



Issue Date	December 8, 2011
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Audit Report Number	2012-LA-1001
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TO: Maria F. Cremer, Acting Director, San Francisco Office of Community Planning and Development, 9AD

Dane Narode, Associate General Counsel for Program Enforcement, CACC

Tanya E. Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Housing Our Communities, Mesa, AZ, Did Not Administer Its Neighborhood Stabilization Program in Accordance With HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited Housing Our Communities' (subrecipient) Neighborhood Stabilization Program (NSP1) subgrant from the City of Avondale.

The audit was started primarily because the U.S. Department of Housing and Urban Development, Office of Inspector General's (HUD OIG) audit plan includes objectives to review Housing and Economic Recovery Act grantees and because a previous HUD OIG audit of the City of Mesa found indications that the subrecipient did not have appropriate procedures in place for procuring construction contractors and determining labor costs.

The objective of the audit was to determine whether the subrecipient complied with HUD's program requirements related to procurement, conflicts of interest, and cost eligibility for its NSP1 subgrant.

What We Found

The subrecipient did not comply with HUD's NSP1 requirements related to procurement, conflicts of interest, and cost eligibility. The subrecipient awarded 32 of its 44 NSP1 construction rehabilitation contracts to an affiliated for-profit entity that was operated by one of the subrecipient's key officials. For 26 of these contracts, the subrecipient did not attempt to ensure open and free competition as required. Without proper controls in place, subrecipient officials allowed this affiliated entity to bill inflated amounts and arranged to receive a portion of the excessive costs as a return payment. The subrecipient also charged unsupported employee labor costs to its NSP1 subgrant.

What We Recommend

We recommend that the Acting Director of the San Francisco Office of Community Planning and Development require the subrecipient to support or reimburse HUD for ineligible and unsupported costs totaling \$787,004 charged to its NSP1 subgrant. We also recommend that the Associate General Counsel for Program Enforcement seek civil or administrative action or both based upon the violations cited in this report.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft report to the subrecipient on October 13, 2011 and the City of Avondale on October 20, 2011, and held an exit conference with subrecipient and City officials on October 25, 2011. The subrecipient provided written comments on November 10, 2011. It strongly disagreed with our report and recommendations. The City also provided a written response on November 10, 2011 in which it provided some explanatory comments and generally indicated agreement with the report recommendations.

The complete text of the auditee's and the City's responses, along with our evaluation of those responses, can be found in appendix B of this report. The auditee and the City also provided additional documentation with their responses. We did not include this in the report because it was too voluminous; however, it is available upon request.

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BACKGROUND AND OBJECTIVE

The Neighborhood Stabilization Program (NSP1) was authorized under Division B, Title III, of the Housing and Economic Recovery Act of 2008 (HERA) and provides grants to all States and selected local governments on a formula basis. HERA appropriated \$3.92 billion in NSP1 funds for emergency assistance for redevelopment of abandoned and foreclosed-upon residential properties. NSP1 was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Generally, NSP1 funds must be used to buy, rehabilitate, and resell foreclosed-upon and abandoned homes. As long as the funds are used for this development, grantees may decide how to use the funds and what specific redevelopment activities to undertake.

Housing Our Communities (subrecipient) is a U.S. Department of Housing and Urban Development (HUD)-approved nonprofit housing counseling agency and has prior experience performing housing rehabilitation using HUD funding. On March 9, 2009, the City of Avondale, AZ, entered into an agreement with the subrecipient to administer more than \$2.2 million of the City's NSP1 grant funding to perform housing counseling, manage a downpayment loan assistance program, and perform housing rehabilitation services for homes that were previously foreclosed upon. The subrecipient was required to comply with HUD's NSP1 regulations including requirements related to procurement, conflicts of interest, and cost eligibility.

As of September 23, 2011, the grantee had drawn down more than \$2.1 million of the NSP1 subgrant funding. Remaining funds included \$13,541 for property rehabilitation, \$12,817 for counseling, and \$34,419 for downpayment assistance.

The objective of the audit was to determine whether the grantee administered its NSP1 grant in accordance with HUD's program requirements related to procurement, conflicts of interest, and cost eligibility.

RESULTS OF AUDIT

Finding: The Subrecipient Did Not Administer Its Neighborhood Stabilization Program in Accordance With Requirements

The subrecipient did not comply with NSP1 requirements related to procurement, conflicts of interest, and cost eligibility. It awarded 32 construction rehabilitation contracts to an affiliated for-profit entity, and in 26 of these cases, the subrecipient did not attempt to ensure open and free competition as required. Subrecipient officials allowed this related-party entity to bill inflated amounts and arranged to receive a portion of the inflated charges as a return payment. The subrecipient also charged unsupported employee labor costs to the NSP1 subgrant. These problems occurred because the subrecipient failed to implement adequate controls to ensure compliance with NSP1 requirements. As a result, the subrecipient incurred construction and labor costs totaling \$787,004 that were unsupported or ineligible.

The Subrecipient Did Not Follow NSP1 Procurement Requirements

The subrecipient awarded NSP1 construction contracts to a related-party entity without following required procurement procedures. The regulations at 24 CFR (Code of Federal Regulations) 84.43 required that the subrecipient conduct all procurement transactions in a manner to provide, to the maximum extent practical, open and free competition. These regulations further required that the subrecipient be alert to organizational conflicts of interest and exclude from competing contractors that had developed the project specifications or statements of work. Additionally, the regulations at 24 CFR 84.45 required that the subrecipient conduct a cost or price analysis for each procurement action, including an evaluation of each element of cost to determine its reasonableness, allocability, and allowability.

The subrecipient awarded 26 of its 44 NSP1 construction contracts for amounts totaling \$387,365 to its own subsidiary company, HFM Builders, without obtaining multiple price quotations or otherwise attempting to ensure open and free competition as required. This arrangement further violated the NSP1 procurement requirements because, as discussed below, HFM Builders had a prohibited conflict of interest with both the subrecipient and one of its key officials. Also, the subrecipient's property development director drafted the contract specifications and statements of work, yet also was affiliated with HFM Builders. The subrecipient did not document that a valid cost analysis was performed as required.

For two additional NSP1 projects, the subrecipient awarded three construction contracts totaling \$29,420 to contractors other than HFM Builders without ensuring open and free competition or documenting that a valid cost analysis was performed.

Because the subrecipient did not document that the costs associated with these contracts were eligible in accordance with NSP1 procurement requirements, the associated costs totaling \$416,786 were unsupported.

Subrecipient Officials Violated NSP1 Conflict-of-Interest Requirements

The subrecipient awarded NSP1 construction contracts without following HUD's NSP1 requirements related to conflicts of interest. The regulations at 24 CFR 84.42 required that the subrecipient's employees, officers, or agents not participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest was involved. This regulation specified that such a conflict would arise if the employee, officer, or agent; any member of his or her immediate family; or an organization which employed any of these parties had a financial or other interest in the firm selected for an award.

The subrecipient did not comply with these requirements because it awarded 32 of its 44 NSP1 construction contracts (including the 26 contracts noted above) totaling \$435,049 to its for-profit subsidiary company, HFM Builders. This entity had a conflict of interest with both the subrecipient and two of its key employees. For example,

- As an employee of the subrecipient, the property development director signed construction contracts with HFM Builders. However, this same individual was a director of HFM Builders and managed its operations.
- The property development director administered the NSP1 construction activities as an employee of the subrecipient yet also administered the activities of HFM Builders. For example, as an agent of the subrecipient, he inspected construction work that was completed under contracts with the company he managed, HFM Builders. This individual also submitted invoices to the subrecipient as an agent of HFM Builders and then approved these invoices as an agent of the subrecipient.
- The property development director was an employee of the subrecipient and also had a financial interest in HFM Builders because he received payments as a result of the NSP1 contracts that were awarded to this entity. In this case, he had an incentive to facilitate higher NSP1

construction contract amounts because the payments he ultimately received were based upon a percentage of the construction contract amounts. As discussed below, this arrangement resulted in contract amounts that were apparently excessive.

- The subrecipient’s vice president, who processed and approved NSP1 payment requests to the City of Avondale, was an immediate family member of the property development director. Because the property development director had a prohibited conflict of interest with HFM Builders, as discussed above, the vice president, as a family member, also had a prohibited conflict of interest.
- The subrecipient awarded contracts to HFM Builders, yet also received payments from HFM Builders as a result these contracts. These funds were then available for use at the subrecipient’s discretion. The subrecipient, as an entity, had an incentive to facilitate higher contract amounts because the return payments from HFM Builders were based upon a percentage of the contract amount.

Because the subrecipient did not document that the costs associated with these 32 construction contracts were eligible in accordance with NSP1 requirements related to conflicts of interest, HUD did not have adequate assurance that the NSP1 grant funds were expended in accordance with program requirements. The associated contract amounts totaling \$435,049 were unsupported.

The Subrecipient Incurred Ineligible NSP Construction Costs

Subrecipient officials took advantage of the arrangement discussed above and the associated lack of procurement and contract administration controls by billing inflated construction costs and arranging to convert a portion of the NSP1 grant funds for discretionary use by the subrecipient and personal use by one of the subrecipient’s key officials. Office of Management and Budget (OMB) Circular A-122, Attachment A, Paragraphs A.2 and A.3, require that to be allowable under an award, the subrecipient’s costs must be adequately documented and reasonable. It states:

“A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.”

The subrecipient did not comply with these requirements for its NSP1 grant because it incurred construction costs that were not ordinary and necessary and not subject to the restraints imposed by sound business practices or arms-length bargaining. As discussed below, subrecipient officials awarded NSP1 construction rehabilitation contracts to a related-party entity and then used this arrangement to divert a portion of the grant funds without regard for their responsibilities to the intended program beneficiaries or the Federal Government.

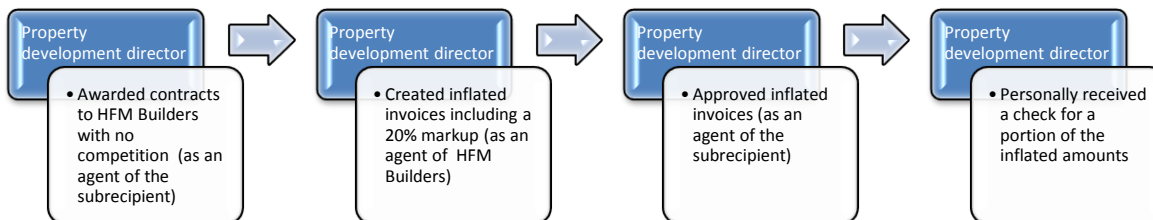
Subrecipient Officials Used a “Shell” Entity To Bill Inflated Amounts

After awarding 32 construction contracts to HFM Builders, subrecipient officials used this entity as a “shell” or “paper company” to generate inflated construction invoices. HFM Builders did not perform actual construction services related to these contracts. Subrecipient officials had an informal arrangement with an individual who agreed to act as the general contractor and manage the actual construction work. This individual coordinated the use of subcontractors and paid for labor and materials using his personal funds. The only apparent service performed by HFM Builders was to generate inflated invoices. The subrecipient’s property development director, acting as an agent of HFM Builders, accepted invoices from the individual who performed the work and created new invoices on HFM Builders letterhead that included an additional 20 percent charge.

The subrecipient’s property development director then “submitted” the inflated invoices to himself, acting as an agent for the subrecipient, and approved the inflated invoices. These invoices were apparently also approved by the subrecipient’s president.

Funds from the 20 percent charge added by the HFM Builders shell entity were then paid back to the subrecipient and were available for use at the subrecipient officials’ discretion. Subrecipient officials used a portion of these funds to issue checks to the property development director, thus effectively converting a portion

of the NSP1 funds for his personal use. The diagram below demonstrates the role of the subrecipient's property development director under this arrangement.



The subrecipient used the inflated invoices from HFM Builders to support NSP1 draw requests to the City of Avondale. In total, the subrecipient billed \$72,852 in added fees associated with this billing arrangement. Because HFM Builders did not perform a valuable and necessary service, this added 20 percent charge was unnecessary.

It should be noted that in addition to the 20 percent markup charge added by its subsidiary, the subrecipient charged a fixed fee of \$4,900 per property for overseeing the grant. For example, for one property, the subrecipient billed \$4,900 for “homebuyer assistance,” and its subsidiary received \$4,600 as a result of its 20 percent markup on construction costs. These amounts received by the subrecipient totaled approximately 40 percent of the total construction costs charged to the NSP1 grant in this case. These costs were in addition to a \$2,600 fee charged by the subrecipient for counseling and education services. As discussed later in this report, these labor costs were also not properly supported.

Subrecipient NSP1 Construction Costs Appeared Excessive

In addition to the 20 percent markup amount added by the subrecipient's subsidiary, HFM Builders, the subrecipient's NSP1 construction costs appeared significantly excessive and in some cases, unnecessary. With the assistance of a HUD OIG inspector-appraiser, we analyzed the subrecipient's NSP1 construction rehabilitation costs on a sample basis by comparing the contract costs to

1. Construction cost estimation data sources,
2. Actual costs for the labor and materials based on invoices and receipts from the individual who managed the construction work, and
3. Costs for similar work charged by other general contractors under the subrecipient's NSP1 grant.

Note that this analysis only included a sample of the subrecipient’s NSP1 projects and was not designed to establish an exact amount of the excessive charges for each project. However, the results of this review demonstrated a pattern of excessive and unnecessary charges to the NSP1 grant associated with contracts between the subrecipient and its subsidiary, HFM Builders.

For a nonstatistical sample of 4 of the 32 contracts awarded to HFM Builders, the appraiser first evaluated the reasonableness of the project construction costs by comparing the contract costs to two cost estimation data sources including “RSMMeans” and the Housing Developer Pro 3 cost estimation software program. Based upon his evaluation of these data, review of pricing data from local suppliers, and experience in the construction trade, the appraiser concluded that the contract costs were clearly excessive and, therefore, not reasonable in accordance with the cost requirements of OMB Circular A-122, Attachment A, Paragraph A.3.

After determining that the costs appeared generally excessive based upon a review of cost estimation data sources, we obtained and reviewed documentation showing the actual labor and materials costs to determine whether the amounts paid were commensurate with the amounts billed to the NSP1 grant. For a nonstatistical sample of 4 of the subrecipient’s 32 NSP1 contracts awarded to HFM Builders, we obtained invoices and receipts from the individual who performed the construction work. The documentation provided did not include receipts for some of the contract work. However, the invoices and receipts demonstrated a pattern of contract costs that were unreasonably high with respect to the actual costs. As shown in the table below, the costs for the four sample contracts reviewed were between 67 and 161 percent more than the actual costs shown on the receipts and invoices provided. According the HUD OIG appraiser, the excess amounts charged far exceeded a reasonable profit amount of approximately 10 percent that would be expected in an arm’s-length transaction.

HFM Builders’ total contract costs vs. actual costs

Property	HFM contract total	Actual costs documentation	Difference between contract and actual costs	Percentage difference between contract and actual costs	Contract amounts for work with no receipts
1819 N. 120th Drive	\$29,634	\$17,794	\$11,840	67%	\$197
11372 W. Davis	\$42,105	\$22,412	\$19,693	88%	\$1,644
11820 W. Virginia	\$29,586	\$16,891	\$12,695	75%	\$1,442
11166 W. Garfield	\$18,492	\$7,074	\$11,418	161%	\$2,628

The following table includes examples of contract costs from the four sample properties that were not reasonably commensurate with the amounts billed to the NSP1 grant.

Specific examples: HFM Builders’ contract costs vs. actual costs

Contract item	HFM contract amount	Actual cost	Excess between contract and actual costs	Percentage more than the actual cost
6185-replace central air conditioning unit-14 SEER*	\$6,583	\$4,750	\$1,833	39%
Replace 8 windows,1 sliding glass door	\$8,302	\$5,485	\$2,817	51%
2820-install shade screens	\$1,769	\$836	\$933	112%
Flooring removal	\$4,650	\$2,250	\$2,400	107%
Plugs, switches, cover plates	\$1,714	\$607	\$1,107	182%
Window replacement	\$11,730	\$6,676	\$5,054	76%
Custom window package	\$12,952	\$8,008	\$4,584	57%
6175-heat pump replace - 16 SEER	\$10,932	\$6,850	\$4,082	60%
5970-carpet and pad - living room	\$7,080	\$1,492	\$5,588	374%

* SEER = seasonal energy efficiency ratio

Costs under contracts with HFM Builders were also excessive compared to amounts charged by the subrecipient’s other NSP1 contractors. Further, HFM Builders bid lower amounts when some form of competitive procurement was used. We reviewed available procurement documentation for the subrecipient’s 44 NSP1 construction contracts to identify pricing variation between contractors for specific costs. Since each contract included different rehabilitation work, we only compared the costs for specific rehabilitation work items that appeared substantially similar between the contracts. The table below includes a comparison of amounts charged or bid by (1) HFM Builders under contracts with no competition, (2) HFM Builders under contracts with some form of competition, and (3) other contractors under contracts with some form of competition. These examples further demonstrate a pattern of excessive costs associated with the subrecipient’s contracts with HFM Builders that were awarded in violation of procurement and conflict-of-interest requirements.

<u>Contract item</u>	<u>HFM</u> <u>Builders' avg.</u> <u>cost - no</u> <u>competition</u>	<u>HFM</u> <u>Builders' avg.</u> <u>bid -</u> <u>competition</u>	<u>Other</u> <u>contractors'</u> <u>avg. cost</u>
6720-trap replace	\$58	\$38	\$34
7595-receptacle-GFCI,* countertop-15 AMP**	\$78	\$19	\$38
6645-shutoff valve	\$109	\$60	\$37
7735-light fixture globe	\$200	\$56	\$25
8722-carbon monoxide detector-GCI***	\$210	\$94	\$149
7810-smoke detector-hard wired	\$147	\$133	\$67
7010-commode replace-1.6 GPF**** GCI	\$255	\$193	\$181
6810-kitchen faucet-single lever GCI	\$331	\$232	\$185
8017 Energy Star ceiling fan light fixture	\$474	\$380	\$229
7819-fan-light fixture-Energy Star	\$456	\$375	\$215

* GFCI = ground fault circuit interrupter

** AMP = ampere: a unit of electrical current

*** GCI = ground circuit interrupter

**** GPF = gallons per flush

Some Construction Costs Appeared Unnecessary

Some of the rehabilitation work under the subrecipient's contracts with HFM Builders appeared unnecessary. As part of its NSP1 subrecipient agreement with the City of Avondale, the subrecipient was required to comply with the property rehabilitation standards specified in the Maricopa County HOME Consortium Minimum Basic Housing Standards. Also, in accordance with OMB Circular A-122, Attachment A, Paragraph A.3.a, the subrecipient was required to ensure that all costs charged to the NSP1 grant were necessary for the performance of the award.

The appraiser reviewed a nonstatistical sample of four of the subrecipient's NSP1 contracts and identified contract costs for the sample contracts that appeared unnecessary under the applicable requirements. For example, three of the four contracts included replacement of water shutoff valves, drainpipe traps, and toilets, although the home inspections completed before the repair work did not indicate a need for these items. Two of the four contracts included replacement air conditioning units, and two included replacement of all windows in the homes, although there was no indication that this replacement was necessary.

The appraiser inspected a nonstatistical sample of 35 of the subrecipient's NSP1-assisted properties and found that the contract repairs were generally completed in

accordance with the contract. However, the appraiser noted that many of these 35 properties included similar types of repair items that appeared unnecessary.

The Subrecipient Charged Unsupported Labor Costs

The subrecipient charged unsupported employee labor costs to its NSP1 subgrant. OMB Circular A-122¹, Attachment B, Paragraph 8.m, requires that the subrecipient account for the actual costs incurred (including direct and indirect salary costs) to determine the amount that can be charged to the grant. The circular does not include provisions for charging profit or other increments above cost to Federal grants. It also requires that costs be adequately documented. Pertaining to salary and wage costs, it states:

“Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.”

The subrecipient failed to comply with these requirements when it billed the NSP1 grant a fixed amount for its services without regard for its actual costs. The subrecipient incurred \$114,959 for counseling services and \$207,576 for “homebuyer assistance” services. The subrecipient did not provide documentation to support the amount of these charges. For example, the subrecipient did not provide time sheets and did not have an indirect cost allocation plan. Subrecipient officials stated that this violation of NSP1 requirements occurred, in part, because the City of Avondale allowed the subrecipient to bill labor charges using a flat fee amount.

The Subrecipient Lacked Adequate Internal Controls

The problems discussed above occurred and were allowed to continue because the subrecipient did not implement controls to ensure that it complied with procurement, conflict-of-interest, and cost eligibility requirements. The subrecipient had written policies and procedures in place related to procurement and conflicts of interest; however, the involved subrecipient officials chose not to implement these policies. The subrecipient did not have written policies and procedures regarding construction contract administration, such as procedures for

¹ Compliance with OMB Circular A-122 is required by 24 CFR Part 570, subpart J, compliance with which is required by the NSP1 notice (Federal Register Volume 73, Number 194, dated October 6, 2008).

approval of contractor payment requests, procedures for approving draw requests, and procedures for ensuring compliance with applicable property rehabilitation standards. The subrecipient did not implement adequate controls over its financial management systems to allow for proper allocation of labor costs among multiple activities and ensure the eligibility of its labor costs in accordance with OMB Circular A-122, Attachment B, Paragraph 8.m,. For example, the subrecipient did not maintain adequate time sheets or activity reports and did not have a method for properly allocating indirect costs.

We observed the following additional issues related to the subrecipient's failure to implement adequate internal controls over its NSP1 construction activities.

- For one NSP1 project, the construction contract with HFM Builders included a charge for \$4,500 to paint the interior of the home. However, there was no indication that this work was necessary, and the homeowners stated that this work was not performed by the contractor.
- For one NSP1 project, the subrecipient submitted a draw request to the City of Avondale that claimed payment for a \$5,579 change order when the change order was for only \$1,075. It appeared that this false claim was made to draw enough funds to pay the 20 percent charge added by the subrecipient's shell company, HFM Builders.
- For two NSP1 projects, the subrecipient did not have written contracts with the construction contractor.
- For seven NSP1 projects, the subrecipient entered into written contracts with HFM Builders before establishing the property's scope of work.
- For one NSP1 project, the subrecipient submitted a payment request for construction work (totaling \$7,784) to the City of Avondale before a construction contract had been executed.

Conclusion

The subrecipient failed to follow procurement, conflict-of-interest, and cost eligibility requirements, resulting in ineligible and unsupported NSP1 grant costs totaling \$787,004. Because the subrecipient did not have adequate documentation to support the eligibility of these costs, HUD did not have adequate assurance that the NSP1 grant funds were used for eligible purposes in accordance with program requirements. These violations were particularly significant in this case because subrecipient officials employed an arrangement to effectively convert a portion of

the NSP1 funds for their own use. Also, there was a pattern of apparently excessive costs under the associated contracts.

Recommendations

We recommend that the Acting Director, San Francisco Office of Community Planning and Development:

- 1A. Require the subrecipient to reimburse HUD \$72,852 for ineligible costs charged to the NSP1 grant as part of inflated invoices from the subrecipient's subsidiary, HFM Builders (see appendix C).
- 1B. Require the subrecipient to provide support or reimburse HUD for contract amounts associated with the 29 construction contracts that were awarded in violation of applicable procurement requirements. This amount includes \$387,365 for the 26 contracts awarded to HFM Builders and \$29,420 for the 3 contracts awarded to other contractors (see appendix C). Supporting documentation should include evidence showing that applicable procurement requirements were met and documenting that all costs incurred under the contracts met the applicable cost eligibility requirements of OMB Circular A-122.²
- 1C. Require the subrecipient to provide support or reimburse HUD \$362,197 for contract amounts associated with the 32 construction contracts that were awarded in violation of applicable conflict-of-interest requirements (see appendix C). Supporting documentation should include evidence showing that applicable requirements related to conflict of interest were met and documenting that all costs incurred under the contracts met the applicable cost eligibility requirements of OMB Circular A-122.² This amount includes the amounts associated with these contracts (\$435,049) less the costs reported under recommendation 1A (\$72,852) that were already established as ineligible.

² Cost eligibility should be determined based upon review of receipts or invoices, along with documentation evidencing payment, for the actual cost of labor and materials purchased through vendors or subcontractors. Because the contracts were awarded under a conflict-of-interest arrangement, invoices from the subrecipient's subsidiary, HFM Builders, or other affiliated parties are not reliable for establishing the eligibility of cost amounts under the contracts. Documentation supporting the eligibility of costs should also include evidence that the repair items specified in the construction contracts were necessary in accordance with the applicable property rehabilitation standards.

- 1D. Require the subrecipient to provide support or reimburse HUD \$322,535 for unsupported labor costs billed to the NSP1 grant. Cost eligibility should be determined based upon review of documented payrolls and activity reports that meet the requirements of OMB Circular A-122, Attachment A, Paragraph 8.m.
- 1E. Require the subrecipient to implement adequate controls to ensure compliance with applicable regulations related to procurement, conflicts of interest, and cost eligibility for any further activities involving the use of HUD funding.

We recommend that HUD's Associate Counsel for Program Enforcement

- 1F. Pursue civil or administrative sanctions, as appropriate, against the subrecipient based upon the violations cited in this report.

SCOPE AND METHODOLOGY

We performed our audit from February to September 2011 at the grantee's offices at 251 West Main Street, Mesa, AZ. The audit generally covered the period January 2009 to December 2010, although some of the transactions reviewed occurred outside these dates.

To achieve our objective, we

- Reviewed HUD handbooks, the Code of Federal Regulations, Federal Registers, OMB circulars, and other requirements and directives that govern NSP1.
- Reviewed subrecipient accounting records and policies and procedures.
- Reviewed the subrecipient's NSP1 subrecipient agreement with the City of Avondale.
- Reviewed procurement documentation provided by the subrecipient for the 44 NSP1-assisted construction rehabilitation projects to determine whether NSP1 procurement procedures complied with NSP1 requirements.
- Interviewed subrecipient staff and HUD Office of Community Planning and Development program staff.
- Reviewed a nonstatistical sample of four NSP1 contracts awarded to HFM Builders and compared the contract costs to two cost estimation data sources including "RSMeans" and the Housing Developer Pro 3 cost estimation software program.
- Reviewed a nonstatistical sample of four NSP1 contracts awarded to HFM Builders and compared the contract cost amounts shown on invoices and receipts obtained from the individual who performed the construction work.
- Reviewed available procurement documentation for the subrecipient's 44 NSP1 construction contracts to identify pricing variation among contractors for specific costs.
- Reviewed a nonstatistical sample of four NSP1 contracts and identified contract costs that appeared unnecessary.
- Conducted site visits to 35 NSP1 construction rehabilitation project sites to evaluate the completeness of the rehabilitation.
- Researched the Lexis-Nexis public records database and Arizona Corporation Commission Web site for possible affiliations and conflicts of interest.
- Examined payment invoices submitted by the subrecipient for counseling and rehabilitation services.

- Evaluated whether the subrecipient's labor costs charged complied with OMB requirements.

We were unable to determine the portion of the subrecipient's labor costs that was ineligible because complete documentation regarding the actual costs was not available for us to review and validate at the time of the audit.

We were also unable to determine the portion of the subrecipient's construction costs that was eligible because detailed and complete documentation regarding the actual costs was not available for us to review and validate at the time of the audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Policies and procedures that were implemented to ensure that program activities complied with applicable laws and regulations.
- Policies and procedures to provide reasonable assurance that funds were used only for authorized purposes.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The subrecipient did not have controls in place to ensure compliance with NSP1 requirements related to procurement, conflicts of interest, and cost eligibility (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1A	\$72,852	
1B		\$29,420
1C		\$362,197
1D		\$322,535
Total	\$72,852	\$714,152

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. Ineligible costs for recommendation 1A represent the unnecessary markup amounts that were added to construction invoices by the subrecipient's subsidiary, HFM Builders.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Unsupported costs for recommendation 1B represent costs associated with three contracts awarded (to contractors other than HFM Builders) in violation of NSP1 procurement procedures.

Unsupported costs for recommendation 1C represent the amounts associated with the 32 contracts the subrecipient awarded in violation of conflict-of-interest requirements, less the amount that was already determined as ineligible under these contracts for recommendation 1A. A portion of the unsupported costs related to recommendation 1C is also unsupported under recommendation 1B. This is because the 26 contracts awarded to HFM Builders in violation of NSP1 procurement requirements (recommendation 1B) were also awarded in violation of conflict-of-interest requirements (recommendation 1C). To avoid "double counting," the unsupported amounts associated with these 26 contracts are only included under recommendation 1C of this appendix. Unsupported costs for recommendation 1D represent labor costs billed to the NSP1 grant that were not adequately supported with payroll and activity reports.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



November 9, 2011

Tanya E. Schulze
Regional Inspector General for Audit
Office of Inspector General
611 West sixth Street, Suite 1160
Los Angeles, California 90017-3101


Dear Ms. Schulze:

The following is respectfully submitted in response to the audit report dated October 13, 2011 (the "Audit Report") provided to our office for review and comment.


Response to Audit Results. Housing Our Communities (HOC), identified in the Audit Report as "subrecipient", strongly disagrees with the findings and recommendations contained in the draft report provided to the subrecipient by the Office of the Inspector General ("OIG"). We are quite concerned with the overall tone in the audit report, as its misleading choice of words paints a picture of corruption and greed which is simply not true. We believe that the audit unjustly attempts to discredit, cause harm, and destroy the reputation as well as the future opportunities of HOC to work in the low-income housing development field.

Under no circumstances would HOC jeopardize its successful track record, the relationships with its partners, or the public's expectation that it will properly expend federal program dollars in a fair and non-discriminatory manner. HOC, its Board of Directors and staff would never cause harm to the program and its clients in favor of personal gain.

We believe that OIG exhibited an over zealous presentation of information to spin a story that was intended to build a case against HOC. OIG discovered that an employee with significant fiscal responsibility was disgruntled and began communication with said employee through his personal email and cell phone so that HOC would be unaware of the communications. See Exhibit A. Using such unethical and unprofessional means, OIG then perceived and/or created a muddled story by stringing together bits and pieces of information gleaned from this source without properly vetting the information for truthfulness and accuracy, without taking into account the very relevant larger context and circumstances, and without first giving HOC an opportunity to clear up misperceptions. The audit report includes innuendos, accusations, and inflammatory statements that extrapolate assumptions of deliberate wrong-doing from data reviewed without an understanding of other factors which explain why the data as presented does not support a conclusion of willful wrong-doing. We believe that proper due diligence was not exercised; the report exceeds the boundaries of what is fair and reasonable, and the overall audit presentation is egregious in nature.



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"Our mission is to strengthen families, neighborhoods, and communities through quality housing"

Comment 2

HOC has requested that there be changes made to language use, the removal of inflammatory remarks and that the OIG refrain from its efforts to string together information which accuses HOC of a grand scheme of misuse of funds.

Conflict-of-Interest.

HFM Builders, Inc. (“HFM Builders”), a separate Arizona corporation originally created in 1998 to better enable HOC (then known as Housing For Mesa, Inc.) to meet its obligations to the families it assists, has been portrayed in the OIG report as a sham enterprise used for the sole purpose of inflating costs to provide funds for the personal use of HOC’s staff. Nothing could be further from the truth. HFM Builders was created with the assistance of CPD, and it was not used as a “shell” entity to bill inflated amounts. HOC was advised to use a separate entity in order to minimize any danger to HOC’s (then HFM’s) 501(c)(3) status, as well as to provide prudent separation between entities for normal limitation of liability purposes. See Exhibit B. The goal of HFM Builders was to be efficient, responsive and focused on HOC matters. Although HFM Builders could do business with others, its primary focus was to ensure timely and competent completion of the homes of those families assisted by HOC in order to minimize the chance that a family would lose its qualification status due to contractor delays. Further, at its origination, HOC (then known as HFM) believed that the creation of HFM Builders would provide a certain level of savings through the convenience of continuity and timely delivery of construction services, as well as promote long-term affordability to low-income families by controlling escalating construction costs through streamlined construction phasing. We have requested that the reference to a “shell” entity be removed from the Audit Report. The entity has been successful in that it provided a very necessary service, as described above. While it was a profit entity out of necessity (as explained below), HFM Builders has never been a source of profit for its shareholders or any individuals, as that was not the purpose of the company. HOC (then known as HFM) was a 50% shareholder (any higher percentage of control would have subjected HFM to possible unrelated business taxable income (“UBTI”), and at the time, the HFM Board did not want to risk that result. A friendly but independent entity held 1%, and an Arizona licensed contractor carefully selected through a competitive bidding process held the other 49% of the shares.

At its formation, and for a period of over ten (10) years, such selected third-party contractor served as a 49% shareholder of HFM Builders, as that contractor was the qualifying party for its license, and under the Arizona contracting laws, the contractor had to be a shareholder of the company in order for the contractor to serve as the qualifying party for another’s license (where the contractor had and wanted to maintain a separate contracting business in addition to HFM Builders). There can be no shareholders of non-profit entities, so a profit entity format was adopted. Once the contractor shareholder left the company, his shares were redeemed by the corporation, and the license and resulting authority to act belonged to HFM Builders, as the entity was, by then, exempt from the requirement of a qualifying party under Arizona law. Further, a comfort level had been built over time by HOC’s accountants that UBIT was not likely with this entity. HFM Builders had the license, the proper insurance, and the

Comment 3

legal authority to provide construction related services. HFM Builders has performed construction services for one other non-profit using federal funds. Its primary focus is, again, to serve HOC-assisted families in our communities, including for the Avondale program. See Exhibit C. HOC provides administrative services to HFM Builders, and all proceeds from HOC's administration of HFM Builders are used to pay acceptable and standard costs directly applicable to the work performed for HFM Builders. HFM Builders engaged [REDACTED] (a 1099 consultant), as a project supervisor, and [REDACTED] agreed that in situations where advance funds are not available, [REDACTED] would front the costs of materials, and HFM Builders would reimburse him upon receipt of payment from the contracts applicable to the work performed. HFM Builders has worked with a variety of jurisdictions over the years, it has never been debarred, and it remains in good standing with both the Arizona Corporation Commission and the Registrar of Contractors. This corporation is not a shell corporation, nor is its function to generate inflated invoices.

Comment 4

Comment 5

Any reference to control or ownership of HFM Builders must be properly identified. Proper due diligence in reviewing the creation and corporation status of HFM Builders would have uncovered the fact that HOC is the current shareholder of HFM Builders, not any one individual. See Exhibit D. Any references or assumptions portrayed in the Audit Report that any one individual owned, controlled, or had a financial interest in HFM Builders are completely inaccurate.

Comment 6

Construction and Labor Costs; Billing; Internal Control Issues. As stated above, HFM Builders was formed specifically to serve as a contractor devoted to HOC, thereby minimizing the danger that a family would lose its qualification for grant due to contractor inefficiency. There are reasons for the charges addressed by the auditor, and such reasons ranged from the fact that the time-lines were extremely aggressive and required extra effort to the fact that the specific work items had special challenges as these were foreclosed homes, many of which had been unoccupied for months and were in various states of deterioration. With such circumstances come challenging conditions. For instance, a water heater that might be well within its natural life may need replacing because it has been dormant and unused for a period of months, thereby rendering it unusable. Further, the goal has always been to use energy efficient products with an eye towards long-term functionality rather than to install the cheapest equipment on the market. This is what was best for the families, and it was HOC's approach, as it was our understanding that it met the HOME Consortium minimum standards created in 2005.

Comment 7

The property director employed by HOC to administer HFM Builders' activities was doing so at the direction of HOC's president as part of HOC's services to HFM Builders. There is a significant difference between following direct employer instructions for an employee's job performance and evaluation and having ultimate decision-making power over any of the company's activities. The property director had no ultimate decision-making power. OIG's comments appear to be a witch-hunt inspired by skirting the proper investigation of HOC's employment practices and hierarchy of authority, and instead developing a story that skewed the facts to invent an appalling story.

Names have been redacted for privacy reasons

Comment 8

All invoices were approved by the President of HOC; only the President had the final authority. Both the property director and vice president worked under the authority and direction of the President.

Comment 9

OIG's claim that HOC overcharged on specific construction items, and its determination that all of the construction dollars should be returned simply because of procurement and conflict issues is both absurd and outrageous. OIG reviewed less than 3% of individual construction line items in less than 9% of the properties receiving rehabilitation/construction. Obviously, an evaluation based upon less than 3% of a complete body of work would be misleading and would lead to conclusions while ignoring conscientious fact finding scientific methods of research.

Comment 10

Neither HOC, nor any of its subsidiaries or employees, converted federal funds for discretionary use and/or personal use by/or for any employee. Salaries for HOC employees were not excessive, and to refer to normal and, in fact, modest, compensation for work performed in the course of their employment as "personal use" is inflammatory and misleading. We have requested that any references to such be removed from the report. There has been no conversion of funds for personal use. HOC was paid a reasonable amount for the services it provided to HFM Builders under the contract's short-time frame and other challenging circumstances. See Exhibit E. HOC employees were paid for their work performed at the direction of HOC. No one was overpaid, and no one was made rich. In actuality, a lot of hard work was performed by very few people. The property director's workload essentially doubled due to the aggressive completion schedule proposed.

Comment 11

The finance director was assigned the authority to develop and implement financial policies in accordance with Government Auditing Standards, and he was directed to work closely with our auditor to ensure that any invoice system for HOC and HFM Builders would meet any and all proper accounting tests. All invoices met his approval and the appropriate accounting and auditing criteria that we are required to implement through our contracts. All said tests administered by the finance director, and ultimately by our auditor, met those accounting standards. We have requested that the shameful reference to HFM Builders having a "billing scheme" be removed.

Comment 12

Additionally, we have requested that any misleading reference to HOC having a self-dealing arrangement with HFM Builders be removed. That reference is unfounded and is clearly an accusation to damage the character of the corporation. HOC has always fully disclosed its relationship with HFM Builders to all of its partners, all of its government jurisdictions, and directly to HUD itself.

Comment 13

Finally, under the accusation of unsupported labor costs, the report indicates: "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization." The President of HOC approved all payroll and related charges as the responsible official of the organization.

Comment 14

Our charges during the Avondale NSP 1 contract were paid through a flat fee schedule approved by the City of Avondale (the "City"), the cognizant agency in this case. See Exhibit F.

Additionally, HOC did make available the CounselorMax reports for all clients receiving education and counseling. These records were proof of time spent on each individual client, and CounselorMax is the HUD approved Client Management System. Apparently, these reports were ignored by OIG staff.

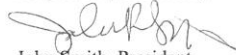
Comment 15

Response to Recommendations; Conclusion. Frankly, HOC is appalled that OIG would request all material and labor costs to be completely recovered. Clearly, the work was completed. Absolutely, qualified families and individuals received client services and purchased homes through the program. To ignore the great work and services provided by HOC on behalf of the city of Avondale is shameful. OIG has ignored and overlooked the work performed by HOC in its 22 years of service to the state of Arizona. Our outstanding reputation and work track record have always stood the test of scrutiny and criticism. We strongly disagree with OIG and its recommendations to go after the corporation and its employees. HOC has requested that in Recommendation 1F that any reference to personnel be removed, and we have been assured that they will remove such reference.

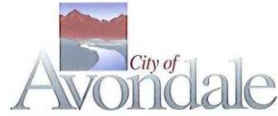
HOC will work closely with both the city of Avondale and our local HUD office to review and address the issues from this audit. The Board of Directors of HOC has already begun its work to strengthen our internal controls and has instructed staff to work closely with the City of Avondale. The Board will work with its consultants to develop internal controls to ensure that it complies with procurement, conflict-of-interest, and cost eligibility requirements.

The Board will continue to develop a stronger relationship with its jurisdictions and partners. The Board believes that we will improve and will continue to act as stewards for our communities and the low-income families and individuals that we serve.

Respectfully submitted,



John Smith, President
Housing Our Communities, Inc.



November 10, 2011

Tanya E. Schulze
Regional Inspector General for Audit
HUD Office of the Inspector General, Region IX
611 W. Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Dear Ms. Schulze:

Thank you for the opportunity to comment on your audit of Housing Our Communities (HOC), service provider for the City of Avondale Neighborhood Stabilization Program (NSP1). We agree that in some instances HOC did not administer NSP in accordance with all requirements. When these anomalies were identified we made recommendations to correct them. These recommendations were based on the most current and available information and guidance provided by the US Department of Housing and Urban Development (HUD) at the time NSP1 was being implemented. In addition to this response, additional detailed information is needed to make a complete and accurate assessment of HOC's activities and operations.

Background

The City of Avondale submitted an application to receive allocated NSP1 funding in November 2008. The contract with HUD for NSP1 was effective March 19, 2009. Given the 18-month obligation deadline, Avondale staff conducted a procurement process in advance of receiving the HUD contract and subsequently executed an agreement with HOC on March 24, 2009. NSP1 was a new program and there was a degree of ambiguity in terms of what was allowable. While similar to the CDBG program, many differences existed between traditional CDBG and NSP1. Additional guidance that would have impacted the structure of our contractual relationship with HOC was not provided by HUD until August 2010 (see Attachment A: NSP Policy Alert, August 27, 2010).

Responses to Findings

1. **Finding:** Subrecipient Officials violated conflict of interest requirements

Response: NSP1 required that this program be encumbered within 18 months of the City executing the NSP contract with HUD. In order to meet this deadline the City of Avondale sought providers that were able to deliver more than one service at the time to expedite progress. The intention of the City when procuring an agency to provide these services was to treat said agency as a developer that would provide rehabilitation services as well as homebuyer education and counseling services, which would enable HOC to use its subsidiary HFM Builders to perform rehab work. As such, the term subrecipient in the agreement was erroneous. Avondale's program, under eligible use B, allowed for acquisition, rehabilitation and resale as well as direct homebuyer assistance. The City's intention was to use a buyer driven approach but allowed for acquisition, rehabilitation and resale as a secondary

Comment 16

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approach. It is important to note that at that time it was not clear that a developer could not also provide homebuyer education and counseling as official guidance was not provided by HUD until August 2010 (see Attachment A: NSP Policy Alert, August 27, 2010). This issue was further clarified later and discussed by [REDACTED] of HUD who stated that one agency could provide both services but separate contracts were required for those services (Attachment B: *Admin Costs versus Program Delivery*, webinar transcript excerpt, April 21, 2011).

Comment 17

2. **Finding:** The Subrecipient incurred ineligible NSP construction costs

Response: If ineligible costs exist, we request that only the amount which is considered to be ineligible or in excess be disallowed and not the entire amount as recommended by the OIG, given that construction work was, in fact, completed. The determination of reasonable and substantiated costs is discussed below under number 4.

Comment 18

3. **Finding:** Subrecipient officials used a "shell" entity to bill inflated amounts

Response: The City of Avondale was not aware of, nor did the City approve the 20% administrative fee included on HFM construction invoices or the portion of that fee that served as incentive pay to the property development director. We agree that HOC should repay this 20% fee, inclusive of any incentive amounts paid to staff.

Comment 19

The existence of HFM Builders at the time seemed to be an asset that would assist HOC in expediting the education, counseling and placement of homebuyers while having the ability to expeditiously coordinate the rehab of those properties. It was viewed as an important organizational arm that would facilitate HOC's developer role. It is our understanding that HFM Builders functions as a registered contractor and that it holds the required bonds and insurance required by federal regulations.

Comment 20

4. **Finding:** Subrecipient construction costs appeared excessive

Response: This finding in part relies on a non-statistical sampling technique and an audit of four units that apparently contained inflated or unnecessary costs. Non-statistical techniques can be misleading as they can be selective by choosing the most obvious cases where items may seem to be inflated or unnecessary without providing an in-depth analysis of all that what was completed. Consideration should be given to items such as brands, additional work to bring items up to code, internal or hidden work not normally visible to name a few. Furthermore a sample of approximately 10 percent is not representative of work that can be extremely diverse depending on the condition of the house in question. The reasonableness of costs on the whole cannot reasonably be extrapolated based on a sample.

Comment 21

Based on our recent cursory review of rehab costs, on the surface, some of those costs may appear to be excessive. However, based on our preliminary screening, the majority of the construction costs can be substantiated. If excessive costs exist, we request that only the amount which is considered to be excessive be disallowed and not the entire amount. More time is necessary to fully review all completed projects, scopes of work and actual completed items per residential unit. This will also include a review of existing, valid documentation. City staff need an adequate amount of time to develop a comparative analysis based on an internal review of all rehabilitated homes and additional estimates from independent local contractors. The City of Avondale will submit a comprehensive and itemized list of reasonable and substantiated costs by December 9, 2011.

5. **Finding:** Some construction costs appeared unnecessary

Comment 22

Response: It seems that HOC may have incurred some unnecessary construction expenses. However, the City of Avondale will again require more time to further research this finding. Furthermore, it should be noted that the rehabilitation standards specified in the agreement were the minimum threshold. In an effort to increase the long-term sustainability and livability of the units, an emphasis was put on improving overall energy efficiency, reducing water consumption and ensuring that all systems would function properly for the homeowner. Although Avondale homes were generally less than 10 years old, most abandoned and foreclosed homes at that time contained damage due to vandalism or as a result of being vacant for extended periods.

NSP1 As authorized under the Housing and Economic Recovery Act supported improving the energy efficiency of homes purchased under the program: "Rehabilitation may include improvements to increase the energy efficiency or conservation of such homes and properties or provide a renewable energy source or sources for such homes and properties." (Attachment C: HERA 2008, TITLE III, Sec 2301 (d)(2) Rehabilitation) Furthermore, the City of Avondale is also committed to sustainability by enhancing the quality of life of our residents by providing them with healthier and affordable housing. We aim to provide housing that is durable and affordable to operate and maintain which includes reducing energy and water consumption while improving indoor air quality, day lighting and thermal comfort in a completely functional unit. These goals were communicated to HOC and also included in the contract. Some units needed additional work to meet these standards and may reflect some of the additional costs incurred. In order to submit a complete and accurate assessment of adequate and necessary cost and expenses, the City of Avondale will need more time to re-visit all completed projects and review each and every item per the scope of work.

6. **Finding:** The Subrecipient charged unsupported labor costs

Response: The City did pay a fixed fee for counseling services, however; documentation that supports the amount of this fee is available and was maintained by the subrecipient. Costs specific to counseling can be supported by HOC's payroll records. While the payroll records do not breakdown time spent on each program, information from the counseling database does track time spent by counseling staff with specific clients. A report showing time spent with those clients that were counseled specifically for the Avondale NSP program serves as an activity log. When this information is combined, the actual labor costs can be extrapolated to support those costs.

Comment 23

Also included in the counseling services fee was the required education. These costs can also be substantiated with invoices from the consultant that provided the education. The invoices clearly depict the dates and locations of classes, and the corresponding proof of payment is also available. Attachment D summarizes counseling and education costs which can be substantiated. Back-up documentation is available to support the summary.

Comment 24

The City also paid a fixed fee for homebuyer assistance services. This fee was treated and intended to serve as a developer fee. Included in these services were costs associated with overseeing the rehabilitation of the properties. The City understands that this should have been done through a separate agreement, however; as previously stated, the HUD guidance in regards to this requirement was not available until well after the contract with HOC had been executed and most work was completed.

Comment 25

7. **Finding:** The Subrecipient lacked adequate internal controls.

Response: It appears that this is the case based on preliminary observations. The City is unable to substantively respond to this item within the allotted response time of this report.

Comment 26

Conclusion

It was the City's intention to contract services with a reputable and long standing non-profit organization to assist in preparing future homeowners and to guide them until they found the right home to fit their needs. HOC met that profile and was contracted to provide these services for Avondale's NSPI Homebuyer Assistance program. Through the Avondale NSPI Homebuyer Assistance Program, HOC contributed to successfully converting 46 foreclosed properties within the City to owner-occupied units at an average cost of \$45,800 per unit. This amount includes education, counseling, down payment and closing cost assistance, rehabilitation and other soft costs such as environmental reviews, appraisals and inspections. Of the 46 units, 9 were households with incomes at or below 50% of Area Median Income. The City of Avondale considers the program to have been successful in reducing the number of foreclosures within our community and meeting the program deadlines. We request that these results be considered when finalizing the report and determining future actions.

We appreciate the opportunity to provide comments and will continue to work with all OIG, HOC and HUD to reach the most appropriate resolution. I may be reached by phone at (623) 333-2727 (office); (623) 734-6636 (mobile); or by e-mail gmontes@avondale.org.

Sincerely,



Gina Ramos Montes
Neighborhood & Family Services Director

Enclosures

C: Rogene Hill, Assistant City Manager
City of Avondale

OIG Evaluation of Auditee Comments

Comment 1 The subrecipient stated that it disagrees with the audit report, and that the tone of the report was not appropriate. The subrecipient stated appropriate audit procedures were not followed.

We disagree. The audit was conducted in accordance with generally accepted government auditing standards and we believe that the evidence obtained provides a reasonable basis for the findings and conclusions presented in the audit report. Also, we note that the subrecipient had multiple opportunities to respond to the audit findings and we considered all information that the subrecipient provided before the audit report conclusions were finalized. We also considered the subrecipient's input regarding the report wording and tone, and made changes where appropriate. As indicated in the audit report, we believe the violations were significant and warrant pursuit of civil or administrative sanctions.

Comment 2 The subrecipient stated that its subsidiary company, HFM Builders, was not a "shell entity" and that its function was not to generate inflated invoices. They indicated that HFM Builders was initially created in 1998 as a means to limit liability and to protect the subrecipient's non-profit status. Although the subrecipient's response did not describe any specific services that were performed by HFM Builders, it stated the goal of this entity "was to be efficient, responsive and focused on HOC matters".

Regardless of the subrecipient's initial intentions or goals for HFM Builders, the audit found this entity was used to inflate construction costs charged to the NSP1 grant. Because this entity had no employees, did not perform the ordinary services of a general contractor and was apparently used only as "paper company" to generate invoices that included an added 20% fee, we believe the word "shell" accurately describes how this entity was used for the subrecipient's NSP1 grant.

Comment 3 The subrecipient stated that it provided "administrative services" to HFM Builders and received proceeds that were used to pay "acceptable and standard costs" for these services.

We agree that the subrecipient's property development director performed a service for HFM Builders; however, the only apparent service provided was to generate inflated invoices (see finding). When asked about his role with HFM Builders, the property development director stated "basically I would handle the invoice from" (the contractor) "to HFM and from HFM to HOC. That is basically it". He further noted that HFM Builders was a "pretty creative" means to "help with income". We disagree that costs for processing inflated invoices were "standard" or "acceptable" because NSP1 requirements prohibit unnecessary costs.

Comment 4 The subrecipient stated that HFM Builders “engaged” a consultant that paid for materials, and the consultant was then reimbursed.

We note that this individual performed the services of a general contractor such as hiring trade subcontractors, purchasing labor and materials, managing construction work etc... and was not reimbursed based upon the “cost of materials” as suggested in the subrecipient’s response. Payments to this individual were correlated to the construction contract amount and therefore he was paid as a general contractor typically would be under a fixed price contract.

Comment 5 The subrecipient stated that Housing Our Communities is the current shareholder of HFM Builders and that no one individual owned, controlled, or had a financial interest in HFM Builders.

We agree that the subrecipient was a shareholder of HFM Builders and find this does not conflict with any facts stated in the audit report. However, as noted in the audit report, the subrecipient and at least one of its key officials had a conflict of interest, including a prohibited financial interest in the activities of HFM Builders. By awarding NSP1 construction contracts to this affiliated company, the subrecipient violated the procurement and conflict of interest requirements for the NSP1 program (see finding).

Comment 6 The subrecipient stated they faced challenges that required “extra effort” due to limited timelines and challenging conditions because some of the properties had previously been foreclosed. Although the subrecipient’s response is not clear in this regard, it appears to suggest that costs identified as ineligible (such as the 20% fee paid to its subsidiary) were warranted due to the effort that was required. They also noted their goal was to use energy efficient products and that some items required replacement because they had been sitting unused for months and were rendered unusable.

Because the subrecipient’s NSP1 grant was specifically for the purpose of rehabilitating foreclosed properties, we disagree that work on such properties involved “extra effort” and “special challenges” beyond what was already contemplated in the subrecipient agreement. Furthermore, in accordance with its subrecipient agreement and NSP1 program requirements, the subrecipient was only entitled to reimbursement of its actual costs determined in accordance with the requirements of OMB Circular A-122. It should be noted that nearly all of the properties assisted through the subrecipient’s NSP1 activities, had previously been foreclosed, yet had already been re-purchased by new homebuyers before any rehabilitation was performed and some only required minimal repairs.

We agree that NSP1 requirements allow for payment of actual costs for replacement of items that were not functional and this does not conflict with any conclusions in the audit report.

Comment 7 The subrecipient stated that its property director administered the activities of HFM Builders at the direction of the subrecipient’s president and did not have ultimate decision making power. We agree that the property development director administered the activities of HFM Builders at the direction of the subrecipient’s president and find that this does not conflict with any facts cited in the audit report.

Comment 8 The subrecipient stated that invoices were approved by the subrecipient’s president and this individual had “the final authority”.

We find that the subrecipient’s assertion here does not conflict with any facts cited in the audit report.

Comment 9 The subrecipient stated it should not be required to reimburse costs due to the procurement and conflict of interest violations and that the audit tests used to evaluate cost reasonableness only considered 3% of its activity.

We disagree. Supporting documentation and reimbursement of ineligible amounts is necessary because the subrecipient violated procurement and conflict of interest requirements. As stated in the audit report, the subrecipient and one of its employees had an incentive to facilitate higher NSP1 construction costs and HUD does not have adequate assurance that the amounts charged under these contracts were reasonable. Also, the audit sample testing demonstrated a pattern of excessive charges underscoring the need to require support for the amounts charged.

The audit report describes three separate audit tests that were used to evaluate whether the subrecipient's NSP1 construction costs appeared excessive³. All three tests identified indications that costs were excessive for the contracts reviewed. Two of these tests evaluated four sample contracts and the third test evaluated information from all 44 of the subrecipient's NSP1 contracts. We note that the subrecipient’s response does not dispute that the costs were excessive for the examples identified in the audit report.

The audit recommendation states the subrecipient should be required to provide support or reimburse HUD for the applicable contract amounts. Therefore, the recommendation indicates that any amounts that can be properly supported in response to the audit recommendation should not have to be repaid.

Comment 10 The subrecipient stated that it did not convert federal funds for discretionary or personal use.

³ The three tests used to evaluate the reasonableness of construction costs are presented under the sub-heading “Subrecipient Construction Costs Appeared Excessive” in the audit report.

We disagree. As stated in the audit report, the subrecipient awarded construction contracts to its own subsidiary in violation of the procurement and conflict of interest requirements and the subrecipient then used its subsidiary as a “shell” or “paper company” to bill inflated invoices that included an unnecessary 20% fee. A portion of the funds derived from the inflated charges were available for use at the subrecipient’s discretion and a portion of the funds were used to write checks to the subrecipient’s property development director. These payments to the property development director were apparently paid in addition to his salary.

Comment 11 The subrecipient stated that its invoices were approved by its finance director and should have therefore “met any and all proper accounting tests”. The subrecipient also asserts that it did not have a “billing scheme”.

We disagree. Approval by the subrecipient’s own finance director does not constitute full compliance with HUD requirements. As described in the audit report the subrecipient used a process to generate inflated invoices and submitted these for reimbursement with NSP1 program funds (see finding one). We removed the term “billing scheme” as requested by the subrecipient. However, we could not remove the statement in its entirety without impacting the report message. Therefore, we replaced “billing scheme” with “billing arrangement”.

Comment 12 The subrecipient requested that the term “self-dealing” be removed from the audit report. The subrecipient states that it “always fully disclosed” its relationship with HFM Builders to “all of its government jurisdictions and directly to HUD itself”.

We removed the term “self-dealing” from the final report since it will not materially impact the report message. We note that the audit report did not state that simply having a subsidiary for-profit entity is prohibited. However, the audit report found that the subrecipient awarded contracts to its subsidiary in violation of procurement and conflict of interest requirements and used this entity to bill inflated amounts to its NSP1 subgrant.

Comment 13 The subrecipient stated that its payroll charges were approved by the subrecipient’s president and that the City of Avondale approved a flat-fee schedule as “the cognizant agency”.

We agree it appears the City of Avondale and the subrecipient agreed to use flat fees for labor costs. However, as stated in the audit report, the subrecipient did not comply with OMB Circular A-122 which requires that the distribution of salaries and wages to awards must be supported by personnel activity reports as prescribed within the Circular. Compliance with OMB Circular A-122 is required

under the NSP1 program and under the subrecipient's written agreement with the City of Avondale. The subrecipient's response asserts that "the cognizant agency" approved its use of a flat fee schedule indicating that it would qualify for the exception to the labor cost documentation requirements specified in OMB Circular A-122. We note that this possible exception in the regulations relates to the establishment of indirect cost rates. Furthermore, the Circular defines the "cognizant agency" that can provide such an exception as a "Federal agency". Therefore, any agreement with the City of Avondale would not provide a valid exception to the labor cost documentation requirements.

Comment 14 The subrecipient stated it made records available that "were proof of time spent on each individual client..." yet these reports were not considered during the audit.

We disagree. During the audit and the exit conference, the subrecipient acknowledged that it did not maintain timesheets and the subrecipient did not provide any further documentation that would support the labor costs charged to the NSP1 grant. Further, while client records may support that some services were provided, these records would likely not include information required to properly support the amounts billed such as an accounting of the total activity for which employees were compensated. As stated in the audit report, we recommend that the subrecipient be required to provide support or reimburse HUD for the unsupported labor costs billed to the NSP1 grant. Cost eligibility should be determined based upon review of documented payrolls and activity reports that meet the requirements of OMB Circular A-122, Attachment A, Paragraph 8.m.

Comment 15 The subrecipient stated that it disagrees with the audit report recommendations and that, because some rehabilitation work was completed, it should not have to reimburse the entire amount of the labor and materials costs. It also notes that OIG agreed to remove the word "personnel" from Recommendation 1F.

The audit recommendation states the subrecipient should be required to provide support or reimburse HUD for the applicable contract amounts. Therefore, any amounts that can be properly supported in response to the audit recommendations should not have to be repaid.

The word "personnel" was removed from recommendation 1F, at the subrecipient's request; however, we note that this wording change will not impact any possible actions that could be taken in response to the audit findings.

Comment 16 Avondale stated their intention was to treat the subrecipient as a "developer" and this would "enable HOC to use its subsidiary to perform rehabilitation work". They noted that, at the time the NSP funds were awarded, HUD's NSP1 program guidance did not clearly state that a developer was prohibited from providing both counseling and development services.

Regardless of Avondale's initial intentions, Housing Our Communities was, in fact, a subrecipient under the terms of its agreement with the City of Avondale and, therefore, the program requirements specified in the audit report were correct. The subrecipient agreement clearly identified Housing Our Communities as a "subrecipient" and stated that the HUD regulations applicable to subrecipients would apply. For example,

- Section 16.1 (a) stated "The Subrecipient agrees to comply with OMB Circular A-110...and maintain necessary source documentation for all costs incurred". As noted in the audit report, HUD's implementation of OMB Circular A-110, at 24 CFR part 84, required that the subrecipient conduct all procurement transactions in a manner to provide, to the maximum extent practical, open and free competition.
- Section 18.4 (a)(3) stated "The Subrecipient shall undertake to ensure that all subcontracts let in the performance of this Agreement shall be awarded on a fair and open competition basis".
- Exhibit 1 to the first amendment of the subrecipient agreement section 18 (e) required compliance with the written procurement procedures submitted with the subrecipient's proposal. These written procurement policies referred to in the subrecipient agreement recited the requirements of 24 CFR 84.43 by stating "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practicable, open and free competition". The procedures also recite the requirements of 24 CFR 84.42 by stating "No employee, officer or agent shall participate in the selection, award or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved".
- Section 16.1(b) stated "The subrecipient will administer its program in conformance with OMB Circulars A-122, Cost Principles for Non-Profit Organizations...". As noted in the audit report, OMB Circular A-122, Attachment B, Paragraph 8.m, required that the subrecipient account for the actual costs incurred to determine the amount that can be charged to the grant.
- Section 16.3 (c) stated "Payments will be made for eligible expenses actually paid by the Subrecipient (reimbursement)".

- Section 18.4 (a)(c) stated “The Subrecipient agrees to abide by the provisions of 24 CFR section 570.611 with respect to conflicts of interest, and covenants that it presently has no financial interest and shall not acquire any financial interest, direct or indirect, which would conflict in any manner or degree with the performance of services required under this agreement”.

Furthermore, Housing Our Communities, in this case, would not have qualified as a “developer” under HUD requirements because they were paid on a cost reimbursement basis, did not take ownership or control of the subject properties, and did not accept any risk by investing their own funds. Because the subrecipient was not a developer, any ambiguity in HUD’s requirements concerning whether or not a developer could also perform counseling services was inconsequential.

Comment 17 Avondale stated that only the amount considered to be ineligible should be disallowed and not the entire contract amount.

We agree, however the audit report did not classify the entire contract amounts as “ineligible”. The contract amounts were classified as “unsupported” in recommendations 1B and 1C because the subrecipient did not support that the contract amounts were eligible under HUD’s NSP1 requirements (see finding one). The audit recommendation already states the subrecipient should be required to provide support or reimburse HUD for the applicable contract amounts. Therefore, any amounts that can be properly supported in response to the audit recommendation should not be classified as ineligible.

Comment 18 The City of Avondale stated they were not aware of and did not approve the 20% “administrative fee” charged by the subrecipient’s subsidiary HFM Builders and they agreed that the subrecipient should repay the amounts associated with these fees.

This response indicates agreement with the audit report recommendation 1A and therefore we concur with this response.

Comment 19 Avondale stated HFM Builders was viewed as “an asset” that would facilitate the subrecipient’s “developer role” and serve as a “contractor”.

As stated for our response to Comment 16 above, Housing Our Communities was a subrecipient and should not have awarded construction rehabilitation contracts to HFM Builders without following the applicable procurement and conflict of interest requirements specified in both the subrecipient agreement and HUD regulations.

Comment 20 Avondale pointed out that HUD OIG used a non-statistical sample to evaluate whether construction costs appeared excessive and that the sample results cannot

be extrapolated. Avondale stated that items such as product brands or “hidden work not normally visible” should be considered when determining if costs were appropriate.

We agree that non-statistical samples cannot be used to make statistical projections. However, the audit report did not attempt to extrapolate the sample results. The audit report states that “...this analysis only included a sample of the subrecipient’s NSP1 projects and was not designed to establish an exact amount of the excessive charges for each project”. Furthermore, the audit report recommends that the subrecipient provide proper support for all of the subrecipient’s 32 NSP1 contracts (a 100% sample) that are in question to determine the actual amount of excessive costs. This supporting documentation is necessary because the subrecipient did not follow procurement and conflict of interest requirements and therefore, HUD does not have adequate assurance that the amounts were reasonable and eligible under the NSP requirements. The results of the audit sample testing demonstrated a pattern of excessive and unnecessary charges which underscores the need for HUD to require supporting documentation in response to these violations.

Also, note that the audit report describes three separate audit testing procedures that were performed to evaluate whether the subrecipient's NSP1 construction costs appeared excessive⁴. All three tests identified indications that costs appeared excessive for the contracts reviewed. Two of these tests evaluated four sample contracts and the third test evaluated information from all 44 of the subrecipient's NSP1 contracts.

Comment 21 Avondale stated that its “cursory review of rehab costs” found some costs appeared excessive, however, their “preliminary screening” found the majority of the costs could be substantiated. They also stated they plan to analyze the contract costs and provide an “itemized list of reasonable and substantiated costs”.

We agree that costs appeared excessive. We also agree that further analysis is needed to establish the eligibility of the contract costs with consideration given to the specific items that were actually purchased including detail such as product brands, types, and quantities actually installed. Please note that audit report recommendations 1B and 1C state that HUD should require supporting documentation for the contract costs including invoices, receipts, and documentation evidencing payment for the actual cost of labor and materials purchased through vendors and subcontractors.

Comment 22 Avondale agreed that the subrecipient may have incurred some unnecessary construction expenses and noted that further research is needed to identify which costs were unnecessary. Avondale also commented that improvements intended to increase energy efficiency or conservation were permitted under the NSP1

⁴ The three tests used to evaluate the reasonableness of construction costs are presented under the sub-heading “Subrecipient Construction Costs Appeared Excessive” in the audit report.

program and that the rehabilitation standards specified in its contract with the subrecipient were the “minimum standards”.

We agree that some rehabilitation costs appeared unnecessary and that additional information is required to support that the costs were necessary. Recommendations 1B and 1C state that documentation supporting the eligibility of costs should include evidence that the repair items specified in the construction contracts were necessary.

While Avondale may consider the rehabilitation standards specified in the subrecipient agreement as only a “minimum threshold”, we note that, NSP1 requirements including OMB Circular A-122 Attachment A, Paragraph A.3 required that all costs be reasonable meaning the nature or amount of the costs does not exceed that which would be incurred by a prudent person under the circumstances. This circular also stated that costs should be ordinary and necessary for the performance of the award. Therefore, these requirements would prohibit wasteful spending such as replacing existing, functional double pane windows in a home with new double pane windows. This requirement would also prohibit work such as removing a brand new bathtub and installing a different one for the purpose of upgrading or replacing other functional items without documenting that they needed replacement. Also, we note that Avondale’s rehabilitation standards did specify some limitations for rehabilitation work. For example, these standards stated that “primary windows are not to be replaced unless they are rotted and are permitting the infiltration of air or rain” and that the entity “will not install ceramic tile, vinyl tile, indoor/outdoor carpeting or wood covering in kitchen areas”. These standards also specified that the purpose of the rehabilitation is to “provide decent, safe and sanitary housing to low and moderate-income individuals; it is not a method to provide remodeling and/or renovation”. Therefore, these standards would prohibit replacement of functional items that do not exhibit conditions that would indicate replacement is necessary.

Comment 23 Avondale acknowledged that it paid a fixed fee for counseling and education services. They also stated that they have documentation from a “counseling database” and payroll records that can be “extrapolated” to support the labor costs charged.

As stated in the audit report, the subrecipient failed to comply with the NSP1 requirements when it billed a fixed amount for its services without regard for its actual costs. The subrecipient did not maintain required personnel activity reports to support the distribution of salaries and wages to the NSP1 grant and did not provide any documentation in response to HUD OIG’s request for this information. Subrecipient officials specifically stated that the charges were fixed and did not claim that these charges were based upon activity logs or any other distribution of the actual time worked. As stated in the audit report recommendation 1D, the subrecipient should be required to provide support or reimburse HUD for the unsupported labor costs. Cost eligibility should be

determined based upon review of documented payrolls and activity reports that meet the requirements of OMB Circular A-122, Attachment A, Paragraph 8. m.

Comment 24 Avondale acknowledged that it paid a fixed fee for “homebuyer assistance” services and that this fee was intended as a “developer fee”. They indicated that HUD requirements prohibit using a single agreement for both developer and education services and that this requirement was not clear when they entered into the NSP1 agreement with Housing Our Communities.

As stated in the HUD OIG response for Comment 16 above, Housing Our Communities was, in fact, a subrecipient in this case and should have charged only actual, properly documented labor costs. The written subrecipient agreement between Avondale and Housing Our Communities clearly identified Housing Our Communities as a “subrecipient” and specifically stated that the HUD regulations applicable to subrecipients will apply including OMB Circular A-122 which stated that charges to awards for salaries and wages will be based upon documented payrolls and personnel activity reports. Also, because Housing Our Communities was not a developer and would not have qualified as a developer under HUD requirements, any ambiguity in HUD’s requirements concerning whether or not a developer could also perform counseling services under a single agreement was not relevant.

Comment 25 Avondale agreed it appears the subrecipient lacked adequate internal controls “based on preliminary observations”. However, they stated they were “unable to substantively respond to this item within the allotted response time...”.

We agree that the subrecipient appeared to lack adequate internal controls. As stated in the audit report, the subrecipient did not implement controls to ensure that it complied with procurement, conflict of interest and cost eligibility requirements. We note that Avondale may provide any further relevant information in response to the audit findings to the HUD staff responsible for addressing the audit report recommendations during the resolution process.

Comment 26 Avondale stated that the subrecipient “contributed to successfully converting 46 foreclosed properties to owner-occupied units at an average cost of \$45,800 per unit” and the program results should be considered when finalizing the report and determining future actions.

We agree that most of the repair work that the subrecipient listed on the rehabilitation contracts with its own subsidiary company was found to be complete and this is stated in the audit report. However, the subrecipient did not successfully administer its subrecipient agreement in accordance with the NSP1 procurement, conflict of interest and cost eligibility requirements and this resulted in unsupported and ineligible costs totaling \$787,004. Also, as noted in the audit report, the subrecipient’s NSP1 construction costs appeared significantly excessive and in some cases, unnecessary. We appreciate Avondale’s openness to

the report finding and recommendations and its' willingness to work with OIG and HUD in resolving the deficiencies cited in the report.

Appendix C

SCHEDULE OF NSP1 PROPERTIES AND QUESTIONED COSTS

	Recommendation 1A	Recommendation 1B	Recommendation 1B	Recommendation 1C
Property number	Ineligible markup identified	3 contracts (for 2 properties) awarded to other contractors with inadequate procurement	26 contracts awarded to HFM Builders with inadequate procurement	32 contracts awarded to HFM Builders in violation of conflict-of-interest requirements
1	\$4,764.80		\$30,039.93	\$30,039.93
2	\$767.97		\$3,797.48	\$3,797.48
3	\$5,007.68		\$21,442.46	\$21,442.46
4	\$3,874.76		\$25,108.56	\$25,108.56
5	\$740.00		\$4,440.00	\$4,440.00
6	\$2,104.00		\$13,424.00	\$13,424.00
7		\$25,747.27		
8	\$474.00		\$3,138.00	\$3,138.00
9	\$4,394.20		\$13,237.20	\$13,237.20
10	\$4,614.68		\$26,767.40	\$26,767.40
11	\$5,453.60		\$29,585.60	\$29,585.60
12	\$3,032.00		\$18,492.00	\$18,492.00
13	\$1,835.40		\$11,012.40	\$11,012.40
14	\$7,161.48		\$42,968.88	\$42,968.88
15	\$1,277.20		\$10,674.20	\$10,674.20
16	\$2,048.00		\$12,288.00	\$12,288.00
17	\$1,537.00		\$9,582.00	\$9,582.00
18	\$4,559.00		\$27,354.00	\$27,354.00
19	\$2,342.00		\$13,352.00	\$13,352.00
20				
21	\$1,224.00		\$4,944.00	\$4,944.00
22				
23	\$3,281.80		\$16,768.80	\$16,768.80
24	\$639.00		\$3,834.00	\$3,834.00
25	\$1,848.00		\$11,088.00	\$11,088.00
26	\$2,336.60		\$14,019.60	\$14,019.60
27	\$2,401.80		\$14,760.80	\$14,760.80
28	\$345.50			\$3,455.00
29	\$717.00			\$7,170.00
30				
31				\$16,353.20
32	\$2,792.20			
33			\$2,281.00	\$2,281.00
34				
35				
36				
37	\$303.10			\$3,031.00
38				
39	\$296.50		\$2,965.00	\$2,965.00
40		\$3,673.10		
41	\$679.00			\$12,104.50
42				\$5,570.00
43				
44				
Total	\$72,852.27	\$29,420.37	\$387,365.31	\$435,049.01

Less \$72,852.27 already classified as ineligible under recommendation 1A

\$362,196.74