AUDIT REPORT

ASSESSMENT OF RESIDENT ASSOCIATION GRANTS

MULTI-LOCATION SUMMARY REPORT

00-KC-105-0001

MARCH 31, 2000

OFFICE OF AUDIT, GREAT PLAINS
KANSAS CITY, KANSAS

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audit report
OFFICE OF INSPECTOR GENERAL

Issue Date March 31, 2000	
Audit Case Number 00-KC-105-0001	

TO: Gloria J. Cousar, Deputy Assistant Secretary, Office of Public and Assisted Housing Delivery, PE

FROM: Ronald J. Hosking, Acting District Inspector General for Audit, 7AGA

SUBJECT: Assessment of Resident Association Grants

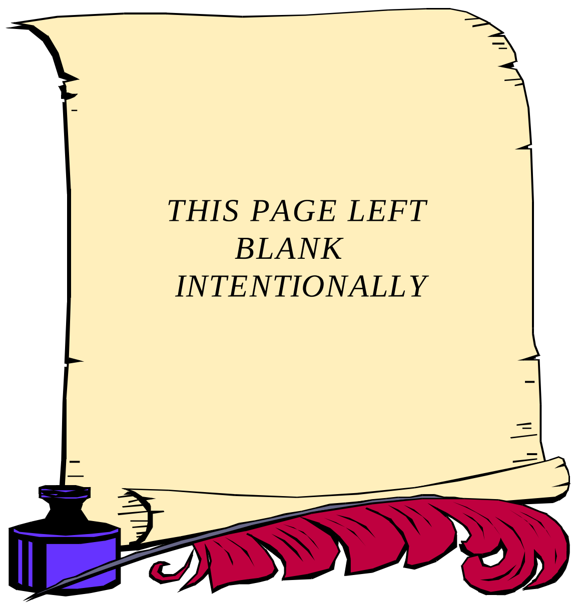
We have completed a review of Resident Associations. The objective of our review was to assess the results of all audits conducted of the Tenant Opportunity Program to determine if systemic problems existed, and if they have been adequately addressed in the new Resident Opportunities and Self Sufficiency program. The review was conducted in accordance with OIG's general audit plan.

The Office of Inspector General has issued eight audit reports evaluating the use of $1,306,861 in Tenant Opportunity Program grant funds. The eight reports consistently identified similar deficiencies which existed because of weaknesses in the Tenant Opportunity Program. Grantees spent $395,707, or 30 percent of the funds reviewed, on ineligible or unsupported items.

We concluded the Resident Opportunities and Self Sufficiency program improves upon many of the controls of the Tenant Opportunity Program. However, it does not adequately address all weaknesses that were reported with the Tenant Opportunity Program. The new program does not incorporate procedures that ensure grantees have adequate administrative capabilities and partnerships with housing authorities and receive sufficient on-site, real time monitoring. As a result, HUD needs to further improve its controls over the new program to ensure that it will meet its intended objectives and goals.

Within 60 days, please provide us, for the recommendations made in this report, a status report on: (1) the corrective action; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5870.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Executive Summary

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The New Program Does Not Correct All Problems

Under the Tenant Opportunity Program, resident associations receiving grants did not demonstrate the capacity to properly administer their grants. The associations did not: adequately control funds, properly maintain books and records, have the necessary knowledge and skills to manage the grants, or follow proper procurement procedures. As a result, the grantees spent $395,707 out of $1,306,861, or 30 percent, on ineligible or unsupported items. The deficiencies occurred because the Tenant Opportunity Program did not have controls to ensure adequate financial management, Memorandums of Understanding between resident associations and housing authorities, and community specific work plans. Additionally, the Office of Public Housing did not adequately monitor the resident associations' performance.

The Resident Opportunities and Self Sufficiency program improves upon many of the controls of the Tenant Opportunity Program but does not adequately address all weaknesses. It does not incorporate procedures that ensure grantees have adequate administrative capabilities and partnerships with housing authorities and receive sufficient on-site, real time monitoring. As a result, HUD lacks assurance that the funds expended under the new program will meet intended goals and objectives.

Recommendations

We recommend that the Office of Public and Indian Housing ensure the Resident Opportunities and Self Sufficiency program threshold requirements be applied to all categories of Resident Opportunities and Self Sufficiency grants. Further, HUD needs to develop policies and procedures that require on-site, real time monitoring and assign adequate resources to accomplish this.

We held an exit conference with the Deputy Assistant Secretary, Office of Public and Assisted Housing Delivery, and the Associate Deputy Assistant Secretary for Customer Services and Amenities on March 22, 2000. We presented our draft finding to the Associate Deputy Assistant Secretary on February 28, 2000 and received written comments from the Deputy Assistant Secretary on March 28, 2000. The complete comments are included in Appendix E. We considered the comments in preparing our final report and incorporated them into the finding as appropriate.

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Introduction

HUD's policy is to promote public housing tenant participation and management. Residents have a right to organize an association and elect a resident council to represent their interests. The resident council's role is to improve the quality of life and resident satisfaction and participate in self-help initiatives to enable residents to create a positive living environment for families living in public housing.

Section 20 was added to the United States Housing Act of 1937 by the Housing and Community Development Act of 1987. The section establishes the legal basis for HUD to give financial assistance to resident associations to promote resident management of public housing projects. HUD implemented this legislation in 1988 with Technical Assistance grants to resident associations. On August 15, 1994, HUD published regulations to revise the program and named it the Tenant Opportunity Program. The revisions were in response to resident association and housing authority requests that the program be changed to meet the needs in their communities for business development, education, job training and development, social services, and opportunities for other self-help initiatives. The new program reduced the emphasis on tenant management of public housing units and redirected the emphasis towards other resident activities which improve living conditions and resident satisfaction in public housing communities. On August 10, 1999, HUD issued a Notice of Funding which, again, revised the program, pursuant to the Quality Housing and Work Responsibility Act of 1998 (the Public Housing Reform Act). Section 538 of the Public Housing Reform Act adds section 34 to the United States Housing Act of 1937, which provides a mandate to link services and public housing residents for economic self-sufficiency. The new program is called the Resident Opportunities and Self Sufficiency program and redefines, restructures, and consolidates certain aspects of several previous programs while incorporating objectives contained in the Public Housing Reform Act.

The Resident Opportunities and Self Sufficiency program links services to Public and Indian Housing residents by providing grants for supportive services, resident empowerment activities, and initiatives to assist residents in becoming economically self-sufficient. The new Resident Opportunities and Self Sufficiency grant has four categories: 1) Resident Management and Business Development, 2) Capacity Building and/or Conflict Resolution, 3) Resident Service Delivery Models-Families or Elderly/Disabled, and 4) Service Coordinator. The Capacity Building and Conflict Resolution grants are only available to resident associations if they are city wide resident organizations or they serve a minimum of ten resident associations. The Service Coordinator grant is not available to resident associations.

Each year HUD issues a Notice of Funding availability and awards grants to associations on a competitive basis. From 1988 through 1998, HUD awarded over 1000 grants to resident associations totaling about $87 million. The 1999 Resident Opportunities and Self Sufficiency program funding totaled $66.6 million. Of this amount, $51.6 million is available to resident associations. The 1999 grants have not yet been awarded.

Audit Objectives

Our review objective was to assess the results of all audits conducted of the Tenant Opportunity Program to determine if systemic problems existed and if they have been adequately addressed in the new Resident Opportunities and Self Sufficiency program.

Audit Scope And Methodology

We analyzed eight Tenant Opportunity Program audits issued by the OIG between September 1996 and March 2000. The eight audits assessed 49 resident associations that received Tenant Opportunity Program grants. Two of the audits were follow-up audits on five associations that were previously audited. Therefore, 44 different associations, that had grant awards totaling $4,332,000, were audited. The audits covered the period of October 1994 through September 1999.

The audits reviewed grantees books, records, and supporting documentation, and reviewed pertinent program regulations and guidelines. Grantees, grantees' consultants and trainers, housing authority personnel, and HUD field office staff were interviewed.

We reviewed regulations for the new Resident Opportunities and Self Sufficiency program to determine if the new program adequately addresses problems identified in the Tenant Opportunity Program. Our assessment was performed between October 1999 and February 2000.

The audits were conducted in accordance with generally accepted governmental auditing standards for performance audits.

We provided a copy of our draft finding to the Customer Services and Amenities Division in the Office of the Deputy Assistant Secretary for Public and Assisted Housing Delivery. Each individual audit report was provided by the issuing office, at the time of completion, to applicable resident association grantees, public housing authority staff, and HUD field office staff. Appendix A lists each audit incorporated in this report.

HUD Should Improve Its Controls Over Resident Opportunities and Self Sufficiency Grants

Under the Tenant Opportunity Program, resident associations receiving grants did not demonstrate the capacity to properly administer their grants. Tenant associations did not: adequately control funds, properly maintain books and records, have the necessary knowledge and skills to manage the grants, or follow proper procurement procedures. As a result, the grantees spent $395,707 out of $1,306,861, or 30 percent, on ineligible or unsupported items. The deficiencies occurred because the Tenant Opportunity Program did not have controls to ensure adequate financial management, Memorandums of Understanding between resident associations and housing authorities, and community specific work plans. Additionally, the Office of Public Housing did not adequately monitor the resident associations' performance.

The Resident Opportunities and Self Sufficiency program improves upon many of the controls of the Tenant Opportunity Program but does not adequately address all weaknesses It does not incorporate procedures that ensure grantees have adequate administrative capabilities and partnerships with housing authorities and receive sufficient on-site, real time monitoring. As a result, HUD lacks assurance that the funds expended under the new program will meet intended goals and objectives.

Program Requirements

The implementing regulations for Section 20 of the United States Housing Act are included in Title 24, Code of Federal Regulations, part 964. Part 964 provides that resident organizations may use HUD technical assistance to develop management capability, identify social support needs of the residents and secure support, and carry out a wide range of activities to further resident management. Part 964 also provides that HUD's role is to provide guidance, as necessary and appropriate, and endeavor to provide technical assistance for these initiatives. HUD is charged with monitoring to ensure that the requirements are operating efficiently and effectively.

Section 34 of the United States Housing Code of 1937 provides that if a resident association lacks adequate expertise, the Secretary may require the association to utilize other qualified organizations as contract administrators with respect to financial assistance provided.

OMB Circular A-110 requires grantees to maintain financial management systems that provide accurate, current and complete financial records. They are also required to effectively control and account for all funds, safeguard assets, and assure the assets are used only for authorized purposes. The Circular further requires all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition.

24 CFR 84.21(b)(3) states that the recipient's financial management system shall provide for effective controls over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

Resident Councils Did Not Properly Manage Tenant Opportunity Grants

The eight Tenant Opportunity Program audits issued by the OIG each contained a finding that the resident associations lacked the knowledge and technical skills to adequately administer their grants without substantial technical assistance. The grantees lacked control over grant funds, and had inadequate books and records, inadequate capacity, and improper procurement procedures.

<u>Lack of Control Over Funds:</u> Tenant Opportunity Program grantees lacked control over their grant funds. Twenty-six of 44 resident association grantees used $91,245 in grant funds for ineligible activities. Additionally, 8 resident associations made excessive draws, 15 had negative bank balances, 15 wrote checks to cash or the check signer, and 27 did not reconcile their bank statements. Office of Management and Budget Circular A-110 requires grantees to effectively control and account for funds. Writing checks to cash or the check signer does not provide an adequate audit trail to support the proper use of funds. Not reconciling bank statements leads to excessive draws and negative bank balances.

For example, the Alma Resident Council, Inc. in Alma, Georgia, disbursed $38,692 in grant funds to pay expenses for housing authority operations that were not part of the Council's work plan. The Council provided HUD with misleading and/or false certifications to obtain the funds. Since these funds were not used for intended purposes, they were an ineligible use of grant funds.

Also, the Martin Street Plaza tenant association in Atlanta, Georgia, made draws on its grant in excess of its immediate needs. At the time of the review, it had drawn $50,963 and had a balance of $21,888 in the bank. At least $10,000 of this amount had been on deposit for over six months. HUD requires that funds be expended within five days of receipt.

Inadequate Books and Records: Twenty-nine grantees did not maintain accounting records and documentation to support expenditures. As a result, they had a total of $304,462 in unsupported payments. Grantees were missing bank statements and canceled checks, had no cash receipts and disbursements ledgers, or lacked supporting source documents for expenditures. Grantees also paid contractor invoices without documentation that showed the contractor rendered the agreed upon services. Furthermore, 19 grantees failed to post their ledgers with current accounting transactions.

For instance, in Washington, D.C., at the Kentucky Courts Resident council over half ($28,724) of the funds spent during the audit period could not be accounted for because they had neither checks nor check stubs. Another $19,716 did not have any receipts, just check stubs. The Kentucky Courts Resident council blamed the consultant for the missing records. The consultant said all documentation was lost when its basement flooded. However, all documentation and support pertaining to TOP expenses should be kept in the possession of the resident council.

Inadequate Capacity: Resident associations did not have the necessary knowledge and skills needed to administer their grants. Thirty of the 44 resident associations were either inactive or had made minimal progress toward grant goals.

For example, the Martin Luther King Senior Highrise Resident Association located in Atlanta, Georgia had only drawn down 47 percent of its Tenant Opportunity Program grant funds 4 years into its 5 year grant. The group had not made substantial progress towards accomplishing the tasks cited in its work plan. At the onset of the program, the Resident Association made some progress towards its goals. However, subsequent progress reports to HUD showed no significant accomplishments.

Thirty-four grantees were not familiar with Tenant Opportunity Program requirements. The tenants in the associations knew

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little about the Tenant Opportunity Program before or after the grants were awarded. Grantees did not have or were not aware of detailed work plans to guide their grant activities. The grant applications contained only generic work plans which did not reflect the specific needs of each community nor did the plans recognize the different needs arising from the diverse composition of residents of each community. In Atlanta, Georgia, twenty-nine grants were awarded to senior high-rise communities and family low-rise communities under identical grant applications, even though needs varied by type of community.

The Pascua Yaqui Neighborhood Association in Tucson, Arizona, did not establish a plan setting out specific goals of its program and strategies to achieve these goals. Even though the primary task set out in the grant application was participant capacity building, no one could identify what type of participant capacity building was to be carried out nor the strategy to be used in accomplishing this task. In addition, there was no evidence available to demonstrate that even the minimum training requirements had been met, including training in HUD regulations and policies, financial management, and capacity building to develop the necessary skills to assume management responsibilities.

Officials of the Resident Council of Asheville Housing Authority in North Carolina were not aware of the requirement for an audit. As a result, the grantee did not obtain an audit and used the funds for other activities, even though it had included $2,000 in its budget for an audit of grant funds. Since these funds were not used for the intended purpose, we consider them ineligible. An audit is an important internal control that helps ensure grant funds are used in accordance with program requirements.

<u>Improper Procurement Procedures.</u> Fourteen of 44 grantees did not follow proper procurement practices. This included not having written procedures or not maintaining complete and proper documentation to evidence the procedures used in procuring consultant and training services. The grantees did not document the number of bids received, how the bids were evaluated, a cost estimate and/or price analysis, and the basis for contractor selection.

For example, as a result of improper procurement practices, three resident associations in Atlanta, Georgia: McDaniel Glenn, Martin Luther King Senior, and Jonesboro South, contracted with a conflict of interest firm for employment assessments and training. The three grantees paid or owed the firm $6,580.

Furthermore, some consultants hired by the grantees did not always provide contracted services for which the resident associations paid them. Kentucky Courts and Garfield Terrace paid the same consultant $16,309 and $18,000 respectively. This consultant was hired to provide an assessment of the problems and social issues at the respective housing projects; provide training for the residents to become self sufficient; provide technical assistance as needed by the residents; and to assist the resident council in applying for other resource opportunities. However, neither the grantee nor the consultant could provide any evidence that these services had been provided. In addition, the consultant had no receipts for purchases she made on behalf of the grantee. According to the office manager at Kentucky Courts, the consultant spent 2 hours a week at the site but did not provide any of the services for which she was hired; yet, she was paid $1,000 a month. Another Washington D.C. council, Fort Lincoln, paid $1,150 to a consultant to apply for non-profit status for the resident council. The consultant did not complete and file the application with the IRS, but the council paid him in full.

Tenant Opportunity Program Had Systemic Weaknesses

The Tenant Opportunity Program granted funds to resident associations without adequate regard to the administrative capability of the associations. The program did not ensure that resident associations had sufficient financial management systems, relationships with housing authorities, or community specific work plans. These systemic weaknesses allowed the deficiencies which the OIG audits identified to occur.

Under the Tenant Opportunity Program, applicants could receive funding without first demonstrating that their financial management systems and procurement procedures complied with federal regulations. Although HUD rated applicants based on their capability of handling financial resources, absence of adequate financial controls would not prevent an applicant from being funded since awards were based on the overall rating and ranking. Many of the problems with the Tenant Opportunity Program grantees occurred because the grantees did not have adequate accounting and procurement systems.

Resident associations could receive Tenant Opportunity Program funding without first committing to a partnership arrangement with the housing authority. Although HUD rated applicants based on their partnership with the housing authority, grant awards were based on an overall score. As a result, this one rating element did not have to be met. The old program did not ensure the resident associations would partner with the housing authority to receive the assistance that they needed. A written partnership agreement with the housing authority is important to identify the specific duties and objectives to be accomplished under the grant by each party and to provide HUD assurance that the housing authority will furnish technical assistance to the resident association.

The Tenant Opportunity Program did not ensure that grants were awarded only to resident associations with community specific work plans. The program did require that the application contain a summary description, the amount of funding requested, and a schedule for completion of all activities. HUD rated the applicants on their goals and objectives, but partial credit would be awarded for general or unclear plans. Since HUD awarded grants based on applicants' overall ratings, resident associations were funded despite having only general or unclear plans.

The problems identified in the eight OIG audits of Tenant Opportunity Program grantees demonstrate that resident associations received grants despite having inadequate financial management systems, no partnership agreement in place with the housing authority, and general or unclear work plans. The fact that these resident associations were entrusted with HUD grants despite having these deficiencies eventually cost HUD $395,707.

Monitoring Of Grantees Did Not Assure Compliance

Title 24, Code of Federal Regulations, part 964, charges HUD with monitoring to ensure program requirements are followed and grantees are operating efficiently and effectively. The field offices have overall responsibility for monitoring the grantees' progress. This responsibility includes identifying appropriate training sources, providing technical assistance when needed, and authorizing grant fund draw downs based on line-items approved in the work plan and budget. The OIG audits concluded that due to insufficient training and monitoring, grantees did not maintain financial management and procurement systems, spent grant funds on ineligible and unsupported items, and did not make satisfactory progress towards the goals of their grant activities. All 44 grantees included in the OIG audits had weaknesses and problems with their programs.

To illustrate, in Atlanta and Washington D.C., HUD initially designed technical assistance organizations to assist residents with administering their grants. The resident organizations paid a monthly fee to the organization for assistance. When these organizations failed to provide grantees with adequate training, fulfill their role as service providers, and help grantees develop community specific work plans, HUD terminated them.

In both locations, HUD then encouraged the grantees and the applicable housing authority to form a partnership. In Washington, HUD requested the housing authority hire a coordinator to assist grantees. In Atlanta, HUD instructed grantees to partner with the housing authority. The Tenant Opportunity Program Memorandum of Understanding between the housing authority, HUD, and the resident councils said HUD was responsible for determining if grantees complied with all applicable HUD regulations and the Grant Agreement. The memorandum also said the housing authority would provide or coordinate ongoing technical assistance and training, and monitor the performance of a grantee's administration of its grant funds and periodically assess and evaluate the grantees' performance and progress pursuant to the work plans. However, neither HUD nor the housing authority complied with the requirements of the Memorandum.

For example, the Office of Public Housing officials in Atlanta said they had not performed any on-site monitoring of Tenant Opportunity Program grantees. They said the grantees agreed to come to their office for technical assistance. Due to reductions in staffing, the office did remote monitoring which included reviewing the grantees' draw downs and work plans. Public Housing officials said they held routine meetings with the housing authority and the technical assistance firm. However, remote monitoring is not an effective substitute for on-site monitoring where conditions are assessed in person and all records should be available for review. The Authority said technical assistance and monitoring were performed on an on-going basis and monthly reports were prepared. Although status reports were received, they did not address grantees accounting services, an important area that establishes a grantee's ability to manage resources.

The Washington, D.C. field office did not effectively monitor the requests for grant draw downs. As a result, 52 percent of the amount spent during the period that was audited was on ineligible or unsupported items. The HUD Line of Credit Control System (LOCCS) requests and supporting documents did not always provide sufficient detail of the expenses for which grantees were requesting reimbursement. However, HUD approved draw downs of funds even though the expenditure details were not available.

Resident Opportunities And Self Sufficiency Program Does Not Address All Problems

The Resident Opportunities and Self Sufficiency program improves many of the controls that existed in the Tenant Opportunity Program, but does not fully correct all of the systemic type problems identified in the various OIG audits. The new program has three categories of grants available to resident organizations: 1) Resident Management and Business Development, 2) Capacity Building and/or Conflict Resolution, and 3) Resident Service Delivery Models. The new program improves financial controls and partnerships with the housing authorities for some categories of grants. However, it does not ensure training in accounting and federal regulations or increased field office monitoring.

Two of the three grant categories, the Resident Management and Business Development and the Resident Service Delivery Models, stipulate a threshold requirement pertaining to financial controls. A threshold requirement is one that must be met for funding eligibility. The control requires that unless HUD or an Independent Public Accountant has determined that the applicant's financial management system and procurement procedures fully comply with federal regulations, the application must contain evidence that the applicant will use the services of a Contract Administrator in administering the grant. The control provides greater assurance that funded applicants will have an adequate financial management system. The Tenant Opportunity Program grants were rated based on their capability of handling financial resources, but the absence

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of adequate financial controls did not prevent a grant from being eligible for funding. Since the threshold requirement does not apply to all categories of grants funded under the new program, HUD lacks assurance that all grantees will have an adequate financial management system.

The Resident Management and Business Development category of the Resident Opportunity and Self Sufficiency grant specifies a threshold requirement for partnerships that must be met for funding eligibility. The requirement stipulates that the application must contain a signed Memorandum of Understanding between the resident association and the housing authority that describes the specific roles, responsibilities and activities to be undertaken between the two parties. The requirement provides a greater assurance that funded applicants will have adequate support and cooperation from the housing authority than under the Tenant Opportunity Program. Under the Tenant Opportunity Program, the absence of such an agreement did not prevent a grant from being eligible for funding. Because two categories of grants funded under the new program do not have this requirement, HUD lacks assurance that all grantees will have an adequate arrangement with applicable housing authorities.

The new program's training requirements are similar to those under the old program. Both require training on HUD regulations, financial management and capacity building. Both require(d) the grantee to follow Office of Management and Budget procurement requirements and ensure the training is(was) provided by a qualified trainer. The new program requires the HUD field offices to monitor this process to ensure compliance with program and Office of Management and Budget requirements, particularly the need for competitive bidding. Since the requirements under both programs are essentially the same, the same problems can be expected to recur unless HUD improves monitoring of the program.

The new program includes a requirement for risk management. Grantees and subgrantees are required to implement, administer and monitor programs to minimize the risk of fraud, waste, abuse, and liability for losses from adversarial legal actions. All applicants selected for a grant award must be willing to participate in an evaluation and assessment by HUD. In addition, all three grant categories have a threshold requirement for compliance with current programs which essentially means they must not be in default with respect to any previous HUD funded grant programs and not have any unresolved Office of Inspector General findings. Furthermore, the new program requires that grantees submit a budget with amounts identified by activity line item. This is a vast improvement over the Tenant Opportunity Program.

Although the Resident Opportunity and Self Sufficiency program is an improvement over the Tenant Opportunity Program, a key to its success will be effective real time monitoring of the grantees. Because of staff and budget restrictions, in the past, HUD has not demonstrated a commitment to effective monitoring.

Auditee Comments

Excerpts from HUD's comments on our draft finding follow. Appendix E, page 37, contains the complete text of the comments.

HUD took exception with our conducting an audit of a program before any grants had been awarded. They felt that this audit presupposes conditions which may not exist and did not involve the objective determination of actual results.

HUD asserted that the OIG had the opportunity to raise its concerns with the program during the Notice of Funding Availability clearance process, yet did not; therefore, corrective actions cannot be implemented until 2001.

HUD believed that the title of our assessment was misleading and requested that we change it.

HUD stated that our audit made statements about the Resident Opportunities and Self Sufficiency program based on audits of the Tenant Opportunity Program funded prior to 1996. They indicated that the scope of the Resident Opportunities and Self Sufficiency program is not limited to resident association grants, and in fact only a quarter of this program's activity is related to resident association grants. HUD described many improvements which had been made to the Tenant Opportunity Program subsequent to the OIG audits summarized in this report.

OIG Evaluation of Auditee Comments

We conducted our audit to assess the controls over the program as they exist now. In doing so, we identified control weaknesses which could allow mismanagement to occur in the future. We did not conduct this review to identify problems with grantee performance. We conduct audits not only to identify problems, but also to prevent them.

HUD apparently interpreted our lack of comments during the Notice of Funding Availability review process as tacit approval of the Resident Opportunities and Self Sufficiency program. It is true that OIG reviews HUD's directives, including Notices of Funding Availability, to determine their potential impact on a program's economy and efficiency without actually evaluating current operations. However, this limited review does not rise to the level or scope of an audit. An audit involves an in-depth, independent, and systematic examination and testing of evidence to assess performance, financial operations, internal controls, compliance issues, or computer based-system.

We received the clearance package on the fiscal year 1999 Resident Opportunities and Self Sufficiency Notice of Funding Availability on June 23, 1999 with a response deadline date of June 25, 1999. We received the clearance package on the fiscal year 2000 funding notice for HUD's Housing, Community Development and Empowerment Programs, including the Resident Opportunities and Self Sufficiency program, on December 8, 1999, with a response deadline of December 14, 1999. Within these limited time frames, we considered all available, relevant information on the program, and decided not to prepare any comments.

An OIG directive review does not rise to the level or scope of an audit. A limited OIG review of a procedural directive, such as a Notice of Funding Availability, does not guarantee the discovery of all program deficiencies and is not intended to do so. Such discoveries are generally made during the formal audit process. If specific program information comes to our attention during a directive review which is an indicator of possible problems or risks in implementing the proposed directive, we have an obligation to prepare written comments alerting the Department to our opinion and, in some cases, nonconcurring with the directive. The intent of our comments

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is to forge a dialogue between OIG and HUD program officials, or other reviewers, so that perceived problems may be discussed and resolved adequately and timely. Our directive reviews and written comments are not and were never intended to serve as a substitute for performing audits.

We have changed the title of our finding at HUD's request.

We understand that the Resident Opportunities and Self Sufficiency program encompasses other programs in addition to the former Tenant Opportunity Program. In addition, we commend HUD for making improvements to the Tenant Opportunity Program subsequent to the OIG audits summarized in this report. However, we still believe the weaknesses we describe in this finding exist in the Resident Opportunities and Self Sufficiency program and should be corrected.

Auditee Comments

HUD acknowledged that unlike the other funding categories in Resident Opportunities and Self Sufficiency program, Capacity Building and Conflict Resolution funding categories do not have threshold requirements for a financial management system and appropriate procurement procedures. For the FY 2001 grants, HUD will make this a threshold requirement for these funding categories.

In addition, an expanded provision for technical assistance is being instituted this year to improve HUD's ability to provide assistance to the grantees. The program is in the process of being developed and will permit a programmatic response to problem situations that arise which prevent grantees from making progress.

HUD is also in the process of developing four nationwide resident training conferences, to be held this summer and fall, on provisions for the Public Housing Reform Act. The Resident Opportunities and Self Sufficiency program, which implements section 538 of the Act, will be part of this training.

OIG Evaluation of Auditee Comments

HUD's planned action to make a threshold requirement for financial management systems and procurement procedures for the Capacity Building and Conflict Resolution grants should correct the control weakness identified in our finding.

We agree that HUD's planned technical assistance and resident training conferences will also be beneficial to increase resident association skills and program compliance.

Auditee Comments

HUD acknowledged that unlike the other funding categories in Resident Opportunities and Self Sufficiency program, Capacity Building and Conflict Resolution funding categories do not have a threshold requirement for a Memorandum of Understanding between the resident association and the housing authority. That is because site based resident associations are not eligible applicants for these two categories.

The eligible applicants for these two grant types are City-Wide Resident Organizations, Intermediary Resident Organizations and non-profits supported by residents. HUD believes it is inappropriate to require these applicants to have an agreement with the housing authority when their relationship in this funding category is directly with the resident organizations.

Beginning in FY 2001, if proposed grant activities are to be conducted on the housing authority premises, HUD will require a written agreement for space the housing authority is donating for training activities.

HUD reiterated it will provide resident training conferences.

OIG Evaluation of Auditee Comments

We agree with HUD's planned change to require these grantees to enter a written agreement for space the housing authority is donating for training activities. However, we believe a Memorandum of Understanding should be a threshold requirement for any activities conducted with the housing authority for all grant types.

We also agree that HUD's planned resident training conferences will be beneficial to increase resident association skills and program compliance.

Auditee Comments

HUD believes that the Resident Opportunities and Self Sufficiency program provides more detailed, community specific work plans than the Tenant Opportunity Program work plan requirements which we reviewed in previous OIG audits. Under the Resident Opportunities and Self Sufficiency program, detailed work plans are required by budget line items for each funding category. This provides a more structured approach for grantee performance than was previously required under the Tenant Opportunity Program.

These budget line items provide a flexible approach for changes to work plans since they represent the foundation for grant activities. Field Office staff and grantees can reach agreement on proposed changes during the course of the grant to keep activities targeted toward their projected goal.

As a procedure for the Resident Opportunities and Self Sufficiency program, draw downs require review and approval by Field Office staff before funds are released for disbursement. This means that an on-going process requires the review of the budget and work plan activities to support all disbursements.

HUD restated that it will provide technical assistance and training to residents on the Resident Opportunities and Self Sufficiency program. Any problems regarding compliance with approved work plans, budgets, and goals can be corrected through this Technical Assistance vehicle. The training conferences will be held this year and the importance of adhering to the community specific work plans, budget, time frames, and goals of the program will be emphasized in the training.

OIG Evaluation of Auditee Comments

We understand that under the Resident Opportunities and Self Sufficiency program detailed work plans are required by line item amounts for each budget category. We agree this provides a more structured approach for grantee performance measurement. This, coupled with the fact that Field Office staff will now be required to approve grant draw downs by reviewing the budget and work plan activities to support all disbursements, should address the concerns we included in our draft finding. Therefore, we have removed the recommendation addressing community specific work plans.

Auditee Comments

HUD states there are currently a number of policies and procedures in place covering the payment system, work plans, budgets, and semi annual reports for monitoring of program grantees by Field Staff. The Department, however, is amiable to evaluating, enhancing and updating monitoring responsibilities for Field Office staff.

For the Resident Opportunities and Self Sufficiency program, HUD has committed procurement resources to provide program assessments and technical assistance specifically for this program to both grantees and HUD Field Office staff. This will compliment Field Office monitoring efforts.

OIG Evaluation of Auditee Comments

If HUD evaluates and updates it monitoring responsibilities for Field Office Staff and assigns adequate resources to accomplish this monitoring, this will address our concerns.

Recommendations

We recommend that the Deputy Assistant Secretary for the Office of Public and Assisted Housing Delivery:

1A. Ensures the Resident Opportunities and Self Sufficiency program threshold requirement for the applicant's financial management system and procurement procedures be applied to all categories of Resident Opportunities and Self Sufficiency grants.

1B. Ensures the Resident Opportunities and Self Sufficiency program threshold requirement for a Memorandum of Understanding between the resident association and the housing authority be applied to all categories of Resident Opportunities and Self Sufficiency grants that would involve the housing authority.

1C. Develops policies and procedures that require on-site, real time monitoring and assigns adequate resources to accomplish this.

Management Controls

In planning and performing our audit, we considered the management controls of the Office of Public Housing to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Policies and procedures that the Office of Public Housing has implemented to reasonably ensure grant proceeds are appropriately administered by grant recipients.

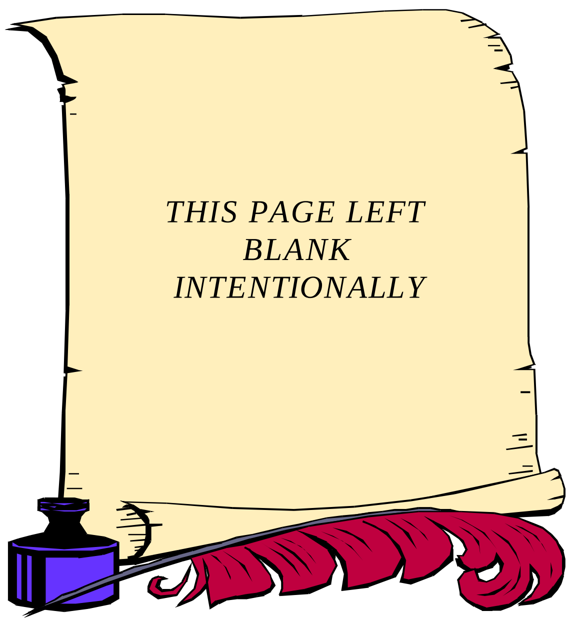
We assessed the relevant control identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

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

- The Resident Opportunities and Self Sufficiency program does not adequately address all weaknesses found in the Tenant Opportunity Program; policies and procedures are not adequate to ensure the program will meet its goals and objectives (see Finding).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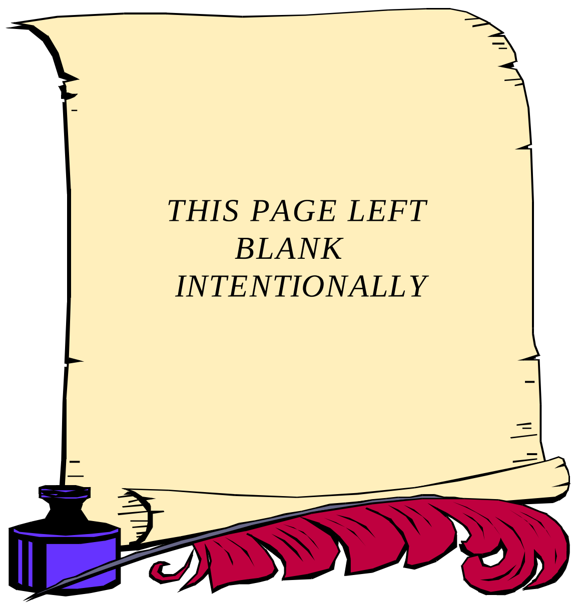
Follow Up On Prior Audits

This is the first Office of Inspector General audit report that summarized the results of past audits on the Tenant Opportunity Program to determine if the new Resident Opportunity and Self Sufficiency program adequately addresses past problems. We did not follow up on the status of corrective actions taken or initiated to address the individual recommendations in the reports on the Tenant Opportunity Program that we summarized.



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External Audit Reports

Report Number	Location	Issue Date	Period From	Audited To	Auditees
96-SF-209-1808	Tucson, AZ	9/20/96	11/1/94	7/24/96	PY Neighborhood Assoc, Inc.
97-AT-101-0002	Atlanta, GA	2/21/97	1/1/95	6/30/96	Barge Road
					Capitol Homes
					Cheshire Bridge Road
					John O. Chiles
					Cosby Spears
					East Lake Meadows High-Rise
					East Lake Meadows Low-Rise
					Georgia Avenue
					Gilbert Gardens
					Grady/Graves/Grady Annex
					Hightower Manor
					Hollywood Courts
					Jonesboro North (1)
					Jonesboro South (1)
					Kimberly Courts
					Leila Valley
					McDaniel Glenn (1)
					Marian Road
					MLK Memorial High-rise (1)
					Martin Street Plaza (1)
					Marietta Road
					Palmer House
					Peachtree Road
					Perry Homes
					Piedmont Road
					Roosevelt House
					Thomasville Heights
					U-Rescue Villa
					University/John Hope
					Westminister
97-AT-205-1806	Atlanta, GA	4/17/97	10/28/94	10/27/97	Martin Street Plaza (1)
97-FW-202-1808	Galveston, TX	9/29/97			Cedar Terrace
					Holland House
					Magnolia Homes
					Oleander Homes
98-AT-201-1001	Alma, GA	1/20/98	1/1/95	12/31/96	Alma Resident Council
99-AT-204-1805	Asheville, GA	4/14/99	10/1/95	11/98	Res. Council of Asheville HA, Inc.
99-AT-201-1810	Atlanta, GA	8/2/99	2/1/96	12/31/98	Jonesboro North (1)
					Jonesboro South (1)
					McDaniel Glenn (1)
					MLK Memorial High-rise (1)
00-AO-201-1001	Washington D.C.	3/30/00	1/98	9/99	James Apartments
					Kentucky Courts Senior
					Fort Lincoln
					Knox Hill Senior
					Horizon House Senior
					Hopkins Apartments
					Garfield Terrace

(1) Project was audited in two separate audits.

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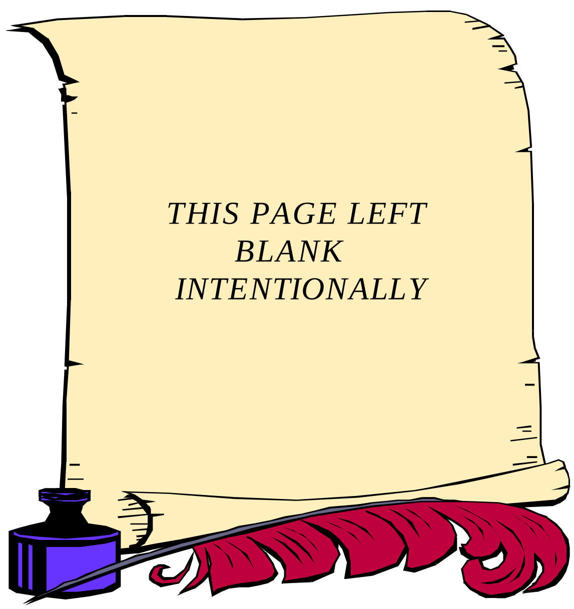
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Audit Reports Summarized

B-1: Report Number: 96-SF-209-1808, Location: Tucson, AZ, Date: 9/20/96

A limited review was conducted of the PY Neighborhood Association, Inc.'s implementation and administration of its Tenant Opportunity Program grant during the period November 1, 1994 through July 24, 1996. The objective of the review was to ascertain if the Association was conducting its program according to program requirements and if grant expenditures were eligible under HUD regulations.

The Audit concluded the Association failed to develop management and financial skills needed to administer its program. Specifically:

- A work plan setting out goals of the program and strategies to achieve the goals was not developed. There was no evidence to show program training requirements were achieved.
- Policies and procedures necessary to determine cost eligibility and properly account for grant expenditures were not established.
- Policies necessary for the proper administration of its program were not developed.

As a result, although in its second year of funding, the Association had made little progress in meeting the objectives of the Tenant Opportunity Program. Further, documentation was not available to fully support any of the $19,973 in grant expenditures.

The audit recommended that HUD:

- Require the Association to demonstrate that it has the financial and administrative capacity to effectively administer its grant program before it is allowed to draw down any more funds.
- Require the Association to submit documentation to support the $19,973 in undocumented expenditures and refund any amounts determined to be ineligible or reduce the grant by a like amount.
- Work with the Association to establish needed financial and management procedures, realistic goals and a strategy to meet the goals, including the provision of needed and/or required training of residents.

B-2: Report Number: 97-FW-202-1808, Location: Galveston, TX, Date: 9/29/97

In connection with an audit of the Housing Authority of the City of Galveston, Texas, a review was conducted of the Tenant Opportunity Program in response to concerns expressed by the Authority's Board of Commissioners. The objective of the review was to assess the propriety of grant expenditures and the appropriateness of the council's contract with the Authority's finance director.

The review concluded that the resident council did not keep appropriate records. In procurements, Authority personnel advertised for contracts, but did not retain documentation on the results of the solicitation, determination of reasonableness of price, and the basis for selection. The review did not find that expenditures were ineligible. The council maintained sufficient supporting documents to show eligibility of grant expenditures. Further, the review determined the contract with the Finance Director did not violate any HUD rule and the Finance Director performed the services set out in the contract.

The audit report did not contain any controlled recommendations.

B-3: Report Number: 98-AT-201-1001, Location: Alma, GA, Date: 1/20/98

A limited review was conducted of the Alma, Georgia Tenant Opportunity Program administered by the Alma Resident Council Inc. The audit covered the period January 1, 1995 through December 31, 1996. The objective of the review was to determine whether the Resident Council administered the Tenant Opportunity Program in an efficient and economical manner.

The review concluded that the Resident Council mismanaged its HUD program. The mismanagement adversely affected program operations and resulted in wasted funds. The Council ignored program budgets, and did not implement several major components of the Tenant Opportunity Program. The Council disbursed: $38,692 for unauthorized purposes; $21,434 for questionable consultant fees; and $4,857 for other unallowable and unsupported costs. The Council had not implemented several necessary budget activities, and had not established formal accounting records to track grant revenues and expenditures. As a result, the Tenant Opportunity Program failed to achieve its purpose.

The review recommended that HUD:

- Take actions to seek repayment for the ineligible and unsupported costs that cannot be supported or document why recovery is not possible.
- Require the Council to cancel a contract with a consultant on grounds of default and seek reimbursement for services that the consultant did not perform.
- Consult with the HUD Legal Division on the feasibility of filing a claim under the Atlanta Housing Authority's employee liability policy for disallowed costs.
- Require the Council to develop and submit a plan for correcting the reported violations and for spending the remaining grant funds.
- Require the Council to submit a periodic financial status report to HUD until reported violations are corrected.
- Restrict the Council's ability to draw program funds until it has demonstrated compliance with HUD's requirements.
- Require the Council to obtain a competent program manager who has the ability to properly administer the program.

B-4: Report Number: 97-AT-101-0002 Location: Atlanta, Georgia Date: 2/21/97

An audit was conducted of thirty-one Tenant Opportunity Program grantees at Atlanta Housing Authority developments during the period January 1, 1995 through June 30, 1996. One of these grantees, Herndon Homes, did not respond to OIG attempts to audit it. The objectives were to determine the financial status of each grantee, the extent of technical assistance provided to the grantees, the grantees' progress toward accomplishing the goals of the program, and HUD or the housing authority's planned actions to support the continued activities of the grants in light of discontinuation of the Technical Assistance Organization.

The Audit concluded these resident organizations lacked the capacity to continue their grants without substantial technical assistance. The grantees lacked control over grant funds, had inadequate books and records, and lacked basic knowledge of the program.

The conditions were attributed to the failure of the technical assistance organization concept in that it did not fulfill the role of a services coordinator and technical advisor. As a result, the grantees did not develop management capabilities and did not identify social support needs for the purpose of increasing resident management of public housing projects. The 31 grantees spent approximately $650,000, or 22 percent of the funds awarded by HUD. In addition, the senior high-rise grantees did not exhibit any desire to pursue resident management or related functions. HUD and the Atlanta Housing Authority initiated efforts to provide Tenant Opportunity Program grantees with technical assistance.

The audit recommended that HUD:

- Recover the $9,639 spent on ineligible activities or document why recovery is not possible. If funds are not recoverable, the grants should be reduced.
- Ensure that each grantee adopts an appropriate accounting system that complies with Office of Management and Budget Circular A-110.
- Suspend the grants of each grantee with unsupported costs until the grantees submit documentation to support the $66,973 in undocumented expenditures and refund any amounts determined to be ineligible.
- Ensure each grantee develops a community specific work plan that includes budgets, timeframes and performance standards.
- Require senior high-rise grantees identify eligible activities for their communities, or terminate the grant balances totaling $1,005,182 for those who do not.
- Terminate the Marian Road senior high-rise grant of $100,000.
- Suspend the Herndon Homes grant until their records can be reviewed by the field office and expenses of $5,707 can be verified.

B-5: Report Number: 97-AT-205-1806, Location: Atlanta, GA, Date: 5/17/97

A review was conducted of the Charis Community Housing, a non-profit organization that received HUD grants to oversee the conversion of Martin Street Plaza from public housing to homeownership units. Charis was responsible to assist and advise the residents, assist the Atlanta Housing Authority in monitoring the construction, and financially manage grants and donated funds to be used for project renovation, job training, and resident job and business development. Their responsibility included a Tenant Opportunity Program grant of $100,000. The review covered the period October 28, 1994 through October 27, 1997. The purpose of the review was to determine whether funds were properly drawn and expended as authorized.

The review concluded that Charis did not maintain control over its finances. It did not support expenditures or follow its cost allocation plan and made inaccurate accounting entries. The report confirmed that the deficiency of retaining funds in excess of immediate needs that was reported in a previous report, 97-AT-101-002, dated February 21, 1997, had not improved. The amount in the bank had increased by approximately $8,500 since the previous report. As a result, HUD lacked assurance as to the reasonableness and necessity of grant expenditures.

In regards to the Tenant Opportunity Program, the audit recommended that HUD:

- Seek support and full accounting for use of the HOPE I grant, donated goods and funds, the Tenant Opportunity grant, and the comprehensive grant; and prohibit Charis from participating in other HUD programs if it is unable to properly account for these expenditures.
- Require Charis to obtain an audit for 1996.

B-6: Report Number: 99-AT-201-1810, Location: Atlanta, Georgia Date: 4/14/99

A review was conducted of four Tenant Opportunity Program grantees: McDaniel Glenn, Martin Luther King Senior High-rise, Jonesboro North, and Jonesboro South Resident Associations during the period February 1, 1996 through December 31, 1998. These same grantees were reviewed in a prior audit of the Tenant Opportunity Program grantees of Atlanta Housing Authority Developments (Audit Report 97-AT-101-0002). The objective of the audit was to determine whether the four resident associations administered their programs and expended HUD funds in accordance with federal requirements.

The review determined that the grantees continue to lack the capacity to administer their grants as cited in the prior reviews. Specifically:

- The four grantees did not adequately administer their grants and account for grant funds in accordance with federal requirements.
- The grantees did not follow proper procurement procedures used in awarding contracts to consultants and trainers.
- Two of the grantees had made little progress towards accomplishing the tasks cited in their work plans.

As a result, the grantees incurred $37,945 of ineligible and unsupported costs and lacked the capacity to continue their grants.

The audit recommended that HUD:

- Terminate all four grantees.
- Recover the outstanding grant amounts.
- Monitor and provide adequate technical assistance and training to the remaining Tenant Opportunity Program grantees.

B-7: Report Number: 99-AT-204-1805, Location: Asheville, NC, Date: 5/14/99

Tenant Opportunity Program activities of the Residents' Council of the Asheville Housing Authority were reviewed in response to citizens' complaints. The complaints alleged that the Council was not conducting its activities according to requirements. The objective of the review was to determine whether the Council maintained proper control over its Tenant Opportunity Program funds, used the funds for eligible activities, and complied with applicable laws and regulations. The review generally covered the period October 1, 1995, through November 30, 1998.

The review concluded that expenditures were eligible and properly supported. However, the Council did not obtain an audit of the activities of its Tenant Opportunity Program grant. Therefore, HUD did not have assurance that the Council administered its grant according to program requirements. Additionally, the Council only required the signature of one officer on disbursement checks. Two signatures should have been required to provide a more effective internal control over disbursements.

The review recommended that HUD require:

- The Council to obtain an audit of its Tenant Opportunity Program grant funds and provide a copy of the report to HUD or return the $2,000 that was set aside for that purpose.
- For any future HUD funded activities, require the Council to follow its policy of having two signatures on checks.

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B-8: Report Number: 00-AO-201-1001, Location: Washington, D.C., Date: March 30, 2000

At the request of the District of Columbia Housing Authority, an audit was completed of seven Tenant Opportunity Program grantees. The review covered the period January 1, 1998, through September 30, 1999. The objective of the audit was to determine whether the grantees managed their Tenant Opportunity Program grant funds according to Federal requirements.

The Audit concluded that the seven grantees lacked the knowledge and technical skills to manage their grants. Specifically, the grantees:

- Did not have adequate controls over their grant funds;
- Did not establish financial management systems;
- Did not retain adequate accounting records;
- Did not follow proper procurement procedures; and
- Paid consultants for services not performed.

The conditions occurred because the HUD District of Columbia field office and the District of Columbia Housing Authority did not adequately monitor and train grantees. As a result, the seven grantees spent $144,038 for ineligible and unsupported expenses.

The audit recommended that HUD:

- Recover ineligible and unsupported costs unless documentation is obtained to explain unsupported costs;
- Provide grantees technical assistance on managing checkbooks, retaining source documents, and establishing procurement procedures;
- Require grantees to establish financial management systems to manage and account for Tenant Opportunity Program grant funds;
- Instruct grantees to monitor services provided by consultants and make payments only after services are provided;
- Periodically verify future grant draw down requests against the source documents; and
- Inform the Grants Management Center of the inability of these Tenant Opportunity Program grantees to manage grant programs.

Schedule of Deficiencies

Resident Council/Grantee	State	*Type of Deficiency (See Next Page for Description)* 1	2	3	4	5	6	7	8	9	10	11	12
Barge Road	GA	X	X			X	X		X	X			
Capitol Homes	GA	X		X		X		X	X	X			
Cheshire Bridge Road	GA				X	X	X		X	X			
John O. Chiles	GA	X				X		X	X	X			
Cosby Spears	GA			X	X	X	X	X	X	X			
East Lake Highrise	GA			X		X		X	X	X			
East Lake Meadows	GA		X			X	X		X				
Georgia Avenue Highrise	GA					X	X	X	X	X			
Gilbert Gardens	GA	X		X		X			X				
Grady Homes/Annex	GA				X	X	X	X	X	X			
Hightower Manor	GA	X							X	X			
Hollywood Courts	GA	X		X		X	X	X	X	X			
Jonesboro North (a)	GA	X	X	X	X	X	X		X	X	X		
Jonesboro South (a)	GA	X			X	X	X		X	X	X		X
Kimberly Courts	GA	X	X	X	X	X	X	X	X	X			
Leila Valley	GA					X		X	X	X			
McDaniel-Glenn (a)	GA	X	X			X	X	X	X	X	X		
Marian Road	GA								X				
MLK Memorial Highrise (a)	GA				X	X	X	X	X	X	X		X
Martin Street Plaza	GA	X	X				X	X		X			
Marietta Road	GA			X		X	X	X	X	X			
Palmer House	GA	X		X	X	X	X	X	X	X			
Peachtree Road	GA	X		X		X		X	X				
Perry Homes	GA					X	X		X	X			
Piedmont Road	GA	X			X								
Roosevelt House	GA				X	X			X	X			
Thomasville Heights	GA			X		X	X		X	X			
U-Rescue Villa	GA	X	X	X	X	X	X	X	X	X			
University/John Hope	GA	X		X	X	X	X	X	X	X			
Westminister	GA	X		X	X	X	X	X	X	X			
Alma Resident Council, Inc	GA	X					X	X	X		X		
Residents Council of Asheville	NC									X		X	X
Magnolia Homes	TX										X		
Cedar Terrace	TX										X		
Holland House	TX										X		
Oleander Homes	TX										X		
PY Neighborhood Assoc.	AZ	X					X		X	X			
James Apartments	DC	X			X		X			X	X		
Kentucky Courts Senior	DC	X					X			X	X		
Fort Lincoln	DC	X					X			X	X		
Knox Hill Senior	DC	X					X			X			
Horizon House Senior	DC	X					X			X	X		
Hopkins Apartments	DC	X	X	X	X	X	X			X			
Garfield Terrace	DC	X					X			X	X		
Totals		26	8	15	15	27	29	19	30	34	14	1	3

Description of Deficiency types

Controls over Grant Funds

1 - Ineligible/Questionable Expenditures
2 - Excessive Draws
3 - Negative Bank Balances
4 - Checks Written to Cash or Check Signer
5 - Bank Statements not Reconciled

Inadequate Accounting Records

6 - Missing/Incomplete Accounting Records and Supporting Documents
7 - Ledger Postings were Inaccurate/Not Current

Grantee Capacity

8 - Grantee Inactive/Lacked Performance of Grant Activities
9 - Lacked Knowledge of TOP requirements

Management Controls

10 - Did not Follow Proper Procurement Practices
11 - Did not Obtain Audit of Grant Funds
12 - Checks Only Required One Signature

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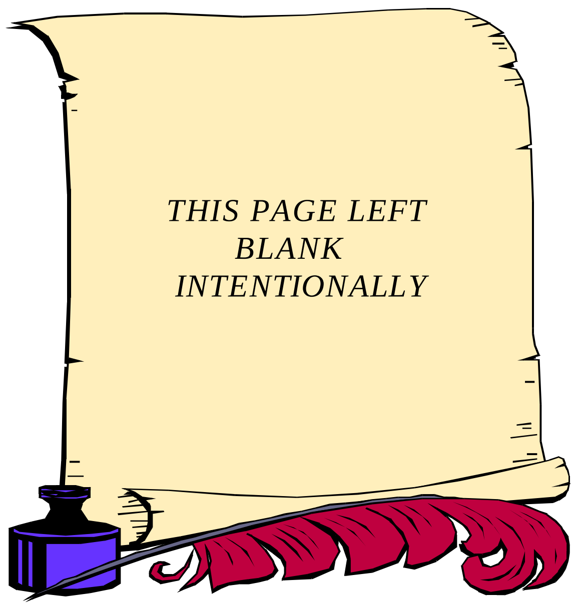
Ineligible and Unsupported Costs

Following are the Unsupported and Ineligible costs reported in the OIG audit reports issued between September 1996 and March 2000:

RESIDENT COUNCIL	***UNSUPPORTED***	***INELIGIBLE***
Barge Road	$402.96	$150.83
Capitol Homes		52.00
Cheshire Bridge Road	1,469.05	
John O. Chiles		1,658.11
Cosby Spears	191.85	
East Lake Meadows High-Rise		
East Lake Meadows Low-Rise		
Georgia Avenue	151.41	
Gilbert Gardens		62.83
Grady/Graves/Grady Annex	282.93	
Hightower Manor		77.98
Hollywood Courts	194.00	639.00
Jonesboro North (1)	45.00	724.00
Jonesboro South (1)	3.20	
Kimberly Courts	1,822.14	596.24
Leila Valley		
Marian Road		
Marietta Road	1,329.80	
Martin Street Plaza	50,156.60	806.40
McDaniel-Glenn (1)	2,868.00	
MLK Memorial (1)		
Palmer House	6,708.95	52.00
Peachtree Road		24.00
Perry Homes		
Piedmont Road	367.06	1,085.00
Roosevelt House	1.63	
Thomasville Heights		
U-Rescue Villas	1,225.27	55.00
University/John Hope	41,123.59	3,632.22
Westminister	8,785.00	24.00
Alma Resident Council	24,344.00	40,639.00
Asheville, NC		2,000.00
PY Neighborhood Association	19,973.00	
Kentucky Courts Senior	48,440.00	2,806.00
Garfield Terrace	19,801.00	5,957.00
James Apartments	6,061.00	6,787.00
Hopkins Apartments	16,192.00	3,500.00
Fort Lincoln	7,984.00	7,735.00
Horizon House Senior	6,851.00	4,427.00
Knox Hill Senior	3,405.00	4,092.00
(1) McDaniel-Glenn, MLK Senior High-		
Rise, Jonesboro North, & Jonesboro South		
from Report of 8/2/99	34,283.00	3,662.00
Subtotal	$304,462.44	$ 91,244.61
Total: Unsupported and Ineligible	* $395,707.05	

* 30 percent of the funds audited ($1,306,861 audited in the eight reports).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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Roger E. Niesen, District Inspector General for Audit, 7AGA

FROM: Gloria J. Cousar, Deputy Assistant Secretary, Office of Public and Assisted Housing Delivery, PE

SUBJECT: Management Response to Office of Inspector General Draft Audit Findings and Related Schedules with respect to the Assessment of the Resident Association Grants, dated February 28, 2000.

This management response addresses OIG recommendations for improving the requirements of the Resident Opportunity and Self Sufficiency (ROSS) program as published in the program NOFA. We question the validity of formal findings for a program where grants have not been awarded. Conducting an audit on the ROSS program before it is active, presupposes conditions which may not exist and does not involve the objective determination of actual results. Consequently, we believe an audit memorandum for program improvements would be a more appropriate action. To that extent, we are taking these as concerns under advisement for the ROSS program implementation in FY 2001 and beyond.

It should be noted that the Departmental clearance process provides internal organization segments, including the OIG, an opportunity for input on new program NOFAs. It is unclear to us why OIG’s ROSS program concerns were not surfaced during this process. Had OIG adopted such a position, PIH could have responded to any concerns prior to publication of the FY 2000 NOFA. Since the FY 2000 ROSS NOFA has already been published in the Department’s SuperNOFA, any corrective actions to the NOFA can not occur prior to FY 2001.

Your report states, “The Resident Opportunities and Self Sufficiency Program improves upon many of the controls of the Tenant Opportunity Program but does not adequately address all weaknesses”. The title of your assessment, “HUD Has No Assurance Resident Opportunities and Self Sufficiency Grants Will Be

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Effectively Managed", is misleading and we strongly urge you to change it. With the exception of the service coordinator renewal grants, no ROSS program grants have been awarded to date.

This OIG assessment makes statements about ROSS program outcomes based on audits of TOP programs funded prior to 1996. This is particularly disturbing since the scope of the ROSS program is not limited to resident association grants. Only a quarter of ROSS program activity is related to resident association grants. This report indirectly implies that ROSS is simply a revised version of TOP. This is far from the truth. Not only does ROSS incorporate revised improvements from the previous TOP Program, but it also encompasses the PIH Service Coordinator Program and what was previously the Economic Development and Supportive Services (EDSS) Program. Therefore, resident association grants are only a small part of ROSS.

With regard to prior TOP audits, in FY 1997 the Department made substantial changes to the TOP NOFAs and Application Kits which greatly improved program specifications. In addition, several corrective PIH Notices were issued by the Department as a result of previous OIG findings. The effect of these changes have not been reflected nor assessed within this OIG report.

In 1997 the Department, with contractor assistance, conducted a program evaluation of TOP followed by direct technical assistance and training to individual grantees. This resulted in risk reducing corrective actions, management improvements, and programmatic changes. Many of these changes were consistent with implementing recommendations proposed during 1995 and 1996 by the OIG[1]. Approximately 139 TOP grantees received on-site technical assistance and training to improve performance. This does not include training and technical assistance provided by the field office and headquarters staff and that grantees received at various training conferences and on-site visits over a period of time. Technical assistance is still being provided, through out-sourced procurement as well as other means to TOP grantees, and will continue throughout the grant term.

The FY 1997 NOFA incorporated program design changes including such threshold requirements as a partnership between the resident association (RA) and the housing authority (HA) documented by a signed Memorandum of Understanding; an agreement providing use of a community facility to anchor resident activities; evidence that the RA would use the services of a Contract Administrator in the absence of a determination by HUD

[1] The Tenant Opportunity Program Evaluation, U.S. Department of Housing and Urban Development, May 1997, pages. 8-9.

or an independent CPA that the RA's financial management system complied with 24 CFR 84; and a sound assessment of residents' needs and resources to meet the needs, among other requirements. In addition to modifying the application threshold requirements, the 1997 NOFA restructured selection factors designed to emphasize performance capability and made 64 TOP grantees that failed to comply with program requirements ineligible for 1997 TOP funding.

In addition, the Department has made significant strides at improving the specificity of TOP work plans through improvements in the requirements of NOFAs and technical assistance and training, as well as the issuance of several, PIH Notices. They are: PIH Notice 99-24, Travel Policy for Resident Management/Tenant Opportunities program Grantees, Notice 99-3, Budget Line Items for the Consolidated Economic Development and Supportive Services and Tenant Opportunities Program in the Line of Credit Control System/Voice Response System, and PIH Notice 96-29, Implementing Performance Standards Required by the Tenant Opportunities Program (TOP).

You report that although the ROSS program is an improvement over TOP, it does not adequately address all weaknesses. As stated earlier, we do not believe that your recommendations rise to the level of audit findings. However, we will respond to each of your concerns:

PIH RESPONSE TO RECOMMENDATIONS

Recommendation 1A. Ensure that the ROSS program threshold requirement for the applicant's financial management system and procurement procedures be applied to all categories of ROSS grants.

We acknowledge that unlike the other funding categories in ROSS, Capacity Building (CB) and Conflict Resolution (CR) funding categories do not have threshold requirements for a financial management system and appropriate procurement procedures. For the FY 2001 ROSS NOFA, we will make this a threshold requirement for these funding categories. However, please note that the requirements of OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Nonprofit Organizations applies to all ROSS grant recipients.

In addition, an expanded provision for technical assistance is being instituted to improve our ability to provide assistance to ROSS grantees. This is a ROSS Technical Assistance (ROSS-TA) Program that will be funded this fiscal year to support the ROSS program. It is in the process of being developed and will permit a programmatic response to problem situations that arise and prevent grantees from making progress.

We are also in the process of developing four nationwide resident training conferences, to be held this summer and fall, on provisions for the Public Housing Reform Act. The ROSS program, which implements section 538 of PHRA, will be part of this training.

Recommendation 1B. Ensure that the ROSS program threshold requirement for a MOU between the resident association and the housing authority is applied to all categories of ROSS grants.

We acknowledge that unlike the other funding categories in ROSS, Capacity Building and Conflict Resolution funding categories do not have a threshold requirement for a MOU between the resident association and the housing authority. That is because site based resident associations are not eligible applicants for these two categories.

The eligible applicants for the CB/CR are City-Wide Resident Organizations (CWROs), Intermediary Resident Organizations (IROs) and non profits supported by residents. With respect to the CB/CR grant category, the ROSS NOFA requires submission of a letter of support from the resident association to be served. We believe it is inappropriate to require CWROs, IROs and non profits to have an agreement with the housing authority when their relationship in this funding category is directly with the resident organizations.

If CB/CR proposed grant activities are to be conducted on the HA premises, a written agreement for space the housing authority is donating for training activities will be required. For FY 2001 this requirement will be part of the NOFA.

As stated earlier, we are in the process of developing four nationwide resident training conferences on provisions of the Public Housing Reform Act. The ROSS program, which implements section 538 of PHRA, will be part of this training.

Recommendation 1C. Require each resident council to develop a community specific work plan that includes budgets, timeframes, realistic goals and a strategy to meet these goals including the provision of needed or required training of residents.

The recommendation as stated is incorrect. The ROSS program requires a grantee specific work plan, budget, and time frames

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for each applicant. The FY 1999 ROSS NOFA states, all applicants must submit:

> "A three-year work plan for implementing grant activities which includes reasonably achievable, quantifiable goals, budget, timetable and strategies, including any innovative approaches. In addition to a narrative, please use the formats provided in the application kit to chart the following: (1) Activity plan summary; (2) Activity breakout; (3)Budget breakout; (4) Summary budget; (5) Program resources; and (6) Program staffing".

We believe that the ROSS NOFA and application requirements provide more detailed, community specific work plans than the TOP Work Plan requirements reviewed in previous OIG audits. Under ROSS, detailed work plans are required by budget line items for each funding category. This provides a more structured approach for grantee performance than was previously required under TOP.

These budget line items provide a flexible approach for changes to work plans since they represent the foundation for grant activities. Field Office staff and grantees can reach agreement on proposed changes during the course of the grant to keep activities targeted toward their projected goal.

As a procedure for the ROSS program, LOCCS draw downs require review and approval by Field Office staff before funds are released for disbursement. This means that an on-going process requires the review of the budget, and work plan activities to support all disbursements.

In addition, as an improvement to our ability to provide assistance to ROSS grantees, a ROSS-TA Program will be funded this fiscal year to support the ROSS program. It will permit a programmatic response to problem situations that arise which prevent grantees from making progress. Any problems regarding compliance to approved work plans, budgets, and goals can be addressed/corrected through this Technical Assistance vehicle.

We are in the process of developing four nationwide resident training conferences on provisions for the Public Housing Reform Act. The ROSS program, which implements section 538 of PHRA, will be part of this training. These training conferences will be held this year and the importance of adhering to the community specific work plans, budget, time frames, and goals of the program will be emphasized in the training.

Recommendation 1D. Develop policies and procedures that require on-site, real time monitoring and assign adequate resources to accomplish this task.

Currently, there are a number of policies and procedures in place covering LOCCS, work plans, budgets and semi annual reports for monitoring of program grantees by Field Staff. It should also be noted that existing policies now require all LOCCS/VRS funding disbursements to be pre-approved by a HUD official for program eligibility and compliance. The Department, however, is amiable to evaluating, enhancing and updating monitoring responsibilities for Field Office staff.

For the ROSS program we have committed procurement resources to provide program assessments and technical assistance specifically for the ROSS program to both grantees and HUD Field Office staff. This will compliment Field Office monitoring efforts.

We believe these responses adequately address the concerns raised in your recommendations. Should you have further questions or concerns, please contact Paula O. Blunt of my staff at (202)619-8201.

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