

**EXHIBIT C**

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## SCHEDULE OF QUESTIONED COSTS OF WHEELER CREEK PROJECT EXPENDITURES

PO/ Number	Date	Vendor	Requests for reimbursement	Date of Payment Request	Amount	Description	Questioned Cost
112927	8/20/2001	[REDACTED]	[REDACTED]	5/2/2000	\$48,443.50	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$48,443.50
11343185	10/20/2000	[REDACTED]	[REDACTED]	2/7/2001	\$15,253.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$15,253.00
			[REDACTED]	10/17/2001	\$6,684.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$6,684.00
			[REDACTED]	6/11/2001	\$8,529.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$8,529.00
			[REDACTED]	9/8/2000	\$3,603.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$3,603.00
			[REDACTED]	10/4/2000	\$1,947.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$1,947.00
			[REDACTED]	10/24/2000	\$16,793.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$16,793.00

## SCHEDULE OF QUESTIONED COSTS OF WHEELER CREEK PROJECT EXPENDITURES

PO/ Number	Date	Vendor	Requests for reimbursement	Date of Payment Request	Amount	Description	Questioned Cost
			[REDACTED]	10/24/2000	\$214,650.00	DCHA did not provide an adequate response to the draft report or documentation to support this payment for our review.	\$214,650.00
11339861 & 11339861 Mod. #1	8/12/1999 & 10/31/2001	[REDACTED]	[REDACTED]	7/9/2001	\$69,450.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$69,450.00
			[REDACTED]	10/14/1999	\$913,274.00	Draft report indicated that our review found that many of the invoices attached to support this request for reimbursement were used for another payment request. DCHA did not provide an adequate response to the draft or supporting documentation for our review	\$913,274.00
11342387	6/28/2000	[REDACTED]	[REDACTED]	7/20/2001	\$8,790.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$8,790.00
			[REDACTED]	5/15/2001	\$26,225.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$26,225.00
			[REDACTED]	2/22/2001	\$33,444.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$33,444.00
			[REDACTED]	6/19/2001	\$21,857.00	Draft report indicated that DCHA had attached supporting documentation that was more than the requested amount for payment. DCHA response was not adequate.	\$21,857.00
TOTAL					\$1,388,942.50		\$1,388,942.50

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**DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL  
COMMENTS ON THE DISTRICT OF COLUMBIA HOUSING AUTHORITY'S  
RESPONSE TO THE REPORT ON FINANCIAL MANAGEMENT  
OF HOPE VI GRANT FUNDS**

**DC OIG Overall Comment: DCHA's comments are generally unresponsive to our report, the findings, and recommendations. The report results are fully documented and represent conclusions based on our audit analysis of documentation and records available at DCHA. As an independent agency, DCHA acts as a steward for District expenditures, as well as federal and private funds entrusted to it for the purpose of providing District residents affordable housing. The responsibility for spending taxpayers dollars also carries a weight of accountability. DCHA has taken on an adversarial position to the findings and recommendations as presented without recognizing the benefits that accrue to those organizations that act positively on audit recommendations. The DC OIG staff took great lengths in analyzing the prepared response from DCHA, and took into consideration the information that was provided, and adjusted the report where warranted.**

**The following is our analysis and comments on DCHA's response to a draft of this report.**

DCHA Response, page 2 of 11: The District of Columbia Housing Authority (DCHA) has reviewed the draft report, including the Schedule of Supported and Unsupported Costs and Schedule of Questioned Costs of the Wheeler Creek Development HOPE VI expenditures. The draft report identifies two findings; 1) that DCHA is commingling HOPE VI Grant Funds with other types of funds into one bank account and could not separately account for HOPE VI Program expenditures; and 2) that DCHA did not maintain documentation to support \$27.8 of the \$32.2 million disbursements made for the Wheeler Creek redevelopment project. The report made five (5) recommendations to rectify what the auditors purport to be deficiencies in DCHA's HOPE VI financial management processes. For the reasons cited herein, DCHA disagrees with the report's erroneous findings and recommendations in their entirety. Regrettably, DCHA believes the audit protocol used to arrive at the findings was woefully inadequate to assess the effectiveness of the Authority's payment and documentation procedures used for HOPE VI mixed finance transactions.

**DC OIG Comment: DCHA's disagreement with results of this audit does not make the findings and recommendations erroneous. The findings and conclusions in this audit report are fully supported by the associated audit working papers. The facts gathered in the audit phase represent data provided to the auditors by DCHA personnel, information extracted from DCHA's official records, and comments obtained during interviews of DCHA personnel. Audit protocol used to conduct this audit was consistent with and conformed to auditing standards provided by the General Accounting Office's Government Auditing Standards.**

**Numerous meetings were held with DCHA officials to obtain an understanding of DCHA's payments and procedures used for financial transactions. It is, however,**

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**unfortunate that after fieldwork was completed and the draft report issued, DCHA provided additional documentation and added explanations that were not shared or offered to the audit staff during the fieldwork stage of the audit.**

DCHA Response, page 2 of 11: Following is a summary of DCHA's response to the audit report's two findings.

***Accounting for HOPE VI and Other Grant/Private Funding***

DCHA made repeated attempts to explain HUD's complex accounting classifications to the auditors. Among other things, these classifications provide for a separate series of accounts which identify the sources of funds by program type. DCHA, to ensure an accurate audit, provided the auditors with the HUD directives on required cash management policies and accountability for cash (namely, the Public Housing Low-Rent Technical Accounting Guide). Having said that, we agree that "commingling" of funds is a prohibited practice. The auditors, however, seemingly continue to confuse "commingling" of funds with pooling funds which allow expenditures for various programs to be made from a single bank account. As the basis for their finding, we submit that the auditors misinterpreted the HOPE VI Grant Agreement language to mean that DCHA is required to maintain HOPE VI grant funds in a separate bank account.

**DC OIG Comment: Findings and conclusions presented in this audit report were not solely derived from DCHA's explanation of its financial management system. As a part of the audit, we reviewed and evaluated existing federal laws, rules, and regulations to provide criteria used as a basis for our audit focus. The HOPE VI Grant Agreements prohibited the commingling of grant funds with funds from any other source. Article IV of the HOPE VI Grant agreement for the Wheeler Creek HOPE VI Revitalization Project (Covenant and Conditions) provides, in part:**

**In its accounts and recordkeeping, the Grantee will not commingle HOPE VI Grant funds with funds from any other Federal, state or local government agencies. (Such other funds may be used to carry out the Revitalization plan, so long as they are not commingled in the Grantee's accounts and record keeping.) The Grantee will ensure that HOPE VI grant funds are not used to duplicate work which is funded under any other Federal program, or from any other source of funding under the Revitalization Plan, and will establish controls to assure non-duplication of funding.**

**The concept of "pooling funds" was introduced in DCHA's response, and DCHA has not provided any documentation to support this assertion. As later noted in our comments, the term "pooling" is associated with an action to combine in a common fund or effort.**

DCHA Response page 2 of 11: Specifically, the prohibition against "commingling of funds" does not mean that a Housing Authority is required to physically segregate program funds in

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multiple bank accounts. In fact, Housing Authorities are required to establish cash management processes that optimize their use of funds. Pooling funds in a single bank account is more efficient, particularly for large Housing Authorities. Not only that, such pooling of funds optimizes interest earned based on the percent of funds on deposit.

**DC OIG Comment: We reiterate that the HOPE VI Grant Agreements prohibit the commingling HOPE VI grant funds in accounts with others types of funds. Our analysis of DCHA’s monthly bank statements shows that HOPE VI grant funds had been deposited and commingled with other types on funds into one bank account.**

DCHA Response page 2 of 11: The auditors also contend they discussed this issue with a responsible HUD representative who supposedly agreed that HOPE VI funds should be maintained in a separate bank account. Unfortunately, and regardless of the conversation the auditors had with HUD, this understanding is not accurate.

**DC OIG Comment: We disagree. During the audit, we met and discussed this issue with a HUD, HOPE VI Team Leader, who agreed that HOPE VI funds should be maintained in a separate bank account. We believe that this individual is a reliable source to obtain information about the HOPE VI program. Notwithstanding potentially different interpretations by HUD officials, our audit reports represents audit conclusions derived from fieldwork, as well as our reading of the grant agreement provisions. Where the grant agreement prohibits commingling of HOPE VI grant funds, it is reasonable to expect that pooling such funds with other monies would violate the grant provisions.**

DCHA Response page 3 of 11: DCHA spoke with a senior HUD official and was informed that there are actually two legitimate methods by which housing authorities deal with the prohibition on commingling of funds. One is to maintain a separate bank account for HOPE VI funds.

**DC OIG Comment: We agree with the HUD official that one method of ensuring that HOPE VI Funds are not commingled would be to maintain separate bank accounts for each HOPE VI Fund.**

DCHA Response page 3 of 11: The other, as practiced at DCHA, is to maintain separate fund accounts which identify the source and application of the HOPE VI funds from a single bank account. Significantly, the HUD official further stated that she is unaware of any housing authority, particularly large housing authorities, that maintain separate bank accounts for its HOPE VI and other grant funds. She emphasized that HUD would unequivocally support DCHA’s practice in this matter.

**DC OIG Comment: Many types of funds – such as local funds, investment funds, and trust account funds – were deposited into one bank account. Once disbursed, there was no way to determine what fund source was being used. When requested, DCHA could not provide a reconciliation report to identify the sources of disbursements for HOPE VI activities. The issue of commingling HOPE VI funds was discussed with DCHA officials on numerous occasions. At no time during our discussions did DCHA**

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**officials discuss alternative methods such as “pooling” nor did officials provide the auditors a means to account for commingled funds.**

DCHA Response page 3 of 11: Furthermore, much of the period covered by the audit (December 1, 1993 to January 31, 2002) had already been audited by DCHA’s independent auditors, as required by OMB Circular A-133. At no time, was “commingling” of funds ever raised as an issue by the outside audit firms or by HUD. In fact, DCHA’s general ledger was audited independently by the outside auditors. Their opinion revealed that all HOPE VI draw downs and expenditures have been appropriately tied back to HUD’s primary disbursement system electronic Line of Credit Control System (eLOCCS). We, therefore, disagree with the auditors’ assertion that DCHA did not establish a system of record keeping that would separately account for HOPE VI Program expenditures.

**DC OIG Comment: While financial audits can and usually present an opinion on whether the books and records of an entity are presented fairly, the issue of commingling of HOPE VI funds was an unlikely audit objective of DCHA’s independent auditors. Tying back an expenditure to the eLOCCS system merely confirms that an expenditure or drawdown was made. However, the eLOCCS system cannot be used to account for individual HOPE VI project expenditures.**

DCHA Response page 3 of 11: *Documenting Wheeler Creek Redevelopment Project Expenditures*

DCHA disagrees with the finding regarding the \$27.8 million in Unsupported/Questioned Costs for the Wheeler Creek redevelopment project and the auditors’ conclusion that DCHA did not maintain sufficient documentation to support 82 percent of the payments made to the Wheeler Creek contractors/developers. The auditors’ cite instances where there were no invoices to support payments; no receipts to support amounts claimed on the invoices; insufficient support; and duplicate invoices.

At no time during the auditors’ 100% sampling of Wheeler Creek invoices did they request an explanation from DCHA on the documents they reviewed or on the invoicing process. Late in the audit process, the auditors met with DCHA to discuss ten (10) Wheeler Creek transactions that they determined were unsupported or questioned.

**DC OIG Comment: We disagree. The auditors met with DCHA on at least two occasions for the purpose of obtaining explanations for the lack of supporting documentation for the Wheeler Creek HOPE VI Redevelopment Project. At the second meeting, a DCHA official told the auditors to go to the developer’s office to review invoices because it was a cumbersome task for DCHA to maintain every supporting document for payment. We declined the offer because recipients and sub-recipients of HOPE VI grant funds are required, by Title 24 CFR § 85.20, to maintain records which contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities outlays or expenditures, and income. DCHA’s offer to review documents elsewhere confirms that DCHA did not maintain records to support HOPE VI expenditures and that it was not in compliance with federal regulations that govern HOPE VI grant awards.**

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DCHA Response page 3 of 11: At that time, we dedicated a significant amount of staff time to research the transactions and made available to the auditors a complete explanation of each of the ten (10) transactions. The auditors declined to review the information we had prepared, which would have satisfied their concerns regarding the transactions. When the auditors subsequently communicated to us that there were numerous other questionable or unsupported Wheeler Creek disbursements, we initially offered the auditors the opportunity to review the invoices at the developer's offices.

**DC OIG Comment: We disagree. During the course of our fieldwork, we provided DCHA with a listing of the first ten expenditures that we reviewed. We allowed DCHA to provide explanations as to why there was not adequate documentation to support payments made to the developer/contractor for the project. One significant document that was provided was a copy of a Site Work Loan Agreement and Assignment. We were told that this document provides the explanations as to why there was not sufficient supporting documentation attached to the requests for reimbursements. We reviewed the Site Work Loan Agreement and Assignment and found that it did not provide explanations as to why DCHA failed to maintain significant supporting documentation for many HOPE VI expenditures. The Site Work Loan Agreement and Assignment is not a substitute for (or an exclusion from) the requirement to maintain supporting documentation for HOPE VI expenditures. In addition, at no time during the course of our audit did auditors decline to review documents presented by DCHA. Regardless of when we asked for the explanations for supporting documentation, there were many occasions and more than adequate time available during the audit fieldwork stage for DCHA to gather any evidence or documentation to support its HOPE VI expenditures.**

DCHA Response page 3 of 11: However, as a result of the auditors' lack of clarity regarding the request for information and their failure to review supporting documentation we had previously prepared, we informed the auditors we would provide the details of the unsupported or questioned costs in our response to the draft report.

**DC OIG Comment: We disagree. The auditors were very clear in their requests, indicating that supporting documentation was to be reviewed to ensure that records in the form of invoices, receipts, and other documentation were available to support the reasonableness and necessity of each expenditure for the Wheeler Creek HOPE VI Redevelopment Project. Further, we reiterated that these records were to be maintained in accordance with the terms of the grant agreement and federal law.**

DCHA Response page 3 of 11: In summary, we reviewed each of the transactions shown in the report as Exhibits B and C and do not reach the same conclusions as the auditors. In our detailed response to the findings, we provide an outline of the basic concepts that must be understood in order to interpret accurately the documents attached as supporting documentation to the payments. We also provide detailed explanations of the documentation supporting each payment perceived by the auditors as unsupported or questioned. We have also attached documentation, where appropriate, for the transactions questioned by the auditors.

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**DC OIG Comment:** We adjusted our figures concerning the unsupported cost for a HOPE VI project (Wheeler Creek) that DCHA could not support at the time of our audit fieldwork. DCHA provided additional documentation and added explanations after our fieldwork was completed. The unsupported cost figures were adjusted down from \$27.8 million to \$14.5 million. This documentation was not offered by DCHA to the audit staff during the fieldwork stage of the audit.

DCHA Response 4 of page 11: **Detailed Response to the Report Findings and Recommendations**

***Finding 1: Accounting for HOPE VI and Other Grant/Private Funding: NON-CONCUR***

DCHA strongly disagrees with the auditors' conclusions regarding the alleged commingling of HOPE VI grant funds. Chapter 2 of the HUD Guidebook 7510.1, "Public and Indian Housing Low-Rent Technical Accounting Guide," states, in part that "Funds provided by HUD are to be used by the HA only for the purposes for which the funds are authorized. Program funds are not fungible and withdrawals should not be made for a specific program in excess of the funds available on deposit for that program." As generally used, the term "commingling of funds" refers to the use of one program's funds to pay expenditures for, and in excess of the funds available for, another program. A Housing Authority does not "commingle funds" by pooling funds or by making expenditures for various programs from a single account used to pool funds. Furthermore, unless there is a specific legal requirement to maintain separate bank accounts for a specific purpose, the prohibition against "commingling of funds" does not mean that the Housing Authority is required to physically segregate program funds in multiple bank accounts.

**DC OIG Comment:** We disagree. DCHA did not fully comply with provisions of the HOPE VI Grant Agreements or with federal regulations regarding the maintenance and accounting of HOPE VI grant funds. The specific criteria provided in the individual grant agreement for each HOPE VI Redevelopment Project and the Code of Federal Regulations were available to DCHA to ensure that DCHA (1) managed and used recourses in an efficient, effective, and economical manner; (2) administered funds in compliance with applicable laws, rules, regulations, policies and procedures; and (3) implemented internal controls to prevent or detect material errors and irregularities. For example, Article IV of the HOPE VI Grant agreement for the Wheeler Creek HOPE VI Revitalization Project (Covenant and Conditions) provides, in part:

**In its accounts and recordkeeping, the Grantee will not commingle HOPE VI Grant funds with funds from any other Federal, state or local government agencies. (Such other funds may be used to carry out the Revitalization plan, so long as they are not commingled in the Grantee's accounts and record keeping.) The Grantee will ensure that HOPE VI grant funds are not used to duplicate work which is funded under any other Federal program, or from any other source of funding under the**

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**Revitalization Plan, and will establish controls to assure non-duplication of funding.**

**The term “pooling funds” was just introduced in this response from DCHA. The governing criteria do not use this term. However, the plain language of the grant agreement provides that HOPE VI funds may not be commingled in DCHA’s accounts or in its records. By depositing HOPE VI funds into a general account with funds from other sources, DCHA commingled HOPE VI funds and failed to physically segregate them. Terming this procedure as “pooling” rather than “commingling” is a distinction without a difference.**

DCHA Response page 4 of 11: There is no mandatory requirement for establishing separate bank accounts for HOPE VI grant funds. In fact, as stated in the Executive Summary, a senior HUD official articulated to DCHA that HUD supports a choice in the matter as long as HOPE VI grant funds are not commingled in the housing authority’s general ledger and chart of accounts. The senior HUD official also stated she is not aware of any housing authority, which maintains separate bank accounts for its HOPE VI activities.

**DC OIG Comment: We disagree: As stated above, if HOPE VI funds are deposited into one bank account with other funds, the funds are commingled. The grant agreements do not have to specifically state that the funds have to be maintained in a separate bank account. In order for the funds not to become blended, mixed, or combined, they would have to be maintained separately. If DCHA maintained the funds in a common bank account, then it is reasonably expected that its accounting system would permit separate accountability over each HOPE VI grant fund. Based on tests and discussions with DCHA officials, the DCHA system did not provide for separate accountability of HOPE VI funds.**

DCHA Response page 4 of 11: Additionally, DCHA has the ability to identify each specific source of funds for any expenditure with a clear audit for each source. Granted, the HOPE VI cost reimbursement process is a sophisticated, complex system that covers multiple grants and funding sources. The HUD accounting classifications, however, provide a separate series of transaction accounts to identify the source and application of funds by the program groupings required for HUD report purposes.

**DC OIG Comment: We disagree. DCHA could not effectively identify fund disbursements with specific HOPE VI program costs. Together with DCHA, we tried on several occasions to track specific program expenditures for each HOPE VI project. We were told by DCHA that DCHA reimburses developers/contractors by total cost, not by project. Some developers/contractors provide services to DCHA for projects other than HOPE VI projects, and they are reimbursed collectively of those services. DCHA did not have in place a system of record keeping that would separately account for HOPE VI Program expenditures.**

DCHA Response page 4 of 11: Another reason not to maintain separate bank accounts is inherent in HUD’s cash disbursement and tracking system, the Electronic Line of Credit Control System (eLOCCS). HOPE VI payments are made on a cost reimbursement basis and

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the funds to cover approved expenses are drawn down when needed. Although each HOPE VI grant has a budget that shows the entire amount of the grant, Housing Authorities do not have access to the entire amount of the grant. HUD places the total amount of the grant in a “holding” account until authorization is given to “release” a portion of the funds to the Housing Authority for approved expenditures. This is designed to enable HUD to control the amount of funds that Housing Authorities have access to and to ensure that major expenditures have been approved before they are disbursed.

**DC OIG Comment: We understand HUD’s cash disbursement and tracking system, the eLOCCS. The exercise of maintaining HOPE VI Grant funds in a separate account from other DCHA funds would not preclude DCHA from making payments on a cost reimbursement basis or from drawing down funds when needed. If the funds were maintained separately or, at a minimum, if the accounting system accounted for HOPE VI funds independently of other funds, DCHA may have the means to ensure accurate accountability, audit trails, and avoid a basic breakdown in sound internal controls.**

DCHA Response page 5 of 11: The following paragraphs and flowchart details the HOPE VI cost reimbursement process in place at DCHA. After the need for the work and/or the services are determined, the funding source is identified. The purchase requisition and the subsequent purchase order are prepared and approved. Once the work and/or services are completed, invoices are sent to the Accounts Payable section and are forwarded to the originating department for approval. After approval, the invoices are vouchered in DCHA’s computer system. Before any payments are made, the invoices with the voucher printouts are forwarded to the Grant Accountants for a second verification of funding sources (accounting codes) and initialed by the DCHA Grant Accountant. The Grant Accountant(s)/Budget Assistant complete the eLOCCS drawdown form and the form is submitted to the Finance Director for approval. Once approved, DCHA requests the funds from HUD via the eLOCCS.

**DC OIG Comment: During the audit, we requested that DCHA provide the audit team with a reconciliation report to identify all HOPE VI activities for a specified period. A DCHA official informed us that no regulation requires DCHA to prepare a reconciliation of HOPE VI funds and, therefore, declined our request. The ability to generate a reconciliation report on the Wheeler Creek Revitalization Project upon request would demonstrate that DCHA had a process to account for specific project costs at any point in time. DCHA’s current process as described in its response could not segregate and track costs for each HOPE VI project and, consequently, DCHA could not provide to the auditors a schedule showing the disbursement of HOPE VI expenditures.**

DCHA Response page 5 of 11: As illustrated in the flowchart below, HUD disburses HOPE VI funds by specific Grant Number to DCHA through HUD eLOCCS. The HOPE VI funds are automatically transferred through eLOCCS into DCHA’s General Fund (3333 Account) as a HOPE VI deposit. DCHA’s banking institution, [REDACTED], sends the funds for overnight sweep to a Trust Account or interest-bearing account. This is a standard

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sweep account. After the bank receives the funds, the Grant Accountants enter the amount as a Cash Receipt in the Memory Lane System (MLS) bank book.

**DC OIG Comment: We understand the process of HUD's disbursement of HOPE VI grant funds through the eLOCCS system into DCHA's General Fund account. Our report does not take issue with this process. The problem occurs after the HOPE VI funds are deposited into this account with funds drawn from other sources. The commingling of funds creates a situation where each specific HOPE VI fund loses its identity. In addition, the composition of the funds deposited is not the way they were disbursed. Money drawn from the eLOCCS system should cover expenses incurred to reimburse vendors consistent with requests for payment. However, we were unable to track exact amounts received for specific HOPE VI Projects from HUD's eLOCCS system once disbursed to reimburse vendors.**

DCHA Response page 5 of 11: The checks for the approved invoices are then cut and sent to the bank via the Positive Pay System and the bank then makes the funds available to DCHA's checking account (2684 Account) to enable disbursement of the funds to the vendors. Please note the actual transfer of funds from DCHA's Trust Account to its checking account does not occur until the vendor-issued check is presented to the bank in order for DCHA maximize its investment income. DCHA then transmits a data file to the bank that reflects all the checks written. As checks are presented to the bank for payment, the bank compares the information from the check against DCHA's data file. If the information matches, the bank clears the check. If the information does not match, the bank investigates the variances.

**DC OIG Comment: DCHA's comments are noted. However, the process for moving money between the DCHA checking account and the DCHA trust account does not address the issue of commingling funds from different funding sources.**

**Note: Please see DCHA's flow chart in Exhibit E.**

DCHA Response page 6 of 11: For each of the HOPE VI projects, DCHA provided the auditors with the LOCCS disbursements, obligations, and expenditures. Additionally, DCHA provided the auditors with the Consolidated General Ledger Trial Worksheet for each HOPE VI project that identified actual expenditures by account classification.

**DC OIG Comment: The auditors agree that DCHA provided LOCCS sheets indicating drawdowns of HOPE VI funds. The problem occurred when the auditors tried to trace specific draws from the LOCCS system. After careful review of DCHA's bank statements, we found that the deposits and the expenditures (or disbursements) of HOPE VI funds did not match. Therefore, we could not account for and match HOPE VI funds to related HOPE VI expenditures.**

DCHA Response page 6 of 11: The auditors reviewed the general ledger detail transactions that tied back to the LOCCS disbursements and expenditures which provided further evidence of the cash banking control system in effect at DCHA. Our current system of fund accounting and annual audits of our financial statements under OMB Circular A-133 satisfies

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the requirement that the funds are used only for the purposes they are authorized. It is important to note that this essential fact has been confirmed consistently by our independent auditors. DCHA, therefore, disagrees with the finding and the report recommendations as follows:

**DC OIG Comment:** We disagree. The fact that the auditors were provided LOCCS sheets and general ledgers does not provide further evidence that DCHA has a cash banking control system in place. The fact remains that the auditors were unable to account for specific draws from HUD's LOCCS system after HOPE VI funds were deposited into DCHA General Depository Operating Account and transferred into the Public Fund Checking Account. We noted that on a monthly basis, deposits made into the General Depository Account (including HOPE VI draw downs) were transferred into other accounts, including the Public Fund Checking Account from which checks were processed to pay HOPE VI expenditures. Our review found that transfers out of the General Depository Operating Account were not the same amounts as deposited. The audit trail became non-existent after the initial deposit, preventing us from determining for what purpose the actual draws were used. We worked with DCHA officials on multiple occasions to track and identify specific HOPE VI income and expenditures by project, but were unsuccessful.

DCHA Response page 6 of 11: *Recommendations:*

1. *Obtain a separate bank account for the maintenance of HOPE VI grant funds for HOPE VI projects.*

DCHA RESPONSE: DCHA disagrees with the recommendation because as stated above, there is no mandatory requirement for establishing separate bank accounts for HOPE VI grant funds. In addition, doing so does not maximize the use of the funds in accordance with good cash management practices.

**DC OIG Comment:** DCHA commingled HOPE VI grant funds with other types of funds into one back account, and has not established a system of record keeping that separately accounts for HOPE VI program expenditures. Once disbursed, there was no way to determine what fund sources were being used. When requested, DCHA could not provide a reconciliation report to identify the sources of disbursements for HOPE VI activities. Each grant agreement explicitly prohibits the commingling of HOPE VI funds with other types of funds. In order for the funds not to become blended, mixed, or combined, they would have to be maintained separately.

2. *Develop and implement an accounting system that can separately track costs for HOPE VI Program related activities.*

DCHA RESPONSE: DCHA disagrees with Recommendation 2. The current DCHA accounting system provides the necessary linkage of HOPE VI grant allocations and expenditures.

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**DC OIG Comment:** The DCHA accounting system may provide “linkage” to HOPE VI grant allocations and expenditures but has proven to be an ineffective tool for accounting for individual HOPE VI fund allocations and expenditures. DCHA commingled HOPE VI grant funds with other types of funds into one back account, and has not established a system of record keeping that separately accounts for HOPE VI Program expenditures. DCHA lacks the means to ensure accountability for individual HOPE VI project funds and expenditures. Once funds were deposited into DCHA’s General Depository Operating Account, the audit trail became non-existent after the initial deposit, preventing the auditors from determining for what purpose the actual draws were used. Moreover, DCHA could not provide a reconciliation report to identify the sources of disbursements for HOPE VI activities. When we worked with the Deputy Director of Finance in an attempt to identify specific HOPE VI income and expenditures by project, we were unable to identify specific HOPE VI income and expenditures.

DCHA Response page 7 of 11: *Finding 2: Documenting Wheeler Creek Redevelopment Project Expenditures:*

The DCOIG’s opinion that “DCHA did not maintain sufficient documentation to support 82 percent of the payments made to contractors/developers for the Wheeler Creek redevelopment project” points not to a failure by DCHA. Rather, it is further evidence that the auditors were either unwilling or unable to accurately interpret the documentation that irrefutably supports DCHA’s HOPE VI disbursements.

**DC OIG Comment:** We disagree. OIG auditors did not decline to review pertinent documents. The audit staff reviewed all pertinent documents relative to this audit that DCHA made available to the auditors. Rather, our auditors were referred to third party organizations to obtain this documentation. Our audit revealed that information that should have been in DCHA’s possession and readily available to support the \$32.2 million in Wheeler Creek HOPE VI Redevelopment Project expenditures, was not maintained by DCHA. Paying project expenditures absent documentation to support vendor invoices is cause for concern and contrary to grant provisions and federal statutes.

DCHA Response page 7 of 11: In brief, the auditors presented DCHA with a list of questions relating to ten (10) invoices they had reviewed and concluded lacked sufficient documentation (These invoices are the first ten listed in Exhibit B of the DCOIG report). It was clear by this point in the audit process, that over 13 months since the audit was first initiated by the DCOIG, the auditors did not have a sufficient understanding of the complexities of the HOPE VI program.

**DC OIG Comment:** The auditors presented DCHA officials with a listing of 10 transactions for the purpose of obtaining explanations for the lack of adequate supporting documentation. These 10 transactions were presented only after we had reviewed 90 transactions, which accounts for approximately 86 percent of expenditures for the Wheeler Creek Revitalization Project. DC OIG has issued two separate audit reports prior the release of this report, the third and final report on DCHA HOPE VI

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**projects. The issue is not one of the OIG’s interpretation or misunderstanding of the HOPE VI program, but that DCHA could not support project costs with invoices and documentation to establish the validity of costs billed.**

DCHA Response page 7 of 11: Moreover, they had repeatedly demonstrated an unwillingness to fill in the gaps in their knowledge. Notwithstanding their dearth of knowledge, it became clear that the DCOIG would make no further effort to understand the complicated documents reviewed and misunderstood by the auditors.

**DC OIG Comment: The OIG offered DCHA every opportunity to present explanations for the observations our auditors made during the audit. This audit report presents the factual data the OIG auditors compiled, as well as the DCHA’s full response. The relationship between DCHA officials and DC OIG auditors became strained toward the end of the audit process when DCHA officials could not adequately support Wheeler Creek HOPE VI Redevelopment Project costs of more than \$32.2 million. DCHA's disagreement with the results of the audit does not support DCHA’s assertions that the auditors were unwilling to listen, learn, or understand the “complexity of the HOPE VI program” as asserted by DCHA officials.**

DCHA Response page 7 of 11: Here it is important to note that DCHA went to great lengths to note each of the invoices to demonstrate how the attached documentation did indeed support the payments made (These invoices with the original notations are included in Attachment A). Unfortunately, the auditors *did not even look at the documents provided*. While DCHA acknowledges that the documents are difficult to understand for anyone unfamiliar with the intricacies of the HOPE VI process, it is perplexing that the DCOIG would allege that DCHA is unable to account for \$27.8 million without considering DCHA’s detailed explanation.

**DC OIG Comment: The auditors initially provided 10 transactions for further explanation as detailed above. We allowed DCHA officials time to provided additional documentation that was not provided at the time of our review. We further allowed DCHA time to prepare explanations, and we adjusted our audit schedule to include the new documents that were not initially provided. We met with DCHA officials to discuss the transactions and to review any supporting documents such as receipts, invoices, etc. that were not provided during our initial review. At this meeting, DCHA informed us of the Site Work Loan Agreement and Assignment which, according the DCHA officials, provides explanations as to why many questioned costs did not have adequate supporting documentation. According the DCHA officials, they do not have to maintain documentation to support expenditures reimbursed from the Site Work Loan Agreement and Assignment. A basic tenet for accountability of public funds is that an organization acting as a steward for such funds obtain and retain documentation to support each and every expenditure of the entrusted funds. Explanations do not suffice in place of supporting documentation, especially when the requirements for supporting documentation are set by law or regulation.**



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DCHA Response page 8 of 11: For example, charges accrued to the rental component for a given month is \$1 million, of which \$500,000 is to be paid with HOPE VI funds, \$100,000 from other DCHA federal funds and \$400,000 in non-federal funds/non-DCHA funds. In this example, DCHA would receive an invoice from the developer for \$600,000 with supporting documentation for the \$1 million to be paid that month to that vendor. The invoice would provide supporting documentation as to how the entire payment is prorated to each funding source. However, if one did not understand this system, as the auditors ostensibly did not in this instance, it would be impossible to interpret the significance of the supporting documentation with the accuracy required. To illustrate this system, one of the more complicated payments in the amount of \$392,108, for which the DCOIG claimed \$158,049.51 is unsupported, is included as Attachment B.

**DC OIG Comment: We were aware that some invoices were prorated to account for different payment sources. While reviewing DCHA’s documents to support reimbursement to developers/contractors, the auditors took into consideration the specific components, such as rental or non-federal funds, as identified on the supporting documents supplied for reimbursement. The auditors did find instances where the invoices were prorated, and acknowledged the same. However, we thoroughly reviewed the supporting documents to determine if the appropriate documents were attached and whether the documents did, in fact, support the vendor invoices. In many instances, the attached documentation did not provide adequate support or was totally unrelated to the invoice submitted.**

DCHA Response page 8 of 11: Explanation of Sample Invoice

- Payment Request for Work Performed (page 1): line 12 indicates amount owed by DCHA, or \$392,108
- Owner/Developer’s Requisition (page 2): column C outlines entire amount due to vendor, or \$796,517
- Owner/Developer’s Requisition by Funding Source (page 3): column D outlines funding sources for total amount due to vendor (\$796,517), including amount to be paid by limited partners (non HOPE VI/federal funds). In this example, limited partners are responsible for \$387,113.  $\$796,517 - \$387,113 = \$409,404$  (the amount listed for DCHA subtotal). Since \$17,296 of the amount owed by DCHA is for site work, it is charged to the Site Work LLC and paid separately;  $\$409,404 - \$17,296 = \$392,108$  (the amount of the DCHA invoice for this vendor).
  - o On the bottom of the same page, the section titled, “Pre-Development Advance Allocated to Rental,” outlines the amount of credit applied by the developer. This indicates that \$2,488,934 of the \$2,567,240 allocated to the Rental LP has been credited. In addition, it indicates that \$1,191,657 of the \$1,628,657 Site Work Loan amount allocated to the Rental LP has been credited.

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- Payables for Requisition Number 18 (page 4): This page outlines the breakdown of all items to be reimbursed to make up the total invoice amount (\$796,517). The DCHA portion of this invoice, \$392,108, is outlined in the column, Cash Items to be Paid:
  - o HUD Line item #1460: \$674,750, supported by [REDACTED] Architect's Certificate for Payment (pg. 20), including four page document detailing work completed (pg. 21 -24). DCHA is responsible for the total amount minus the amount to be paid by the limited partners, or \$674,750 (-) \$387,113 = \$287,637.
  - o HUD Line # 1412: receipt is attached for DC Water & Sewer Authority (pg. 25) for \$10.
  - o HUD Line # 1437: receipt is attached for [REDACTED] General Overhead (pg. 26) for \$14,284 (includes documentation for \$1,984 charged to Site LLC - not part of invoice for \$392,108)
  - o HUD Line#I439-3:
    - Receipt is attached for Montague Commercial for plumbing permits (pg. 28-30) for \$540.
    - Receipt is attached for [REDACTED] for legal services (pg. 31-34) for \$1,615.
    - Receipts are attached for [REDACTED] monthly interest (pg. 35-37) for \$42,812 and \$44,210 and \$500, or \$87,522.
  - Receipt is attached for [REDACTED] for service fee (pg. 38) for \$500

Total DCHA Payment is:

	287,637
	10
	14,284
	540
	1,615
	87,522
	500
<b>TOTAL</b>	<b>\$392,108</b>

DCHA Response page 10 of 11: In addition, pages 5 - 10 of the document, provide a summary of charges made to each funding source for the current invoice and for the life of the project. Pages 11 -19 and page 26 provide backup for \$17,296 charged to Site LLP (\$15,312 proration of [REDACTED] certification totaling \$127,603 (pg. 11) + \$ 1,984 site overhead (pg. 26).

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**DC OIG Comment: We accept DCHA's explanation and reviewed the additional documentation provided. We adjusted the final report amounts for unsupported costs based on our review of the additional documentation submitted in reply to the draft report.**

DCHA Response page 10 of 11: **Advances Made Early in the Project**: To expedite the project, DCHA advanced the developer two Site Work Loans in the amount of \$5,711,502 and \$12,830,734, under the terms outlined in the Site Work Loan Agreement and Assignment, previously provided to the auditors. Since these were advances made to the developer under the Site and Loan Agreement, documentation was not required. The funds were made available from the DCHA Capital Program and repaid through credits on future invoices and tracked throughout the life of the project. An example of the repayment through credit adjustments is included in the sample invoice in Attachment B.

**DC OIG Comment: We disagree. DCHA did not request or maintain supporting documentation on file to support payments made to the developers, even though 3 years have passed since the start of the Wheeler Creek HOPE VI Redevelopment Project. DCHA should have requested supporting documentation for the expenses incurred by the developer in accordance with terms of the grant agreement and federal law.**

**The federal regulations regarding Financial Administration, Title 24 CFR § 85.20(b)(2)&(6), provide the following:**

**Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, balances, assets, liabilities, outlays or expenditures, and income...Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc....**

**Similarly, the Wheeler Creek Grant Agreement, Article XI, Recordkeeping/Access Requirements/Audits, states:**

- 1. The Grantee will keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose: (a) the amount and disposition of funds received under this HOPE VI grant; including sufficient records that document the reasonableness and necessity of each expenditure. . . .**
- 2. The Grantee will comply with and be subject to (a) the retention and access requirements for records under 24 CFR 85.41 and non-Federal audit requirements under 24 CFR 85.26. . . .**

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**It is clear from our review of documentation available at DCHA to support disbursements for the Wheeler Creek HOPE VI Redevelopment Project that DCHA did not comply with either Title 24 CFR § 85.20(b)(2)&(6) or Article XI of the Wheeler Creek HOPE VI Redevelopment Project Grant Agreement.**

DCHA Response page 10 of 11: **Lump Sum Contract for Remediation Work:** The developer entered into a lump sum contract for site remediation work for an initial amount of \$237,298. Since the terms of the contract obligate the developer to the full amount of remuneration agreed to at the time the contract was signed, the documentation for each line item billed is not required. However, since there were numerous change orders resulting from the need to remove underground storage tanks (UST), the existence of which was not known the time the contract was let, the amount associated with each change order is clearly documented.

**DC OIG Comment: We disagree. All disbursements were required to be supported with valid documentation in accordance with 24 CFR § 85.20 (b).**

DCHA Response page 10 of 11: **Developer Fees and Overhead:** Consistent with industry practice, fees and overhead are billed based on a formula prescribed in the Developer Agreement previously provided to the DCOIG. As such, no documentation is required to support payments made for fees and overhead.

**DC OIG Comment: DCHA's comments are noted. Adjustment has been made to the final report, to include overhead costs previously reported as unsupported.**

***DCHA Explanation of Every Questioned Payment***

The chart immediately attached is a re-creation of the DCOIG Exhibit B and Exhibit C with a detailed explanation of the documentation supporting each payment made. As indicated above, the first ten invoices, plus the invoice provided to illustrate how the DCHA system works, are included with this report.

**DC OIG Comment: We evaluated the additional documentation and information DCHA provided in response to our draft report for both questioned and unsupported costs. We have adjusted the amount of unsupported costs in our final report accordingly.**

DCHA response page 10 of 11: ***Recommendations:***

3. *Obtain documentation in the form of invoices, receipts and other documentation to support the reasonableness and necessity of each expenditure for the Wheeler Creek redevelopment project in accordance with the terms of the grant agreement and federal law.*

DCHA RESPONSE: DCHA disagrees with Recommendation 3. Again, the auditors have misconstrued and/or failed to accurately analyze data they collected. We disagree with all of the questioned and unsupported costs depicted in the report. Enclosed are detailed explanations that support disbursements.

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**DC OIG Comment:** We have made this recommendation based upon 24 CFR § 85.20, which requires DCHA to maintain records pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities outlays or expenditures, and income. The federal regulation further requires DCHA to maintain supporting documentation in its accounting records.

4. *Develop and implement policies and procedures to ensure that developers provide DCHA supporting documentation for expenditures prior to making payment of HOPE VI grant funds.*

DCHA RESPONSE: While DCHA disagrees with the finding that prompted this recommendation, please be advised that DCHA is in the process of enhancing its policies and procedures manual, which will document the processes for invoicing and disbursing HOPE VI grant funds.

**DC OIG COMMENT:** While disagreement with our finding is noted, DCHA has agreed to update its policies and procedures manual. This action meets the intent of our recommendation, as long as the updated policies and procedures are consistent with 24 CFR § 85.20 requirements and requirements of HOPE VI grant agreements. DCHA is requested to provide a completion date for the updated policies and procedures and is requested to provide the DC OIG with a copy of the updated policies and procedures as well.

5. *Develop and implement policies and procedures to ensure that records are maintained to identify the type of funds disbursed for projects (i.e., HOPE VI funds, private funds, other federal funds, etc.).*

DCHA RESPONSE: DCHA disagrees with Recommendation 5. As we stated for Recommendation 1, the current DCHA accounting system provides the necessary linkage of HOPE VI grant allocations and expenditures. However, the enhancement of our policies and procedures manual, which is currently underway, will document our processes for both HOPE VI accounting and recordkeeping.

**DC OIG COMMENT:** While disagreement with our finding is noted, DCHA has agreed to update its policies and procedures manual. This action meets the intent of our recommendation, as long as the updated policies and procedures are consistent with 24 CFR § 85.20 requirements and requirements of HOPE VI grant agreements. DCHA is requested to provide a completion date for the updated policies and procedures and is requested to provide the DC OIG with a copy of the updated policies and procedures as well.

**EXHIBIT E**

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