



The Commonwealth of Massachusetts
Office of the Inspector General

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August 3, 2011

Adam Baacke, Program Director
City of Lowell
Department of Planning and Development
50 Arcand Drive
Lowell, MA 01852-1025

Dear Mr. Baacke:

The Massachusetts Office of the Inspector General (OIG) reviewed a \$979,048 Homeless Prevention and Rapid Re-housing Program (HPRP) grant awarded by the U.S. Department of Housing and Urban Development (HUD) under the American Recovery and Reinvestment Act of 2009 (ARRA) to the City of Lowell's (Lowell) Division of Planning and Development (DPD).

The OIG is reviewing ARRA-related grants to identify potential vulnerabilities to fraud, waste, and abuse and other risks that could negatively affect the accountability, transparency, and anti-fraud mandates contained in the statutory language and interpretive guidance of ARRA. Readers should not construe this report as an investigation of the program or a comprehensive programmatic review. The OIG intends this review to assist the City of Lowell to identify and address risks. In total, the OIG questioned \$31,916 or 3.5% of Lowell's HPRP grant expenditures.

The HPRP program provides temporary financial assistance and housing relocation and stabilization services for individuals and families who are homeless or at risk for homelessness. HPRP targets two populations facing housing instability:

1. At Risk - Individuals and families currently in housing, but are at risk of becoming homeless.
2. Homeless - Individuals and families who are already homeless as defined by the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11302).

In Massachusetts, grantees received a total of \$44,558,792 in HPRP funds of which HUD distributed \$26,115,048 directly to municipalities. The OIG reviewed a sample of municipalities that received grants directly from HUD (Appendix B). This sample accounted for 56% of the grant funds that HUD provided directly to municipalities and 75% of the total HPRP funds received by Massachusetts.

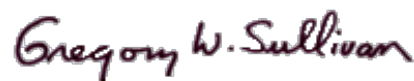
The OIG focused its review on verifying internal controls and compliance with program and procurement practices. Although Lowell's program appears to be well-managed, the OIG identified the following issues:

- Lowell did not share the \$48,902 administrative expense allowance with sub-grantees as required under HUD rules.
- Based on "best practices" identified by HUD, grantees should consider establishing guidelines that require sub-grantees to negotiate with property owners for reductions in rental arrearages owed by program clients. Lowell did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants, resulting in the program possibly paying \$7,443 more than necessary in rental arrearage payments to property owners.
- Lowell did not comply with HUD guidelines requiring the use of a Request for Proposals (RFP) process.

The OIG has also issued an advisory of potential program risks identified after a review of a sample of HPRP grantees in Massachusetts (Appendix A). The OIG issued the advisory to help agencies mitigate risk. Lowell should review the advisory for applicability to its grant program.

We appreciate your assistance and cooperation in this review.

Sincerely,

A handwritten signature in dark ink that reads "Gregory W. Sullivan". The signature is written in a cursive, slightly slanted style.

Gregory W. Sullivan
Inspector General

cc: Honorable, James L. Milinazzo, Mayor
Allison Lamey, Director of Community Development

Attachments

Review of the City of Lowell's Recovery Act Funded Homeless Prevention and Rapid Re-Housing Program Grant

Findings

- 1. Lowell did not share the \$48,952 administrative expense allowance with sub-grantees as required under HUD rules.**

HUD HPRP program rules state "Grantees shall share a reasonable and appropriate amount of their administrative funds with sub-grantees." HUD rules also specify, "Grantees are required to share administrative funds with their sub-grantees." The U.S. Government Accountability Office (GAO) clarified HUD's rules in a report dated May 2010:

When a state or local government receives a grant to fund projects operated by nonprofit organizations, the administrative funds provided as part of the grant must be passed on to the nonprofit in proportion to the administrative burden borne. HUD considers sharing at least 50% of the administrative allowance as meeting this requirement.

Administrative expenses allow grantees and sub-grantees to recoup their fixed and variable expenses related to conducting the grant program administrative functions. Lowell officials told the OIG they were not aware of the HUD requirement to share the administrative allowance with sub-grantees.

Recommendation: Lowell should reallocate 50% of the administrative cost allowance to sub-grantees (\$24,473) to comply with HUD rules.

- 2. Based on "best practices" identified by HUD, grantees should consider establishing guidelines that require sub-grantees to negotiate with property owners for reductions in rental arrearages owed by program clients. Lowell did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants, resulting in the program possibly paying \$7,443 more than necessary in rental arrearage payments to property owners.**

Pursuant to the authority given to HUD under Title XII of the American Recovery and Reinvestment Act of 2009 (ARRA), the HUD Secretary has issued a series of guidelines to HPRP grantees including the identification of "best practices." HUD suggests that grantees "avoid excessive funding to individual households", provide assistance to the greatest number of recipients, consider "capping" the amounts of rental assistance each household may receive, and remain flexible and creative in achieving program goals. HUD offers examples of this creativity, including a "best practice" from Virginia where program clients are helped "to negotiate with landlords to reduce or absolve rental arrears and fees." The OIG review also identified

a few program sub-grantees across the commonwealth that, although not required to, have attempted to negotiate payment reductions. These sub-grantees have claimed some success in lowering program costs.

To assist individuals and families that are at-risk for homelessness, HPRP guidelines allow agencies to pay rent arrearages to stop eviction proceedings. The OIG found that sub-grantees frequently paid 100% of a tenant's rental arrearage balance. Only a small number of sub-grantees across the state have considered asking property owners to negotiate or "settle" the arrearage.

Some property owners may be unwilling to accept lower rental payments. However, a property owner involved in the HPRP program stands to avoid costly legal fees associated with tenant eviction and the potential for up to 18 months of "guaranteed" rent payments for the tenant through HPRP. This provides program sub-grantees with some advantage to negotiate for a reduction in rental arrearages. Property owners face a choice, accept a small reduction in the rental arrearage balance or run the risk of receiving nothing owed to them if they successfully evict a tenant for non-payment of rent.

HPRP permits grantees to relocate tenants if the tenant cannot sustain current rental rates. This ability to relocate applicants can also be an advantage in negotiating reductions in rent arrearages. Negotiations to reduce the arrearage balance, however slight, can provide a substantial savings to the HPRP program. Some grantees informed the OIG that their use of rental arrearage negotiations has been successful and that property owners had been receptive to negotiation rent reductions.¹

The OIG conducted its own analysis to identify the potential savings obtained through negotiation. As of December 22, 2010, Lowell sub-grantees paid \$35,432 in rental arrearage assistance to 28 households (an average of \$1,265/household). At the current rate of disbursement, Lowell sub-grantees will pay \$74,430 to assist 59 households in rental arrearage subsidies.

Based on these averages, had Lowell sub-grantees negotiated a 10% reduction in arrearage payments, Lowell could have saved \$7,443² that it could have used to pay the rental arrearages for an additional six households. (Appendix C)

Recommendation: HPRP funding is a finite resource. Reducing payments for rental arrearages allows grantees to service a greater number of individuals and families at risk of becoming homeless. The OIG recommends grantees establish written guidelines requiring negotiations for arrearages.

¹ Grantees did not document the actual savings realized by negotiating a reduction in the arrearage balance.

² Savings calculated as follows: $(\$74,430 \times .1) = \$7,443 / \$1,265 = 6$

3. Lowell did not comply with HUD guidelines requiring the use of a Request for Proposals (RFP) process.

HUD guidelines require grantees to inform HUD what method they plan to use to select sub-grantees. All grantees reviewed by the OIG selected “Competitive Process” as the method they used to procure sub-grantee services.

Moreover, grantees must follow 24 CFR §85.36³, which states, “All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36...unless procurement by noncompetitive proposals is infeasible (i.e. sole source, emergency procurement, etc.). Grantees in Massachusetts chose to use a RFP process to meet the competitive procurement requirement.

HUD guidelines require RFPs to include certain provisions. The OIG review found that many of the RFPs did not contain all required provisions. The Lowell RFP deficiencies include:

- The RFP did not list, in detail, the types of services Lowell expects sub-grantees to provide under each HPRP category. HUD recommends the description include an estimate of the average cost to provide each service and explanation of rationale of targeted households. (i.e. 30 households will receive short-term financial assistance averaging \$500/month.)
- The RFP did not include a detailed description of HPRP as suggested by HUD’s Sample Locality RFP Toolkit.
- The RFP did not require applicants to describe how their services fit the homeless needs in Lowell.
- The budget section did not define the amount and type of eligible overhead and operating costs permitted by Lowell.
- The RFP did not require applicants to list new and current positions required to implement the HPRP program. In addition, the RFP did not specify the minimum credentials and qualifications needed by sub-grantee staff.
- The RFP did not specify how Lowell would measure the performance of sub-grantees and HPRP program objectives.

³ Federal procurement policies and requirements for non-profit subrecipients are contained in 24 CFR §84 and for states and local governments in 24 CFR §85.

- The RFP did not include a standard budget template. Lowell personnel told the OIG that while a budget template is normally included as part of the RFP, they were not sure what type of budget information they needed at the time the RFP was issued.

Recommendation: Unless specifically exempted by HUD, grantees are required to follow HUD guidelines and 24 CFR §85.36 to procure services.

4. Reporting fraud, waste, or abuse:

Recipients of ARRA funding are required to report suspected fraud, waste, or abuse to appropriate oversight agencies. The OIG has learned from its review of various ARRA grant programs that some grantees/sub-grantees may have encountered possible fraud by individual recipients of or applicants for grant benefits. For example, grantees have found that applicants may have submitted false or misleading income information in order to qualify under program eligibility requirements. The OIG informed grantees of their responsibility to refer these cases of suspected fraud to appropriate authorities. The OIG found that some grantees remained unaware of this requirement and believed that a denial of the benefit application would be sufficient. Denial of the benefits alone is not sufficient, grantees must take additional measures to report this suspected fraud.

According to federal regulations, you must "timely notify" the relevant Federal Office of Inspector General (OIG) [each major federal agency has an Inspector General] whenever there is "credible evidence" that a violation of criminal law or the False Claims Act has occurred. You must disclose this evidence when you believe that fraud, bribery, gratuity, or conflict of interest violations have occurred in the award, performance, or closeout of a contract, subcontract, grant, or agreement."

Recommendation: Grantees must report suspected fraud, waste, or abuse to appropriate oversight agencies.

Conclusion

With the exception of compliance with procurement procedures outlined in 24 CFR §85.36 and the sharing of the administrative expense allowance, the OIG believes Lowell has adequate internal controls in place to monitor HPRP sub-grantees. Although Lowell could have saved \$7,443 by requiring sub-grantees to negotiate a reduction in rental arrearage payments, this would have been a small percentage of the overall arrearage payments. Lowell was also the only grantee to suspend funding to sub-grantees that they found to be non-compliant during their on-site inspections, a sound grant management practice.

August 2011
City of Lowell HPRP Grant

The OIG hopes this review assists your program in identifying the risks of the HPRP grant program and protecting the integrity of ARRA spending.

Appendix A: OIG HPRP Advisory

Please see: *Advisory to Grantees and Sub-Grantees of the Recovery Act Funded Homeless Prevention and Rapid Re-Housing Program (HPRP)* attached as separate document.

Appendix B: Lowell HPRP Sub-Grantees

Grantee/Sub Grantee	Award Amt
City of Lowell (Administrative Expense)	\$48,952
AIDS Action Committee	30,000
Cambodian Mutual Assistance Association of Greater Lowell	75,000
Merrimack Valley Catholic Charities	36,096
Coalition for a Better Acre (Home Preservation Center)	100,000
Community Teamwork, Inc.	390,000
Community Teamwork, Inc. (Data Management Services)	100,000
Eliot Community Human Services Inc.	55,000
House of Hope Inc.	144,000
Grant Total	979,048

Appendix C: Lowell Potential Saving by Reducing Rental Arrearage Payments

Lowell HPRP Rental Arrearage Savings						
Estimated Total Arrearage Payments	Estimated # of Lowell Households to Receive Arrearage Assistance	OIG Calculated Average Rental Arrearage Payment	Percent of Potential Rental Arrearage Savings	Estimated Savings Per Household	Estimated Potential Savings	Additional Households
\$74,430	59	\$1,265	2%	\$25	\$1,489	1
74,430	59	1,265	5%	63	3,722	3
74,430	59	1,265	10%	126	7,443	6
74,430	59	1,265	15%	189	11,165	9
74,430	59	1,265	20%	252	14,886	12