

U.S. Department of Housing and Urban Development

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*Audit Related Memorandum
No. 97-BO-105-0802*

November 25, 1996

MEMORANDUM FOR: Anthony F. Britto, Director, Office of Public Housing, 1APH

FROM: William E. Gelpke, Acting District Inspector General, Office of Audit, 1AGA

SUBJECT: Termination of HOPE 1 Planning Grant
McKnight Neighborhood Council
Springfield, Massachusetts

We performed a limited review of the McKnight Neighborhood Planning Grant relating to HUD's decision to terminate the Grant. This report contains a finding indicating the need for you to assure the eligibility and reasonableness of the final costs under the Grant and take appropriate action to recover any excess funds if paid to the Grantee.

BACKGROUND

On September 25, 1992, HUD notified McKnight Neighborhood Council (Grantee), a non-profit community organization, that they were selected to receive a HOPE 1 Planning Grant in the amount of \$155,253. The purpose of the grant was to plan for the conversion of Clarendon Court Apartments, a 16 unit Public Housing Project, to tenant homeownership. Federal funds would only be available for costs incurred for eligible activities after the effective date of the Grant Agreement; December 12, 1992.

McKnight Homeowners Association (Co-applicant) considered itself as the sub-grantee. HUD recognized only the Grantee and its Officers as the official representatives in dealing with the HOPE 1 Planning Grant because no properly executed grantee/sub-grantee contract was ever submitted to HUD.

The two organizations have been embroiled in a long dispute. In mid 1993, the dispute resulted into

a series of accusations and steps to sever ties between the two groups. The Grantee voted not to go forward with the Grant at their June 1993 Board Meeting and the Grantee's Officers wanted an accounting of the \$14,250 in Grant funds spent to date.

On April 1, 1994, the Boston Office of Public Housing notified the Grantee that HUD removed the Grantee from the LOCCS system and of their intention to terminate the Grant if the required reports were not submitted.

The Co-applicant wanted to take over the administration of the Grant. In 1993, several members of the Co-applicant began writing letters questioning the Grantee's operation and asking to take over the administration of the Grant. Letters were continuously sent to the Boston Office of Public Housing, the HUD Secretary, HUD Washington Officials, Members of Congress and local officials. The Office of Public Housing tried to resolve the problems.

On June 4, 1994, Washington Program (HQ) staff recommended that the Co-applicant initiate mediation or arbitration through the American Arbitration Association to sort out their differences. HQ staff also stated that if things do not work out, HUD still retains the authority to declared default on the Grant and recapture the money. The Co-applicant requested mediation with the Boston Office. Since the decision was not in favor of the Co-applicant, the Co-applicant then requested arbitration.

On July 19, 1994, the Grantees notified HUD that, ". . . *At our Board Meeting in June of 1993, the Board voted not go forward with the Grant. There has been no draw downs in the last year to support that action . . .*" The Grantee's President also stated that, ". . . *Since that time the 'sub-grantee' has requested arbitration. The McKnight Council sees no need for arbitration having voted to close out the HOPE 1 grant more than a year ago.*"

HUD allowed the arbitration to proceed. The arbitrator's decision, issued on March 13, 1995, included provisions that the Grantee submit a payment request for the Co-applicant's claim of \$48,244.79 and petition HUD to transfer the Grant to the Co-applicant. On May 15, 1995, the Grantee submitted a letter to HUD ". . . *requesting the sum of \$48,244.79 to be paid to the . . .*" Co-applicant and requesting HUD transfer the Grant to the Co-applicant in order to the bring the Grantee in compliance with the arbitrator's decision. The Grantee stated that they would forward all documents provided by the Co-applicant but they are unable to authorize payment for any work they did not specifically direct. Despite several requests from HUD to the Grantee and Co-applicant, sufficient documentation has not been presented to HUD to justify the \$48,244.79 claimed by the Co-applicant and to transfer the Grant to the Co-applicant.

The Co-applicant filed a contempt complaint in state court against the Grantee claiming that the Grantee failed to comply with the terms of the arbitration award. The case was heard in Springfield Superior Court on March 27, 1996. The Boston Office of Public Housing decided to allow the legal expenses incurred for the defence of this suit and other close out costs as eligible work items. However, the Boston Office of Public Housing has not required the Grantee to submit a revised work plan and budget for HUD's approval.

HUD contacted the Springfield Housing Authority (PHA) to determine if they were interested in administering the Grant. The PHA conducted a survey of the families in the 16 units. On May 5 1995, the PHA's Executive Director advised HUD the tenants were not contacted by anyone from the McKnight Neighborhood Association to discuss homeownership. The Executive Director said that the tenants were not interested in resident Home ownership and that only 2 of the 16 families expressed an interest in affordable private home ownership in a neighborhood of their choice. We confirmed this information during an interview of the Executive Director on November 7, 1996.

HUD instructed the Grantee to obtain an audit of the all costs and other claims against the Grants and requested specific documentation on the Co-applicant claim of \$48,244.79 in order to transfer the Grant to the Co-applicant or terminate the Grant. Again, sufficient documentation was not provided to HUD by the Grantee to support the claim of the \$48,244.79 or approve the transfer of the Grant. An audit report was received covering the period ended December 11, 1995. HUD is concerned about the quality and the cost of the audit and requested additional information from the Grantee.

On October 30, 1996, HUD notified the Grantee that a preliminary decision was made to declare the Grantee in default of the Grant Agreement and terminate the Grant. Close out documents and financial reports were requested. Once the required information is provided, HUD will determine the allowable costs to be paid from grant funds.

SCOPE

We performed a limited review of HUD's monitoring of the HOPE 1 Planning Grant awarded to the McKnight Neighborhood Council. The objective of the review was to assist HUD in closing out the Grant by identifying costs claimed that need to be evaluated for eligibility and reasonableness.

We reviewed the Grant application and contract, analyzed Grantee's requests for release of Grant funds, and reviewed other documentation in HUD's files. We interviewed the Massachusetts Boston Public Housing Staff involved in monitoring this Grant. We interviewed Mr. Steely, Vice President of the Co-applicant on November 7, 1996 to obtain documentation to support the comments in his correspondence submitted to HUD. We also interviewed the Executive Director of the Springfield Housing Authority to obtain his views on the HOPE 1 Grant and the operations of McKnight Neighborhood Council and McKnight Homeowners Association.

We discussed the results of our review with the Director, Office of Public Housing in the Massachusetts State Office.

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Within 60 days, please provide us with a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary.

Also, please furnish us a copies of any correspondence or directives issued because of the review. Should you or your staff have any questions, please contact William Gelpke, Assistant District Inspector General for Audit at (617) 565-5259.

CONCLUSION

Finding 1 - Need to Assure Grant Costs Are Eligible and Reasonable

As of May 30, 1996, HUD released \$88,552.57 in Grant funds base on the Grantee's certification that the funds were necessary for operating the program. No review was performed, by HUD, for reasonableness and eligibility of any costs claimed by the Grantee prior to the release of the grant funds. The HUD staff stated that the allowable costs are determined at project closed out.

The funds claimed by the Grantee and released by HUD are as follows:

Guarantee Claim	Date	Amount
1	January 22, 1993	\$14,250.00
2	February 1, 1996	21,477.57
3	February 16, 1996	6,300.00
4	March 28, 1996	4,325.00
5	April 19,1996	4,700.00
6	May 6, 1996	30,000.00
7	May 20, 1996	7,500.00
Total		\$88,552.57

The Grantee requested one drawdown between January 22, 1993 and January 31, 1996 in the amount of \$14,250. In June 1993, the Grantee decided to return the Grant to HUD and not perform any additional work on the Grant.

The Grantee and the Co-applicant were embroiled in a long-simmering dispute. The dispute included a disagreement as to the roll each group would have in administering the HOPE 1 Planning Grant. As a result, there was confusion on who was responsible and authorized to administer the Grant. HUD made a determination that only the Grantee's designated officials would be recognized as HUD's proper point of contact.

Between February and May 1996, HUD released \$74,302.57 based on six requisitions submitted by

the Grantee. According to the requisitions, the \$74,302.57 was claimed for costs of arbitration, defense of the law suit brought by McKnight Homeowners Association, and auditing fees. These items are not listed as work tasks in the HUD-approved Grant work plan.

The Grantee provided brief descriptions of the costs claimed with the 7 requisitions. Our analysis shows that the Grantee claimed costs may not be reasonable or allowable under the requirements of the Grant as follows:

1. Legal costs of \$36,847 to defend against claims made by the Co-applicant. The litigation was not in the HUD approved work plan. We requested HUD's legal Counsel to review the eligibility of this type of charges under the Grant.
2. Fees of \$2,000 paid to Richard Gray, Grantee's President and \$1,000 paid to Ronald Bradley Grantee's treasurer. We have concerns on whether Board Members and Officers should be paid from the Grant.
3. Auditing and close out fees of \$21,500 to review \$107,029.85 of costs incurred through December 11, 1995. The costs of the audit appear to be excessive and we have concerns regarding the auditor's qualifications and whether the audit meets Government Auditing Standards.
4. Other fees for the audit include; Attorney Viet \$562.50, Baybank \$150 and Bank of Boston \$678. Additional information is needed to determine if these are reasonable and necessary costs.
5. Payment of \$200 to Attorney Errico for grant work with the Co-applicant. Evidence is required to show that the work was necessary for the program.
6. Initial request of \$14,250 indicated some costs were incurred before December 12, 1992. Costs incurred before the date authorized in the Grant Agreement are generally ineligible.

In accordance with the Grant Agreement, HUD must review all the cost claimed by the Grantee and determine the final amount allowable to be paid from Grant funds. HUD needs to instruct the Grantee to submit all the reports and documents necessary to determine the allowable cost to close out the Grant.

Recommendations

We are recommending that your office:

- 1A. Exercise HUD's authority under the Grant contract and not release any additional Grant funds on this

Grant until full accountability of costs claimed by the Grantee are provided and reviewed.

- 1B. Review the documentation provided by the Grantee and determine the reasonableness and eligibility of the costs charged to the Grant and use the HUD legal staff to evaluate the reasonableness of legal charges made to the Grant.
- 1C. If there were any over payments, take appropriate action to recover the Grant funds.

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