The Commonwealth of Massachusetts
Office of the Inspector General

GREGORY W. SULLIVAN
INSPECTOR GENERAL

JOHN W. McCORMACK
STATE OFFICE BUILDING
ONE ASHBURTON PLACE
ROOM 1311
BOSTON, MA 02108
TEL: (617) 727-9140
FAX: (617) 723-2334

August 3, 2011

Gerry McCafferty, Director of Housing
City of Springfield
Springfield Housing Department
1600 E. Columbus Ave
Springfield, MA 01103-1614

Dear Ms. McCafferty:

The Massachusetts Office of the Inspector General (OIG) reviewed an $1,700,802 Homeless Prevention and Rapid Re-housing Program grant (HPRP) 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 Springfield's Housing Department (Springfield).

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 Springfield to identify and address risks.

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. 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 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:

- <u>At Risk</u> - Individuals and families currently in housing, but are at risk of becoming homeless.

- Homeless - Individuals and families who are already homeless as defined by the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11302).

The OIG focused its review on verifying Springfield's internal controls and compliance with program and procurement policies. The OIG also reviewed Springfield's management of its sub-grantees (See Appendix B) as Springfield used sub-grantees to provide client services under the HPRP grant. As a result of the OIG review, the OIG questioned the use of $ $92,391 or 5.4% of Springfield's HPRP grant (Appendix F). The OIG identified the following issues:

- Two sub-grantees billed Springfield in error resulting in a total overpayment of $41,283.

- A lack of uniform guidelines allowed sub-grantees to charge a wide range of indirect cost rates under the grant, resulting in the program spending more than $26,879 for "expenses" rather than on direct services.

- 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. Springfield did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants resulting in the program possibly paying $24,275 more than necessary to property owners.

- Springfield did not monitor sub-grantees in a timely manner as required by federal regulation 24 CFR §85.36 Section B and HUD guidelines.

- In violation of HUD guidelines, a sub-grantee billed Springfield for mileage and administrative costs on a percentage allocation basis, rather than actual costs.

We appreciate your assistance and cooperation in this review.

Sincerely,

Gregory W. Sullivan

Gregory W. Sullivan
Inspector General

Attachments

cc: Honorable Domenic J. Sarno, Mayor
Jim Reis, Associate Executive Director/Programs, HAP Housing
Laura Schiffer, Financial Analyst, HUD Regional Office
Kristen Ekmalian, Assistant Regional Inspector General for Audit, HUD

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

Findings

1. Sub-grantees overbilled Springfield for $41,283.

HAP Housing, Inc. (HAP) overbilled Springfield by $34,238, while Catholic Charities overbilled Springfield by $7,000, for a total of $41,283. This overbilling occurred because of the way that sub-grantees charge for expenses and overhead related to the work performed under the grant.

In HAP's case, it applied an 8.5% fee called "Financial Assistance, Administration" to the direct financial assistance provided to program clients "to cover the costs associated with check production [for rental payments] and the required inspections [of client dwelling units]." The OIG questioned HAP's use of this fee, since it appeared that HAP had already been reimbursed for these expenses through other program budget lines.[1]

To review this potential overpayment, the OIG contracted with the certified public accounting firm Melanson Heath & Company (Melanson)[2] to review the actual expenses HAP included in its 8.5% "financial assistance" fee. Initially, Melanson could not obtain specific information from HAP regarding what HAP had included in the 8.5% fee. HAP eventually sent Melanson the following written response to the inquiry:

> The basis for our proposed, authorized, and actual charge of 8.5% of financial assistance as the fair and reasonable cost associated with the required steps to properly carry out the various tasks of providing financial assistance to our clients. We based our proposed charge on our historical experience managing rental assistance here at HAP as evidenced by our audited financial statements.

Based on this response, Melanson determined that HAP had applied a historical 8.5% indirect cost rate as the fee rather than basing the fee on actual projected or incurred expenses. Melanson also found that this fee

---

[1] HAP planned to disburse $ $555,347 in direct financial assistance. 8.5% of this amount equals $ $47,205.

[2] Melanson is a well-respected regional firm with vast experience in the review of municipal and not-for-profit finances as well as expertise in federal grant requirements and federal accounting and auditing standards.

did include expenses that HAP had already billed to Springfield under different budgeted line items. Melanson netted out the duplicate expense items from the 8.5% fee and found that the fee, when based on actual expenses, was 2.69%, a difference of 68%. Using the 2.69% rate, the OIG determined that HAP overbilled Springfield by $34,238. (See Appendix C) Melanson concluded the following about HAP's initial rate (See Appendix G for additional excerpts from the Melanson report):

> Salaries included certain costs, which were administrative in nature such as the Accounting Clerk, Accounting Manager, Accounting Specialist, and Administrative Assistant. Those costs should not be included as Direct Financial Assistance costs. In addition, certain costs were included, which are duplicative of the salaries charged under Housing Relocation and Stabilization Services, such as Associate Executive Director of Rental Assistance, FSS Specialists, Housing Counselors, Program Associates, and Program Specialists. The salaries for Housing Relocation and Stabilization Services as submitted in the budget and separately billed include Case Managers, Senior Case Managers, Director, and Associate Executive Director.

In the other case, Catholic Charities overbilled by $7,000 because it charged the grant for a "Financial Specialist" staff position as a "program" expense. HUD guidelines differentiate between program expenses – that involve client services – and administrative expenses – indirect costs or costs that support the provision of direct client services. For example, a social worker position might be considered a program expense, while a bookkeeper position might be considered an administrative expense. Catholic Charities informed the OIG that the "financial specialist" position was essentially a bookkeeping position. As a result, HUD guidelines require the cost of this position be allocated as an administrative expense (that HUD caps at 5% of the grant total). Catholic Charities billed the position as a program expense. The OIG discussed this with Springfield staff who concurred with the OIG's finding. Springfield informed Catholic Charities by letter of this apparent misallocation and requested that Catholic Charities "adjust the next invoice to Springfield for any amounts already paid toward the $7,000."

<u>Recommendation</u>: Springfield should require all sub-grantees to provide detailed explanations for all direct and indirect cost rates or fees, and Springfield should review these rates for reasonableness before approving budgets under sub-grantee contracts/agreements. Springfield should also review the expenses charged under these rates subsequent to the provision of services by sub-grantees. For this case, Springfield should require HAP to reallocate or return the $34,238 in excess fees.

2. A lack of uniform guidelines allowed sub-grantees to charge a wide range of indirect cost rates under the grant, resulting in the program spending more than $26,879 for "expenses" rather than on direct services.

HPRP grant guidelines allow grantees and sub-grantees to charge for a wide range of indirect costs (also known as overhead and operating costs). OMB Circular A-122 defines "Indirect Expenses" as follows:

> Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Typical examples of indirect cost for many non-profit organizations may include depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.... Indirect costs are classified within two broad categories: "Facilities and "Administration."

Under the HPRP grant, HUD has only imposed a 5% cap on a subset of indirect costs classified as administrative costs. OMB defines these costs as "The salaries and expenses of executive officers, personnel administration, and accounting..." HUD caps indirect costs on many of its grant programs.

The OIG found that in addition to the HUD-allowed administrative cost rate of 5%, HAP also charged Springfield a 10.8% cost rate for overhead and other indirect costs[3]. Of note, HAP charged an overhead rate, but Catholic Charities did not. When asked to explain the disparity, Springfield staff told the OIG simply that Catholic Charities "never asked" for a rate.

The OIG believes that HAP's 10.8% overhead rate may be excessive. Although other sub-grantees across the state charge overhead rates, the HAP rate is the second highest charged by any Massachusetts sub-grantee reviewed by the OIG. Additionally, this rate is 2.3% higher than the 8.5%[4] rate HAP charged to the Department of Housing and Community Development (DHCD) *to provide the same services under another HPRP grant* to the same client based in Springfield. The OIG has determined that if Springfield had used HUD's 5% administrative cost cap to limit all indirect costs, Springfield could have saved

[3] The 5% cap only applies to administrative costs. Grantees and Sub-grantees are permitted to bill all remaining eligible indirect costs without restriction.

[4] This 8.5% rate should not be confused with the 8.5% rate referenced in finding no.1.

approximately 26,879. Alternatively, if Springfield had used the DHCD 8.5% rate to "cap" sub-grantee indirect costs; it could have saved approximately $24,254 (See Appendix D).

Without guidelines and with little program coordination between grantees, sub-grantees can charge a wide array of cost rates for the provision of what is essentially the same service. The OIG observed that some sub-grantees are more aggressive in seeking HPRP reimbursement of their indirect costs. As a result, Springfield is paying a wide range of costs for the same service. Awarding sub-grants to entities whose overhead and operations are more costly than other entities may not be in the best interests of the program. The OIG understands that not all sub-grantees have the same operational costs. However, the grantee must determine what is reasonable for the provision of services. The grantee does not have an obligation to award a contract to a service provider that is say 10% higher in cost than another provider is simply because that service provider has a higher cost structure. Under most other types of procurement, whether for goods or services, the most expensive options are usually not considered.

Recommendation: Springfield should have written policies to address what sub-grantees may charge for indirect costs. Grantees should also ensure the reasonableness or consistency of rates charged by the various sub-grantees. Ill-defined and inconsistent rate setting creates risk for waste and abuse in program expenditures.

3. **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. Springfield did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants, resulting in the program possibly paying $24,275 more than necessary 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 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 have been receptive to negotiation. Unfortunately, these grantees had not documented the actual savings realized from these negotiations.

The OIG conducted its own analysis to identify the potential savings achievable through negotiation. As of December 2010, Springfield sub-grantees paid $153,964 in rental arrearage assistance to 91 households ($1,692/household). The OIG estimates that the total rental arrearage assistance paid by Springfield sub-grantees (upon completion of the HPRP grant program) will be $242,728[5]. Based on an average arrearage payment of $1,692 per household, had Springfield sub-grantees negotiated a 10% reduction in arrearage payments, Springfield could have saved $24,275 that to use to pay the rental arrearages for an additional 14 households (See Appendix E).

5 Total rental arrearage assistance of $242,728 assumes sub-grantees will spend the same percentage (rate spent as of December 2010) towards rental arrearages thorough the entire HPRP grant program.

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.

4. Springfield did not monitor sub-grantees in a timely manner as required by federal regulation 24 CFR §85.36 Section B and HUD guidelines.

As of December 31, 2010, Springfield had disbursed $884,314 or 52% of the $1,700,802 in HPRP funds it had allocated for financial assistance. However, Springfield did not begin to conduct onsite inspections of sub-grantees until shortly before reaching this milestone. Monitoring should have started sooner. Federal regulation 24 CFR §85.36 Section B specifies that:

> Grantees and sub grantees will maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

The HUD *Eligibility Determination and Documentation Guidance* dated March 2010 states:

> Grantees and sub-grantees are responsible for verifying and documenting the eligibility of all HPRP applicants prior to providing HPRP assistance. They are also responsible for maintaining this documentation in the HPRP participant case file once approved for assistance. Grantees with insufficient case file documentation may be found out of compliance with HPRP program regulations during a HUD monitoring.

HUD guidelines continue: “grantees are responsible for monitoring all HPRP activities, including activities that are carried out by a sub-grantee, to ensure that the program requirements... are met.” HUD suggests the goal of “periodic monitoring” is to catch errors in a timely manner, allow sub-grantees to correct internal procedures, and make adjustments in funding allocation to benefit the maximum number of eligible grant recipients. Massachusetts’ DHCD considers “periodic monitoring” to be quarterly on-site inspections. To assist grantees with their monitoring process, HUD created (an undated) *Sub-grantee Monitoring Toolkit.*

Recommendation: Sound business practice, meaningful contract management, ARRA guidance, HUD guidance and grant terms require that grantees conduct adequate oversight over sub-grantees. The OIG recommends that Springfield perform regular on-site monitoring of sub-grantees using HUD recommended monitoring tools. The City should enforce grant and contract terms, and suspend funding to any sub-grantee found to be non-compliant with HPRP regulations or contract requirements. The City should continue to withhold HPRP funds until sub-grantees correct all compliance violations and demonstrate their ability to address the underlying causes of their non-compliance. This oversight is also important because HUD may hold grantees financially accountable for sub-grantee violations.

5. In violation of HUD guidelines, a sub-grantee billed Springfield for mileage and administrative costs on a percentage allocation basis rather than for actual costs.

HUD guidelines require that grantees and sub-grantees bill eligible costs on an "actual basis." HAP billed Springfield for mileage and administrative costs on a percentage basis. For example:

- HAP staff told the OIG that, "Actual mileage is tracked on a *Travel Expense Form* and is then allocated to the programs based on an employee's FTE [Full Time Equivalent] breakdown."

- HAP billed Springfield 2.5% each month for "Administrative Costs" without supporting documentation for actual expenditures.

As a result, HAP violated HUD guidelines by improperly using a percentage allocation method rather than billing for actual incurred costs.

<u>Recommendation</u>: Although the dollar amounts associated with these violations are not "material" (not having a significant program/financial impact pursuant to auditing standards), Springfield should ensure that HAP is complying with applicable guidelines and accounting standards.

Conclusion

The OIG believes that Springfield's oversight of sub-grantee expenditures needs improvement. For example, Springfield did not ask HAP to provide supporting details for indirect costs charged to the program. Consequently, HAP overcharged Springfield for indirect costs and Springfield lacked the information to identify these overcharges. HAP also charged Springfield the second highest indirect cost rate of any agency reviewed by the OIG (10.8% vs. a statewide median rate of 3.9%). As a result, the OIG questions the use of $92,391 or 5.4% of the Springfield HPRP grant (Appendix F). The OIG identified the following issues:

- Two sub-grantees billed Springfield in error resulting in a total overpayment of $41,283.

- A lack of uniform guidelines allowed sub-grantees to charge a wide range of indirect cost rates under the grant, resulting in the program spending more than $26,879 for "expenses" rather than on direct services.

- Springfield did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants, resulting in the program possibly paying $24,275 more than necessary to property owners.

- Springfield did not monitor sub-grantees in a timely manner as required by federal regulation 24 CFR §85.36 Section B and HUD guidelines.

- In violation of HUD guidelines, a sub-grantee billed Springfield for mileage and administrative costs on a percentage allocation basis, rather than actual costs.

The OIG hopes the findings assists your program in identifying HPRP grant program risks 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: Springfield HPRP Sub-Grantees

Sub-Grantee	Award Amt
HAP Housing, Inc., (HAP)	$1,055,783
Foundation of the Roman Diocese of Springfield MA (Catholic Charities)	568,499
Springfield (Administrative Expenses Only)	76,520
Grant Totals	**1,700,802**

Appendix C: HAP Over Billing of Indirect Costs

HAP Over Billing of Indirect Costs			
Description	**Overhead Expense Per HAP**	**Overhead Expense Per Melanson**	**Variance**
Direct financial assistance disbursed	$555,347	$555,347	
Indirect Costs (Percentage)	8.50%	2.69%	
Indirect Costs (Dollars)	47,205	14,939	$32,266
Adjustments: Melanson			1,973
HAP Overbilling of Overhead Costs (Total Grant)			**$34,238**

Appendix D: Potential Savings by Limiting HAP Overhead and Operating Costs to the HUD 5% Cap

Potential Savings By Limiting Overhead and Operating Costs to the HUD 5% Cap				
Sub-Grantee	**Grant Amount**	**Overhead and Operating Costs**	**Melanson Adjustment**	**Allowable Indirect Costs**
Catholic Charities	$568,499	$0	$0	$0
HAP Housing	$1,055,783	$113,996	$34,327	79,669
Overhead based on HUD 5% Cap				(52,789)
Net Potential Savings				**26,879**

HAP Overhead Rates: Springfield vs. DHCD			
Springfield HPRP Grant	**Springfield Grant Amount**	**Indirect Cost Rate**	**Allowable Indirect Costs**
Springfield Rate	$1,055,783	10.80%	$113,996
DHCD Rate	1,055,783	8.50%	89,742
Net Potential Savings			**24,254**

Appendix E: Potential Rental Arrearage Payment Savings

Springfield HPRP Rental Arrearage Savings						
Estimated Total Arrearage Payments	Estimated # of Springfield Households to Receive Arrearage Assistance	OIG Calculated Average Springfield Rental Arreage Payment	Percent of Springfield Rental Arrearage Savings	Estimated Savings Per Household	Estimated Dollar Savings (Springfield)	Additional Households
$242,728	143	$1,697	2%	$34	$4,855	3
$242,748	143	$1,698	5%	$85	$12,137	7
$242,748	143	$1,698	**10%**	$170	**$24,275**	**14**
$242,748	143	$1,698	15%	$255	$36,412	21
$242,748	143	$1,698	20%	$340	$48,550	29

1 Savings per household is determined by multiplying the “Percent of rental arrearage savings” by the “Estimated total arrearage payments.”

2 Estimated arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”

3 Arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”

Appendix F: Questionable Expenses from Findings

Springfield - Questionable Use of Funds			
Category	**Finding**	**Amount**	**Percentage of Grant**
Over Billing	HAP Overbilling of Indirect Costs	$ 34,237	2.0%
Over Billing	Catholic Charities	$ 7,000	0.4%
Indirect Costs	Indirect Costs Paid in Excess of HUD 5% Cap	$ 26,879	1.6%
Rental Arrearage	Potential Savings by Negotiating Reduction in Arrrearage Balance	$ 24,275	1.4%
Summary		**$ 92,391**	**5.4%**
DND Grant		$ 1,700,802	

Appendix G: Independent Accountant's Report On Applying Agreed-Upon Procedures (Excerpts)

We have performed the procedures detailed below, which were agreed to by the Office of the Inspector General, solely to assist the Inspector General's Office in reviewing the Homeless Prevention and Rapid Re-Housing (HPRP) Grant Program. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report identified above. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose. Our procedures included the following:

We reviewed various grant documents, including, but not limited to federal grant publications from OMB, grant awards HUD publications regarding the HPRP program, as well as conducted site visits at sub-grantee facilities, reviewed case files, and interviewed various employees of the sub-grantees to determine compliance with the HPRP grant for the following issues:

- We reviewed the allocated "overhead and operating" expense reported by HAP.
- We reviewed the classification of "Financial Assistance Administration" charged by HAP.
- We reviewed the "Mileage" expenses charged by HAP.
- We reviewed why HAP bills the City of Springfield and the Massachusetts Department of Housing and Community Development differently for overhead and operating costs.
- We conducted sample reviews of Case files administered by HAP.
- We reviewed documentation supporting HAP's overhead and operating costs. We were not engaged to, and did not; conduct an audit, the objective of which would be to express an opinion on the specified elements, accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, additional matters might have come to our attention that would have been reported.

This report relates only to the accounts and items specified above, and do not extend to any financial statements of the City of City of Springfield, Massachusetts taken as a whole. This report is intended solely for the information and use of management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

Overhead and Operating Costs

According to the publication, Department of Housing and Urban Development, Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of2009, "Administrative costs do not include the costs of issuing financial assistance, providing housing relocation and stabilization services, or carrying out eligible data collection and evaluation activities, as specified above, such as grantee or sub-grantee staff salaries, costs of conducting housing inspections, and other operating costs. These costs should be included under one of the other eligible activity categories."

HAP billed the program for Direct Financial Assistance including an 8.5% fee on Direct Financial Assistance to cover overhead and operating costs.

HAP also billed for Housing Relocation and Stabilization Services. The costs billed included Salary, Fringe, Consultants & Contracts, Occupancy, Computer Operations, Communications, Office Supplies and Mileage.

Finally, HAP also billed 2.5% Administrative costs on all above listed costs including the 8.5% fee on Direct Financial Assistance. See Appendix I for a summary of all costs charged to the program.

We obtained additional information on the 8.5% fee applied to the Direct Financial Assistance costs to verify that the costs were direct costs of providing the Financial Assistance including Housing Inspections and costs of issuing the checks as defined above.

In an email from HAP, an explanation was provided for the basis of the 8.5% fee; "At the time HAP proposed its services, it used the average percentage of rental assistance program expense to total financial assistance disbursed that it had experienced over the prior two years".

HAP also provided audited financial statements for a two-year period which, when blended, resulted in an 8.5% rate for the ratio of rental assistance costs to total financial assistance. We asked for a breakdown of salaries included in the rental assistance costs to understand specifically what costs were included in the 8.5% ratio.

We found that the salaries included certain costs, which were administrative in nature such as the Accounting Clerk, Accounting Manager, Accounting Specialist, and Administrative Assistant. Those costs should not be included as Direct Financial Assistance costs. In addition, certain costs were included, which are duplicative of the salaries charged under Housing Relocation and Stabilization Services such as Associate Executive Director of Rental Assistance, FSS Specialists, Housing Counselors, Program Associates and Program Specialists. The salaries for Housing Relocation and Stabilization Services as submitted in the budget and separately billed include Case Managers, Senior Case Managers, Director, and Associate Executive Director.

There are costs, which we believe are eligible Direct Financial Assistance costs including related housing Inspection costs. In Appendix II, we have recalculated the eligible costs to be 2.69% rather than 8.5% amounting to an overcharge of $34,183.

Other operating costs were charged in every month based on actual costs for that month multiplied by a percentage allocable to the HPRP program. We noted that the percentage changed every month. In addition, it was noted that there were some direct office supply bills charged, while a percentage of office supplies were also charged every month. The amount was not material.

Mileage was charged to the program on a percentage basis rather than on a direct cost for actual program related mileage. The amount of mileage charged was $389.

Administrative Costs

According to the Publication, Department of Housing and Urban Development, Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, "Administrative Costs may be used for accounting for the use of grant funds; preparing reports for submission to HUD; obtaining program audits; similar costs related to administering the grant after the award; and grantee or sub-grantee staff salaries associated with these administrative costs. Administrative costs also include training for staff who will administer the program or case managers who will serve the program participants as long as this training is directly related to learning about HPRP."

The publication also states that no more than 5% will be charged to the program and that the Grantees and Sub-grantees shall share the administrative fee.

JF&CS billed actual costs on a monthly basis, which are attributable to administrative costs. These costs included legal fees, provided to JF&CS, not to participants, training, administrative charges, and audit charges. We have prepared a schedule of charges applicable to the indirect costs. The City of Newton did not retain a portion of the administrative fees. Accordingly, the administrative fees charged by JF&CS and their sub-grantees are eligible up to 5%.

Based on our schedule included as Appendix IV, JF&CS and their sub-grantees have not exceeded their 5% administrative costs. As noted in the section on overhead and operating costs, JF&CS's approved indirect cost rate is primarily an administrative cost recovery. As such, JF&CS can charge indirect costs as administration to get the total administrative costs up to the 5% maximum.

Case Management Files

Eligibility Requirements

We obtained and reviewed notices from HUD regarding the HPRP grant, the A-133 compliance supplement, and various other grant documents to determine recipient eligibility and documentation requirements for the grant.

We determined the following requirements under this grant:

1. The household must receive at least an initial consultation and eligibility assessment with a case manager who can determine eligibility and the appropriate type of assistance needed;

2. The household's total income must be at or below 50 percent of Area Median Income;

3. The Household must be either homeless (to receive rapid re-housing assistance) or at risk of losing its housing (to receive homeless prevention assistance) and must meet the following circumstances:

a. No appropriate subsequent housing options have been identified;

b. The household lacks the financial resources to obtain immediate housing or remain in its existing housing; and

c. The household lacks support networks needed to obtain immediate housing or remain in its existing housing.

The criteria listed above are the minimum criteria set forth by HUD to determine eligibility for HPRP. Grantees and sub-grantees are responsible for verifying and documenting the eligibility of all HPRP applicants prior to providing HPRP assistance. They are also responsible for maintaining this documentation in the HPRP participant case file once approved for assistance.

Additional Grant Requirements

Once a program participant IS determined to be eligible, the grant requires the following, in part:

1. HUD requires grantees or sub-grantees to evaluate and certify the eligibility of HPRP program participants at entrance into the program and at least once every three months for households receiving medium rental assistance or other HPRP services lasting longer than three months;

2. A Staff certification of eligibility for HPRP assistance form must be maintained in the case file;

3. Income eligibility determination must be documented in the case file upon a program participants entry into the program, and every three months thereafter;

4. Upon entering the program, all program participants must undergo a housing status eligibility determination, and every three months thereafter.

5. Rental assistance paid cannot exceed the actual rent cost, which must comply with HUD's standard of "rent reasonableness." According to HUD, rent reasonableness means that the total rent charged for a unit must be reasonable in relation to the rents being charged during the same time period for comparable units in the private unassisted market and must not be in excess of rents being charged by the owner during the same time period for comparable non-luxury unassisted units.

6. Rental assistance in the form of security deposits is allowable under the grant. However, when the grantee or the sub-grantee recovers security deposit monies that originally came from the grant, the result is the generation of program income. HPRP generated income received by the grantee is subject to Federal regulations governing program income.

Eligibility testing

We reviewed 20 participant case files from HAP. HAP case files were all maintained and housed at HAP.

We noted that out of the 20 files tested, 11 files did not contain documentation of determination of rent reasonableness. Upon discussion of our finding with HAP, they were able to provide rent reasonableness documentation for one of the case files. However, HAP stated that the other 10 case files were related to eviction prevention services, and as such, the rent reasonableness requirement did not apply. While the actual rental assistance provided was consistent and reasonable with the other case files tested, we determined that the rent reasonableness requirement applies to all program participants receiving assistance.

Security deposits are an allowable form of financial assistance under the grant. However, if the grantee or sub-grantee recovers security deposit monies that originally came from the HPRP grant, the result is the generation of program income. HPRP generated program income received by the grantee is subject to Federal regulations governing program income. The grantee is responsible for tracking the receipt, use, and disposition of all such income. However, HUD does not impose any requirements on program income received after the end of the award period, and the grantee is free to use that income in any way it chooses.

We noted that HAP did not have a policy regarding security deposits, nor did we note an agreement between HAP and the property owners, or the program participant, regarding potential repayment of security deposit when a security deposit was included in the financial assistance received.

We noted that of the 20 files tested, 11 participants received financial aid in the form of rental arrears. Of the 11, we noted that two of the files indicated that the arrears were negotiated to a lower amount than what was actually owed. HAP stated that while the grant did not require negotiations of rental arrears, their policy is to always attempt negotiation with the property owner. However, they do not require case managers to document the negotiation process in the files.

Melanson Appendix I: Analysis of Revenue and Expenditures

City of Springfield		
Homelessness Prevention and Rapid Rehousing Program		
Monthly Analysis of Revenues and Expenditures		
	Budget	Billed To Date (91.1%)
Direct Financial Assistance Disbursed	$ 555,347	$ 505,900
Financial Assistance/Inspection Fee (8.5%)	$ 47,205	$ 39,368
Total Financial Assistance	$ 602,552	$ 545,268
Salary	$ 271,457	$ 149,137
Fringe	$ 75,765	$ 41,453
Consultants & Contracts	$ 11,580	$ 11,004
Occupancy	$ 25,246	$ 14,891
Computer Operations	$ 21,532	$ 10,885
Communications	$ 2,281	$ 1,625
Office Supplies	$ 11,141	$ 7,844
Mileage	$ 6,591	$ 389
Total Stabilization Services	$ 425,593	$ 237,229
Total Expenditures	$1,028,145	$ 782,497
Administration (2.5%)	$ 27,638	$ 20,729
Administration (Melanson Adjustment)	$1,055,783	$ 803,226

Melanson Appendix II: HAP Indirect Cost Recalculation

HAP, Inc.			
HPRP Grant			
Indirect Cost Recalculation			
	FY2008	FY2009	
Total Program Expense	$ 2,557,769	$ 2,806,847	
Total Grants and assistance dusbursed	$ 30,916,660	$ 31,671,140	
% Calculated	8.27%	8.86%	
Average of 2 years	8.57%		
Amount used in grant	8.50%		
Per MHCo Recalculation			
	FY2008	FY2009	
Total Program Expense (not directly billed)	$ 830,553	$ 855,470	
Total Grants and assistance disbursed	$ 30,916,660	$ 31,671,140	
% Calculated	2.69%	2.70%	
Average of 2 years	2.69%		
FY08 assumes a 3 % growth from FY08 to FY09			
MHCo Recalculation of Overhead costs			
	Per HAP	Recalculated	Variance
Direct financial assistance disbursed	$ 554,426	$ 554,426	
	X 8.5%	X 2.69%	
	$ 47,126	$ 14,914	$ 32,212
Less administartion over billed based on above indirect recalcualation			$ 805
Less admin overbilled on 12/31/09 bill (Billed at 4.02%)			$ 1,166
			$ 34,183