



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

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Norman R. Cole, Director of Planning & Development
Lynn Housing Authority & Neighborhood Development
10 Church St
Lynn, MA 01902-4418

Dear Mr. Cole:

The Massachusetts Office of the Inspector General (OIG) reviewed a \$1,033,392 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 Lynn. The City of Lynn contracted with the Lynn Housing Authority & Neighborhood Development (LHAND) agency to run the HPRP program on behalf of the City of Lynn.

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 LHAND 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).

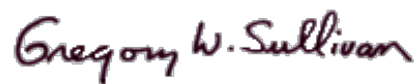
The OIG review found that LHAND violated HUD rules, failed to monitor sub-grantees (Appendix B) in a timely manner, and made improper payments. As a result, the OIG questions the use of, \$61,899 or 6% of the LHAND HPRP grant (Appendix C). The OIG identified the following specific issues:

- LHAND disbursed \$10,229 to 13 public housing residents who reside in LHAND managed property without obtaining a HUD waiver as required under the HPRP grant.
- In violation of HUD rules, LHAND did not share the grant's \$51,670 administrative expense allowance with sub-grantees.
- In violation of HUD rules, LHAND improperly categorized \$25,835 in case management services as an administrative expense.
- LHAND did not comply with HUD guidelines requiring the use of a Request for Proposals (RFP) process.
- LHAND did not monitor sub-grantees in a timely manner as required by federal regulation 24 CFR §85.36 Section B and HUD guidelines.
- LHAND had the second highest percentage of HPRP funds allocated to reimbursement of tenant rental arrearages (31.7%).

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. LHAND 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

cc: Honorable Judith Flanagan Kennedy, Mayor
Olivia Lyons, Grants Manager
Donald Walker, Office of Economic, & Community Development
Kristen Ekmalian, Senior Auditor, HUD Office of Inspector General

Attachments

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

Findings

- 1. The Lynn Housing and Neighborhood Development Agency (LHAND) disbursed \$10,229 to 13 public housing residents who reside in LHAND managed property without obtaining a HUD waiver as required under the HPRP grant.**

HUD rules state that “conflicts of interest” exist when “HPRP program participants are to be assisted in a property that is owned by the grantee, sub-grantee, or the parent/subsidiary/affiliated organization of the sub-grantee. In this instance, a grantee must submit a letter to the Community Planning and Development (CPD) Director (HUD) requesting a waiver for good cause” and “without an approved waiver from HUD, HPRP assistance cannot be provided to persons served in housing owned by the grantee, sub-grantee, or parent/subsidiary of, or affiliated organization of the sub-grantee.”

By disbursing HPRP funds to itself, LHAND, created a conflict of interest situation under HUD guidelines. HUD HPRP rules are clear that without written approval from HUD, a sub-grantee may not disburse HPRP funds to help its own tenants. HUD approval is not easy to obtain and there might be penalties for failing to obtain this approval. Recently, HUD rejected a waiver request made by the City of Boston to allow one of their sub-grantees to disburse \$400,000 in HPRP funds to its residents. HUD expects to ask Boston to repay the HPRP for a significant portion of the funds disbursed.

Recommendation: The OIG suggests that LHAND consult with HUD to determine if LHAND needs to repay grant funds.

- 2. In violation of HUD rules, LHAND did not share the grant's \$51,670 administrative expense allowance with sub-grantees.**

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. LHAND officials told the OIG they were not aware of the HUD requirement to share the administrative allowance with sub-grantees.

Recommendation: LHAND should reallocate 50% of the administrative cost allowance to sub-grantees (\$25,835¹) to comply with HUD rules.

3. In violation of HUD rules, LHAND improperly categorized \$25,835 in case management services as an administrative expense.

HUD states that grantees should allocate HPRP case management expenses as follows:

Case management expenses must be charged under Housing Stabilization and Relocation Services category and are not eligible under the administrative cost category.

However, LHAND categorized case management services as an administrative expense. The Office of Management and Budget (OMB) Circular A-122 defines “Administrative Expenses” as:

General administration and general expenses...that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature, which do not relate solely to any major function of the organization.

LHAND improperly allocated case management services² to the “Administrative Cost” category in violation of HUD rules. LHAND officials informed the OIG that they were not aware that HUD prohibited allocating case management services to the “Administrative Cost” category. Allocating non-administrative costs to the “Administrative Cost” category greatly diminishes a grantee’s and/or sub-grantee’s ability to recoup their fixed and variable expenses related to conducting eligible grant administrative functions.

¹ Total LHAND administrative allowance of \$51,670 divided by 2 equals \$25,835.

² Case management services included, client intake/evaluation, rental negotiations with property owners, and rapid re-housing

Recommendation: LHAND should review expenses charged to the “Administrative Cost” category to identify funds paid for case management services and reallocate as necessary.

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

HUD guidelines require grantees to inform HUD of 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. Grantees must also 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 LHAND’s RFP did not contain all required provisions. For example:

- LHAND’s RFP consisted of a cover page for name and address of applying agency (sub-grantee) and requested funding. LHAND’s RFP required applicants to complete four questions and a budget (limited to a two-page response the shortest RFP reviewed by the OIG). The four questions are as follows:
 - What are the goals of the program?
 - What is the agency’s organizational experience?
 - Does the agency have the capacity to implement the HPRP program?
 - How will the agency coordinate with other entities providing HPRP assistance?
- The RFP did not require applicants to detail the types of services LHAND expected sub-grantees to provide. 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.)

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 budget section did not define the amount and type of eligible overhead and operating costs permitted under the grant.
- The RFP did not require applicants to describe how their services fit the needs homeless needs in the City of Lynn.
- The RFP did not require applicants to list staff 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 LHAND would measure the performance of sub-grantees and HPRP program objectives.
- The RFP did not include a standard budget template to allow LHAND to make comparisons between applicants.
- The RFP did not include a description of the HRPP program including eligibility requirements of recipients and the type of services permitted and prohibited under HPRP.
- The RFP did not include the evaluative criteria recommended by HUD and did not describe how LHAND would evaluate the criteria.

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. LHAND should use RFPs that are more comprehensive.

5. LHAND 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, LHAND disbursed \$522,504 of the \$1,033,392 in HPRP funds it had allocated for financial assistance. Despite having spent 51% of its financial assistance funding, LHAND had not conducted a formal onsite inspection of its sub-grantees to test for compliance with HPRP regulations and HUD rules and guidelines. 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* (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. The Massachusetts Department of Housing and Community Development (DHCD) considers “periodic monitoring” to be quarterly on-site inspections. To assist grantees with their monitoring process, HUD created “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 LHAND 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.

6. LHAND had the second highest percentage of HPRP funds allocated to reimbursement of tenant rental arrearages (31.7%).

HUD HPRP guidance cites rental arrearage negotiation as a best practice and recommends that grantees establish a maximum financial assistance amount for each recipient. Setting a maximum amount could be useful in the negotiations process. LHAND staff informed the OIG that they targeted eliminating tenant rent arrearages to give applicants a “fresh start” as the primary programmatic goal. As a result, almost 32% of grant funds have been used to pay for rental arrearages. However, the objective of the HPRP program is to provide the minimum amount of assistance needed to provide a stable housing situation. HUD did not intend HPRP to pay rent alone.

Additionally, HUD and the OIG consider rental arrearage payments to be at high risk of fraud because these are benefits paid in many cases without verifiable data, and because there is a risk that tenants and property owners could collude to gain unwarranted benefits.

Since LHAND used a high percentage of grant funds to pay arrearages and viewed the grant in large measure as an arrearage program, LHAND's expenditures must be viewed as high-risk transactions.

Recommendation: LHAND must make certain that it has adequate controls in place to ensure the proper and judicious use of funds for rental arrearages. Moreover, LHAND should include in its external audit scope of services, adequate testing of these transactions to ensure compliance with HUD rules and to identify possible fraudulent transactions.

Conclusion

The OIG believes that LHAND monitoring of its sub-grantees needs improvement. The OIG did not find documentation to support that LHAND performed an independent review of sub-grantee recipient files for compliance with HPRP regulations and guidelines. As noted in our advisory, HUD is taking a hard line regarding eligibility and is requiring grantees to reimburse the HPRP grant for funds disbursed without supporting documentation. We strongly encourage LHAND to conduct a compliance review of all HPRP recipients.

In addition, LHAND personnel were not aware of several HUD guidelines (billing case management services to the Administrative Cost Category, not sharing the administrative allowance with sub-grantees, and disbursing HPRP funds to its own tenants). LHAND should take corrective action to avoid having to reimburse the HPRP for improper fund allocation. As a result, the OIG questions the use of, \$61,899 or 6% of the LHAND HPRP grant (Appendix C). LHAND's high percentage of rental arrearage payments also increases the program risk for fraud, waste, and abuse. LHAND must strengthen its internal controls over these disbursements and ensure that these transactions benefit from robust audit sampling during the annual external process.

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: City of Lynn HPRP Sub-Grantees

Grantee/Sub Grantee	Award Amt
<i>Lynn Housing and Neighborhood Development (LHAND)</i>	\$685,737
<i>Catholic Charitable Bureau of The Archdiocese of Boston</i>	\$65,109
<i>Greater Lynn Senior Services</i>	\$71,214
<i>Neighborhood Legal Services</i>	\$55,580
<i>Serving People in Need</i>	\$82,170
<i>The Massachusetts Coalition For The Homeless</i>	\$21,912
<i>Administrative Expense</i>	\$51,670
<i>Grant Total</i>	\$1,033,392

Appendix C: Questionable Expenditures

Questionable Expenditure – City of Lynn		
Category	Expenditure (Dollars)	Percentage of Grant
Case Management Costs Billed as Administrative	\$25,835	2.5%
Administrative Costs Not Shared with Sub-Grantees	25,835	2.5%
HPRP Funds Paid to LHAND Tenants	10,229	1.0%
Total "Questionable" Expenditures	\$61,899	6.0%