



The Commonwealth of Massachusetts

Office of the Inspector General

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August 3, 2011

Honorable Joseph C. O'Brien, Mayor
City of Worcester
17 Oread Place
Worcester MA 01610-2436

Dear Mayor O'Brien:

The Massachusetts Office of the Inspector General (OIG) reviewed an \$1,904,831 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 Worcester's Department of Supportive Housing (Worcester).

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 Worcester to identify and address risks.

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 (Appendix B) 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.

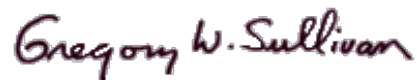
The OIG focused its review on verifying internal controls and compliance with program and procurement practices. Although Worcester's program appears to be well managed, the OIG identified the following issues:

- Worcester did not monitor sub-grantees in a timely manner as required by federal regulation 24 CFR §85.36 Section B and HUD guidelines.
- Worcester did not enforce sub-grantee contract provisions regarding a gradual reduction in rental assistance for recipients.
- 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. Worcester did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants resulting in the program possibly paying \$2,234 more than necessary in rental arrearage payments to property owners.
- Worcester did not fully comply with HUD guidelines requiring 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 (See Appendix A). The OIG issued the advisory to help agencies mitigate risk. The City should review the advisory for applicability to its grant program.

We appreciate your assistance and cooperation in this review.

Sincerely,



Gregory W. Sullivan
Inspector General

Attachments

cc: Michael V. O'Brien, City Manager, Worcester
Dori Vecchio, Finance Manager, Worcester
Tom Gregory, Assistant to the Town Manager, Shrewsbury

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

Findings

- 1. Worcester 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, Worcester had disbursed \$884,314 of the \$1,904,831 in HPRP funds it had allocated for financial assistance. Worcester did not begin to conduct onsite inspections of sub-grantees until 46% of these funds had been disbursed. 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.

In addition, 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. The Massachusetts Department of Housing and Community Development¹ (DHCD) considers "periodic monitoring" to be quarterly on-site inspections. To

¹ Worcester received two HPRP grants, one directly from HUD and a second from DHCD.

assist grantees with the monitoring process, HUD created a *Sub-grantee Monitoring Toolkit*.

Recommendation: Sound business practice, meaningful contract management, ARRA guidance, HUD guidance and grant terms require that grantees conduct adequate oversight of sub-grantees. The OIG recommends that Worcester perform regular on-site monitoring of sub-grantees using HUD recommended monitoring tools. Worcester should enforce grant and contract terms, and suspend funding to any sub-grantee found to be non-compliant with HPRP regulations or contract requirements. Worcester 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.

2. Worcester did not enforce sub-grantee contract provisions regarding a gradual reduction in rental assistance for recipients.

Worcester's contract with sub-grantees includes a provision regarding the gradual reduction of rental assistance for recipients. The purpose of the provision is to assist recipients in achieving sustainability in their rental situation, which is a grant requirement. However, Worcester does not enforce the contract provision.

According to the *HUD Performance Measurement Guide*, HUD expects grantees to "Set performance targets against which program performance can be assessed on a regular basis." HUD lists reducing benefits paid to recipients over time as an effective means to provide HPRP assistance to the greatest number of households in need. Worcester officials acknowledged they have not required sub-grantees to decrease benefits over time as required by contract.

Recommendation: Worcester officials should work with their sub-grantees to ensure compliance with contract provisions.

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. Worcester did not require sub-grantees to negotiate a reduction in rental arrearages owed by tenants resulting in the program possibly paying \$2,234 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 negotiating rent reductions.

The OIG conducted its own analysis to identify the potential savings achievable through negotiation. As of December 31, 2010, Worcester sub-grantees paid \$10,371 in rental arrearage assistance to 12 households (an average of \$864/household). At the current rate of disbursement, Worcester sub-grantees will pay \$22,336 to assist 26 households in rental arrearage subsidies. Based on these averages, had Worcester sub-grantees negotiated a 10% reduction in arrearage payments, Worcester could have saved \$2,234²

² Savings calculated as follows: $(\$22,339 * .1) = \$2,443 / \$1,265 = 6$

that it could have used to pay the rental arrearages for an additional three households.

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. Worcester did not fully comply with HUD guidelines requiring use of an 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. Below is a list of requirements commonly omitted from grantee RFP’s:

- The Worcester RFP did not specify what standards a proposer must meet to achieve a rating of “highly advantageous,” “advantageous,” “not advantageous,” or “unacceptable.”
- 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 include a standard budget template.

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.

Recommendation: Unless specifically exempt by the HUD, grantees are required to follow HUD guidelines and 24 CFR §85.36 to procure services using federal grant funds.

Conclusion

With the exception of on-site inspections of sub-grantees and minor procurement procedure issues, the OIG believes that Worcester has adequate internal controls in place to monitor HPRP sub-grantees. Furthermore, according to Worcester officials, by leveraging the HPRP program, Worcester closed its last homeless shelter through re-housing.

The OIG hopes this review assists your program in identifying the risks of the HPRP grant program and protecting the integrity of ARRA spending. Please do not hesitate to contact the OIG if you have any questions, concerns, or require assistance regarding these or any other issues.

August 2011
City of Worcester/HPRP Grant

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: Worcester HPRP Sub-Grantees

Sub Grantee	Award Amt
Community Healthlink, Inc.	\$1,212,993
Central Mass Housing Authority	307,970
South Middlesex Opportunity Council	336,816
Worcester Administrative Expense	47,052
Grant Totals	1,904,831

Appendix C: Potential Rental Arrearage Savings

Worcester HPRP Rental Arrearage Savings					
Savings	Estimated Total Arrearage Payments	Average Worcester Sub-Grantee Arrearage	Potential Arrearage Savings per Household ⁴	Potential Arrearage Savings ⁵	Potential Additional Households ⁶
2%	\$22,339	\$864	\$17	\$447	1
5%	22,339	864	43	1,117	1
10%	22,339	864	86	2,234	3
15%	22,339	864	130	3,351	4
20%	22,339	864	173	4,468	5

⁴ Savings per household is determined by multiplying the “Percent of rental arrearage savings” by the “Estimated total arrearage payments.”

⁵ Estimated arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”

⁶ Arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”