

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE  
DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT'S  
MANAGEMENT OF CASH ADVANCES  
TO THE GREATER WASHINGTON  
URBAN LEAGUE**



**AUSTIN A. ANDERSEN  
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



January 24, 2005

Stanley Jackson  
Director  
Department of Housing and Community Development  
801 North Capitol Street, N.E., Suite 835  
Washington, D.C. 20002

Dear Mr. Jackson:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) *Audit of the Department of Housing and Community Development's Management of Cash Advances to the Greater Washington Urban League* (OIG No. 02-1-09DB(e)). We performed this audit in response to your request to review Department of Housing and Community Development (DHCD) operations.

Our report contains 12 recommendations for necessary action to correct the described deficiencies. We received your response on December 10, 2004, to a draft of this report. We consider actions taken and/or planned by DHCD to be responsive to the recommendations.

DHCD agreed in principle with Finding 1 conclusions that insufficient procedures and practices for external grant monitoring resulted in excess cash balances on hand at the Greater Washington Urban League (GWUL). However, DHCD strongly disagreed with the specific levels of cash balance excesses shown in the report and our conclusion that compliance with federal regulations was not achieved. DHCD also disagreed with our conclusion that the excess cash advances may have caused the District to lose approximately \$160,000 in interest. The full text of DHCD's response is included at Exhibit G.

Accordingly, we reexamined our facts and conclusions and determined that DHCD's contention regarding our assertion that DHCD did not achieve compliance with federal regulations has merit. Therefore, we have revised the draft report to eliminate all references of DHCD's non-compliance with federal regulations. In addition, we have provided an explanation to support our statement that excess cash advances to GWUL may have resulted in lost interest to the District.

Stanley Jackson  
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January 24, 2005  
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We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at 202-727-2540.

Sincerely,

A handwritten signature in cursive script that reads "Austin A. Andersen". The signature is written in black ink and is positioned above the printed name and title.

Austin A. Andersen  
Interim Inspector General

AAA/ws

cc: See Distribution List

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**AUDIT OF THE DEPARTMENT OF HOUSING AND COMMUNITY  
DEVELOPMENT’S MANAGEMENT OF CASH ADVANCES TO THE  
GREATER WASHINGTON URBAN LEAGUE**

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**ACRONYMS**

<b>CDBG.....</b>	<b>Community Development Block Grant</b>
<b>CDP.....</b>	<b>Community Development Program</b>
<b>C.F.R. ....</b>	<b>Code of Federal Regulations</b>
<b>DCMR.....</b>	<b>District of Columbia Municipal Regulations</b>
<b>DHCD.....</b>	<b>Department of Housing and Community Development</b>
<b>EAHP.....</b>	<b>Employer Assisted Housing Program</b>
<b>FY.....</b>	<b>Fiscal Year</b>
<b>GWUL.....</b>	<b>Greater Washington Urban League</b>
<b>HoDIF.....</b>	<b>Homeownership Developer’s Incentive Fund</b>
<b>HOME.....</b>	<b>HOME Investment Partnerships Program</b>
<b>HPAP.....</b>	<b>Home Purchase Assistance Program</b>
<b>HPASUP.....</b>	<b>Home Purchase Assistance Step-Up Program</b>
<b>HUD.....</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>MPHAP.....</b>	<b>Metropolitan Police Housing Assistance Program</b>
<b>OIG.....</b>	<b>Office of the Inspector General, District of Columbia</b>
<b>OMB.....</b>	<b>Office of Management and Budget</b>

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**AUDIT OF THE DEPARTMENT OF HOUSING AND COMMUNITY  
DEVELOPMENT’S MANAGEMENT OF CASH ADVANCES TO THE  
GREATER WASHINGTON URBAN LEAGUE**

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## EXECUTIVE DIGEST

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### OVERVIEW

The Office of the Inspector General (OIG), District of Columbia, has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of cash advances made to the Greater Washington Urban League (GWUL). The funds for the cash advances were provided from District of Columbia general fund accounts.

This audit is the sixth in a series of audits that evaluated DHCD management of resources and monitoring of project performance. The first audit report in this series discussed DHCD management of HOME Investment Partnerships Program (HOME) funds, followed by a second audit report that discussed DHCD management of the drawdown of reimbursable expenditures, a third audit report that discussed DHCD management of the Walter E. Washington Estates Community Center project, a fourth audit report that discussed DHCD management of Community Development Corporation projects, and a fifth audit report that focused on DHCD management of payments to vendors.

The overall audit was requested by the Director, DHCD. Our specific objective in this segment of the overall audit was to determine whether District of Columbia funds provided to GWUL were properly accounted for and used in an efficient and effective manner.

### Perspective

While this audit and the previous audits focused on problem areas at DHCD, it is necessary to keep the findings and recommendations in context. DHCD has made considerable improvements in managing its resources since our audit in February 2000. We attribute these improvements to the current leadership of DHCD and the serious commitment by management to clearly define a strategic vision for the agency. This commitment by management has enabled DHCD to identify and correct deficiencies and create clear, visible, and measurable economic benefits for the citizens of the District of Columbia.

### CONCLUSIONS

This report contains two findings that include the details supporting the conditions we observed and documented.

DHCD provided GWUL excessive cash advances in that GWUL maintained monthly balances of cash averaging approximately \$2.1 million for a period of 60 months ending September 2002, even though GWUL cash requirements averaged only \$.5 million for the same period. Further, the cash advances were disbursed by DHCD even though requirements for cash advances were not established. As a result, DHCD cash advances exceeded GWUL cash requirements by an average of approximately \$1.5 million monthly for a period of 60 months ending September 2002. In one month, for example, the DHCD cash advance

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## EXECUTIVE DIGEST

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balances were more than \$4.7 million and exceeded the GWUL cash requirements of \$558,000 by more than \$4.1 million. Consequently, although excessive cash advances declined in FYs 2001 and 2002, DHCD lost the opportunity to use as much as \$1.5 million on average for other productive District purposes over the 60-month period. Further, the excessive cash advances may have caused the District to lose approximately \$160,000 in interest.

GWUL did not submit complete, timely, and accurate annual year-end closeout packages and payments to DHCD for cash advances or remaining cash held by GWUL at the end of a grant year when cash advances exceeded that organization's annual costs for the particular grant year. As a result, funds due the District of Columbia were not repaid within reasonable time periods and were unavailable for the District's use for other productive purposes. Further, those unused funds incurred interest costs to the District of Columbia as discussed in Finding 1. Finally, \$25,598 from the 1998 grant year was not paid to DHCD until identified by this audit.

In addition, we noted the following internal control weaknesses: a need for provisions and procedures in the grant agreement for the management of cash advances and annual year-end closeouts; a need for a requirement that annual year-end closeout packages be submitted; and a need for DHCD published guidance concerning the management of cash advances and annual year-end closeouts.

### SUMMARY OF RECOMMENDATIONS

We directed 12 recommendations to the Director, Department of Housing and Community Development that we believe are necessary to correct the deficiencies noted in this report. Specifically, DHCD should:

- Develop, publish, and oversee enforcement of an administrative instruction that implements procedures to review, approve, and manage cash advances for grant agreements.
- Ensure that cash advances are not made by grant subrecipients to subcontractors or sub-subrecipients without adequate justification and subsequent examination and approval by DHCD.
- Develop, publish, and oversee enforcement of an administrative instruction that implements procedures to review, approve, and manage annual year-end closeouts for cash advances.

## EXECUTIVE DIGEST

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### MANAGEMENT RESPONSE AND OIG COMMENTS

On December 10, 2004, we received a response from the DHCD, to a draft of this report. We consider actions taken and/or planned by DHCD to be responsive to the recommendations. DHCD agreed in principle with the Finding 1 conclusions that insufficient procedures and practices for external grant monitoring resulted in excess cash balances on hand at the Greater Washington Urban League (GWUL). However, DHCD strongly disagreed with the specific levels of cash balance excesses shown in the report and our conclusion that compliance with federal regulations was not achieved. DHCD also disagreed with our conclusion that the excess cash advances may have caused the District to lose approximately \$160,000 in interest. The full text of DHCD's response is included at Exhibit G.

Accordingly, we reexamined our facts and conclusions and determined that DHCD's contention regarding our assertion that DHCD did not achieve compliance with federal regulations has merit. Therefore, we have revised the draft report to eliminate all references of DHCD's non-compliance with federal regulations. In addition, we have provided an explanation to support our statement that excess cash advances to GWUL may have resulted in lost interest to the District.

We disagree with DHCD's contention that that our calculations of GWUL monthly cash balances are not accurate because transactions noted on GWUL requisitions as direct reimbursement for mortgage loans previously made were not considered in our analysis. We did not consider these types of transactions in our analysis because cash outlays denoted on the GWUL requisitions as direct reimbursements for mortgage loans previously made do not change the DHCD HPAP balance sheet (those transactions do not result in journal entries to the cash advance balance sheet account). This was explained in the draft audit report.

In addition, although not a balance sheet transaction, cash outlays denoted on the GWUL requisitions as direct reimbursements for mortgage loans previously made have a negligible effect on GWUL checking account balances, because the amount of cash expended by GWUL for mortgage loans previously made is reimbursed by DHCD in the same amount.

Further, we are unable to calculate a dollar value based on DHCD's contention because DHCD provided no supporting documentation to the OIG to substantiate its contention. Prior to the completion of the draft report, we requested DHCD to provide us with its calculations of GWUL monthly cash balances it believed were representative. Although DHCD had many months to do so, it did not provide the OIG with any recalculated monthly cash balances to support its contention. Without supporting documentation, we are unable to calculate the effect of cash outlays that we nevertheless believe would be marginal.

In conclusion, our calculations of the GWUL monthly cash advance balances are accurate, based on generally accepted accounting principles, and are fully supported by GWUL

## EXECUTIVE DIGEST

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monthly requisition transactions. We reconstructed the monthly requisition cash advance balances (due to the inaccuracies of the monthly requisitions) using the actual documented transactions that occurred and that would have resulted in a balance sheet transaction. DHCD has provided no evidence or documentation to show that we should have used another method in presenting our audit results.

Finally, DHCD agrees in principle that GWUL was provided cash advances in excess of its needs during the period covered by our audit. This is further evidenced by the DHCD concurrence with all 12 recommendations made in our draft audit report.

A summary of potential benefits resulting from the audit is shown at Exhibit A and the definitions of terms are shown at Exhibit B.

## INTRODUCTION

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### BACKGROUND

The Office of the Inspector General, District of Columbia, has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of cash advances made to the Greater Washington Urban League (GWUL). The GWUL is described at Exhibit C. The funds for the cash advances were provided from District of Columbia general fund accounts.

This audit is the fifth in a series of audits that evaluated DHCD management of resources and monitoring of project performance. The first audit report in this series discussed DHCD management of HOME Investment Partnerships Program (HOME) funds, followed by a second audit report that discussed DHCD management of the drawdown of reimbursable expenditures, a third audit report that discussed DHCD management of the Walter E. Washington Estates Community Center project, and a fourth audit report that discussed DHCD management of Community Development Corporation projects. An upcoming report is planned to focus on DHCD management of payments to vendors.

### Home Ownership Programs

DHCD provided cash advances to GWUL to assist that organization in its administration of the District's home ownership programs. DHCD home purchase programs administered by GWUL are described at Exhibit D.

**Department of Housing and Community Development.** DHCD receives approximately 80 percent of its funding through the U.S. Department of Housing and Urban Development (HUD) and focuses its programs on three areas: (1) increasing home ownership opportunities; (2) preserving and increasing the supply of affordable housing through new construction and rehabilitation; and (3) revitalizing neighborhoods, promoting community development, and providing economic opportunities. Home ownership programs provide financial assistance in the form of interest-free and low-interest loans to qualified District residents to enable them to purchase houses, condominiums, or cooperative apartments.

**Funding Used for Home Ownership Programs.** DHCD uses federal Community Development Block Grant (CDBG), federal HOME funds, and District of Columbia appropriated and matching funds to accomplish its focus area of increasing home ownership opportunities. In addition, income received by DHCD in the form of loan payments and interest earned on its home mortgage loans are also used to provide funding for home ownership opportunities.

**District of Columbia General Fund Accounts.** For purposes of clarity, we note that federal CDBG and HOME funds were not actually used for home mortgage loans and administrative expenses; instead, funds from District of Columbia general fund accounts were transferred to GWUL as cash advances or as payments for reimbursable expenditures.

## INTRODUCTION

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However, the transactions discussed in this audit report are referred to in terms of “CDBG funds” or “HOME funds,” as this is industry practice. District of Columbia general fund accounts used for CDBG and HOME purposes were subsequently reimbursed by the drawdown of CDBG and HOME funds from HUD. The utilization of District of Columbia appropriated funds, District of Columbia matching funds, and funds received as income from home mortgage loans payments are not reimbursable by HUD.

### **Relevant Regulatory Standards**

Multiple regulations concerning various aspects of the management of home ownership programs have been issued by HUD (Title 24, Housing and Urban Development), the Office of Management and Budget, and the District of Columbia. The applicable provisions of federal regulations and the applicable provisions of District of Columbia regulations are codified.

**Community Development Block Grant Entitlement Grants.** HUD allocates CDBG Entitlement Program grant funds annually on a formula basis to entitled cities and counties. HUD awards those funds to entitlement communities to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. More specifically, CDBG funds are used to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons (incomes below 80 percent of the area median income). Title 24 C.F.R., Part 570, “Community Development Block Grants,” governs CDBG Entitlement Grants.

**HOME Investment Partnerships Program.** HUD allocates HOME grant funds annually on a formula basis among eligible state and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, new construction of housing, and tenant-based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investment, interest subsidies, and other forms of investment that HUD approves. Title 24 C.F.R., Part 92, “HOME Investment Partnerships Program,” governs HOME grants.

**Administrative Requirements.** In addition to 24 C.F.R. Parts 570 and 92, Part 84, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations” and Part 85, “Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments” provide administrative guidance. Office

## INTRODUCTION

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of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations also provides federal administrative guidance.

**District of Columbia Regulations.** Title 10, Planning and Development, Chapter 69, Community Development Program (CDP) (2002) of the District of Columbia Municipal Regulations (DCMR) governs the District of Columbia's CDP and grants made under the CDP.

### Grant Agreements

"Request for Grant Proposal" No. 1294-14-RD-00 dated August 20, 1999, was issued by DHCD to solicit proposals for the administration of the District of Columbia's Home Purchase Assistance Program (HPAP), the Employer Assisted Housing Program (EHAP), the Metropolitan Police Housing Assistance Program (MPHAP), the Home Purchase Assistance Step-Up Program (HPASUP), and the Homeownership Developer's Incentive Fund (HoDIF). On September 20, 1999, GWUL submitted a proposal in response to the DHCD request and was subsequently awarded Grant Agreement No. 1294-14-RD-00. The District of Columbia (represented by DHCD) and GWUL are currently bound by the terms of this grant agreement.

**Grant Agreement No. 1294-14-RD-00.** Grant Agreement No. 1294-14-RD-00 is effective January 1, 2000, through December 31, 2004, and consists of 1 base year with 4 option years. According to the statement of work, GWUL is to administer the District's HPAP, EAHP, MPHAP, HPASUP, and the HoDIF. Six checking accounts maintained by two separate banking institutions were used by GWUL to administer programs related to home purchases. Those checking accounts are discussed at Exhibit E.

**Grant Agreement No. 1191-14.** Grant Agreement No. 1191-14, also awarded to GWUL, preceded the one listed above. It initially covered the period October 1, 1994, through September 30, 1999, which included 1 base year with 4 option years. However, this grant agreement was extended by an amendment to cover the period October 1, 1999, through January 31, 2000.

**Grant Subrecipient.** Under Grant Agreement No. 1294-14-RD-00, GWUL is a grant subrecipient of a local government entity and was also a subrecipient under Grant Agreement No. 1191-14. Subrecipients are governed by certain sections of federal and District of Columbia regulations as opposed to other sections that may apply to other types of grant recipients.

### OBJECTIVES, SCOPE, AND METHODOLOGY

The revised announced objectives of the overall audit were to evaluate: (1) project management of grant funds within DHCD and grant funds provided to Community

## INTRODUCTION

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Development Corporations and other grant subrecipients; (2) reconciliation and accounting for those grant funds within DHCD; and (3) benefits and appropriate use of those funds by Community Development Corporations and other grant subrecipients. Our specific objective in this segment of the overall audit was to determine whether District of Columbia funds provided to GWUL were properly accounted for and used in an efficient and effective manner.

The programs in our scope of audit for which reimbursable expenditures were made by GWUL included HPAP, EHAP, MPHAP, HPASUP, and HoDIF. The scope of this audit included the processes used by GWUL to request cash advances and payments from DHCD for GWUL reimbursable expenditures. The amount of funds requested from October 1, 1997, through December 31, 2002, fiscal years (FY) 1998 through FY 2002, and partially FY 2003, was approximately \$46.7 million. The \$46.7 million provided to GWUL included federal CDBG and HOME funds, District of Columbia appropriated and matching funds, and income received by DHCD in the form of loan payments and interest earned on its loans. Of the \$46.7 million, approximately \$13.5 million represented cash advances.

We conducted interviews with DHCD and GWUL management and administrative staff to gain an understanding of the policies, procedures, and other controls used by DHCD in the reimbursement processes. We reviewed more than 60 monthly beneficiary data reports submitted by GWUL showing completed home mortgage loans for HPAP, EHAP, and MPHAP. Further, GWUL submitted "Department of Housing and Community Development Community Development Block Grant Program Requisition for Reimbursement/Advance" (requisition) forms along with "Payment Request for Work Performed" (payment request) forms to DHCD.

The requisition form indicated whether GWUL was requesting a cash advance, a cash reimbursement for an expenditure, or a charge against an existing cash advance balance for an expenditure. We reviewed more than 300 requisitions and more than 300 payment requests submitted by GWUL for work performed. In addition, we examined pertinent GWUL accounting records, year-end closeout reports, and almost 400 GWUL bank statements. Finally, we reviewed DHCD vouchers, checks, and other supporting records concerning those cash advances and expenditures. We did not rely on any computer-processed data during this audit.

The audit indicated that apparent differences existed between cash advance balances shown in this audit report, the HPAP financial statements audited by independent auditors, the GWUL financial statements audited by independent auditors, and the GWUL year-end closeout reports for the periods addressed. We referred this matter to DHCD and the auditors of record to determine and resolve the differences in the balances.

## **INTRODUCTION**

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The audit covered the period FY 1998 through FY 2002 and the 1<sup>st</sup> Quarter, FY 2003. The audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 1: CASH ADVANCES PROVIDED TO THE GREATER WASHINGTON URBAN LEAGUE</b>
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### SYNOPSIS

DHCD provided GWUL excessive cash advances in that GWUL maintained monthly balances of cash averaging approximately \$2.1 million for a period of 60 months ending September 2002, even though GWUL cash requirements averaged only \$.5 million for the same period. Further, DHCD disbursed the cash advances to GWUL without establishing the requirements for cash advances.

The excessive cash advances occurred because the grant agreements between those parties did not contain any provisions or procedures concerning the management of cash advances; cash requirements were not adequately assessed and reconciled; cash advances, once made, were not adequately managed; and guidance governing the management of cash advances was not issued. We also believe these problems occurred because the parties failed to address cash advances during the grant solicitation process.

As a result, DHCD cash advances exceeded GWUL cash requirements by an average of approximately \$1.5 million monthly for a period of 60 months ending September 2002. Consequently, although excessive cash advances declined in FYs 2001 and 2002, DHCD lost the opportunity to use, on average, as much as \$1.5 million for other productive District purposes. Further, the excessive cash advances may have caused the District to lose approximately \$160,000 in interest.

### DISCUSSION

According to 24 C.F.R. § 85.40(a) (2003): “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

According to 24 C.F.R. § 85.20(b)(3) (2003): “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.”

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## FINDINGS AND RECOMMENDATIONS

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### Cash Requirements and Cash Advances

DHCD provided GWUL excessive amounts of cash advances. GWUL maintained monthly balances of cash averaging approximately \$2.1 million for a period of 60 months ending September 2002, even though GWUL cash requirements averaged only \$.5 million for the same period. Further, DHCD disbursed the cash advances to GWUL without establishing the requirements for cash advances.

**Cash Requirements.** Cash requirements in this report are based on home mortgage loans made by GWUL. The home mortgage loans are 2<sup>nd</sup> trusts provided for down payment and/or closing costs assistance through home purchase programs. We were told by DHCD personnel that the purpose for a cash advance was to provide GWUL with the necessary cash flow to make the disbursements for down payment and/or closing costs so that GWUL need not use its own cash but rather use the District's funds.

**Accounting for Cash Advances.** It appears that the cash advances were recorded as expenses during the year, rather than being established as an accounts receivable account on the District's accounting system. The cash advances recorded as expenses were to be reversed at the end of the fiscal year as part of the process to prepare the HPAP financial statements. An accounts receivable account to record cash advances did not exist because DHCD did not request the Office of the Chief Financial Officer (OCFO) to establish such an account. By recording cash advances as expenses, it appears that OCFO became aware of a receivable only when the HPAP financial statements were issued by the independent auditor hired to review those statements.

However, the HPAP financial statements were not always prepared promptly. For example, the HPAP financial statements for FYs 1995, 1996, and 1997 were included in a single report and that report was issued in December 1999. The HPAP financial statements for FYs 1998, 1999, and 2000 were also included in a single report and that report was issued in November 2002. The HPAP financial statement for FY 2001 was issued in October 2003. The HPAP financial statements for FYs 2002 and 2003 were recently prepared by DHCD but have not yet been audited by the independent auditors.

In our opinion, it appears that the disbursement of cash advances to GWUL had become a customary practice without the expected scrutiny of OCFO to determine whether this was the best use of the District's cash resources.

**Cash Requirements for Administrative Expenses.** We recognize that administrative costs are part of the overall GWUL costs but we do not believe that the administrative costs should be subject to cash advances. We believe that administrative costs should be reimbursed directly. Grant Agreement No. 1294-14-RD-00 contains provisions describing the process for submitting requests for reimbursements of costs in a timely manner. Once the process was initiated in 1994 (during the initial grant agreement), the

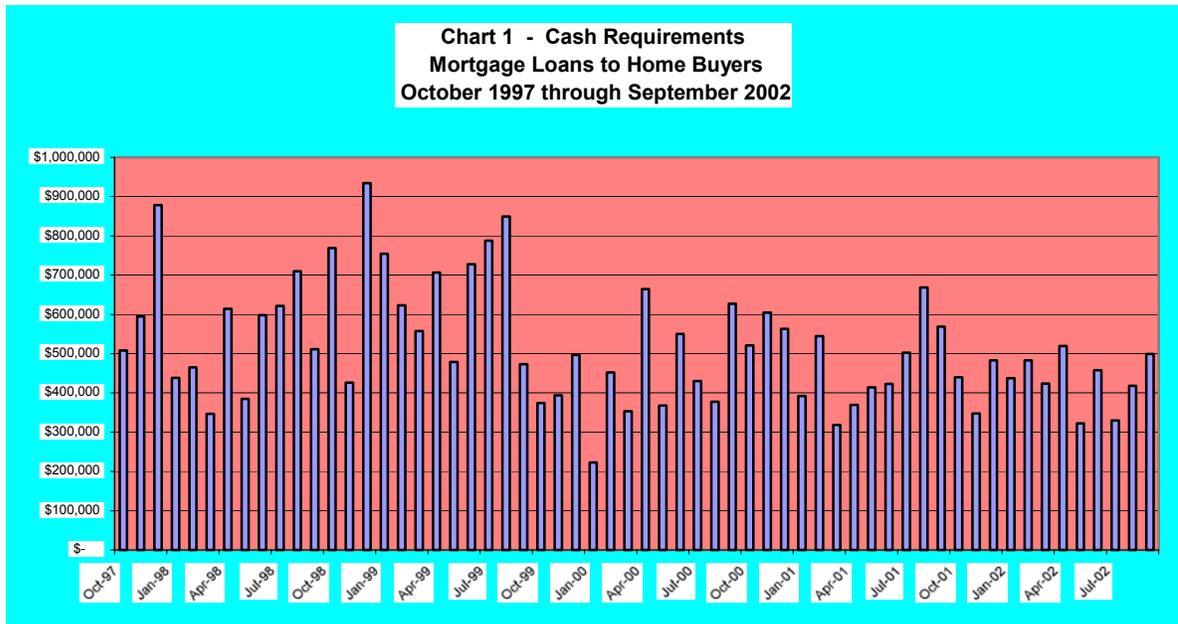
## FINDINGS AND RECOMMENDATIONS

routine business administrative expenses should have been reimbursed approximately once every 30 days, satisfying any cash flow requirements.

The Request for Grant Proposal, which was incorporated into the Grant Agreement, provided that DHCD could advance funds for administrative costs, at its discretion. However, GWUL certified in its response (dated September 20, 1999) to the Request for Grant Proposal that it “is financially capable of carrying out the work described in this proposal.” It is not good business practice to provide cash advances for administrative expenses to an organization that is capable of self-financing its administrative expenses. Further, it is also not a good business practice to freely provide cash advances to GWUL for administrative expenses in the absence of sufficient justification for advancing such funds.

**Historical Cash Requirements.** To determine historical GWUL cash requirements, we determined the number and value of HPAP, EHAP, and MPHAP home mortgage loans made pursuant to Grant Agreement No. 1294-14-RD-00 for FYs 1998 through 2002. For FYs 1998 through 2002, GWUL completed 2,271 home mortgage loans for HPAP, EHAP, and MPHAP in the amount of approximately \$31.1 million.

As required by the grant agreements, beneficiary reports showing those completed mortgage loans were provided by GWUL to DHCD monthly. The beneficiary reports showed the mortgage loans completed during a particular month and the dollar value of each mortgage loan. We have summarized the detailed amounts shown in the beneficiary reports for FYs 1998 through 2002 at Exhibit F and displayed those amounts graphically in Chart 1 below.



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## FINDINGS AND RECOMMENDATIONS

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**Cash Requirements Trends.** The HPAP, EHAP, and MPHAP mortgage loans amounted to approximately 98.8 percent of GWUL expenditures for its overall home ownership program loans. The monthly cash requirement is shown for a 60-month period from October 1997 through September 2002. The highest monthly cash requirement for the 60-month period was \$934,124 for December 1998 and the lowest was \$222,907 for January 2000. Overall GWUL cash requirements averaged approximately \$519,000 monthly.

**Analysis of Cash Requirements Trends.** We believe that DHCD could improve the management of cash advances made to GWUL by first analyzing GWUL cash requirements (for down payment and/or closing costs) for home ownership programs.

**Cash Advances.** Historical and projected cash requirements should have been the basis for calculating any potential cash advances that DHCD might have provided to GWUL. The management of DHCD cash advances could have been improved by subsequently matching any actual cash advances provided GWUL as closely as possible to the GWUL cash requirements.

**District of Columbia Funds.** As we noted in the Background section of this report, federal CDBG and HOME funds were not actually used for GWUL home mortgage loans and administrative expenses; rather, funds from District of Columbia general fund accounts were transferred to GWUL as cash advances or as payments for reimbursable expenditures.

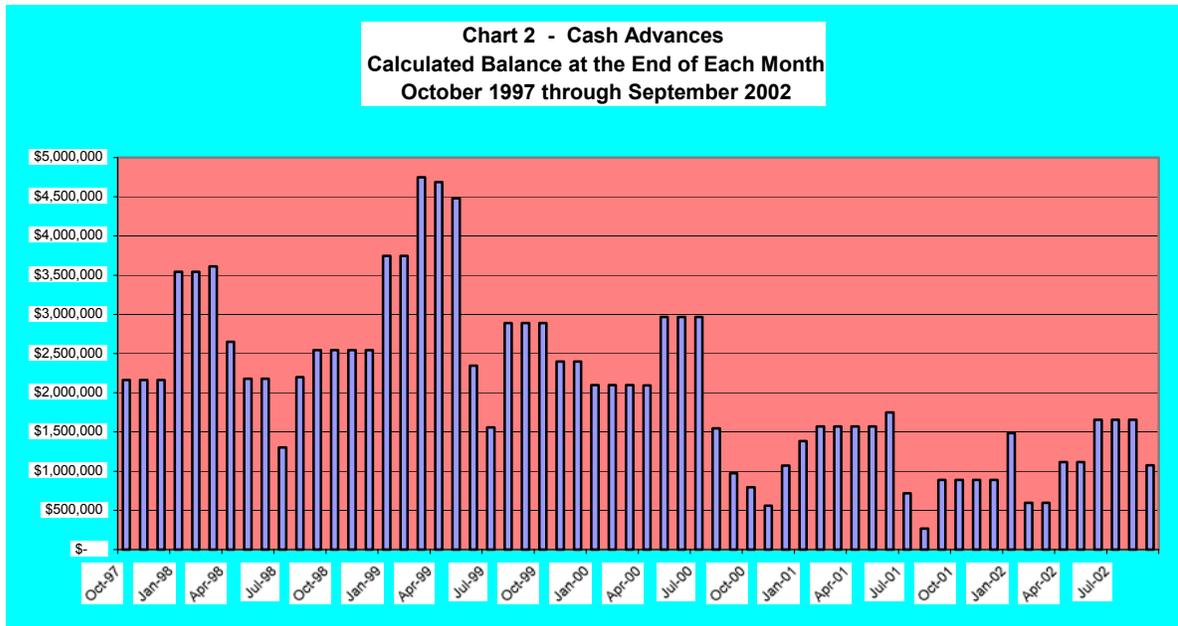
**Historical Cash Advances.** To determine historical cash advances made by DHCD to GWUL, we first reviewed GWUL requisitions for FYs 1998 through 2002. The requisitions (approximately five per month were submitted by GWUL to DHCD) contained a cash advance balance figure.

**Requisition Cash Advance Balance Figures.** The requisitions (although sequentially numbered) were not submitted to DHCD with the information for the specified periods in chronologic order. For example, requisition “x” may have contained information for the month of December, requisition “y” may have contained information for the three-month period October through December, and requisition “z” may have contained information for the month of November. We wished to use the cash advance balance figure contained in the requisitions to establish the GWUL cash advance balance at the end of each month. However, the cash advance figure contained in the requisition could not be used for the purpose of establishing a chronologic month-to-month cash advance balance. Therefore, not being able to rely on the data from the GWUL requisitions, we used a combination of the GWUL requisitions, payment requests, year-end closeout reports, bank statements, and DHCD checks to reconcile data and to reconstruct the GWUL cash advance balance at the end of each month.

## FINDINGS AND RECOMMENDATIONS

**Reconstruction of Cash Advance Balance Figures.** We reconstructed the cash advance balances using a method that would represent the cash receivables account balance (e.g., excess cash advances due DHCD from GWUL) shown on a financial statement but did not include advances for GWUL administrative expenses. Transactions on requisitions for direct reimbursement for mortgage loans previously made (recorded on beneficiary reports) were not considered in our analysis. Those transactions were not included in our calculations of excess cash advance balances because those transactions would not have resulted in an accounting entry made to a cash receivables account balance on a financial statement. A direct reimbursement would have been recorded in accounting records as an expense rather than as an adjusting entry to the cash receivables account balance on a financial statement.

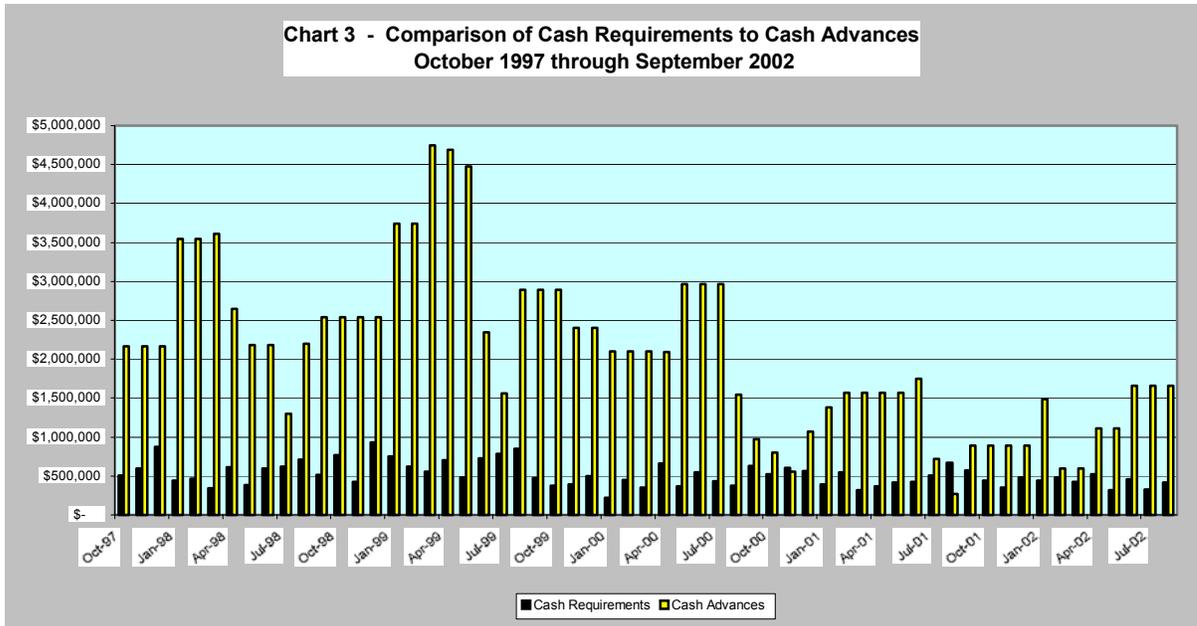
DHCD provided GWUL with excessive cash advances which resulted in GWUL maintaining cash monthly balances averaging approximately \$2,063,000 for a period of 60 months ending September 2002. We have summarized the detailed amounts for cash advances for FYs 1998 through 2002 at Exhibit F and displayed those amounts graphically in Chart 2 below.



**Comparison of Cash Requirements to Cash Advances.** Once the GWUL cash advance balance (equivalent to a cash receivables account balance on a financial statement) at the end of each month was determined, we compared that figure to the monthly cash requirement at the end of each month for the 60-month period from October 1997 through September 2002.

## FINDINGS AND RECOMMENDATIONS

The result of our comparison showed the amount that cash advances made to GWUL by DHCD exceeded the cash requirements of GWUL. We have summarized the detailed amounts for cash requirements, cash advances, and the amounts that the cash advances exceeded the cash requirements for FYs 1998 through 2002 at Exhibit F and displayed those amounts graphically in Chart 3 below.



As a result of our comparisons for the 60-month period ending September 2002, we determined that on average, our calculated cash advances exceeded cash requirements by more than approximately \$1,545,000 monthly. The comparisons also show that since July 2003, the amount of excess funds available to GWUL has steadily declined and improvements in managing cash advances have been made. However, more work needs to be done in managing cash advances.

### Management of Cash Advances

The excessive cash advances occurred because the grant agreements between those parties did not contain any provisions or procedures concerning the management of cash advances; cash requirements were not adequately assessed and reconciled; cash advances, once made, were not adequately managed; and guidance governing the management of cash advances was not issued. We also believe these problems occurred because the parties failed to address cash advances during the grant solicitation process.

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## FINDINGS AND RECOMMENDATIONS

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### **Provisions of the Grant Proposal and Grant Agreement Concerning Cash**

**Disbursements.** The grant agreement gives GWUL \$8 million to make the loans (not for administrative costs).

### **Provisions of the Grant Proposal and Grant Agreement Concerning Cash Advances.**

The Request for Grant Proposal No. 1294-14-RD-00, which is incorporated into Grant Agreement No. 1294-14-RD-00, provides, “The District, at its discretion may advance funds for administrative costs, loans and HoDIF grants.” However, neither the Request for Grant Proposal No. 1294-14-RD-00, nor Grant Agreement No. 1294-14-RD-00 contained any provisions to govern the management of cash advances or the process to disburse cash for down payment and/or closing costs assistance. We could not determine why the grant agreement did not address the financial management of the grant funds.

Request for Grant Proposal No. 1294-14-RD-00 required the offeror’s organization to provide “evidence, including letters of credit from a financial institution, of the offeror’s financial capacity . . . .” GWUL provided a document entitled “Certificate of Financial Accountability” issued by GWUL on September 20, 1999 (as part of its response to the Request for Grant Proposal), and stated that “the Greater Washington Urban League, Inc., is financially capable of carrying out the work described in this proposal.” GWUL also provided evidence of its financial capacity in its response by showing that it maintained a \$250,000 promissory note with the First Union National Bank of Washington, D.C. The note was effective March 29, 1999, and included the ability to continually “borrow, repay, and reborrow.” In effect, the promissory note operated as a revolving line-of-credit.

Neither the Request for Grant Proposal No. 1294-14-RD-00 nor Grant Agreement No. 1294-14-RD-00 required that GWUL provide a bona fide need for government cash advances for DHCD’s approval when requesting a cash advance. In addition, GWUL did not state in their response that it required cash advances to perform the services under the grant agreement; but rather, GWUL certified, to the contrary, in its response to the Request for Grant Proposal No. 1294-14-RD-00, that it “is financially capable of carrying out the work described in this proposal.

**Assessment and Reconciliation of Cash Requirements.** DHCD did not adequately assess, reconcile, and forecast GWUL cash requirements. Although GWUL beneficiary reports showed the mortgage loans completed during a particular month and the dollar value of each mortgage loan, we found no evidence that DHCD used those documents as a basis for determining immediate cash requirements or as a forecasting tool to determine projected cash requirements.

It appeared from our review of the requisitions and request for payments submitted by GWUL that DHCD simply provided whatever dollar amount GWUL requested as a cash advance, regardless of the outstanding cash advance balance. We saw no clear evidence that GWUL was required to drawdown against its existing advance balance before requesting

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## FINDINGS AND RECOMMENDATIONS

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additional advances or to justify its reasons for requesting additional cash advances when outstanding cash advances existed. We could not determine why DHCD did not better manage the cash advances made to GWUL and why DHCH approved the cash advances without effective oversight.

**Oversight of the Cash Advances.** Cash advances, once made, were not adequately managed by DHCD. For example, we found more than 40 unexplained changes to cash advance balance figures made by GWUL on the month-to-month requisitions. As previously discussed, this additional problem indicated to us that the cash advance balance figures shown on requisitions were not accurate. When we queried DHCD personnel as to the reasons for the unexplained changes, they had to contact GWUL for explanations but could not subsequently explain all the changes. In another example, we identified cash advances on requisitions, valued at approximately \$100,000, apparently made by GWUL to the Housing Counseling Services (a subcontractor of GWUL). We found no authorization for those cash advances and that DHCD personnel were unaware that those cash advances had been made. This further indicated to us that the cash advance balance figures on requisitions were not adequately reviewed and reconciled.

**Department of Housing and Community Development Guidance.** DHCD had not issued any internal guidance addressing the assessment of cash requirements; the process to determine whether cash advances were required and, if so, in what amount; the process to disburse cash advances; the process to drawdown cash advances; and the overall management and control of cash advances once made.

**Internal Control Weaknesses.** The lack of provisions and procedures in the grant agreement for the management of cash advances and the lack of DHCD published guidance are internal control weaknesses. The seriousness of the lack of procedures at DHCD for advances is amplified by the lack of regulatory guidance addressing this issue at the federal or District of Columbia government levels. Neither 24 C.F.R. Parts 570, 92, 84 or 85, nor 10 DCMR § 6900 (2002) provide specific guidance for the management of cash advances between the grant recipient (State or local government) and the subrecipient (non-governmental entity).

**Cash Advances.** Title 24 C.F.R. § 84.22(b)(2) (2003) provides guidance for the management of cash advances to grant recipients. Title 24 C.F.R. § 84.22(b)(2) (2003) states:

Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by

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## FINDINGS AND RECOMMENDATIONS

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the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Use of cash advances as a financing method should be based on a thorough assessment of historical and projected cash requirements and should be limited to the minimum amount needed for an authorized purpose. The timing of any cash advances should be based on an actual and immediate cash requirement.

### **Lost Interest to the District**

DHCD cash advances exceeded GWUL cash requirements by an average of approximately \$1.5 million monthly for a period of 60 months ending September 2002. Consequently, during that period, DHCD lost the opportunity to use, on average, as much as \$1.5 million monthly for other productive District purposes. Further, based upon our calculations, the excessive cash advances may have caused the District to lose approximately \$160,000 in interest.

Although GWUL forwarded interest earnings to DHCH on a monthly basis (as required by the Grant Agreement) the excess cash, if invested by the District of Columbia Office Finance and Treasury, would have earned more interest income. Our calculation of approximately \$160,000 in lost interest to the District is based upon a comparison of interest rates earned by GWUL (and submitted to DHCD) versus interest rates earned by the District government during the 60-month period covered by our audit.

### **Conclusion**

In summary, DHCD cash advances exceeded GWUL cash requirements by an average of approximately \$1.5 million monthly for a period of 60 months ending September 2002. Consequently, although excessive cash advances declined in FYs 2001 and 2002, DHCD lost the opportunity to use as much as \$1.5 million on average resulting from reduced cash advance balances for other productive District purposes. Further, the excessive cash advances may have caused the District to lose approximately \$160,000 in interest.

### **RECOMMENDATIONS**

We recommended that the Director, Department of Housing and Community Development:

1. Promptly develop, publish, and oversee enforcement of an administrative instruction that implements procedures to review, approve, and manage cash advances for government-financed cash flow requirements (cash advances) for Department of Housing and Community Development grant agreements.

## FINDINGS AND RECOMMENDATIONS

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2. Ensure that the administrative instruction cited in Recommendation 1 contains comprehensive provisions addressing:
  - a. the overall process governing the use of cash advances;
  - b. the process to determine whether cash advances are initially required;
  - c. the process to determine whether cash advances for subcontractors or sub-subrecipients of subrecipients are required;
  - d. the process to disburse cash advances, to include that cash advances will not be made for administrative expenses and can be adjusted or withdrawn when outstanding cash advance balances exist;
  - e. the process to disburse cash reimbursements, to include that any cash reimbursement request will first be drawn down against any outstanding cash advance balances before any cash is disbursed;
  - f. the submission of payment requests and requisitions in sequential and chronologic order within the required due dates and that cash advance balance figures are reconcilable from month-to-month and from requisition-to-requisition;
  - g. the review, reconciliation, control, and overall management of cash advances, once made; and
  - h. the process of continued reviews to determine whether cash advances are required.
3. Ensure that grant agreements providing cash advances contain specific provisions for the management of those cash advances that are in compliance with the guidance provided in the administrative instruction cited in Recommendation 1.
4. Require that grant subrecipients have adequate accounting systems and internal controls necessary to comply with the requirements of the administrative instruction cited in Recommendation 1.
5. Ensure that cash advances made by grant subrecipients to subcontractors or sub-subrecipients contain adequate justification and subsequent examination and authorization through the grant agreement by Department of Housing and Community Development officials.
6. Ensure that grant subrecipients comply with the provisions of the administrative instruction cited in Recommendation 1.

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## FINDINGS AND RECOMMENDATIONS

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### **DHCD RESPONSE (Recommendation 1)**

DHCD concurred with the recommendation and initiated action during the audit to establish a preliminary Administrative Instruction to govern procedures for cash advances and reimbursements to grantee provider agencies of the HPAP program. The Administrative Instruction will be implemented no later than March 1, 2005. The full text of DHCD's response is at Exhibit G.

### **OIG COMMENT (Recommendation 1)**

DHCD's corrective actions are responsive and meet the intent of the recommendation. Although DHCD agreed with the recommendation and initiated corrective actions, they strongly disagreed with the specific levels of cash balance excesses shown in our report. DHCD contends that our calculations of GWUL monthly cash balances are not accurate because transactions noted on GWUL requisitions as direct reimbursement for mortgage loans previously made were not considered in our analysis.

We did not consider these types of transactions in our analysis because cash outlays denoted on the GWUL requisitions as direct reimbursements for mortgage loans previously made do not change the DHCD HPAP balance sheet (those transactions do not result in journal entries to the cash advance balance sheet account). We determined the cash advance balances based on transactions that would have resulted in journal entries to the cash advance balance sheet account. This was explained in the draft audit report. In addition, although not a balance sheet transaction, cash outlays denoted on the GWUL requisitions as direct reimbursements for mortgage loans previously made have a negligible effect on GWUL checking account balances because the amount of cash expended by GWUL for mortgage loans previously made is reimbursed by DHCD in the same amount.

Further, we are unable to calculate a dollar value based on DHCD's contention because DHCD provided no supporting documentation to the OIG to substantiate its contention. Prior to the completion of the draft report, we requested DHCD to provide us with its calculations of GWUL monthly cash balances it believed were representative. Although DHCD had many months to do so, it did not provide the OIG with any recalculated monthly cash balances to support its contention. Without supporting documentation, we are unable to calculate the effect of cash outlays that we nevertheless believe would be marginal.

In conclusion, our calculations of the GWUL monthly cash advance balances are accurate, based on generally accepted accounting principles, and are fully supported by GWUL monthly requisition transactions. Those GWUL monthly requisitions are submitted by GWUL to DHCD to record cash advanced by DHCD to GWUL (and show increases and decreases in the cash advance balance). We reconstructed the monthly requisition cash advance balances (due to the inaccuracies of the monthly requisitions) using the actual documented transactions that occurred and that would have resulted in a balance sheet

## FINDINGS AND RECOMMENDATIONS

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transaction. DHCD has provided no evidence or documentation to show that we should have used another method in presenting our audit results.

However, we reexamined our facts and conclusions and determined that DHCD's contention regarding our assertion that DHCD did not achieve compliance with federal regulations has merit. Therefore, we have revised our report to eliminate all references of DHCD's non-compliance with federal regulations.

### **DHCD RESPONSE (Recommendation 2)**

DHCD, for the most part, concurred with the recommendation by establishing a range of provisions that should be included in the planned Administrative Instruction that governs cash advances. The Administrative Instruction will be implemented no later than March 1, 2005. The full text of DHCD's response is at Exhibit G.

### **OIG COMMENT (Recommendation 2)**

DHCD's corrective actions are responsive and satisfy the intent of the recommendation.

### **DHCD RESPONSE (Recommendations 3 to 6)**

DHCD concurred with the recommendations and will implement the recommendation within 30 days of the implementation of the Administrative Instruction governing cash advances (by establishing a range of provisions that should be included in the Administrative Instruction). The Administrative Instruction will be implemented no later than March 1, 2005. The full text of DHCD's response is at Exhibit G.

### **OIG COMMENT (Recommendations 3 to 6)**

DHCD's corrective actions are responsive and meet the intent of the recommendations.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 2: ANNUAL YEAR-END CLOSEOUT OF CASH ADVANCES</b>
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### SYNOPSIS

GWUL did not submit complete, timely, and accurate annual year-end closeout packages and payments to DHCD for cash advances or remaining cash held by GWUL at the end of a grant year.

The untimely, incomplete, and inaccurate year-end closeouts occurred because the grant agreements between DHCD and GWUL did not contain any provisions or procedures concerning annual year-end closeouts, the submission of annual year-end closeout packages, or the requirement for the repayment of excess funds. Further, DHCD did not adequately review and reconcile the annual year-end closeout packages submitted by GWUL and repayments of funds due. Lastly, DHCD did not issue guidance concerning the management of annual year-end closeouts.

As a result, funds due the District of Columbia were not repaid within reasonable time periods and were unavailable for the District's use for other productive purposes. Further, those unused funds incurred interest costs to the District of Columbia as discussed in Finding 1. Finally, \$25,598 from the 1998 grant year was not paid to DHCD until identified by this audit.

### DISCUSSION

According to 24 C.F.R. § 85.40(a) (2003): "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

According to 24 C.F.R. § 85.20(b)(3) (2003): "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

### Year-End Closeout Submissions

GWUL failed to submit complete, timely, and accurate annual year-end closeout packages and payments to DHCD for cash advances or remaining cash held by GWUL at the end of a grant year. Prompt submission of annual close-out packages are particularly important when cash advances exceed an organization's annual costs for a particular grant year.

## FINDINGS AND RECOMMENDATIONS

Although annual year-end closeout packages were not required by the grant agreement, it appears that DHCD requested GWUL to submit those packages. We believe that this was a good management decision on the part of DHCD. We asked DHCD to provide GWUL annual closeout packages for 5 grant years, 1998 through 2002. However, DHCD could only initially provide the closeout packages for 3 years, 1999 through 2001, and those packages were incomplete. Because DHCD had not established guidance for the contents of the packages, no package was identical in the documents provided. Ultimately, DHCD was able to obtain the missing 1998 and 2002 packages from GWUL, but DHCD could not explain why those two packages were not in DHCD files. Notably, once we examined those copies, we found that the packages were also incomplete when compared to the contents of other packages.

**Accuracy and Timeliness of Year-End Closeout Packages.** We found that GWUL took lengthy and, in some cases, extraordinary periods of time to submit the closeout packages and pay funds due DHCD. Further, even though there was an excess of cash due DHCD from previous cash advances, GWUL continued to request new cash advances. DHCD continued to disburse those cash advances when requested even though funds due from the previous grant year had not been repaid and cash advances continued to accumulate. Table 1 shows the approximate times for the submission of the closeout packages and the amounts of funds due DHCD.

Grant Year	Approximate Time to Submit Close-out Package to DHCD After the End of the Grant Year	Cash Advance or Excess Cash Due DHCD
1998	8 months	\$2,471,248
1999	7 months	\$1,022,048
2000	7 months	\$1,127,408
2001	4 months	\$ 961,448
2002	4 months	\$1,076,016

In two instances, the reimbursement of funds due DHCD took considerably longer than noted in Table 1. Funds in the amount of \$112,500 due DHCD from the 1996 grant year took approximately 2.75 years to be paid to DHCD, and funds in the amount of \$1,080,167 due DHCD from the 1998 grant year took approximately 2 years to be paid to DHCD. Those two amounts were included in Table 1 for 1998. The disbursement of cash advances coupled with the already existing cash amount due to DHCD, contributed to an excessive amount of cash available to GWUL. This excess averaged \$1.5 million monthly.

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## FINDINGS AND RECOMMENDATIONS

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### Review and Reconciliation of Year-End Closeout Submissions

The untimely, incomplete, and inaccurate year-end closeouts occurred because the grant agreements between DHCD and GWUL did not contain any provisions or procedures concerning annual year-end closeouts, the submission of annual year-end closeout packages, or the requirement for the repayment of excess funds. Further, annual year-end closeout packages submitted by GWUL and repayments of funds due. Lastly, DHCD did not issue guidance concerning the management of annual year-end closeouts.

**Provisions of the Grant Agreement.** Neither the Request for Grant Proposal No. 1294-14-RD-00 nor Grant Agreement No. 1294-14-RD-00 contained provisions or procedures governing annual year-end closeout submissions. Further, there was no other written agreement between DHCD and GWUL requiring submission of annual year end annual year-end closeout documentation to DHCD or repayment of funds due DHCD.

The Request for Grant Proposal No. 1294-14-RD-00 and Grant Agreement No. 1294-14-RD-00 did contain provisions addressing grant closeout procedures when the grant expires. Title 24 C.F.R. Parts 85 and 570 also provide some guidance on closeout at the termination of a grant but no guidance addressing annual closeouts. As with the cash advances, we could not determine why annual year-end closeouts were not addressed in the grant agreement.

**Review and Reconciliation.** There was no indication in the close-out documents or packages provided to us that DHCD had reviewed the close-out packages for content and accuracy, challenged the timeliness of submissions, reconciled the amounts of funds due DHCD, or demanded prompt repayment of funds due.

In our opinion, without an adequate review and reconciliation of documentation supporting cash advances the unexplained or unexamined changes (discussed in Finding 1) that occurred to cash advance balance figures on requisitions could have resulted in erroneous amounts shown as funds due DHCD on the annual year-end closeout packages. If cash advance balance figures were understated on the final yearly requisition in any particular year (we were also unable to obtain some of the final yearly requisitions from either DHCD or GWUL records), the funds due DHCD could have also been understated. Based on the internal control weaknesses we identified, DHCD may have never been able to find understatements in the annual year-end closeout packages. However, we do not know that this situation occurred as time did not permit us to reconcile the annual year-end closeout packages to GWUL accounting records. We discuss the lack of reconciliation procedures as a potential internal control weakness that still exists.

**Department of Housing and Community Development Guidance.** DHCD had not issued any internal guidance addressing the content, accuracy, and timeliness for annual year-end closeout submissions; the procedures for the review and reconciliation of annual year-end

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## FINDINGS AND RECOMMENDATIONS

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closeout submissions; or the procedures for the timeliness and proper amount of payments of funds due the District of Columbia.

### Conclusion

The lack of procedures for the annual year-end closeout of cash advances resulted in millions of dollars in funds due the District of Columbia that were not repaid within reasonable time periods and were unavailable for the District's use for other productive purposes. Further, those unused funds incurred interest costs to the District of Columbia as discussed in Finding 1. Finally, \$25,598 from the 1998 grant year was not paid to DHCD until identified by this audit.

The lack of DHCD published guidance, the lack of provisions and procedures in the grant agreement for the management of annual year-end closeouts, and the lack of a requirement that annual year-end close-out packages be submitted are internal control weaknesses. In addition, the seriousness of the lack of procedures at DHCD is amplified by the lack of regulatory guidance addressing this situation at the federal or District of Columbia government levels. 10 DCMR § 6900 (2002) does not provide specific guidance for the management of annual year-end close-outs.

### RECOMMENDATIONS

We recommended that the Director, Department of Housing and Community Development:

7. Promptly develop, publish, and oversee enforcement of an administrative instruction that implements procedures to review, approve, and manage annual year-end closeouts for Department of Housing and Community Development grant agreements in regard to cash advances or remaining cash held by organizations that exceeds the annual costs at the end of the preceding grant year or fiscal year.
8. Ensure that the administrative instruction cited in Recommendation 8 contains comprehensive provisions addressing:
  - a. the overall process governing the use of annual year-end closeouts;
  - b. the process to determine whether annual year-end closeouts are required;
  - c. the process to determine whether annual year-end closeouts for subcontractors or sub-subrecipients of subrecipients are required;
  - d. the completeness, accuracy, and timeliness for annual year-end close-out submissions;
  - e. the review, reconciliation, control, and overall management of annual year-end closeouts, once submitted;

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## FINDINGS AND RECOMMENDATIONS

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- f. the determination of the accurate amount of payments of funds due the District of Columbia and the timeliness of subsequent payments to the District of Columbia; and
  - g. the process of continued reviews to determine whether cash advances are required.
9. Ensure that any Department of Housing and Community Development grant agreement that provides cash advances contains specific provisions for the management of annual year-end closeouts for cash advances or remaining cash held by organizations at the end of a grant year or fiscal year (that exceeded the annual costs for a particular grant year or fiscal year) that is in compliance with the guidance provided in the administrative instruction cited in Recommendation 8.
10. Include a provision in any future Department of Housing and Community Development requests-for-grant-proposal that requires subrecipients to submit annual year-end closeouts in accordance with the administrative instruction cited in Recommendation 8.
11. Require that grant subrecipients have adequate accounting systems and internal controls necessary to comply with the requirements of the administrative instruction cited in Recommendation 8.
12. Ensure that grant subrecipients comply with the provisions of the administrative instruction cited in Recommendation 8.

### **DHCD RESPONSE (Recommendation 7)**

DHCD concurred with the recommendation and initiated action during the audit to establish a preliminary Administrative Instruction to govern procedures for close-out of grant funded activities. The Administrative Instruction will be implemented no later than April 1, 2005.

### **OIG COMMENT (Recommendation 7)**

DHCD's corrective actions are responsive and meet the intent of the recommendation.

### **DHCD RESPONSE (Recommendation 8)**

DHCD, for the most part, concurred with the recommendation and initiated action during the audit to establish a preliminary Administrative Instruction (AI) to govern procedures for close-out of grant funded activities. The AI will be implemented no later than April 1, 2005.

## **FINDINGS AND RECOMMENDATIONS**

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### **OIG COMMENT (Recommendations 8)**

DHCD's corrective actions are responsive and meet the intent of the recommendation.

### **DHCD RESPONSE (Recommendations 9-12)**

DHCD concurred with the recommendations and is committed to fully implementing all four recommendations by May 1, 2005. The full text of DHCD's response is at Exhibit G.

### **OIG COMMENT (Recommendations 9-12)**

DHCD's corrective actions are responsive and satisfy the intent of the recommendations.

**SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>	<b>Status<sup>1</sup></b>
1	Compliance and Internal Control. Establishes guidelines for the management of cash advances to grant subrecipients.	As much as \$1.5 million can be put to better use.	Closed
2a-2h	Compliance and Internal Control. Outlines specific processes to better manage cash advances.	Non Monetary.	Closed
3	Compliance and Internal Control. Ensures that grant agreements include provisions stipulated in new guidelines for cash advances to grant subrecipients.	Non Monetary.	Closed
4	Compliance and Internal Control. Requires grant recipients to ensure that their accounting systems comply with the guidelines for cash advances.	Non Monetary.	Closed
5	Compliance and Internal Control. Ensures that cash advances made by subrecipients are adequately justified.	Non Monetary.	Closed
6	Compliance and Internal Control. Ensures subrecipient compliance with new guidelines for cash advances.	Non Monetary.	Closed
7	Compliance and Internal Control. Establishes comprehensive guidelines for managing annual year-end closeouts for cash advances.	Non Monetary.	Closed
8a- 8b	Compliance and Internal Control. Provides specific criteria for the administrative guidelines for managing annual year-end closeouts for cash advances.	Non Monetary.	Closed

<sup>1</sup> This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

**SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

9	Compliance and Internal Control. Ensures that grant agreements contain new provisions covering the management of annual year-end closeouts for cash advances.	Non Monetary.	Closed
10	Compliance and Internal Control. Ensures that requests for grant proposals include provisions requiring grantees to submit annual year-end closeouts for cash advances.	Non Monetary.	Closed
11	Compliance and Internal Control. Requires grant recipients to ensure that their accounting systems comply with guidelines for submission of annual year-end closeouts for cash advances.	Non Monetary.	Closed
12	Compliance and Internal Control. Ensures subrecipient compliance with new guidelines for submission of annual year-end closeouts for cash advances.	Non monetary.	Closed

EXHIBIT B

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**DEFINITIONS OF TERMS**

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Advance – “[A] payment made by Treasury check or other appropriate payment mechanism to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules.” 24 C.F.R. § 84.2 (2003).

Closeout – “[T]he process by which [the U.S. Department of Housing and Urban Development] HUD determines that all applicable administrative actions and all required work of the award have been completed by the recipient and HUD.” 24 C.F.R. § 84.2 (2003).

Grant – “[A]n award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal Government to an eligible grantee.” 24 C.F.R. § 85.3 (2003).

Grantee – “[T]he government to which a grant is awarded and which is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.” 24 C.F.R. § 85.3 (2003).

Household – “[A]ll the persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.” 24 C.F.R. §570.3 (2003).

Jurisdiction – “[A] State or unit of general local government.” 24 C.F.R. §92.2 (2003).

Local government – “[A] county, municipality, city, town, township, local public authority (including any public and Indian housing agency under the United States Housing Act of 1937) school district, special district, intrastate district, council of governments (whether or not incorporated as a nonprofit corporation under state law), any other regional or interstate government entity, or any agency or instrumentality of a local government.” 24 C.F.R. § 85.3 (2003).

Low-income household – “[A] household having an income equal to or less than the Section 8 very low-income limit established by HUD.” 24 C.F.R. §570.3 (2003).

Low-income families – “[F]amilies whose annual incomes do not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families” . . . . 24 C.F.R. §92.2 (2003).

Moderate-income household – “[A] household having an income equal to or less than the Section 8 low-income limit and greater than the Section 8 very low-income limit, established by HUD.” 24 C.F.R. §570.3 (2003).

EXHIBIT B

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**DEFINITIONS OF TERMS**

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Participating jurisdiction – “[A] jurisdiction (as defined in this section) that has been so designated by HUD in accordance with § 92.105.” 24 C.F.R. §92.2 (2003).

Recipient – “[A]n organization receiving financial assistance directly from HUD to carry out a project or program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private non-profit organizations such as, but not limited to, community action agencies, research institutes, educational associations, and health centers. The term includes commercial organizations, international organizations when operating domestically (such as agencies of the United Nations) which are recipients, subrecipients, or contractors or subcontractors of recipients or subrecipients.” 24 C.F.R. § 84.2 (2003).

Subgrant – “[A]n award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement, but does not include procurement purchases, nor does it include any form of assistance which is excluded from the definition of grant in this part.” 24 C.F.R. § 85.3 (2003).

Subgrantee – “[T]he government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided.” 24 C.F.R. § 85.3 (2003).

Subrecipient – “[T]he legal entity to which a subaward is made and which is accountable to the recipient for the use of the funds provided. The term includes commercial organizations and international organizations operating domestically (such as agencies of the United Nations).” 24 C.F.R. § 84.2 (2003).

Terms of a grant or subgrant – “[A]ll requirements of the grant or subgrant, whether in statute, regulations, or the award document.” 24 C.F.R. § 85.3 (2003).

Unit of general local government – “[A] city, town, township, county, parish, village, or other general purpose political subdivision of a State; a consortium of such political subdivisions recognized by HUD in accordance with § 92.101; and any agency or instrumentality thereof that is established pursuant to legislation and designated by the chief executive to act on behalf of the jurisdiction with regard to provisions of this part.” 24 C.F.R. §92.2 (2003).

Very low-income families – “[L]ow-income families whose annual incomes do not exceed 50 percent of the median family income for the area, as determined by HUD with adjustments for smaller and larger families” . . . . 24 C.F.R. §92.2 (2003).

EXHIBIT C

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**THE GREATER WASHINGTON URBAN LEAGUE**

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The Greater Washington Urban League (GWUL) is a major nonprofit civil rights and social services organization located in the District of Columbia. The GWUL was founded in the District of Columbia in 1938 and is one of more than 100 affiliates of the National Urban League. The GWUL provides services to more than 60,000 persons annually and its fiscal year 2002 support and revenues were more than \$6.5 million. According the GWUL website, [www.gwul.org](http://www.gwul.org):

The mission of GWUL is “to increase the economic and political empowerment of African Americans and other minorities and to help all Americans share equally in the responsibilities and rewards of full citizenship.” To accomplish its mission, the GWUL uses the tools and methods of social work, economics, law, and other disciplines to bring about equal opportunities and equal access to African Americans and minorities in the Washington metropolitan area.

The GWUL is governed by a 37-member board of directors comprised of a cross-section of individuals from the Washington metropolitan area and by an advisory board that lends expertise and guidance to support the work of the agency. Base support is provided by various private funding sources and contracts with federal and local government agencies to conduct specially funded programs. The GWUL service area was expanded almost 10 years ago to include not only the District of Columbia but also Prince George’s County, Maryland and Montgomery County, Maryland.

The GWUL operates with five program divisions of which one concerns Housing and Economic Development. That division, since 1994, administers the District’s Home Purchase Assistance Program, the Employer Assisted Housing Program, the Metropolitan Police Housing Assistance Program, the Home Purchase Assistance Step Up Program, and the Home Ownership Developers Incentive Fund Program. Those programs are described at Exhibit D. In addition, GWUL offers homeownership counseling programs in partnership with several banks and the U.S. Department of Housing and Urban Development as a certified counseling agency.

In its response to the Request for Grant Proposal No. 1294-14-RD-00, the GWUL stated that its accounts are maintained in accordance with the principles of fund accounting and that separate accounts are maintained for each fund. The GWUL also stated that the separate accounts are treated as “profit centers” and that this maintains good control of program revenues and expenditures and facilitates the audit of contracts. The GWUL ledgers are closed on a monthly basis using the accrual method of accounting. Income on cost reimbursement contracts and grants is recognized to the extent of reimbursable costs incurred. The Housing and Economic Development program division operates as a “profit center” and maintains separate checking accounts for its transactions. Those checking accounts are described at Exhibit E.

EXHIBIT D

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**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
HOME PURCHASE PROGRAMS ADMINISTERED BY THE  
GREATER WASHINGTON URBAN LEAGUE**

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Grant Agreement No. 1294-14-RD-00 (effective January 1, 2000, through December 31, 2004, with 1 base year with 4 option years), the current grant agreement, and Grant Agreement No. 1191-14 (effective October 1, 1994, through December 31, 1999 with 1 base year with 4 option years), the previous grant agreement were executed between the District of Columbia (represented by the Department of Housing and Community Development) and Greater Washington Urban League (GWUL). According to the statement of work in Grant Agreement No. 1294-14-RD-00, GWUL is to administer the District's Home Purchase Assistance Program, the Employer Assisted Housing Program, the Metropolitan Police Housing Assistance Program, the Home Purchase Assistance Step Up Program, and the Home Ownership Developers Incentive Fund Program.

**Home Purchase Assistance Program.** The Home Purchase Assistance Program, the principal home ownership program, provides financial assistance to qualified District residents in the form of interest-free and low-interest loans to meet down payment and closing cost requirements. The loans enable low- and moderate-income (households with incomes below 80 percent of the area median income) individuals and families to purchase affordable single-family homes, condominiums, or cooperative units in the District of Columbia. The amount of the loan is based on several factors, including income, household size, and the amount of assets that an applicant can commit toward the purchase price. Loans provided are subordinate to private first trust mortgages.

**Employer Assisted Housing Program.** The Employer Assisted Housing Program provides District of Columbia employees with an increased opportunity to become first-time homeowners through matching down payments (grants) and deferred loans.

**Metropolitan Police Housing Assistance Program.** The Metropolitan Police Housing Assistance Program provides District of Columbia police officers with an increased opportunity to become first-time homeowners through matching down payments (grants), deferred loans, and property tax credits.

**Home Purchase Assistance Step Up Program.** The Home Purchase Assistance Step Up Program provides assistance to District residents who currently own a single-family house, condominium, or cooperative unit, purchased with Home Purchase Assistance Program funds, and wish to purchase another property in the District of Columbia that is larger or otherwise more appropriate for their households.

**Home Ownership Developers Incentive Fund Program.** The Home Ownership Developers Incentive Fund Program provides grants to Community Development Corporations and other non-profit development entities to help lower the sales price of units developed by non-profits to make them affordable to low- and moderate-income purchasers.

EXHIBIT E

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**GREATER WASHINGTON URBAN LEAGUE  
CHECKING ACCOUNTS USED FOR HOME PURCHASE PROGRAMS**

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The Greater Washington Urban League (GWUL) used six checking accounts maintained by two separate banking institutions to administer programs related to home purchases.

- |  |                             |
|--|-----------------------------|
| 1. First Union National Bank, Washington, D.C. | HPAP Administrative Account |
| 2. First Union National Bank, Washington, D.C. | HPAP CDBG Loan Account      |
| 3. First Union National Bank, Washington, D.C. | HPAP HoDIF Loan Account     |
| 4. First Union National Bank, Washington, D.C. | HPAP HOME Loan Account      |
| 5. First Union National Bank, Washington, D.C. | HPAP REPAY Loan Account     |
| 6. Industrial Bank N.A., Washington, D.C.      | GWUL Administration Account |

The purpose of the Home Purchase Assistance Program (HPAP) Administrative Account was to pay the fees incurred for the inspections of homes that were considered for purchase by homebuyers.

The purpose of the HPAP Community Development Block Grant (CDBG) Loan Account was to disburse CDBG funds used for the down payment and/or closing cost expenses at the settlement of a home mortgage loan.

The purpose of the HPAP Homeownership Developer's Incentive Fund (HoDIF) Loan Account was to disburse HoDIF grant funds to Community Development Corporations and other non-profit development entities to help lower the sales price of units developed by non-profits.

The purpose of the HPAP Home Investment Partnerships Program (HOME) Loan Account was to disburse HOME funds used for the down payment and/or closing cost expenses at the settlement of a home mortgage loan.

The purpose of the HPAP REPAY (repayment) Loan Account was to disburse repayment funds used for the down payment and/or closing cost expenses at the settlement of a home mortgage loan. Repayment funds represent income received by the Department of Housing and Community Development in the form of loan payments and interest earned on its home mortgage loans made with District of Columbia appropriated funds.

The purpose of the GWUL Administration Account was to pay the administrative expenses incurred (e.g. payroll, office supplies, etc.) by GWUL for the management of its home purchase programs.

EXHIBIT F

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**CASH ADVANCES FOR HOME PURCHASE PROGRAMS**

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The Greater Washington Urban League (GWUL) provides loans for down payment and closing costs through the administration of the Department of Housing and Community Development (DHCD) Home Purchase Assistance Program, the Employer Assisted Housing Program, the Metropolitan Police Housing Assistance Program, Home Purchase Assistance Step-Up Program, and the Homeownership Developer's Incentive Fund Program. DHCD home ownership programs are described at Exhibit D.

**Cash Requirements.** The DHCD Home Purchase Assistance Program, the Employer Assisted Housing Program, and the Metropolitan Police Housing Assistance Program mortgage loans made by GWUL amounted to approximately 98.8 percent of GWUL expenditures for home ownership programs. Therefore, we believe that the following tables adequately represent GWUL cash requirements. Historical and projected cash requirements, once determined, become the basis for calculating potential cash advances.

**Cash Advances.** We used a combination of GWUL requisitions, payment requests, year-end closeout reports, bank statements, and DHCD checks to determine historical cash advances made by DHCD to GWUL. We reconciled that data to reconstruct the GWUL cash advance balance at the end of each month (as discussed in Finding 1). We believe that the tables below adequately represent GWUL cash advance balances at the end of each month for fiscal years 1998 through 2002. Once the GWUL cash advance balance at the end of each month was determined, we compared that figure to the GWUL cash requirements for the corresponding month (funds provided to homebuyers by GWUL) within a 60-month period ending September 2002.

**Administrative Expenses.** We did not include the administrative expenses shown on GWUL requisitions and payment requests as part of the cash requirements. Further, we did not include cash advances made by DHCD for administrative expenses shown on GWUL requisitions and payment requests as part of the cash advances. Administrative expenses are discussed in Finding 1.

The figures presented in the following tables have been rounded to the nearest dollar.

EXHIBIT F

**CASH ADVANCES FOR HOME PURCHASE PROGRAMS**

<b>U.S. Department of Housing and Urban Development Fiscal Year 1998</b>	<b>Number of Loans Made to Homebuyers by GWUL That Were Closed During the Month</b>	<b>Gross Amount of Funds Provided to Homebuyers by GWUL for Loans Made During the Month</b>	<b>Amount of Cash Advance Balance Maintained by GWUL at the End of Each Month</b>	<b>Amount That Cash Advances Exceeded Cash Requirements at the End of Each Month</b>
<b>Month / Year</b>				
Oct 1997	32	\$ 508,371	\$ 2,164,716	\$ 1,656,345
Nov 1997	37	\$ 594,830	\$ 2,164,716	\$ 1,569,886
Dec 1997	58	\$ 878,064	\$ 2,164,716	\$ 1,286,652
Jan 1998	34	\$ 438,515	\$ 3,544,716	\$ 3,106,201
Feb 1998	31	\$ 465,137	\$ 3,544,716	\$ 3,079,580
Mar 1998	24	\$ 346,574	\$ 3,614,031	\$ 3,267,457
Apr 1998	43	\$ 614,542	\$ 2,648,800	\$ 2,034,259
May 1998	28	\$ 384,634	\$ 2,181,354	\$ 1,796,720
Jun 1998	45	\$ 598,228	\$ 2,181,354	\$ 1,583,126
Jul 1998	45	\$ 621,209	\$ 1,302,877	\$ 681,668
Aug 1998	45	\$ 709,876	\$ 2,197,990	\$ 1,488,114
Sep 1998	44	\$ 511,654	\$ 2,544,894	\$ 2,033,241
<b>Total Funds Provided</b>		<b>\$ 6,671,634</b>	<b>\$ 30,254,883</b>	<b>\$ 23,583,249</b>

<b>U.S. Department of Housing and Urban Development Fiscal Year 1999</b>	<b>Number of Loans Made to Homebuyers by GWUL That Were Closed During the Month</b>	<b>Gross Amount of Funds Provided to Homebuyers by GWUL for Loans Made During the Month</b>	<b>Amount of Cash Advance Balance Maintained by GWUL at the End of Each Month</b>	<b>Amount That Cash Advances Exceeded Cash Requirements at the End of Each Month</b>
<b>Month / Year</b>				
Oct 1998	52	\$ 769,140	\$ 2,544,894	\$ 1,775,754
Nov 1998	31	\$ 425,937	\$ 2,544,894	\$ 2,118,958
Dec 1998	59	\$ 934,124	\$ 2,544,894	\$ 1,610,770
Jan 1999	56	\$ 754,853	\$ 3,744,894	\$ 2,990,041
Feb 1999	44	\$ 623,264	\$ 3,744,894	\$ 3,121,630
Mar 1999	39	\$ 557,739	\$ 4,749,894	\$ 4,192,155
Apr 1999	51	\$ 706,535	\$ 4,688,259	\$ 3,981,724
May 1999	34	\$ 479,218	\$ 4,479,764	\$ 4,000,546
Jun 1999	53	\$ 727,598	\$ 2,347,604	\$ 1,620,006
Jul 1999	56	\$ 787,982	\$ 1,559,623	\$ 771,641
Aug 1999	61	\$ 849,669	\$ 2,889,665	\$ 2,039,996
Sep 1999	39	\$ 473,264	\$ 2,889,665	\$ 2,416,401
<b>Total Funds Provided</b>		<b>\$ 8,089,322</b>	<b>\$ 38,728,945</b>	<b>\$ 30,639,623</b>

EXHIBIT F

**CASH ADVANCES FOR HOME PURCHASE PROGRAMS**

<b>U.S. Department of Housing and Urban Development Fiscal Year 2000</b>	<b>Number of Loans Made to Homebuyers by GWUL That Were Closed During the Month</b>	<b>Gross Amount of Funds Provided to Homebuyers by GWUL for Loans Made During the Month</b>	<b>Amount of Cash Advance Balance Maintained by GWUL at the End of Each Month</b>	<b>Amount That Cash Advances Exceeded Cash Requirements at the End of Each Month</b>
<b>Month / Year</b>				
Oct 1999	30	\$ 374,636	\$ 2,889,665	\$ 2,515,029
Nov 1999	27	\$ 393,584	\$ 2,398,231	\$ 2,004,647
Dec 1999	35	\$ 497,115	\$ 2,398,231	\$ 1,901,116
Jan 2000	15	\$ 222,907	\$ 2,099,504	\$ 1,876,597
Feb 2000	32	\$ 452,511	\$ 2,099,504	\$ 1,646,993
Mar 2000	26	\$ 353,254	\$ 2,099,504	\$ 1,746,250
Apr 2000	45	\$ 664,281	\$ 2,094,951	\$ 1,430,670
May 2000	24	\$ 367,580	\$ 2,964,951	\$ 2,597,371
Jun 2000	38	\$ 550,285	\$ 2,964,951	\$ 2,414,666
Jul 2000	30	\$ 430,040	\$ 2,964,951	\$ 2,534,911
Aug 2000	29	\$ 377,766	\$ 1,545,797	\$ 1,168,031
Sep 2000	42	\$ 627,020	\$ 972,850	\$ 345,830
<b>Total Funds Provided</b>		<b>\$ 5,310,979</b>	<b>\$ 27,493,090</b>	<b>\$ 22,182,111</b>

<b>U.S. Department of Housing and Urban Development Fiscal Year 2001</b>	<b>Number of Loans Made to Homebuyers by GWUL That Were Closed During the Month</b>	<b>Gross Amount of Funds Provided to Homebuyers by GWUL for Loans Made During the Month</b>	<b>Amount of Cash Advance Balance Maintained by GWUL at the End of Each Month</b>	<b>Amount That Cash Advances Exceeded Cash Requirements at the End of Each Month</b>
<b>Month / Year</b>				
Oct 2000	39	\$ 520,697	\$ 797,053	\$ 276,356
Nov 2000	38	\$ 604,578	\$ 559,427	\$ (45,150)
Dec 2000	46	\$ 562,893	\$ 1,069,427	\$ 506,534
Jan 2001	36	\$ 392,590	\$ 1,383,350	\$ 990,760
Feb 2001	41	\$ 544,344	\$ 1,569,402	\$ 1,025,058
Mar 2001	25	\$ 318,254	\$ 1,569,427	\$ 1,251,173
Apr 2001	30	\$ 369,909	\$ 1,569,427	\$ 1,199,518
May 2001	33	\$ 413,744	\$ 1,569,427	\$ 1,155,684
Jun 2001	34	\$ 422,851	\$ 1,749,427	\$ 1,326,577
Jul 2001	42	\$ 502,569	\$ 720,000	\$ 217,432
Aug 2001	53	\$ 668,938	\$ 268,152	\$ (400,786)
Sep 2001	43	\$ 568,919	\$ 888,451	\$ 319,532
<b>Total Funds Provided</b>		<b>\$ 5,890,286</b>	<b>\$ 13,712,973</b>	<b>\$ 7,822,687</b>

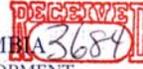
EXHIBIT F

**CASH ADVANCES FOR HOME PURCHASE PROGRAMS**

<b>U.S. Department of Housing and Urban Development Fiscal Year 2002  Month / Year</b>	<b>Number of Loans Made to Homebuyers by GWUL That Were Closed During the Month</b>	<b>Gross Amount of Funds Provided to Homebuyers by GWUL for Loans Made During the Month</b>	<b>Amount of Cash Advance Balance Maintained by GWUL at the End of Each Month</b>	<b>Amount That Cash Advances Exceeded Cash Requirements at the End of Each Month</b>
Oct 2001	30	\$ 440,316	\$ 888,451	\$ 448,135
Nov 2001	27	\$ 347,490	\$ 888,451	\$ 540,961
Dec 2001	41	\$ 482,884	\$ 888,451	\$ 405,568
Jan 2002	41	\$ 437,492	\$ 1,483,451	\$ 1,045,960
Feb 2002	39	\$ 482,924	\$ 595,000	\$ 112,076
Mar 2002	32	\$ 423,581	\$ 595,000	\$ 171,419
Apr 2002	39	\$ 519,834	\$ 1,115,000	\$ 595,166
May 2002	27	\$ 322,436	\$ 1,115,000	\$ 792,564
Jun 2002	33	\$ 457,860	\$ 1,655,000	\$ 1,197,140
Jul 2002	23	\$ 329,692	\$ 1,655,000	\$ 1,325,308
Aug 2002	29	\$ 417,994	\$ 1,655,000	\$ 1,237,006
Sep 2002	36	\$ 499,033	\$ 1,075,079	\$ 576,046
<b>Total Funds Provided</b>		<b>\$ 5,161,537</b>	<b>\$ 13,608,885</b>	<b>\$ 8,447,348</b>

## DHCD RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



04 DEC 13 AM 11:04

Office of the Director

December 10, 2004

Austin A. Anderson  
Interim Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
5<sup>th</sup> Floor  
Washington, DC 20005

Dear Mr. Anderson:

I am writing in response to the report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Department of Housing and Community Development's Management of Cash Advances to the Greater Washington Urban League (OIG No. 02-1-09DB(e)).

### **Response to Finding 1**

The Department of Housing and Community Development (DHCD) accepts, in principle the determination of the OIG in *Finding 1* of the report that insufficient procedures and practices for external grantee monitoring during the period FY 1999 through FY 2002 resulted in the Department's having provided cash advances to its grantee for administering the Home Purchase Assistance Programs (HPAP), the Greater Washington Urban League (GWUL), in amounts greater than was necessary for operating the program during that period.

### **Current Status of Department's Action in Response to Finding:**

The Department notes, for the record, that the problem of excess cash advances has been completely eliminated in the two years subsequent to the period reviewed by the OIG. Specifically, as a result of better management practices initiated by a new management team put in place starting in FY 2003, the HPAP loan excess cash balance on hand at GWUL at the end of FY 2003 was only \$80,465. The FY 2004 operating year was extended by three months to December 31, 2004 to provide for an orderly transition to new agreements for HPAP administering agencies; but as of September 30, 2004 (the date upon which the GWUL grantee operating year would have normally ended), the

## DHCD RESPONSE TO DRAFT REPORT

HPAP loan cash balance on hand at GWUL was approximately -\$27,000 (that is, funds were due from DHCD to GWUL to support HPAP loans closed prior to September 30).

Procedures and practices have been established by the DHCD HPAP management team that will ensure the continuation of these results, that is, that only a minimal level of cash balances for loans at HPAP grantee provider agencies, sufficient to close anticipated loans will be on hand at grantee providers at any given time.

### Primary Concern with Finding 1:

The Department strongly disagrees with the specific levels of cash balance excesses suggested by the OIG audit report. In particular, the Department believes that the data provided in the report cannot be used to justify the following statements:

- that “GWUL maintained monthly balances of cash averaging approximately \$2.1 million for a period of 60 months ending September 2002”;
- that “DHCD lost the opportunity to use as much as \$1.5 million on average for other productive District purposes over the 60-month period”; and
- that “the excessive cash advances may have caused the District to lose approximately \$160,000 in interest.”

There is documented evidence suggesting that the first of these statements is clearly untrue, based on the audited financial statements of the GWUL for the period in question and the bank statements of GWUL underlying those financial statements. The audit report and the OIG staff acknowledge that the second and third statements are based on calculations entirely conditioned on the accuracy of the first statement.

The audit report clearly acknowledges that the auditors “reconstructed the cash advance balances using a method that would represent the cash receivables account balance...shown on a financial statement. Transactions on requisitions for direct reimbursement for mortgage loans previously made...were not considered in our analysis [because] those transactions would not have resulted in an accounting entry made to a cash receivable account balance on a financial statement.”

That is, the financial figures reported by the OIG auditors represent a theoretical reconstruction of cash balances, based on the OIG auditors’ assumptions about GWUL’s application of accounting principles; yet, the report acknowledges that those assumptions served to significantly narrow the scope of GWUL expenditures that were considered by the auditors, as well as the relationship of those expenditures to cash balances at GWUL.

DHCD staff attempted on multiple occasions to demonstrate to OIG staff that the reconstructed cash balances do not accurately present GWUL’s cash position throughout the period reviewed. (See the Attachment, “Analysis of OIG Reconstruction of GWUL Cash Balances,” for an explanation of the discrepancy.) In fact, this discrepancy is even acknowledged by the OIG audit report, which states that “apparent differences existed

## DHCD RESPONSE TO DRAFT REPORT

between cash advance balances shown in this audit report, the HPAP financial statements audited by independent auditors, [and] the GWUL financial statements audited by independent auditors.” The OIG referred this issue to DHCD and the auditors for resolution. These issues have been resolved with the independent auditors.

DHCD contends that the primary reason for the inability to reconcile the OIG auditors’ figures on cash balances to the GWUL audited financial statements and the HPAP financial statements is that the audit report draws its conclusions about cash balances from reconstructed cash balance data, rather than on the actual cash balances manifested in GWUL’s audited financial statements. The level of cash balance excesses reported by the OIG auditors appears to be based solely on those reconstructed monthly cash balances, not on GWUL’s actual cash position as evidenced by bank statements or audited financial statements.

Finally, the audit report does not provide any evidentiary basis for the statement that “excessive cash advances may have caused the District to lose approximately \$160,000 in interest” earned. This alleged loss in earned interest is conditioned on the accuracy of the cash balance excesses; therefore, this interest lost figure is also indirectly derived from the auditors’ reconstructed monthly cash balances, rather than on evidence of GWUL’s cash position from bank statements or audited financial statements.

In fact, on a monthly basis, GWUL did forward interest earnings to DHCD in the form of a check, as required by the Grant Agreement with the District. These interest earnings paid to DHCD can be verified from bank statements and GWUL’s financial statements audited by independent auditors.

Other than the summary statement in the audit report, the OIG has not provided any evidence to DHCD that the interest earnings paid to DHCD were deficient, or to support the calculation of additional interest earnings ostensibly lost to the District.

### **Secondary Concern with Finding 1:**

The Department also disagrees with the suggestion in the draft audit report that “compliance with federal regulations [regarding cash advances] was not achieved.” This allegation appears to be based on Title 24 CFR 84.22(b)(2)(2003), which the audit report quotes as follows:

Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of all allowable indirect costs.

## DHCD RESPONSE TO DRAFT REPORT

The Department understands this federal regulation to govern the disbursement of federal funds to subrecipients. However, as noted in the Introduction of the report, “the funds for the cash advances were provided from District of Columbia local general fund accounts.” The Department has a strict policy of not seeking reimbursement from the federal treasury for any funds that it has advanced to a subrecipient. It is only after a subrecipient provides evidence of funds expended for uses for the ultimate program beneficiaries that the Department takes action to draw down reimbursement funding from the federal treasury. (Cf.: DHCD Administrative Instruction 3000-003, “Set-up, Funding, and Draw-down for Federally-Funded Activities,” July 2003.)

### Response to Specific Recommendations:

With regard to the specific recommendations in the audit report, the Department responds as follows:

- The Department accepts Recommendation 1. During the conduct of the audit, the Department took action to approve and establish a preliminary Administrative Instruction (AI) to govern procedures for cash advances and reimbursements to grantee provider agencies of the HPAP Program. (Cf.: DHCD Administrative Instruction 3100-001, “Home Purchase Assistance Program – Financial Transactions,” September 2003.) That AI will be reviewed and revised to ensure that it addresses the full range of relevant issues for the management of cash advances to all Departmental grantees. The revised AI will be prepared and implemented as soon as possible, but no later than March 1, 2005.
- The Department accepts Recommendation 2, establishing a range of provisions that should be included in the AI governing cash advances, with the following exceptions or qualifications:

Provision 2.d: The AI will continue to allow for the Department to provide limited cash advances for project delivery costs of grantees, sufficient to meet staff and other operating costs on a monthly basis, and subject to full documentation of such expenses at the conclusion of the month for which the advance was granted.

Provision 2.e: The AI will not require that the entire amount of any outstanding cash advance balance be applied to reimbursable expenses prior to the disbursement of additional cash; doing so would obviously create a cash gap between the utilization of all advanced cash and the disbursement of additional cash. However, the AI will require that a reasonable amount of any outstanding cash advance balance be applied to reimbursable expenses, such that total cash on hand at any time is sufficient only to cover anticipated program expenses.

Provision 2.i: While the AI will certainly insist upon procedures consistent with all applicable federal regulations, the Department notes once again that the OIG

## DHCD RESPONSE TO DRAFT REPORT

audit report as provided to the Department does not demonstrate any non-compliance with federal regulations in practices employed to date.

- The Department accepts Recommendations 3-6, and commits to fully implementing all four recommendations within 30 days of implementation of the revised AI governing cash advances.

### **Response to Finding 2**

The Department of Housing and Community Development (DHCD) accepts in principle the determination of the OIG in *Finding 2* of the report that insufficient procedures and practices during the period FY 1999 through FY 2002 resulted in inconsistencies in the completeness, timeliness, and accuracy of HPAP close-out packages and payments received from the Greater Washington Urban League (GWUL), including funds outstanding for periods of time significantly longer than was necessary.

### **Current Status of Department's Action in Response to Finding:**

As with *Finding 1*, the Department notes for the record that inconsistencies in the completeness, timeliness, and accuracy of close-out packages and payments to DHCD for cash balances held by GWUL at the end of a grant operating year have been completely eliminated in the years subsequent to the period reviewed by the OIG.

The audit report correctly notes that the Department had already made significant strides toward addressing the problem identified in *Finding 2* by the end of Fiscal Years 2001 and 2002, with amounts outstanding of approximately \$1 million for each year returned to the Department within four months of the grant operating year.

For FY 2003, the total amount of cash outstanding at the end of the fiscal year, only \$80,465, was returned to the Department by GWUL within 60 days of the fiscal year-end along with the final financial close-out report for the year. (As noted above, the FY 2004 operating year has been extended by three months to December 31, 2004 to provide for an orderly transition to new agreements for HPAP administering agencies.) Procedures and practices have been established by the DHCD HPAP management team that will ensure that only minimal cash balances remain on hand at HPAP provider agencies at year-end, and that those cash balances are returned to the Department expeditiously.

### **Response to Specific Recommendations:**

With regard to the specific recommendations in the audit report, the Department responds as follows:

- The Department accepts Recommendation 7. During the conduct of the audit, the Department took action to approve and establish a preliminary Administrative Instruction (AI), to govern procedures for close-out of grant-funded activities. (Cf.: DHCD Administrative Instruction 3100-004, "Accounting Close-Out

## DHCD RESPONSE TO DRAFT REPORT

Procedures for Federally and Locally-Funded Activities," July 2003.) The preliminary AI will be reviewed and revised to ensure that it addresses the full range of relevant issues for managing the close-out of grantee financial activities and settlement of accounts. The revised AI will be prepared and implemented as soon as possible, but no later than April 1, 2005.

- The Department accepts Recommendation 8, establishing a range of provisions that should be included in the AI governing annual financial close-out of grantee-funded activities, with the following exception/qualification:

Provision 8.c: The AI will confirm the Department's requirement that direct grantees are accountable for ensuring timely, complete, and accurate financial close-out of subgrantees and subcontractors. The AI will address procedures for Departmental monitoring of the direct grantee to ensure that timely, complete, and accurate financial close-out of subgrantees and subcontractors has occurred.

- The Department accepts Recommendations 9-12, and commits to fully implementing all four recommendations within 30 days of implementation of the revised AI governing year-end close-outs.

I want to take this opportunity to thank you for the work of the Office of the Inspector General in support of the Department, in order to apprise DHCD's management team of programmatic strengths and weaknesses. This input will allow us to better manage our critical resources in service to the citizens of the District.

If you have any questions on the Department's comments, please do not hesitate to contact me at (202) 442-7210, or your staff may contact Wilma G. Matthias, Deputy Director for the Office of Program Monitoring, at (202) 442-7241.

Sincerely,



Stanley Jackson  
Director

cc: Wilma Matthias, Deputy Director for Program Monitoring  
Robert Mulderig, Deputy Director for Residential and Community Services  
Chief of Staff  
Agency Chief Financial Officer

## DHCD RESPONSE TO DRAFT REPORT

### Attachment

#### Analysis of OIG Reconstruction of GWUL Cash Balances

The audit report indicates that the auditors reviewed more than 300 “Department of Housing and Community Development Community Development Block Grant Program Requisition for Reimbursement/Advance’ (requisition) forms” submitted by GWUL to DHCD. “The requisition form indicated whether GWUL was requesting a cash advance, a cash reimbursement for an expenditure, or a charge against an existing cash advance balance for an expenditure.” The auditors acknowledge in the report that “...transactions on requisitions for direct reimbursement for mortgage loans previously made...were not included in our calculations of excess cash advance balances.” That is, the audit report presents data on advances and on charges against advances that represent only a portion of GWUL’s cash-out/cash-in transactions for the HPAP Program.

Since the data evaluated by the auditors completely excluded the occurrence and timing of expenses that GWUL submitted for reimbursement, it similarly excluded the timing of cash disbursements made to satisfy those reimbursable expenses.

The reimbursement of GWUL expenses by payment from DHCD has typically lagged behind the occurrence of those expenses by at least 60 days—30 days of the month in which the transactions occur; 15-20 days for the report of those transactions to be submitted to DHCD; and 15-20 days for reimbursement payment to be issued by the District Treasury. During that lag period, cash from cash advance disbursements represent the only funds available to close HPAP loans. Since there is no other source of cash available, the advance balances decrease throughout that period.

Regrettably, the requisition form used by GWUL and DHCD to report GWUL’s monthly financial transactions has not captured the utilization of those cash advances to meet the expenditure for loan closings during this lag period. The structure of the form required those expenses to be reported as reimbursable expenses, rather than expenses covered by cash advances; otherwise, reimbursement from DHCD would not have been forthcoming. Yet those monthly expenses—and the cash from cash advance balances used to meet those obligations as they occurred—have been completely set outside the analysis of the audit report. This has resulted in the report effectively overstating the true amount of cash balances on a month-to-month basis.

The auditors’ reconstruction of monthly cash balances at GWUL relied solely on the cash advance side of requisition forms and did not take into account the effective use of advance balances to meet the temporary cash needs for HPAP loan closings, eligible for reimbursement at a later date. As a result, the cash advance figures from requisition forms, used in isolation, are insufficient to calculate the specific levels to which DHCD cash advances exceeded GWUL cash requirements on a month-to-month basis.

EXHIBIT G

**DHCD RESPONSE TO DRAFT REPORT**

The audit report suggests that "the excessive cash advances...of approximately \$1.5 million monthly for a period of 60 months...may have caused the District to lose approximately \$160,000 in interest." The audit report does not provide any evidentiary basis for this statement. This alleged loss in earned interest is conditioned on the accuracy of the cash balance excesses; therefore, this interest lost figure is also indirectly derived from the auditors' reconstructed monthly cash balances, rather than on evidence of GWUL's cash position from bank statements or audited financial statements.

In fact, on a monthly basis, GWUL did forward interest earnings to DHCD in the form of a check, as required by the Grant Agreement with the District. These interest earnings were the result of interest accrued on bank balances available at the close of each business day. Interest earnings paid to DHCD can be verified from bank statements and GWUL's financial statements audited by independent auditors.