equipment costs supported by leases (from 10/1/84 to 4/28/95)

Rent	\$36,425
Telephone Equipment (Denver)	\$ 1,500
Copier/Mimeograph (Chicago)	\$ 1,231

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Washington, DC 20522
Telephone 202-606-1000

¹ 45 C.F.R. Part 2543, 60 Fed. Reg. 13055 (1995).

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We have noted several anomalies regarding the documentation provided to us for office and equipment rental costs charged to the grant:

- The supporting documentation for these costs generally consists of leases to the "AHC/AmeriCorps project" as tenant, and appear to have ACORN-related parties as lessors;
- AHC did not readily provide the lease documents to us in New Orleans, and never provided some originals to us;
- Descriptions of office space leased is often vague or ambiguous; and
- For one site, AHC provided us three original signed leases that were completely blank as to terms, dates and rent amount.

These conditions raise several concerns.

First, under A-122's general principles, costs are allowable only if they are "consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization."² Under these criteria, AHC's rental costs under the "AHC/AmeriCorps Project" leases would be allowable *only* if other AHC activities that occupy similar office space or use similar equipment (including space and equipment shared with related parties) are also incurring rental costs. Thus, the allowability of AHC's AmeriCorps project's office space and equipment rental costs depends not only upon the documentation of the specific costs incurred, but also on how AHC obtains use of office space and equipment for its other activities. For example, if AHC activities have typically used office space and equipment provided by ACORN-related parties without paying rent, the AmeriCorps grant cannot be charged for the use of similar facilities, regardless of how AHC documents those charges.³

However, even if the rental costs charged to the AmeriCorps grant are incurred under a uniform policy, they may be subject to A-122's limit on the allowability of rental costs paid to related

² A-122, Attachment A, Para. A.2.c.

³ Under certain circumstances, the value of donated office space and equipment use could be used to meet the matching requirements of the AHC grant. However, 45 C.F.R. § 2543.23 states that the value of donated space used to meet a matching requirement of a grant from the Corporation for National and Community Service "shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality." In any case, however, A-122 specifically disallows the value of donations as either direct or indirect costs. A-122, Attachment B, paras. 10.a(1) and b(1).

parties. These limits apply to rental costs based under "less than arms length leases." A-122 defines a less than arms length lease as "one under which one party to the lease agreement is able to control or substantially influence the actions of the other."⁴ It appears that many, if not all, of the "AmeriCorps Project" leases meet this definition. If so, then the rental costs are allowable "only up to the amount that would be allowed had title to the property vested in the organization."⁵

In general, that amount would be determined under the A-122 standard that specifies depreciation and use allowances that may be charged to grants. Under A-122, allowable depreciation or use allowances should be based on the acquisition cost of the assets involved (for donated assets, this would be the fair market value at the time of donation). The method of depreciation used should reflect the "pattern of consumption of the asset during its useful life."⁶ Use allowances for buildings cannot exceed an annual rate of two percent of the acquisition cost; for equipment the limit is six and two-thirds percent. For fully depreciated assets, a reasonable use allowance may be negotiated that considers the estimated remaining useful life and the effect of decreased efficiency due to age and other factors.

Finally, we note that the calculation of the appropriate rental, donation, or depreciation and use allowances in connection with this grant is subject to the A-122 general standard that the amount charged to the grant is "adequately documented."⁷

Professional Services Costs (from 10/1/84 to 4/28/95)

Citizens Consulting, Inc. (CCI)	\$23,745.16
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We have some concerns about the allowability of CCI professional services costs charged to the grant. First, the CCI contract for professional services only covers professional services for AHC's AmeriCorps program, not AHC activities generally. As with the leases for office space and equipment, AHC's costs for CCI services are allowable under A-122's general standards only if they are incurred under AHC policies that consistently apply to both AmeriCorps and other AHC programs.

⁴ A-122, Attachment B, para. 42, c.

⁵ Id.

⁶ A-122, Attachment B, para. 9.c.

⁷ A-122, Attachment A, para. 2.g.

Second, CCI never signed the two contracts upon which AHC's costs are supposedly based, and its invoices provide no detail regarding dates, hours worked or services performed. Beyond the general standard of adequately documenting all costs, A-122's specific standard on the allowability of Professional Service Costs states that the adequacy of the contractual agreement for professional services is a relevant factor to consider in determining the allowability of such costs.⁸

Finally, Dale Rathke told us on May 1, 1995, that he is both the Director of Internal Operations for AHC and the Financial Director for CCI. Under the A-122 standard on Professional Services Costs, the cost of services performed by an officer or employee of AHC are not allowable as costs of the AmeriCorps grant.⁹ The fact that Rathke holds positions with both AHC and CCI raises the question of whether CCI's cost include amounts for professional services provided by Dale Rathke.

Audit Reserve	\$16,326.89
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We question the adequacy of the contractual agreement for these services. For the audit charges, Dale Rathke and Robert Walsh of the CPA firm, Duplantier, Hrapmann, Hogan & Maher, told us on May 17, 1995 that no engagement letter had yet been prepared for these charges. Rathke said the charges were based on estimates for audits that the firm is currently conducting. Rathke said he would provide documentation for the estimates and charges but never did. Again, we have concerns about whether these charges have been adequately documented and consistently applied, as well as appropriately allocated among all of AHC's federal grants covered by the audit.

Long Distance Telephone Service Costs (from 10/1/84 to 4/28/95)

Telephone service	\$14,325
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Under A-122, costs must be adequately documented as allocable to AHC's AmeriCorps program.¹⁰ We feel that there is a lack of documentation to show us that long distance charges relate to AmeriCorps loan counselors. Based on our site visit to Philadelphia, our discussions with AHC staff and AmeriCorps members, and our review of phone service invoices, it does not

⁸ A-122, Attachment B, para. 34.b(8).

⁹ *Id.* at para. 34.a.

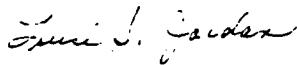
¹⁰ A-122, Attachment A, paras. A.2 and A.4.

appear that there are controls in place to ensure that phone calls charged to the AmeriCorps grant were related to grant purposes. We also question the circumstances in which AmeriCorps members and staff persons would need to make long distance phone calls to the extent reflected in the telephone bills charged to the grant.

Conclusion

In our view, AHC's responses to our prior requests for documentation of its costs and internal policies and procedures should have included the information needed to resolve these matters. Accordingly, unless AHC can give us adequate documentation of these costs without further delay, our report on this audit will question whether the costs are allowable under the grant. In response to our report, the Corporation for National and Community Service will decide whether the costs are allowable.

Sincerely yours,



Luise S. Jordon
Inspector General

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July 28, 1995

VIA MESSENGER

Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, N.W.
8th Floor
Washington, D.C. 20525

Re: Audit of AmeriCorps Grant No. 94ADN1L001
to ACORN Housing Corporation ("AHC")

Dear Ms. Jordan:

This letter responds to your letter to Steven D. Gordon, Esq. dated June 30, 1995, advising him of concerns of the Office of Inspector General ("OIG") with regard to the documentation of certain costs charged by AHC to the referenced grant (the "Grant"). On behalf of AHC, Mr. Gordon agreed that a response to your questions would be provided no later than July 28, 1995.

1. Rent and Equipment Costs Supported by Leases
(from 10/1/94 to 4/28/95)

The OIG has questioned the allowability of \$36,425 in rents charged against the Grant by AHC during the period in question. One of the questions raised is whether or not the questioned costs are "consistent with policies and procedures that apply uniformly to both federally-funded and other activities of [AHC]," as required under OMB Circular A-122, Cost Principles for Nonprofit Organizations, 45 Fed. Reg. 46022 (1980) (referred to hereinafter as "A-122"). The allowability of leasing costs for office space and equipment incurred by AHC in connection with the AmeriCorps loan counseling project (the "AmeriCorps Project") thus depends, in significant part, on whether or not AHC typically pays for leased office space and equipment.

AHC maintains offices in 20 cities nationwide, including the nine cities in which it operates its AmeriCorps Project. AHC pays the costs of all leasing arrangements including, without limitation, the costs of office space housing its AmeriCorps operations. Many of AHC's leasing arrangements, including those

Luise S. Jordan
July 28, 1995
Page 2

entered into in connection with the AmeriCorps Project, provide that shared use of photocopier and telephone equipment belonging to or leased by the lessor will be included in the rental charge. Examples of AHC leasing arrangements for its non-AmeriCorps Project operations are enclosed herewith, together with copies of rent checks paid by AHC during the period in question from non-Grant funds to various lessors is enclosed with this letter. As the enclosed documentation demonstrates, AHC has typically paid (and continues to pay) costs of leased office space and equipment.

In all instances the lease arrangements entered into by AHC for its AmeriCorps Project operations have been "arms-length" transactions. Your June 30, 1995 letter sets forth your conclusion that "[i]t appears that many, if not all, of the 'AmeriCorps Project' leases" meet th[e] definition" of "less than arms length leases" with so-called related parties. However, A-122, Attachment B, para. 42.c. provides in relevant part that:

a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer or key employee of the organization or his immediate family either directly or through corporations, trust or similar arrangements in which they hold a controlling interest.

As the supporting documentation demonstrates, AHC has leasing agreements with a wide variety of office space lessors throughout the country. There is no substantial evidence that the questioned costs are the result of "less-than-arms-length transactions" within the meaning of the cited provisions of A-122.

The transactions underlying the costs for leased telephone equipment (Denver) and copier and mimeograph equipment (Chicago) are also "arms length" leases within the meaning of A-122. The OIG has questioned, specifically, the amount of \$1,500 in charges under the Grant for the use of telephone equipment in AHC's Denver AmeriCorps Project office. The questioned charges were incurred pursuant to a written lease agreement between AHC/AmeriCorps and Colorado Organizing and Support Center, the lessor of the telephone equipment as well as the Denver office space. In preparation for undertaking operations under the AmeriCorps Project, AHC found it necessary to relocate its offices in Denver in order to have

Luise S. Jordan
July 28, 1995
Page 3

sufficient space to house the AmeriCorps members who would staff that office. The telephone equipment in question was already in place when AHC moved into its new Denver office. Unlike a number of its other leases, the AHC/AmeriCorps lease for the Denver office did not include use of telephone equipment. By negotiating an arrangement permitting AHC/AmeriCorps to share the cost of leased telephone equipment, AHC was able to avoid incurring the costs and liabilities of entering into a telephone equipment lease directly with an equipment provider. The telephone equipment agreement between AHC/AmeriCorps and its Denver lessor calls for payment of a flat rate of \$1,500 over the term of AHC/AmeriCorp's occupancy. A copy of the Lease addendum entered into between AHC/AmeriCorps and Colorado Organizing and Support Center is enclosed.

Similarly, AHC negotiated a favorable arrangement for the shared use of copier and mimeograph equipment in connection with its Chicago AmeriCorps Project operations. A copy of that agreement is enclosed. Pursuant to its written agreement with the lessor, Local 880, SEIU, AHC/AmeriCorps has enjoyed unlimited use of both a Konica copier and Gestetner mimeograph machine for the last six months, in consideration for a monthly payment of \$100 per month for each machine. This arrangement has permitted AHC to avoid the costs and liability of entering into direct leases for the equipment in question, and to realize additional cost savings as a result of the "unlimited use" aspect of the leasing arrangement.

2. Professional Services Costs
(from 10/1/94 - 4/28/95)

The OIG has challenged the allowability of \$23,745.16 for professional services costs charged to the Grant for services provided by Citizens Consulting, Inc. ("CCI"). Specifically, a question of the "consistency" of AHC's policies regarding the use of CCI's services has been raised.

AHC uses the services of CCI in connection with both its AmeriCorps and non-AmeriCorps Project activities. Copies of the written agreements between AHC and CCI and between AHC/AmeriCorps and CCI regarding the provision of both financial and legal services, are enclosed. The enclosed agreements demonstrate that AHC has consistently contracted with CCI for the provision of financial and legal services. At the outset of the AmeriCorps Project, AHC simply extended that existing contractual relationship to encompass the provision of services in connection with its AmeriCorps Project operations.

Luise S. Jordan
July 28, 1995
Page 4

With respect to the question of the title held by Dale Rathke of CCI, Mr. Rathke is not a paid employee of AHC, nor is he an elected officer or member of the Board of Directors of that organization. Pursuant to the agreement between CCI and AHC, Mr. Rathke has the title "Assistant Secretary" of AHC, for the limited purpose of performing audit-related functions for AHC. This is the only title held by Mr. Rathke in connection with AHC.

The OIG has also expressed concerns about the allowability of a \$16,326.89 "audit reserve" for actual and estimated audit charges payable to the accounting firm of Duplantier, Hrapmann, Hogan & Maher. These charges are routine in nature and consistent with charges paid by AHC for prior audits of its non-AmeriCorps activities. The audit work covering the AmeriCorps Project will be part of the annual AHC audit and the A-133 AHC audit in two fiscal years: 6/30/95 and 6/30/96. As was explained to the auditors sent by your office to New Orleans, formal engagement letters from the Duplantier firm could not be prepared until the end of the fiscal period. The estimates included in the AHC/AmeriCorps budget, as approved by the Corporation for National Service, were based upon informal estimates provided by the Duplantier firm and upon the expected proportion represented by the AmeriCorps Project of AHC's overall activity and of AHC's A-133 activity in the two cited fiscal period. No funds have been disbursed for these services as yet, hence the "audit reserve." Documentation of the questioned charges and estimated charges is now available and is enclosed.

3. Long Distance Telephone Service Costs
(from 10/1/94 to 4/28/95)

Finally, the OIG has questioned the amount of \$14,325 in long-distance telephone charges during the relevant period. You have identified those concerns as centering upon whether the charges in question relate to AmeriCorps loan counselors, as well as whether or not adequate controls were in place to ensure that charged calls related to the Grant. You also indicate your concerns that the charges may be excessive in view of AmeriCorps Project needs and objectives.

AHC has established procedures designed to segregate or apportion long-distance charges in all sites where there are both AmeriCorps and non-AmeriCorps activities ongoing. In February, AHC began using a long-distance system that requires entry of an accounting code for access, and entirely separate codes have been assigned to the AmeriCorps Project. Prior to February, long-distance costs were charged to the Grant only in accordance with

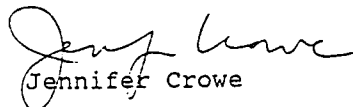
Luise S. Jordan
July 28, 1995
Page 5

the use and staffing at a particular site. Only in the Philadelphia was their apportionment of direct charges.

In general, there is a correlation between the volume of counseling clients assisted in a particular AmeriCorps Project site and the amount of long-distance costs attributable to that site. For example, the AmeriCorps Project in AHC's Houston, Texas office has handled a high volume of counseling clients. Accordingly, its long-distance costs have been higher. Long-distance calls made by AmeriCorps staff in the ordinary course of Project operations will include calls made to Project supervisors in Philadelphia; calls to the national headquarters office in Chicago; calls to credit reporting companies (usually at a cost of \$.30 to \$.50 per call) and calls to New Orleans regarding payments of invoices and allocations, generally. In no instances do the actual costs for long-distance charged to the Grant exceed the projected amounts approved by the Corporation for National Service prior to the start-up of the AHC AmeriCorps Project.

In summary, AHC believes that all of the questioned costs are appropriate and allowable, as further documented in the enclosures to this letter.

Sincerely,


Jennifer Crowe

JC:rch
cc: Mr. Michael Shea

WAS-114460

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STEVEN D. GORDON

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September 5, 1995

VIA MESSENGER

Ms. Luise S. Jordan
Inspector General
Corporation for National Service
1201 New York Avenue, N.W.
Washington, D.C. 20525

Re: **ACORN Housing Corporation**
Response to Draft Report No. 95-17

Dear Ms. Jordan:

On behalf of this firm's client, ACORN Housing Corporation ("AHC"), I hereby submit the following documents in response to the referenced Draft Audit Report dated August 1, 1995:

- 1) Report of Ernest Agresto, C.P.A., dated September 5, 1995;
- 2) AHC Procurement and Cost Containment Policies; and
- 3) Letter to Luise S. Jordan, Inspector General, dated July 28, 1995, from Jennifer Crowe, Esq., and exhibits attached thereto.

These materials are intended to supplement the submission made previously by AHC in response to your letter of June 30, 1995. (AHC's previous submission already has been made part of the record as Exhibits D, E and G to the Draft Report. For your convenience, we are enclosing herewith an additional copy of Jennifer Crowe's July 28, 1995 letter to you and the attached exhibits).

Please let me know if you have any questions regarding this supplemental response or require any additional information.

Ms. Luise S. Jordan
September 5, 1995
Page 2

Sincerely,

A handwritten signature in cursive script, appearing to read "Steven D. Gordon".

Steven D. Gordon

SDG:jmw
Enclosures

cc: Michael Shea (w/o enclosures via fax)

44935-1
WAS-120652

September 5, 1995

MEMORANDUM

CORPORATION
FOR NATIONAL
SERVICE

TO: Luise Jordan, Inspector General, CNS

FROM: Michael Kenefick, Director of Grants and Contracts, CNS ^{m.k.}

RE: Response to Draft IG Audit of ACORN Housing Corporation

On July 7, 1995, we were indirectly informed of the nature of certain activities occurring in conjunction with our funded AmeriCorps grant to ACORN Housing Corporation. Issues of allowability of certain costs were also raised. As a precaution, we immediately put a hold on withdrawals of cash by ACORN from our HHS-administered payment management system. Subsequently, we were briefed on the preliminary findings of the investigation and audit. We felt the issues were sufficiently deleterious to warrant immediate action.

On July 18, 1995 by letter from Simon Woodard, Grants Officer, the Corporation suspended our grant to ACORN Housing due to material violation of the grant provisions. In accordance with our statutory requirement, we also gave notice of our intent to terminate the grant. The statute requires a hearing before the Corporation can unilaterally terminate an AmeriCorps project. At the request of ACORN Housing, such hearing was scheduled after exchanges of correspondence and documents. Prior to the date of the hearing, ACORN Housing initiated discussions to forgo the hearing and mutually terminate the project. On August 29, 1995, the Corporation and ACORN Housing agreed to end the AmeriCorps project as of September 1, 1995 and sever our relationship.

The subject audit also questioned approximately \$95,000 in expenses charged to the AmeriCorps project through April 29, 1995. In our view, these questioned costs were integrally related to the overall costs incurred during the full term of the project through September 1, 1995 and thus could not be addressed out of the context of all costs incurred. Matching costs and limitations on administration could affect the final allowable costs. In addition, any negotiation of reasonable allowable expenses for costs questioned to date would have a direct affect on other costs incurred through completion. Thus, we intend to address the allowability of costs after completion and closeout audit.

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