



The Commonwealth of Massachusetts

Office of the Inspector General

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INSPECTOR GENERAL

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August 3, 2011

Evelyn Friedman
Chief of Housing and Director
Department of Neighborhood Development
26 Court Street
Boston, MA 02108

Dear Director Friedman:

The Massachusetts Office of the Inspector General (OIG) reviewed an \$8,209,151 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 Boston's Department of Neighborhood Development (DND).

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 Boston to identify and address risks. In total, the OIG questioned at least \$629,985, or 7.7%, of DND's HPRP grant expenditures.

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. 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:

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 focused its review on verifying DND's internal controls and compliance with program and procurement policies. The OIG also reviewed DND's management of its sub-grantees (sub-grantees listed in Appendix B). The OIG believes that DND sub-grantee monitoring needs improvement. The OIG review found a number of procedural and financial issues within the administration of the program that may have influenced program performance. As a result, the OIG questions the use of at least \$629,985, or 7.7%, of the DND HPRP grant (Appendix F). The OIG review identified the following issues:

- 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. DND did not require sub-grantees to negotiate for a reduction in tenant-owed rent arrearages resulting in payments of \$302,549 that might have been avoided.
- DND did not monitor sub-grantees in a timely manner which resulted in the disbursement of approximately \$149,451 to ineligible recipients.
- DND violated HUD rules by allocating \$151,300 in training costs paid to a vendor, Victory Programs, as a program expense rather than an indirect cost.
- DND allowed one subgrantee, Urban Edge, to disburse \$400,000 in HPRP financial assistance to its own tenants without a required written waiver from HUD.
- A lack of uniform guidelines allowed sub-grantees to charge a wide range of indirect cost rates resulting in the program spending more than \$12,257 for "expenses" rather than on direct service provisions.

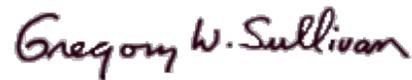
In addition to the above findings, the OIG reviewed a sample of case files at one sub-grantee and found a lack of documentation concerning proof of applicant income eligibility. According to sub-grantee staff, program guidelines did not require additional documentation and according to the sub-grantee, DND and DND's financial management sub-grantee, the Metropolitan Boston

Housing Partnership, exerted “pressure” to approve the applications of any questionable cases that had been referred to them. This raises significant questions concerning the adequacy of grant program guidelines and DND oversight. The OIG’s complete findings will be reported to DND under separate cover.

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. DND should review the advisory for applicability to its grant program.

We appreciate your assistance and cooperation in this review. If we may be of further assistance, please do not hesitate to contact us. Thank you.

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: Mayor Thomas M. Menino
Sally D. Glora, City Auditor
Ana Boyd, Deputy Director Administration and Finance, DND
Elizabeth M. Doyle, Asst. Director, DND
Kristen Ekmalian, Asst. Regional Inspector General, HUD Office of
Inspector General
Laura Schiffer, Financial Analyst, HUD Boston Regional Office
Mary L. Raysor, Asst. City Auditor, Boston
Melanson Heath & Company, P.C.

Review of the City of Boston’s 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. DND did not require sub-grantees to negotiate for a reduction in tenant-owed rent arrearages resulting in payments of \$302,549 that might have been avoided.**

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 potential savings that sub-grantees could obtain through negotiation. As of March 31, 2011, DND sub-grantees paid \$1,767,685 in rental arrearage assistance to 548 households (\$3,226/household). At the current rate of disbursement, DND sub-grantees will pay \$2,798,401 to assist 921² households in rental arrearage subsidies by the end of the grant.

Based on these averages, had DND's sub-grantees negotiated a minimum 10% reduction in arrearage payments, DND could have saved \$302,549³ that it could have used to pay the rental arrearages for an additional 94 households (See Appendix C).

The City of Boston recently added more than \$800,000 in HPRP funds to its pool of available funding for rent arrearage payments. A recent *Boston Globe* article stated that the number of homeless families have been increasing, including a 27% increase between 2007 and 2009. This illustrates the need for additional rental funding and the need to stretch available funding, possibly through negotiation with property owners, to the fullest extent possible.

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 and assist sub-grantees with these negotiations.

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

² Although DND does not require sub-grantees to negotiate a reduction in the rental arrearage balance, the OIG acknowledges that sub-grantees or individual case workers may have on occasion sought to reduce an arrearage balance. The OIG does not believe that any informal effort to reduce rental arrearages generated material savings.

³ Savings calculated as follows: $[(\$3,025,494 \times .1) = \$302,549]$. $\$302,549 / \$3,226 = 94$.

2. DND did not monitor sub-grantees in a timely manner which resulted in the disbursement of approximately \$149,451 to ineligible recipients.

Through September 2010, DND disbursed \$3,131,564 of the \$4,469,216 (70%) in HPRP funds it had allocated for financial assistance and had committed the remaining 30% for future client benefits⁴. Despite having spent or committed all of its financial assistance funds, DND did not complete or conduct on-site inspections of sub-grantee operations until November 2010 (13 months into the HPRP grant cycle). 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.

In addition, HUD guidelines state: “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, “periodic monitoring” to identify errors in a timely manner, allow sub-grantees to correct internal procedures, and make funding adjustments 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. The DHCD process consists of two inspection types: 1) a full inspection including a sample review of sub-grantee files and procedures and 2) an abridged inspection consisting of a short site visit to either follow-up on the full inspection and/or to conduct a spot file review. DHCD alternates quarterly between the two inspection types. The result is a quarterly onsite inspection of each sub-grantee.

When initiated, DND’s monitoring efforts identified two sub-grantees (Bay Cove Human Services and Boston Catholic Charities) that may have disbursed HPRP funds to ineligible grant recipients. However, since DND did not conduct these inspections until well into the implementation of the program, these errors went unnoticed and proceeded unabated for almost a full year. The following are the specific non-compliance issues DND identified:

⁴ HPRP allows grantees/sub-grantees to pay up to 18 months in rental assistance. DND sub-grantees made rent commitments for the remaining 30% in available financial assistance funding.

Bay Cove Human Services (Bay Cove)⁵ – Through September 2010, Bay Cove had disbursed \$112,245 in direct HPRP financial assistance⁶. DND conducted its first on-site inspection of Bay Cove one year into the grant and determined that Bay Cove paid \$16,000 for services to non-income eligible households. DND informed the OIG that this deficiency resulted from Bay Cove’s lack of understanding of the grant’s income eligibility requirements. Despite this finding, DND did not expand the scope of its review and allowed Bay Cove to continue disbursing HPRP funds. DND has asked Bay Cove to return \$16,000 to the HPRP grant for those payments made to non-eligible recipients.⁷

Boston Catholic Charities (Catholic Charities)⁸ – Through March 31, 2011 Catholic Charities had disbursed \$404,152 in direct HPRP financial assistance. DND did not conduct a site visit of Catholic Charities until August 2010⁹. The DND site visit-monitoring letter concluded that: “It was not evident that Catholic Charities HPRP program is in accordance with the original intent of the contract.” The following is a list of non-compliant issues identified by DND on its site visit:

- None of the files reviewed had case notes nor are these case notes present in [the] online system;
- Almost all files lacked third party documentation of cost incurred, particularly as it pertained to rental arrearage;
- There was no evidence that efforts had been made to ascertain the appropriate level of financial assistance for clients;
- None of the files reviewed included income calculations to ascertain whether the program participants were income-eligible.

⁵ Bay Cove assists individuals with developmental disabilities, mental illness, and drug and alcohol addiction.

⁶ DND contracted with Metropolitan Boston Housing Partnership (MBHP), to manage the disbursement of financial assistance payments to sub-grantees. DND did not assign a specific dollar amount of HPRP financial assistance to sub-grantees. MBHP disbursed all of DND’s HPRP financial assistance funds to sub-grantees on a first-come, first-served basis.

⁷ To the OIG’s knowledge, this matter is still unresolved.

⁸ Boston Catholic Charities is one of the largest providers of social services in Massachusetts. Catholic Charities offers nearly 140 programs and services in 40 locations around Eastern Massachusetts.

⁹ Catholic Charities was the third largest provider of HPRP financial assistance for DND through September 2010.

DND officials believe that these failings are attributable to poor grant management at Catholic Charities. Despite this, DND did not expand the scope of its review and continued to fund the Catholic Charities sub-grant until a second review three months later revealed similar compliance issues. According to DND, Catholic Charities continued to exhibit problems in the management of the HPRP after the second onsite visit. As a result, DND asked the City Auditor to conduct a full review of the Catholic Charities HPRP program.¹⁰ The OIG offered DND its assistance in conducting a formal review of Catholic Charities case files, but DND declined stating the City Auditor the audit firm KPMG would conduct the review. The City Auditor's report on Catholic Charities dated March 2011 can be found in Appendix E-2.

In response to the City' Auditor's review, the OIG questioned audit staff and conducted its own file review. Although, the City's report cited potential fraud, the OIG did not find documentation to indicate that either the City Auditor or DND reported evidence of potential fraud to the HUD Inspector General as required under ARRA. Recipients of ARRA funding are required to report suspected fraud, waste, or abuse to appropriate oversight agencies (See attached OIG HPRP Advisory Findings). Moreover, the OIG review confirmed the City's findings and further identified a significant number of questionable eligibility approvals. According to CC staff, grant guidelines allowed these approvals and any questionable cases referred by CC to DND or the Metropolitan Boston Housing Partnership (MBHP) - DND's financial management sub-grantee - received approval despite any concerns. The OIG is continuing to review the matter and provide its findings to DND under separate cover.

Recommendation: The OIG recommends that DND consider suspending payments to sub-grantees if it detects significant grant violations, serious non-compliance issues, or that program benefits have been approved without adequate review or reasonable assurance of applicant eligibility. DND can restore funding when sub-grantees demonstrate their ability to remediate non-compliance. To detect non-compliance as quickly as possible, grantees should have grant monitoring programs in place before funds are disbursed and should implement these monitoring programs simultaneously with fund disbursement. DND might consider adopting DHCD's quarterly monitoring schedule. The OIG believes that sub-grantees, rather than the City of Boston should be financially responsible for reimbursing HUD for misspent grant funds.

¹⁰ Additionally, Boston HUD officials reported, "We are going to monitor the City's entire HPRP program in June. June will be a comprehensive review that will include several of the City's sub-grantees including Catholic Charities. From this review, we will issue a formal monitoring report."

3. DND violated HUD rules by allocating \$151,300 in training costs paid to a vendor, Victory Programs as a program expense rather than an indirect cost.

DND entered into an (\$151,300) contract with Victory Programs, Inc. to develop and provide training as described in the contract's scope of services:

Develop and provide training curriculum to staff of grantees providing Homeless Prevention and Rapid Rehousing services, with the goal to help providers utilize the program effectively and efficiently.

HUD has specific guidelines on how training expenses should be treated under the grant. HUD HPRP guidelines state: "administrative costs include training for staff who will administer the program or case managers who will serve program participants, as long as this training is directly related to learning about HPRP. No more than 5 percent of the total HPRP grant to the grantee may be spent on administrative costs, whether by the grantee or sub-grantee(s)." Victory Programs provided "technical assistance and training for case file documentation, completing required forms and reports, and other case management related items." Victory Programs also helped DND: "Develop and provide training curriculum to staff of grantees providing Homeless Prevention and Rapid Rehousing services, with the goal to help providers utilize the program effectively and efficiently."

According to HUD guidelines, DND should have allocated the Victory Programs training costs to the administrative cost category capped at 5% under the grant. To verify the OIG's finding, the OIG contracted with the certified public accounting firm of Melanson Heath & Company, P.C. (Melanson) to conduct an independent review to determine the proper allocation of the Victory Programs training costs. Melanson concluded that:

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:

Training is an allowable administrative cost as long as it is for training to administer the program or training to the case managers who will serve the program participants. The training has to be directly related to the HPRP.

In our opinion, although the Victory Programs, Inc. training services is an "eligible" HPRP expense, the City of Boston violated

HUD guidelines by improperly allocating the \$151,300 expense to the "Housing Stabilization and Relocation" cost category.

HUD guidelines consider eligible training costs an "Administrative" cost subject to the 5% maximum cap. We recommend that the City of Boston reallocate the \$151,300 training expense to the Administration Cost Category subject to the HUD 5% cap. If the reallocation of training costs result in Boston exceeding their Administrative Cost allowance, Boston should contact HUD for guidance of proper disposition of the funds.

The OIG and Melanson both believe that DND misallocated these training costs.

Recommendation: DND's allocation of the \$151,300 paid to Victory Programs to the "Housing Stabilization and Relocation" cost category violates HUD guidelines. DND should consult with HUD to determine if they must return "excess" administrative costs or if funds may be reallocated to direct financial assistance.

4. DND allowed one sub-grantee, Urban Edge to disburse \$400,000 in HPRP financial assistance to its own tenants without a required written waiver from HUD.

HUD informed the OIG that DND permitted a program sub-grantee, Urban Edge¹¹, a community development corporation (CDC), to disburse financial assistance to tenants in buildings Urban Edge owned/managed without a written waiver from HUD. 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, or affiliated organization of the sub-grantee. In this instance, a grantee must submit a letter to the 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.

¹¹ Urban Edge is a CDC that operates in Jamaica Plain, Roxbury, and surrounding neighborhoods. Urban Edge is also the lead agency in a collaborative of community development corporations disbursing HPRP funds.

In the OIG's opinion, Urban Edge's action created a conflict of interest under HUD guidelines since Urban Edge gained rental income from program funds. DND allowed Urban Edge to reimburse itself during the first year of the program while HUD reviewed the waiver request. DND staff informed the OIG that:

DND requested a waiver from HUD to fund Urban Edge because we (DND) knew that in addition to funding clients coming off the street there was also a high probability that they would receive applications from tenants living in units owned by the CDC's involved in the Collaborative. The waiver request was sent to HUD's law department and there was a delay in receiving a reply from HUD.

After reviewing our waiver request, HUD's law department denied it because of the conflict of interest, or appearance of conflict, inherent in such activity. The denial took place in late December, 2010¹² or over a year since the program began. HUD's local office did a preliminary review of 15 files of individuals that live in the collaborative units and received HPRP assistance to make sure that there was no fraud involved, they also believe that all the files they reviewed show that the individuals were eligible.

Urban Edge did not serve any new clients since September 2010 or the date when the HPRP financial assistance funds run out.

DND accepted the risk regarding a possible waiver denial from HUD. DND stated that it did not anticipate that HUD would take so long to issue a ruling on the waiver, so it allowed Urban Edge to pay itself rent arrearages while waiting for HUD's approval or denial of the waiver request. Because Urban Edge disbursed funds without a HUD waiver, HUD initiated a review of these disbursements.

HUD has completed its review of the Urban Edge collaborative, but has not yet issued a final report. According to HUD:

We performed a very limited review of client eligibility for each HPRP case administered by the collaborative (100% of the Urban Edge case files). The City [DND] is currently reviewing and validating this data. After we received their comments, we will issue a final letter, which will contain the total sum of the disallowed costs. The City will be required to reimburse their program for this amount.

¹² See Appendix E for copy of HUD's denial letter.

HUD also stated that there did not appear to be fraud involved in the actions by Urban Edge. HUD estimates that Urban Edge and the other members of the collaborative made payments for ineligible HPRP recipients and have asked DND to reallocate nearly \$80,000 to the grant. In addition, the HUD review also found:

- Money disbursed to non-US citizens.
- Money disbursed to recipients who were also receiving financial assistance from another federal or state subsidy program.
- Money disbursed to recipients who are “habitually delinquent” and were not at immanent risk of eviction.

HUD rules are clear that without written approval from HUD, a sub-grantee may not disburse HPRP funds to help its own tenants.

Recommendation: DND should not disburse funds to a sub-grantee with potential conflicts of interest without first receiving a waiver from HUD. DND should promptly address the findings to be presented in the pending HUD report and Urban Edge, not DND, should be required to repay funds to the HPRP grant.

5. 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 \$12,257 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). 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 DND reimbursement of overhead and other indirect costs to sub-grantees ranged from 0% to 17.8% (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 provision...in addition, none of the programs we reviewed offered comprehensive direction on eligible and ineligible administrative activities.

Based on the OIG review, it appears that DND sub-grantees received reimbursement based on any indirect cost rates that sub-grantees chose to use. The OIG has determined that if DND used HUD’s 5% administrative cost cap to limit all indirect costs, DND could have saved approximately \$12,257.¹³

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 some sub-grantees are more aggressive in seeking HPRP reimbursement of their indirect costs. As a result, DND is paying a wide range of costs for the same service. DND personnel explained that each sub-grantee determined the rate it would submit for indirect expenses.

This is not a prudent or sound procurement or business practice and fails to ensure that the 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.

¹³ Based on an average financial assistance of \$3,112 per household (\$96,008/\$2,500 = 31 households).

Recommendation: The OIG recommends that DND and DHCD work with other grantees to establish a reasonable range of indirect cost rates allowable under the program. Grantees should use HUD's 5% indirect cost rate for administrative, overhead, and operating costs.

Conclusion

The OIG believes that DND sub-grantee monitoring needs improvement. The OIG review found a number of procedural and financial issues within the administration of the program that may have influenced program performance. As a result, the OIG questions the use of, at least, \$629,985, or 7.7%, of the DND HPRP grant (Appendix F).

Also, since DND did not allocate a specific dollar amount of rental assistance for use by its sub-grantees, its HPRP program expended a significant portion of funding for rent arrearage rather than for other services. DND had the highest percentage of funding allocated for rental arrearage payments of any agency reviewed at 39%, compared to a median rate of 17%. This is in sharp contrast, for example, to Worcester's program that allocated only 1.2% towards rental arrearages, apparently enough to serve eligible clients and close their remaining homeless shelters by re-housing clients. The OIG review also identified the following specific findings for DND's program:

- DND did not require sub-grantees to negotiate for a reduction in tenant-owed rent arrearages resulting in payments of \$302,549 that might have been avoided.
- DND did not monitor sub-grantees in a timely manner which resulted in the disbursement of approximately \$149,451 to ineligible recipients.
- DND violated HUD rules by allocating \$151,300 in training costs paid to a vendor, Victory Programs as a program expense rather than an indirect cost.
- DND allowed one sub-grantee, Urban Edge, to disburse \$400,000 in HPRP financial assistance to its own tenants without a required written waiver from HUD.
- A lack of uniform guidelines allowed sub-grantees to charge a wide range of indirect cost rates resulting in the program spending more than \$12,257 for "expenses" rather than on direct service provisions.

The OIG hopes these findings assist your program in identifying risks and protecting the integrity of ARRA spending.

August 2011
City of Boston 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: Boston DND Sub-Grantees

Grantee/Sub Grantee	Award Amt
Boston DND administrative expense	\$760,457
AIDS Action Committee	200,000
Action For Boston Community Development (ABCD)	242,000
Bay Cove Human Services	152,737
Catholic Charities Appeal	155,589
Greater Boston Legal Services (GBLS)	290,000
Homestart	524,738
Just-a-Start	120,000
Kit Clark Senior Services	272,000
Metropolitan Boston Housing Partnership (MBHP) (all direct financial assistance)	4,597,418
Span Inc.	140,912
Travelers Aid Family Services	352,000
Urban Edge (lead agency in collaborative)	250,000
Victory Programs	151,300
Total Grant	\$8,209,151

Appendix C: Potential DND Rental Arrearage Savings

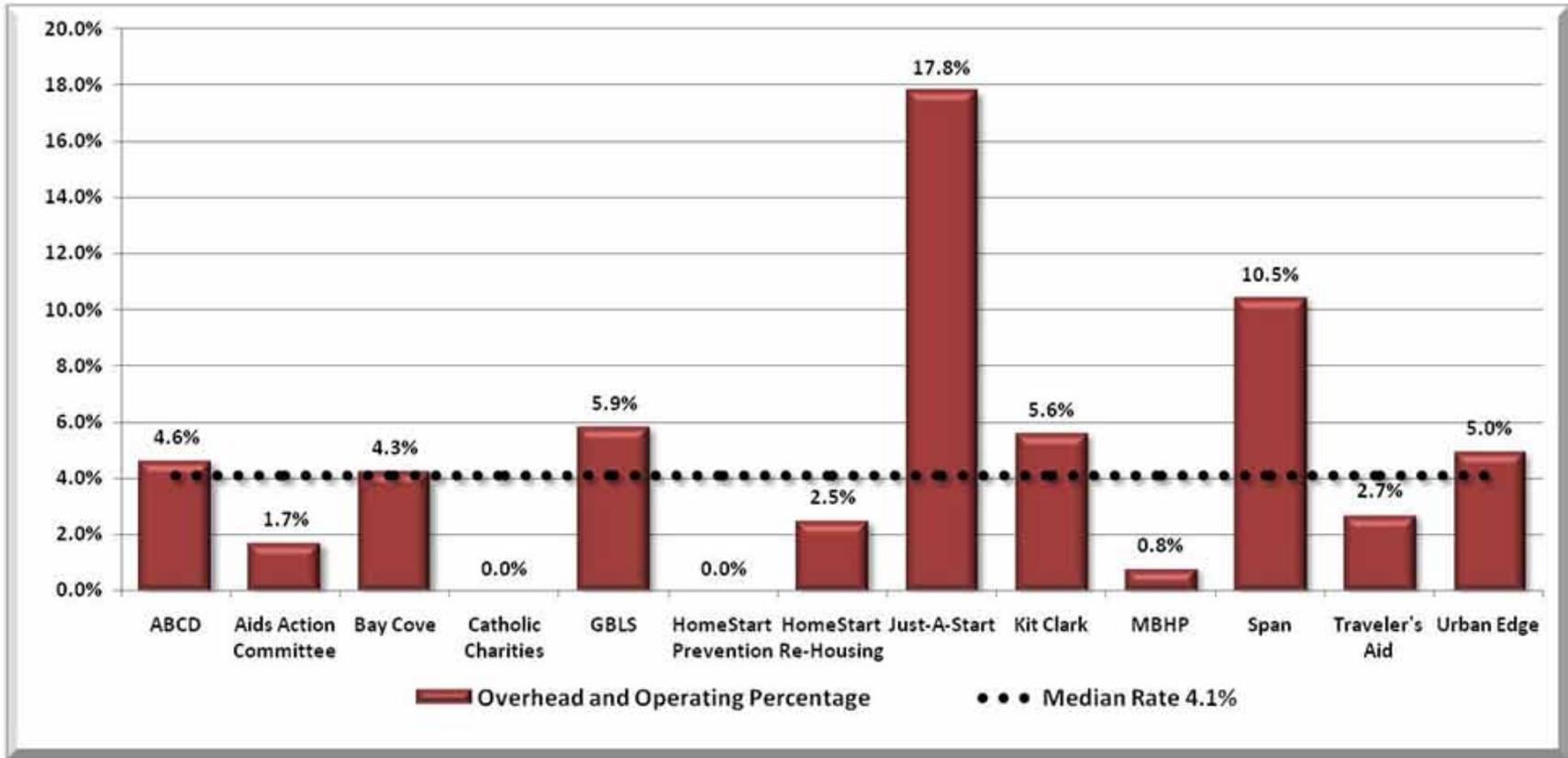
Boston DND HPRP Rental Arrearage Savings					
Savings	Estimated Total Arrearage Payments	Average DND Sub-Grantee Arrearage	Potential Arrearage Savings per Household ¹⁴	Potential Arrearage Savings ¹⁵	Potential Additional Households ¹⁶
2%	\$3,025,494	\$3,226	\$65	\$60,510	19
5%	3,025,494	3,226	161	151,275	47
10%	3,025,494	3,226	323	302,549	94
15%	3,025,494	3,226	484	453,824	141
20%	3,025,494	3,226	645	605,099	188

¹⁴ Savings per household is determined by multiplying the “Percent of rental arrearage savings” by the “Estimated total arrearage payments.”

¹⁵ Estimated arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”

¹⁶ Arrearage savings is determined by multiplying the “Estimated Households Receiving Arrearage Assistance” by “Estimated Savings per Household.”

Appendix D: Review of DND Sub-grantee Overhead & Operating Expenses as Percentage of HPRP Funds



August 2011
City of Boston HPRP Grant

Appendix E: Urban Edge Denial Letter from HUD



U.S. Department of Housing and Urban Development
Office of the Regional Director
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street
Boston, Massachusetts 02222-1092

New England

PHONE: 617.994.8200
Fax: 617.565.6558

Evelyn Friedman
Chief of Housing and Director
Department of Neighborhood Development
26 Court Street
Boston, MA 02108

Subject: City of Boston Request for a Waiver of the Prohibition against Using HPRP Subsidies in Housing Owned by the Urban Edge Partnership

Dear Ms. Friedman:

We are writing to inform you that HUD will not grant a waiver to the City's request to provide HPRP funding to clients in housing owned by the sub-grantees within the Urban Edge Partnership.

According to the City's request, the City has awarded \$250,000 in HPRP funds to the Urban Edge Housing Corporation. The Urban Edge Housing Corporation has partnered with three other Community Development Corporations (CDCs) and the Metropolitan Boston Housing Partnership (MBHP) to provide HPRP assistance to tenants of housing owned by the four CDCs. The assistance would consist of the payment of monthly rent and rent arrears by MBHP and the provision of case management services by the CDCs. The CDCs would assess the eligibility of the CDCs' tenants to receive this assistance and would determine the amount of rental assistance payments that should be made on behalf of those tenants. MBHP would then review the rental assistance documentation and issue the rental checks to the CDCs. MBHP would also provide more intensive and specialized case management to a subset of tenants serviced under the program.

The City emphasized that CDCs play an integral role in provide affordable housing in Boston and that it would be unfortunate that the CDCs could not provide HPRP services to at-risk households in their portfolios. The City also emphasized the

August 2011
City of Boston HPRP Grant

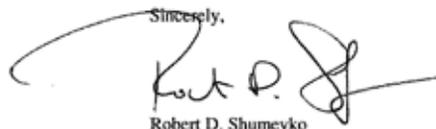
efficiency of using CDC staff to identify tenants who miss a rent payment and assess their eligibility for HPRP before they face higher rental arrearages and come closer to homelessness. This program model would also allow case managers to identify problems early on, when they are easier to resolve, and reduce the amount of financial assistance needed to pay each tenant's rent in arrears. The City further emphasized that the checks for rental assistance would be issued by MPHP, not the CDCs, and that both the direct contracted compensation for the CDCs' case management staff and the projected financial benefit to the CDCs through HPRP financial assistance would be minimal.

The purpose of HPRP is to prevent homelessness and rapidly re-house people who are homeless and people who are at imminent risk of homelessness and, without HPRP, are most likely to become homeless. The vast majority of people who are evicted do not become homeless. The City's proposed program to focus on serving people who have missed one or two rent payments poses a high risk of serving people who would be able to avoid homelessness without HPRP assistance. More importantly, by using case managers located in their employer's housing and relying on them to determine the eligibility of tenants of their employer's housing, the proposed program model poses a high risk that the eligibility determinations would be biased in favor of serving more tenants of their employer's housing than necessary.

HUD recognizes the importance of the CDC's role in providing affordable housing in Boston and the value of resolving issues that lead to nonpayment of rent. However, these considerations do not outweigh the program model's inherent risk of diverting HPRP's limited resources away from HPRP's target population. In order to remedy the identified conflict of interest, the City must immediately terminate the use of the HPRP funds by the Urban Edge Partnership for case management and financial assistance for tenants in its housing. If CDCs' tenants need HPRP assistance, they must seek it from other HPRP sub-grantees.

As you are aware, costs incurred to date by the Urban Edge partnership are currently under review. Any costs incurred for clients that do not meet the eligibility requirements must be reimbursed to the City's line of credit.

If you have any questions, please feel free to contact Laura Schiffer at (617) 994-8359.

Sincerely,

Robert D. Shumeyko
Director

cc: Robert Gehret

Appendix E-2: City of Boston Auditor's Report on Catholic Charities HPRP Program



**City of Boston
HUD Homelessness Prevention and Rapid Re-Housing
Program (HPRP)
March 25, 2011
Catholic Charities (CC) - Site Visit Work paper**

**HUD Homelessness Prevention and Rapid Re-Housing Program (HPRP)
DNDE1009R**

CFDA: 14.257

Start Date: 07-22-09

End Date: 07-21-12

Purpose:

The purpose of this work paper is to summarize the site visits to CC as part of the monitoring process of the HPRP. Department of Neighborhood Development (DND) staff, City of Boston Audit staff, and KPMG personnel made site visits. Site visits were conducted on the following dates:

- August 4, 2010
- October 22, 2010
- March 17, 2011

Procedure:

On each site visit, DND and Audit staff discussed the procedures in place for the HPRP with CC personnel and obtained the selected files with their assistance. The CC staff consisted of:

- Menny Kalas, Emergency Services/ Basic Needs Coordinator
- Misty Heppler, Social Worker, basic needs
- Ellen Widen, Director of Family Intervention Programs

Based on inquiry with the CC staff, the overall opinion was that the program was rushed. The staff seemed frustrated with the initial lack of guidance and inconsistencies in guidance provided. The staff is responsible for several other assistance programs and felt overwhelmed when HPRP was initiated. The staff also claims there was heavy pressure regarding referrals from Metro Boston

Housing Partnership (MBHP). Clients that were originally declined would be referred back to CC by other agencies and MBHP.
The following table summarizes the site visits related to the HPRP:

Date	Attendees	Procedure	Conclusion
August 4, 2010	Katie Cahill-Holloway Vielkis Gonzalez Elizabeth Doyle Jen Flynn Liz Stewart	· Inspection of 8 files	· Lack of case notes · Lack of third party documentation · Lack of needs analysis · Lack of income calculations · Failure to exit/ follow-up with clients
October 22, 2010	Craig Lloyd Katie Cahill-Holloway Leneva Penton	· Inspection of 8 previously selected files plus 10 newly selected files	· Documentation below satisfactory · Difficult to obtain documents from clients after payment was made · New files still missing proper documentation from third parties (Ex: lease, rent ledger)\ · Possible collusion between tenant and landlord discovered
March 17, 2011	Shawn Warren (KPMG) Scott Warnetski (KPMG) Mary Raysor Craig Lloyd Katie Cahill-Holloway	· Inspection of 8 newly selected files	· Files appear more organized · Most clients appeared eligible based on income limitations and documents provided · Supporting documents for residency, current living arrangements, evidence of risk of eviction are inconsistent · Some files missing supporting documents or contain incomplete forms

Conclusion:

DND and Audit staff reviewed the eight files previously selected for compliance with HUD regulations and HPRP Guidance. Each previously selected file was reviewed to confirm that corrective actions had been taken related to:

- Proper client case notes
- Proper third party documentation
- Client needs analysis
- Client income calculations
- Proper initial and exit interviews
- Supervisory sign off

In addition, 10 new files were selected for review to ensure that these clients complied with HUD regulations and HPRP Guidance.

Conclusion:

Eight previous files:

Several files appeared to be more in order but the documentation was below satisfactory. Based on inquiry with Menny Kalas (MK), Directory of Emergency Assistance, once clients leave the program it is very difficult to get in contact with them. For example, a client that receives a one-time payment for rental arrearages exits the system and does not return mailings or phone calls. Since August, very little additional documentation has been received.

Ten new files:

Most of the new files selected appeared to be more complete than the previous visit. There were still files that were missing proper documentation from third parties (ex: lease, rent ledger). There were also some files that contained proper documentation but incorrect calculations or calculations that were outside of guidelines.

Upon closer review of the client files, it appears that there are several suspect tenant/ landlord relationships. For example, the following observations were made with the selected files and indicate possible collusion:

- Missing or doctored leases
- Missing rent ledgers, past due rent notices, eviction notices, etc
- Tenant/ landlord relationships involving family
- Unreasonable living quarters for 1-2 person households

Based on inquiry with MK, he thought the program was rushed and seemed frustrated with the initial lack of guidance and inconsistencies in guidance provided. MK is responsible for several other assistance programs and felt overwhelmed when HPRP was initiated. MK also claims there was heavy pressure regarding referrals from Metro Boston Housing Partnership (MBHP). Clients that were originally declined would be referred back to CC by other agencies and MBHP.

Course of Action:

Due to the large number of client files lacking proper documentation, incorrect calculations, and calculations outside of HUD guidelines, it is suggested that DND and Audit staff revisit CC to review additional client files to obtain a better understanding of the issue at hand. 88% of CC's disbursements were made for assistance with rental arrearages. This form of assistance is considered a high risk due to its volume and nature. It is suggested that files are reviewed for all

clients that received assistance in rental arrearage greater than \$3,500. This would provide a 68% testing coverage for these disbursements. An additional 5-10 files should be selected from the remaining population to provide additional coverage. **(See CC Spectrum-MBHP work paper)** These files should also be examined thoroughly in order to discover fraudulent behavior between tenant and property owner that may have been initially overlooked.

Other Considerations:

The following are future considerations for CC regarding the HPRP and other assistance programs:

- Establish proper guidelines for CC for accepting applicants
- Create literature and/or training program
- Limit the number of clients for CC due to lack of personnel
- Require CC to hire additional personnel

Appendix F: Summary of Questionable Expenditures

Boston DND - Questionable Use of Funds			
Category	Finding	Amount	Percentage of Grant
Victory Programs	Should be Administrative Expense	\$151,300	1.8%
Bay Cove ¹⁷	Funds paid to ineligible recipients	16,000	0.2%
Urban Edge ¹⁸	Funds paid to ineligible recipients	70,000	0.9%
Catholic Charities ¹⁹	Funds paid to ineligible recipients	62,820	0.8%
Arrearage	Potential Excessive Payments to Property Owners	302,549	3.7%
Indirect Costs	Potential Excessive Fees Charged by Sub-Grantees	27,316	0.3%
Total		629,985	7.7%
DND Grant		8,209,151	

¹⁷ DND identified \$16,000 in approved payments for ineligible recipients by Bay Cove.

¹⁸ HUD is in the process of issuing a report about Urban Edge. HUD informed the OIG they expect to ask DND to return approximately \$60,000 to \$70,000 in grant funds for payments made to ineligible recipients.

¹⁹ The Boston City Auditor and DND identified serious documentation deficiencies with Catholic Charities case files. The OIG estimates the potential amount of “Funds Paid to Ineligible Recipients” by Catholic Charities to be \$62,280 by applying the average rate of potential ineligible payments made by Bay Cove and Urban Edge (15.54%) to the \$390,054 in payments approved by Catholic Charities.

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