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INSPECTOR GENERAL

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August 3, 2011

Tina Brooks, Undersecretary
Department of Housing and Community Development
100 Cambridge St., Ste 300
Boston MA 02114-2531

Dear Undersecretary Brooks:

The Massachusetts Office of the Inspector General (OIG) reviewed portions of the 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 (ARRA) to the Department of Housing and Community Development (DHCD) under this grant. DHCD received \$18,443,744 in grant funds that it distributed to 20 sub-grantees (Appendix B).

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 grantees to identify and address risks.

The OIG focused its review on verifying internal controls and compliance with program and procurement policies. 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.

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:

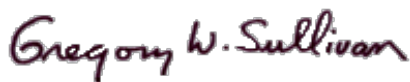
1. At Risk - Individuals and families currently in housing, but are at risk of becoming homeless.
2. Homeless - Individuals and families who are already homeless as defined by the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11302).

The OIG also offers the following suggestions to DHCD:

- 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.
- DHCD should review the wide range of indirect cost rates charged by program sub-grantees and establish a maximum percentage sub-grantees may bill for indirect expenses.

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

Attachments

cc: Alana Murphy, Director of Policy (DHCD)
Gretchen Weismann, Manager (DHCD)

Information for the Department of Housing and Community Development Regarding the Recovery Act Funded Homeless Prevention and Rapid Re-Housing Program Grant

Findings

- 1. 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.**

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 state 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. The OIG attempted to identify potential savings DHCD could achieve by requiring the negotiation of rental arrearage balances. The OIG estimates rental arrearages paid by DHCD sub-grantees to be \$3,107,771¹ (2,426 households).

Based on these averages, had DHCD sub-grantees negotiated, for example, a 10% reduction in arrearage payments, DHCD could have saved

¹ DHCD does not track arrearage payments made by sub-grantees. The OIG estimated these payments by multiplying the DHCD grant of \$18,443,744 by 16.9% (The average rental arrearage to funds disbursed percentage of the grantees reviewed by the OIG) which equals \$3,107,771.

\$310,777² that it could have used to pay the rental arrearages for an additional 197 households (See Appendix C).

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

2. DHCD should review the wide range of indirect cost rates charged by program sub-grantees and establish a maximum percentage sub-grantees may bill for indirect expenses.

HPRP grant guidelines allow grantees and sub-grantees to charge for a wide range of indirect costs (also known as overhead and operating costs). Additionally, DHCD did not issue any additional guidelines pertaining to indirect 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 DHCD reimbursement of overhead, and other indirect costs to sub-grantees ranged from 0% to 7.12% (See Appendix D) of total sub-grant costs; approximately one-third did not charge an indirect cost rate. A May 2010 Government Accountability Office (GAO) report concluded:

The funding and treatment of administrative costs varied across other targeted federal homeless grant programs we reviewed. For example, the maximum administrative allowance for grantees ranged from 4 percent to 50 percent for programs with such a

² Savings calculated as follows: Estimated arrearage payments \$3,107,771 multiplied by 10% (\$310,777) divided by the average arrearage payment of \$1,581 equals 197 households.

provision...in addition, none of the programs we reviewed offered comprehensive direction on eligible and ineligible administrative activities.

The OIG questions why, for the provision of nearly identical program services, sub-grantees charged a wide range of indirect cost rates and why grantees have not sought to determine what a “reasonable” rate is or impose a rate cap or other measure to ensure consistency between the various sub-grantees. As the grant is intended to prevent and reduce homelessness, the more funding that is spent on overhead costs, the less there is available for direct service provisions.

Based on the OIG review, it appears that the sub-grantees have received whatever rate they proposed through the RFP process and that DHCD did not require sub-grantees to provide documentation to support the proposed rate.

The OIG has determined that if DHCD had used HUD’s a 5% administrative cost cap to limit all indirect costs, DHCD could have saved approximately \$96,008.³

A lack of guidelines for cost rates is not a prudent or sound procurement or business practice and fails to ensure that grantees are getting the best value possible under the grant. 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 the 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: Although not recommended by HUD, the OIG recommends that DHCD establish a reasonable range of indirect cost rates allowable under the program or use HUD’s 5% indirect cost rate for administrative, overhead, and operating costs. Setting a rate will help to control costs, limit vulnerability to waste and abuse in program expenditures, and provide DHCD with a cost reasonableness standard for programmatic purposes.

³ Based on an average financial assistance of \$3,112 per household (\$96,008/\$2,500 = 31 households)

Conclusion

With the exception noted below, the OIG believes DHCD has adequate internal controls in place to monitor HPRP sub-grantees. However, the OIG believes that implementing these “best practices” could have saved DHCD \$406,785 (or 2.2% of the grant), enough to provide HPRP assistance to an additional 131⁴ households at risk for homelessness.

The OIG recommends DHCD work with other Massachusetts grantees to establish uniform standards for allowable indirect cost rates and requiring sub-grantees to negotiate a reduction in the rental arrearage balance as a condition of payment. Please do not hesitate to contact the OIG if you have any questions, concerns or require assistance regarding these or any other issues.

⁴ Potential additional households calculated by dividing \$406,785 by \$3,112 (the median amount paid to HPRP recipients for financial assistance).

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: DHCD Sub-Grantees

Sub-Grantees	
Grantee/Sub Grantee	Award Amt
Boston Public Health	\$ 139,529
Brockton Area Multi-Services, Inc.	383,320
Catholic Charities Bureau of the Archdiocese	186,428
Catholic Charities Boston	220,125
Community Action Committee of Cape Cod & Islands, Inc (CACCI)	201,819
Community Care Services	342,183
Community Teamwork, Inc. (CTI)	366,671
Duffy Health Center	621,014
Father Bill's & Mainspring, Inc.	1,416,850
HAP, Inc.	1,923,040
Massachusetts Housing and Shelter Alliance (MHSA)	1,926,821
Metropolitan Boston Housing Partnership (MBHP)	4,920,142
New England Farm Workers' Council, Inc. (NEFWC)	754,941
North Shore Community Action Program, Inc.	390,239
South Middlesex Opportunity Council (SMOC)	365,819
Springfield Housing Authority (SHA)	153,500
Travelers and Family Services, Inc.	394,375
Victory Programs	498,925
Worcester Housing Authority (WHA)	153,500
Worcester	2,586,008
Administration (DHCD)	498,495
Total DHCD Grants	18,443,744

Appendix C: Potential Rental Arrearage Savings

DHCD Potential HPRP Rental Arrearage Savings					
Savings	Estimated Total Arrearage Payments ⁵	Avg. Arrearage	Savings/Arrearage	Estimated DHCD Savings	Additional Households
2%	\$3,107,771	\$1,581	\$32	\$62,155	39
5%	3,107,771	1,581	79	155,389	98
10%	3,107,771	1,581	158	310,777	197
15%	3,107,771	1,581	234	466,166	295
20%	3,107,771	1,581	316	621,554	393

⁵ DHCD does not track arrearage payments made by sub-grantees. The OIG estimated total arrearage payments (\$3,107,771) using the average percentage of (16.9%) arrearage payments made by the grantees reviewed by the OIG multiplied by total grant given to DHCD (\$18,443,744).

Appendix D: Potential Overhead and Operating Cost Savings

DHCD Potential Savings from Overhead and Operating Expenses⁶				
Sub-Grantee	Grant Amount	Billed Overhead & Operating Costs	Overhead at 5% Cap	Potential Savings
HAP	\$1,923,040	\$159,844	\$96,152	\$63,692
Victory Programs	498,925	47,599	24,946	22,665
Boston Public Health	139,529	16,627	6,976	9,651
Totals				96,008

⁶ Sub-grantees listed are those that billed DHCD for overhead and operating expenses in excess of the HUD 5% guideline.