



APR - 5 2002

Dwight Walker, Executive Director  
Corinthian Housing Development Corporation  
595 10<sup>th</sup> Street  
Newark, New Jersey 07103

Dear Mr. Walker:

The attached final report provides you with the results of our review of the Administration for Children and Families grant number 90EE0189 awarded to the Corinthian Housing Development Corporation (CHDC) for the period September 1996 through September 2000. We also performed a review of the related pre-development grant (90EE006301) awarded in 1994. The objectives of the review were to determine if CHDC achieved the grant objectives, complied with the standard terms and conditions of the grant, and managed Federal funds properly.

In general, CHDC did not accomplish its grant objectives and did not always comply with the standard terms and conditions of the grant or manage funds properly. Specifically, the proposed health and education center was not developed; jobs were not created; progress reports were not submitted timely; the executive director's salary and pre-award costs were improperly paid from the grant; other contracted services were not adequately segregated from the corporate business funds, and a \$16,680 check to cover architectural expenditures did not have any required signatures.

We provided CHDC a draft report on February 20 for its review and comment. A response was due March 7, however, we permitted CHDC several time extensions. Since we have neither received comments nor a response to our latest telephone attempts to reach CHDC's executive director, we are issuing the final report without comments. If you have any questions, please call me at (202) 619-1175 or have your staff contact Richard Bland on (202) 619-3190.

In accordance with the principles of the Freedom of Information Act 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.) As such, within 10 business days after the final report is issued, it will be posted on the world wide web at: <http://www.oig.hhs.gov>.

To facilitate identification, please refer to Common Identification Number (CIN) A-12-02-00006 in all correspondence relating to this report.



Donald L. Dille  
Assistant Inspector General  
Administration for Children, Families, and  
Aging Audits

Enclosure

cc:

Mike Hill, Director Division of Financial Integrity, ACF  
Clarence Carter, Director of Office of Community Services, ACF  
Rev. Bobbe G. Wilcher, Chairman, Board of Directors, CHDC

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF OFFICE OF COMMUNITY  
SERVICES DISCRETIONARY GRANT  
AWARD NUMBER 90EE0189**

**CORINTHIAN HOUSING  
DEVELOPMENT CORPORATION**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**APRIL 2002  
A-12-02-00006**



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Washington, D.C. 20201

Dwight Walker, Executive Director  
Corinthian Housing Development Corporation  
595 10<sup>th</sup> Street  
Newark, New Jersey 07103

Dear Mr. Walker:

This final report provides you with the results of our review of the Administration for Children and Families (ACF) grant number 90EE0189 awarded to the Corinthian Housing Development Corporation (CHDC) for the period September 1996 through September 2000. We also performed a review of the related pre-development grant (90EE06301) awarded in 1994.

### **EXECUTIVE SUMMARY**

#### **OBJECTIVES**

The objectives of the review were to determine if CHDC:

- achieved the grant objectives;
- complied with the standard terms and conditions of the grant; and
- managed Federal funds properly.

#### **FINDINGS**

In general, CHDC did not accomplish its grant objectives. Also, CHDC did not always comply with the standard terms and conditions of the grant or manage funds properly. Specifically:

- The proposed health and education center was not developed;
- The grant did not create any of the proposed 81 new jobs within the community;
- The executive director's salary and pre-award costs were improperly paid from the grant (\$19,471);
- The grant funds were not segregated from the corporate business funds and a check for \$16,680 to cover certain expenditures did not have required signatures; and
- Progress reports were not submitted timely.

## **RECOMMENDATIONS**

We are recommending that CHDC:

- Develop a corrective action plan to address obtaining commitments which are contingent upon future Federal grant awards;
- Develop a corrective action plan to improve interaction between the board of directors and the executive director and staff;
- Submit required progress reports and financial reports in a timely manner;
- Refund unallowable expenses of \$19,471 to the Federal government; and
- Strengthen internal controls over expenditures.

## **BACKGROUND**

The CHDC is a non-profit community development corporation established in 1991 to help improve living conditions for residents of Newark, New Jersey. The corporation's purpose is to acquire, construct, maintain and operate housing projects for low and moderate-income families. For these housing projects, CHDC has received financial support from banks, community organizations and other private/public sources. From 1991 to 2001 the CHDC also raised \$2.2 million in equity funding through bank investment and equity funds for various housing projects. An additional \$5 million was granted by the City of Newark and the State of New Jersey and a small loan was made by a private lender to finance these housing projects.

The ACF Office of Community Services (OCS) awarded CHDC a \$75,000 predevelopment grant in 1994 to evaluate the potential for project outcomes and the financial feasibility for a healthcare and educational center. This grant (90EE006301) was active from October 1994 through September 1996.

In September 1996, OCS awarded CHDC a \$250,000 grant (90EE0189). The grant had three objectives:

- 1) Develop a commercial facility in the depressed central ward of Newark, New Jersey, which would offer health care services, a Head Start program, and employ and benefit low-income residents.
  - \$170,000 was budgeted for Acquisition of Land and Building; and the balance of \$80,000 was designated for Demolition and Excavation.
  - The University of Medicine and Dentistry of New Jersey was to provide preventative, primary and specialized health care.

- Newark Preschool Council was to run a full year Head Start program.
- 2) Provide an after school program and weekend catered affairs for community residents. This would be a second phase of the project.
- 3) Create at least 81 new permanent jobs for the community -- 61 at the health center, 15 at the Head Start program, and 5 for the building administration, maintenance and security.

The grant covered the period September 1996 through September 1999. In July 2000, ACF approved a one-year no-cost extension through September 2000.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The CHDC grant (90EE0189) was randomly selected for review along with other grants from a national database maintained by ACF. The objectives of this review were to determine if CHDC:

- achieved the grant objectives;
- complied with the standard grant terms and conditions; and
- managed Federal funds properly.

We performed our review in accordance with generally accepted government auditing standards. To accomplish our audit objectives, we:

- reviewed the grant application, progress and financial reports due to ACF, project files, correspondence and deliverables;
- performed a limited review of fiscal controls and policies;
- examined CHDC accounting manuals, bank statements, cancelled checks, payroll ledgers, payment vouchers, and CPA reports for 1995 through 1999;
- interviewed accounting personnel, the current director and a former executive director, as well as the chairman of the board of directors;
- reviewed the data related to the pre-development grant awarded in 1994; and
- contacted ACF concerning the status of the grant.

Our review was performed at the CHDC office in Newark, New Jersey during June 2001. Subsequent follow-up information was acquired through August 2001.

## **RESULTS OF REVIEW**

CHDC did not accomplish the grant objectives. Also, CHDC did not always comply with the standard terms and conditions of the grant or properly manage funds. Specifically:

- The proposed health and educational center was not developed and no jobs were created.
- The executive director's salary and pre-award costs totaling \$19,471 were improperly paid from the grant.
- The grant funds were not adequately segregated from the corporate business funds and a \$16,680 expenditure did not have required signatures.
- Required reports were not submitted in a timely manner, semi-annual reports were not submitted for a 2-year period.

### **GRANT OBJECTIVES NOT ACHIEVED**

CHDC was unable to either establish a health and education center or create jobs for low-income individuals. The University, which was proposed as the primary tenant for the center, opted not to go forward with the project. CHDC stated that in spite of the University's letter of intent submitted three months before the award, it would not agree with the lease arrangements required by the financial institutions providing the first mortgage on the property after the grant was awarded. The financial institutions required the proposed tenant to hold a 10-year lease agreement and two 5-year renewal options. The University would only agree to a 5-year lease. As a result, the university withdrew its letter of intent. In July 1997, CHDC informed ACF of this setback and its efforts to obtain another tenant.

The executive director of CHDC informed ACF on May 22, 1998 that all efforts to replace the original tenant were unsuccessful. As a result of being unable to obtain a tenant, CHDC could not obtain financing to continue with the development of the health and education center as proposed.

In August 1999, CHDC requested a no-cost extension through September 2000 and notified ACF of CHDC's attempt to relocate the project from its original site to another location owned by the City. The decision to abandon the original site was based on:

- a) environmental concerns at the proposed location,
- b) inability to acquire adjacent private property needed for the project, and
- c) projections that rehabilitation and renovation costs would exceed \$6 million.

We believe that the feasibility of locating the project at the original site should have been evaluated under the 1994 pre-development grant. The 1994 grant was awarded to allow

CHDC to evaluate potential project outcomes and the financial feasibility of the development as well as create a working business plan.

The board was unaware of the executive director's efforts to relocate the project and had assumed that he was still working with the original site. This lack of communication may have resulted in a missed opportunity to obtain the board's help to salvage the project.

In spite of its continued efforts, CHDC has been unable to establish a health and education center. Therefore, the anticipated healthcare and education benefits for the community and creation of 81 jobs for individuals from the community were not achieved. We are recommending development of a corrective action plan for obtaining commitments for future grant awards.

## **FUNDS NOT PROPERLY MANAGED**

In its efforts to implement the project, CHDC spent \$42,676 of the \$250,000 awarded. Of that amount we are recommending \$19,471 be refunded.

### UNAUTHORIZED SALARY CHARGED TO GRANT

The CHDC improperly used \$14,471 in grant funds to pay part of the executive director's salary. Salaries were not included as an approved expense. In both the CHDC proposal and the grant award approved by ACF, Federal funds were to be used as follows: \$170,000 for land and building acquisition and \$80,000 for excavation and demolition. Federal regulations at 45 CFR 74 required that recipients obtain prior approval for such budget changes. We are recommending that CHDC refund \$14,471 for unauthorized salaries.

### UNALLOWABLE CONSULTANT SERVICE COSTS

Consultant services provided prior to the award of the grant were paid from grant funds. These consultant services totaling \$5,000 were unallowable expenses because the services were provided in April 1996 before the grant was awarded, without ACF approval. All pre-award costs are incurred at the recipient's risk, and require approval by ACF. We are recommending that CHDC refund \$5,000 in unallowable consultant fees.

### INADEQUATE CONTROLS OVER FUNDS

The CHDC did not have accountability over its various fund sources and applications. Fund sources were commingled and CHDC did not provide separate accountability of funds. There was only one checking account that was used to administer the housing projects, payroll, administrative operations and the ACF grant funds. CHDC did not maintain its records in a manner that identified the use and allocation of Federal funds by source of these funds. Neither the checks nor invoices specified a general ledger account identifying them to the health and education center project.

Additionally, a \$16,680 check for architectural fees was issued and cleared through the bank without any CHDC signatures; all CHDC checks require two signatures. Although this was a legitimate expenditure, the CHDC staff was unaware that this oversight had occurred. We are recommending that internal controls over expenditures be strengthened.

## **TERMS AND CONDITIONS NOT MET**

Progress and financial reports were not submitted timely for a 2-year period from October 1998 through September 2000. Progress reports were required to be submitted semi-annually throughout the entire grant period. The ACF awarded CHDC a no-cost extension in July 2000, however, up until that time the grantee had only submitted one expenditure report reflecting \$210,000 in unobligated funds and was delinquent in its submission of progress reports for fiscal years 1999 and 2000. We are recommending timely submission of progress reports for future grant awards.

## **RECOMMENDATIONS**

We recommend that CHDC:

- Develop a corrective action plan to address obtaining commitments which are contingent upon future Federal grant awards;
- Improve interaction between the board of directors and the executive director and staff;
- Refund \$19,471 to the Federal government for unallowable costs;
- Develop controls to ensure that project costs and transactions are segregated from other operating funds; and strengthen internal controls over expenditures; and
- Submit required progress reports and financial reports in a timely manner.

## **AUDITEE COMMENTS**

Corinthian Housing Development Corporation did not provide written or verbal comments on our draft report dated February 20, 2002. In our draft report, we requested CHDC to provide us written comments within 15 calendar days from the date of the report. We spoke with the executive director on March 19 and at that time we suggested that we would soon have to issue the final report without a response. The executive director requested an extension until March 25, which was granted. However, on March 27, the CHDC executive director called to request an extension until March 29 and assured us comments would be available at that time. We granted the extension but advised the executive director that issuance of the report could not be further delayed.

As of April 3, the comments had not been received and the executive director did not respond to our follow-up phone call. As a result, we are issuing the final report without auditee comments.

A handwritten signature in black ink, appearing to read "Donald L. Dille". The signature is written in a cursive style with a large initial "D".

Donald L. Dille,  
Assistant Inspector General,  
Administration for Children,  
Families and Aging Audits