



Issue Date	September 30, 2010
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Audit Report Number	2010-CH-1014
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TO: Vicki B. Bott, Deputy Assistant Secretary for Single Family Housing, HU
Dane M. Narode, Associate General Counsel for Program Enforcement, CACC

FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Consumer Credit Counseling Service of the Midwest, Columbus, OH, Did Not
Materially Comply With HUD's Requirements and Its Grant Agreement
Regarding Housing Counseling

HIGHLIGHTS

What We Audited and Why

We performed an audit of Consumer Credit Counseling Services of the Midwest (Consumer Credit), an affiliate of the National Foundation for Credit Counseling, Inc. (National Foundation). We selected Consumer Credit based on a citizen's complaint received by our office. Our objective was to determine whether Consumer Credit complied with the U.S. Department of Housing and Urban Development's (HUD) requirements for housing counseling. The audit was part of the activities in our fiscal year 2010 annual audit plan.

What We Found

Consumer Credit did not comply with HUD's regulations and/or its agreement with the National Foundation. Specifically, it did not ensure that its (1) clients' housing counseling action plans were accurate and/or properly completed and (2) clients' files contained supporting documentation of the housing counseling activities. Further, Consumer Credit did not ensure that uncertified housing counselors were adequately trained and/or monitored and its housing counseling sessions were appropriately reimbursed by HUD. As a result, HUD lacked

assurance that Consumer Credit's housing counseling services were effective and resulted in the best outcome for clients.

The results of this audit substantiated the complainant's allegations regarding Consumer Credit's failure to provide adequate housing counseling services that complied with HUD's requirements.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require Consumer Credit to: (1) reimburse HUD \$8,874 from non-Federal funds for the housing counseling sessions that received duplicate reimbursements, or were funded by both HUD and an Ohio Department of Development grant, (2) maintain records of its housing counselors' training and monitoring of its housing counselors' housing counseling activities; and (3) implement adequate procedures and controls to ensure compliance with HUD's requirements and its agreement with the National Foundation, if its contract is not cancelled. Such procedures and controls would ensure that more than \$126,310 in anticipated HUD grant funds for fiscal year 2011 (grant year October 1, 2010, through September 30, 2011) are used in accordance with established requirements and for its intended purposes.

We also recommend that HUD's Deputy Assistant Secretary for Single Family Housing require the National Foundation to cancel its agreement(s) with Consumer Credit to provide services under its housing counseling program(s). Further, we recommend that HUD's Associate General Counsel for Program Enforcement determine legal sufficiency, and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against Consumer Credit for incorrectly submitting claims for reimbursement for housing counseling sessions that were already reimbursed or did not comply with HUD's requirements and/or its agreement with the National Foundation.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the results of our review to Consumer Credit's management during the audit. We also provided our discussion draft audit report to its management and HUD's staff during the audit. We conducted an exit conference with Consumer Credit's management on September 8, 2010.

We asked Consumer Credit's management to provide written comments on our discussion draft audit report by September 24, 2010. Consumer Credit's management provided written comments to the discussion draft audit report, dated September 24, 2010, that generally disagreed with the finding and recommendations. The complete text of the written comments, except for appendix I, and exhibits A through K consisting of 301 pages of documentation that were not necessary to understand Consumer Credit's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided HUD's Deputy Assistant Secretary for Single Family Housing with a complete copy of Consumer Credit's written comments plus the 301 pages of documentation.

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BACKGROUND AND OBJECTIVE

Section 106 of the Housing and Urban Development Act of 1968 provides the U.S. Department of Housing and Urban Development (HUD) general counseling authority. HUD is authorized to provide counseling and advice to tenants and homeowners with respect to property maintenance, financial management, and such other matters as may be appropriate to assist them in improving their housing conditions and in meeting responsibilities of tenancy or homeownership. It may also enter into contracts with, make grants to, and provide other types of assistance to private or public organizations with special competence and knowledge in counseling low- and moderate-income families to provide such services.

Consumer Credit Counseling of the Midwest (Consumer Credit) is a subgrantee of the National Foundation for Credit Counseling, Inc. (National Foundation), a HUD-approved counseling agency. It is a 501(c)(3) nonprofit organization that has provided money management and financial counseling since 1955. Consumer Credit is a HUD-approved housing counseling agency through its affiliation with the National Foundation. Consumer Credit has 63 offices located in 10 States, including Ohio, Kentucky, Tennessee, Florida, Kansas, Missouri, Indiana, Washington, Oregon, and Pennsylvania, that provide the following services: budget and credit counseling, bankruptcy counseling, and housing counseling.

Consumer Credit receives funding through the National Foundation for the following Federal housing counseling grants: HUD's Comprehensive and Home Equity Housing Conversion Mortgage Counseling Grants, and the U.S. Department of Treasury's National Foreclosure Mitigation Counseling Grant. HUD's Comprehensive Grant is awarded to HUD-approved housing counseling agencies to provide comprehensive housing counseling to address clients' housing concerns. Comprehensive housing includes advice and assistance under the following components: preoccupancy, mortgage default and rent delinquency, post-occupancy, home improvement and rehabilitation, displacement and relocation, etc. The National Foreclosure Mitigation Counseling Grant is funded by the U.S. Department of Treasury. The grant funds are used to provide mortgage foreclosure mitigation assistance/counseling to homeowners. HUD's Home Equity Conversion Mortgage (HECM) Counseling Grant is for counseling services for seniors prior to obtaining a HECM to inform them about HUD's program, and other available alternatives.

To receive and distribute HUD funds, the National Foundation submits a notice of funding availability¹ and ancillary forms to HUD for review and approval yearly. For fiscal years 2008 and 2009, the National Foundation was awarded more than \$1.7 and \$1.6 million, respectively, to distribute to its affiliates through comprehensive housing counseling grants. Consumer Credit received \$113,461 and \$133,807, respectively, for those years. It also received \$37,500 and \$108,000 for fiscal years 2008 and 2009, respectively, to perform housing counseling for borrowers interested in participating in HUD's HECM Program (program). Consumer Credit, in addition to receiving Federal funding, receives revenue by providing a debt management service,

¹ Each year, HUD issues a notice of funding availability to the public when city, State, and local governments and other agencies offer money for programs and initiatives, usually on a competitive basis. Each notice lists the application deadlines, eligibility requirements, amount of funds available, etc.

using a debt management plan, to its clients. For fiscal year 2008, nearly 90 percent of its income came from creditor contributions and client fees related to its debt management service. The debt management service generally reduces its clients' monthly unsecured debts through interest rate reductions and fee concessions from their creditors; however, the clients' principal balances are not reduced.

We performed an audit of Consumer Credit based on a citizen's complaint to our office. The complainant alleged that Consumer Credit did not provide adequate housing counseling services in accordance with HUD's requirements.

Our objective was to determine whether Consumer Credit complied with HUD's housing counseling requirements regarding its use of housing counseling funds.

RESULTS OF AUDIT

Finding: Consumer Credit Did Not Comply With HUD's Requirements and/or Its Agreement With the National Foundation

Consumer Credit did not comply with HUD's regulations and/or its agreement with the National Foundation. Specifically, it did not ensure that its (1) clients' housing counseling action plans were accurate and/or properly completed and (2) clients' files contained supporting documentation of the housing counseling activities. Further, Consumer Credit did not ensure that uncertified housing counselors were adequately trained and/or monitored and its housing counseling sessions were appropriately reimbursed by HUD. These problems occurred because Consumer Credit lacked adequate procedures and controls to ensure that it complied with HUD's regulations and its grant agreement. As a result, HUD lacked assurance that Consumer Credit's housing counseling services were effective and resulted in the best outcome for clients.

Housing Counseling Sessions Did Not Comply With HUD's Requirements or Consumer Credit's Work Plan

Using Consumer Credit's data, we determined that HUD reimbursed 2,473 housing counseling sessions during our audit period of October 1, 2007, to September 30, 2009. Of the 2,473 reimbursed sessions, 624 resulted in clients being referred to Consumer Credit's debt management plan service, and the remaining 1,849 sessions did not. We statistically selected 61 of the 624 sessions and 66 of the 1,849 sessions to determine whether the housing counseling sessions complied with HUD's requirements. From our review of the 127 (61 plus 66) housing counseling sessions, the following deficiencies were identified. The deficiencies noted are not independent of each other as one session may have contained more than one deficiency.

- For 125 sessions, the clients' housing counseling action plans did not contain actions to be undertaken by the housing counselors, or the actions taken by the housing counselors were insufficient to assist clients in accomplishing their housing goals/needs. Section IV, exhibit b(4), of the agreement between the National Foundation and Consumer Credit requires that affiliate counselors design action plans that identify and document the actions required to be taken by both the client and the counselor to address the stated need. Further, HUD's regulations at 24 CFR 214.3 define the action plan as a plan that outlines what the housing counseling agency and client will do to meet the client's housing goals (see appendix C).

- For 87 sessions, the clients' files lacked documentation to support whether the housing counselors followed up on clients' housing concerns. Either the clients' file did not contain documentation of any follow-up discussions, or the documented follow-up discussions were related to Consumer Credit's debt management service, instead of the clients' progression toward achieving their housing goals. The housing counselors contacted the clients to (1) inquire about whether the clients wanted to sign up for the debt management plan service; (2) encourage clients to continue with their debt management plan; (3) inform clients that their initial payment had been received or was due; or (4) remind them that as part of their debt management plan program, they should send a deposit. According to HUD requirements at 24 CFR 214.300(c), the counselor is required to follow up with the client to be assured that the client is progressing toward his goal (see appendix C). Additionally, Consumer Credit's agreement with the National Foundation requires that subgrantees' counselors monitor the client's progress toward meeting the need or resolving the problem.
- For 29 sessions, Consumer Credit reported program results on its reimbursement request form and HUD form 9902² that were not accurate or properly supported. Specifically, for 19 of the 30 sessions, Consumer Credit reported to HUD that the clients enrolled in its debt management plan service; however, the clients did not complete their enrollment. For the remaining 10 sessions, Consumer Credit reported that the clients were receiving housing counseling or would receive ongoing housing counseling; however, the clients' files did not contain documentation to support these assertions.
- For 73 sessions, the clients' files did not contain documentation to determine whether the housing counselors referred the clients to local, State, and Federal resources when they expressed concerns about meeting their payment obligations under their rental agreement or mortgage. For example, client number 300090's action plan goal was to eliminate debt, reduce interest rates, and stay current with rental payments due to becoming unemployed. However, the housing counselor did not refer the client or provide the client with information regarding available resources to assist the client in staying current with rental payments, such as rental assistance programs. The housing counselor only encouraged the client to enroll in Consumer Credit's debt management plan service. HUD requirements at 24 CFR 214.300(b)(2) stipulate that the counseling agency is to provide the client with referrals to local, State, and Federal resources. Further, the applicant or its branches or affiliates must have established working relationships with private and public community resources to which it can refer clients who need help that the agency cannot offer (see appendix C).

² HUD 9902 form records clients' demographic information and results of housing counseling sessions for agencies participating in HUD's Housing Counseling Program. The form is an on-line application filed through an agency's Client Management System (CMS) or HUD's Housing Counseling System (HCS).

- For 13 sessions, Consumer Credit’s housing counselors did not discuss the items outlined in its work plan when clients disclosed that they were either delinquent or had defaulted on their rental or mortgage payments. According to section 2 of Consumer Credit’s work plan, if a client has a rent delinquency or mortgage default concern or is interested in foreclosure prevention counseling, the following would be discussed with the client during the counseling session: (1) identifying the cause of the default or delinquency, (2) determining the extent of the delinquency, (3) working with the landlord or mortgage company to cure the default, (4) working out repayment plans/loss mitigation with the mortgage company, (5) discussing foreclosure and what it is, (6) discussing alternatives to foreclosure if unable to cure default, (7) discussing alternatives to rent eviction, (8) looking at other options including family assistance, and (9) referrals to other community agencies as appropriate. Further, the clients’ files did not contain documentation showing that Consumer Credit assisted the clients with contacting their mortgage lenders when they were either delinquent or in default on their mortgage. According to article IV, A(2), of the National Foundation’s grant agreement with HUD, when providing services, the grantee and its subgrantees, as applicable, shall coordinate with HUD, mortgagees, lenders, and public and private community organizations that are also working with the clients to provide maximum service to the client. They should also contact and work with the appropriate lender and HUD office to assist clients who are (1) in default on their monthly mortgage payments, (2) being considered under HUD’s Loss Mitigation Program, or (3) in financial difficulty or in default under a forbearance agreement (see appendix C).
- For 68 sessions, the clients’ files did not contain documentation showing that Consumer Credit provided the clients with the required disclosures. During these housing counseling sessions, its housing counselors verbally requested clients’ consent to provide counseling services and read to the clients a privacy disclosure. However, the clients’ file did not contain documentation to determine whether the housing counselors provided its clients with disclosures that (1) described the various types of services provided by the agency and any financial relationships between this agency and any other industry partners; (2) stated that the client was not obligated to receive any other services offered by the organization or its exclusive partners; and (3) provided information on alternative services, programs, and products. According to Consumer Credit’s contracts/grants administrator, clients were mailed a statement of counseling service form that contained the required disclosures after the housing counseling sessions. However, the clients’ files did not contain the forms, which were required to be signed by the clients. According to HUD Handbook 7610.1, paragraph 4-3(j), a client’s file must contain copies of pertinent records and correspondence (see appendix C).

- For 14 sessions totaling \$1,400 (14 times \$100), Consumer Credit did not accurately identify the clients' eligibility for housing counseling services. Specifically, for 12 of the 14 sessions, the clients' action plans identified that the purpose of the session was to prevent foreclosure or rent delinquency. However, the clients' budgets did not include a rental or mortgage payment. For the remaining two sessions, the notes in the clients' files indicated that the clients believed that they did not have a housing problem. HUD's regulations at 24 CFR 214.3 define "clients" as individuals or households who seek the assistance of an agency participating in HUD's program to meet a housing need or resolve a housing problem (see appendix C).

Consumer Credit Did Not Separate Housing Counseling From Its Debt Management Service

Consumer Credit did not separate its housing counseling from its debt management service. For 106 of the 127 sessions reviewed, Consumer Credit prepared action plans for clients that discussed its debt management plan service. Further, the housing counselors' review of its clients' money management consisted of a budget that did not include their revolving accounts. Instead, the budget contained an amount for the clients' monthly payment under their debt management plan agreement with Consumer Credit.

Further, for 85 housing counseling sessions, the clients' action plan specifically included documentation of the housing counselors' referral to Consumer Credit's debt management plan service without discussing alternative products or services. For 92 housing counseling sessions, the clients' files contained documentation of the housing counselors' discussions with the clients regarding Consumer Credit's debt management service instead of the clients' progression toward meeting their housing needs. According to HUD regulations at 24 CFR 214.303(g), for each session, the counselors must provide information on alternative services, programs, and procedures. Debt management service is to be an activity related to but separate from the housing counseling session. According to HUD Handbook 7610.1, paragraph 3-9(C), negotiating payment plans with creditors, handling the client's money, and making payment to the creditors for the client are usually done under a client-counselor contract (see appendix C). However, Consumer Credit's housing counseling sessions and debt management service were not separated.

Consumer Credit's Work Plan Was Not Consistent With the Services Provided

Consumer Credit's work plan was not consistent with the housing counseling services it provided. According to Consumer Credit's work plan, it would provide preoccupancy counseling and rent delinquency/mortgage default/foreclosure prevention counseling services. However, for 110 of the 127 sessions reviewed, the clients' actions plans identified that the clients' objectives were to stay current with their mortgage or rental obligation; thus, the clients were not delinquent on their rental or mortgage payments. However, they had difficulty in managing their unsecured debts.

Consumer Credit Did Not Provide Documentation To Support That Its Housing Counselors Were Adequately Trained and/or Monitored

Consumer Credit was unable to provide documentation to support that its uncertified housing counselors were adequately trained and/or monitored. For 145 housing counseling sessions that occurred in 2008 and 156 sessions that occurred in 2009, Consumer Credit was unable to provide documentation showing that the housing counselors who performed these sessions were adequately monitored. According to exhibit B of its agreement, all subgrantee housing counselors must be National Foundation-certified housing counselors or be supervised by a National Foundation-certified housing counselor who serves in a supervisory role within the subgrantee's housing counseling program. HUD Handbook 7610.1, REV-4, paragraph 5-1, states that supervisors of the counselors must periodically monitor the work of the counselors. This monitoring includes reviewing client files with the counselor. The agency must document these monitoring activities and make the documentation available to HUD upon request (see appendix C).

Further, Consumer Credit did not maintain adequate records to ensure that its housing counselors continuously improved their housing counseling skills. According to HUD Handbook 7610.1, paragraph 2-10, HUD expects an approved agency to ensure the upgrading of the counseling skills and techniques of its housing counseling staff (see appendix C). Consumer Credit's management had to solicit training documentation from its staff to address our request for documentation. As of September 29, 2010, Consumer Credit had not provided all of the requested documentation.

Consumer Credit Submitted Duplicate Reimbursement Requests or Housing Counseling Sessions Were Reimbursed by Another Funding Source

Of the 2,473 sessions, Consumer Credit submitted duplicate requests for 13 housing counseling sessions, which cost \$100 per session, \$1,300 total (13 times \$100), to the National Foundation for reimbursement from the HUD grant funds. Further, Consumer Credit lacked sufficient documentation to support that three additional housing counseling sessions totaling \$300 (3 times \$100) occurred. Consumer Credit's contract/grant administrator acknowledged that Consumer Credit submitted duplicate reimbursement requests for the same housing counseling sessions. He stated that the housing counselors did not properly code the sessions in Consumer Credit's debt management system.

For an additional 103 housing counseling sessions that were reimbursed by the HUD grant funds, Consumer Credit also received reimbursement from a grant it received from the Ohio Department of Development. The cost of the 103 sessions was reimbursed for the entire amount, instead of using HUD grant funds to offset the cost of the sessions that exceeded the State grant funding. Therefore, Consumer Credit was reimbursed \$7,574 in HUD grant funds above the cost of the sessions.

Consumer Credit's reimbursement request forms required it to confirm that it had not received reimbursement for the services at the time of the request and that all services included in the request complied with the contract (agreement). However, it inaccurately submitted reimbursement requests to the National Foundation for duplicate housing counseling sessions and housing counseling sessions that were reimbursed by another funding source. Further, as previously mentioned, all provided services did not comply with its agreement.

The Program Fraud Civil Remedies Act of 1986 (231 U.S.C. (United States Code) 3801) provides Federal agencies, which are the victims of false, fictitious, and fraudulent claims and statements, with an administrative remedy to (1) recompense such agencies for losses resulting from such claims and statements; (2) permit administrative proceedings to be brought against persons who make, present, or submit such claims and statements; and (3) deter the making, presenting, and submitting of such claims and statements in the future.

Although Consumer Credit did not submit its reimbursement requests directly to HUD, as an affiliate/subgrantee of the National Foundation, it is responsible for ensuring the accuracy of its requests for reimbursement from the housing counseling grant provided by HUD.

HUD's Affiliate Review of Consumer Credit Identified the Same Deficiencies

In 2007, HUD performed an affiliate review of Consumer Credit. The review identified that: Consumer Credit did not maintain adequate client files, clients were always referred to Consumer Credit's debt management plan service, the housing clients' files lacked documentation to support adequate follow-up was performed and clients termination from the program, the staff performing housing counseling lacked capacity including adequate training, and the lack of consistency between its housing counseling work plan and eligible activities under its agreement with the National Foundation, etc. As a result, HUD required Consumer Credit to correct the identified deficiencies within 90 days to continue its participation in the housing counseling program. However, we determined that many of the issues that HUD identified during its review of Consumer Credit in 2007 still existed.

Consumer Credit Lacked Adequate Procedures and Controls

Consumer Credit lacked adequate procedures and controls to ensure that it complied with HUD's requirements and/or its agreement with the National Foundation in addition to detecting and preventing erroneous reimbursement requests for housing counseling sessions that had already been reimbursed.

Consumer Credit's management officials acknowledged deficiencies with its action plans, and insufficient client file documentation of the housing counselors' follow-up discussions with the clients, in prior reviews and during our audit. Additionally, its management stated that controls have been implemented to address these deficiencies. However, based upon our review of the client files, Consumer Credit needs to continue to improve on its documentation of provided services to ensure that only eligible clients are served, and its housing counseling sessions are in compliance with HUD's requirements.

Conclusion

Consumer Credit did not comply with HUD's regulations and/or its agreement with the National Foundation. As previously mentioned, it lacked adequate procedures and controls to ensure that it complied with HUD's requirements and/or its agreement with the National Foundation in addition to detecting and preventing erroneous reimbursement requests for housing counseling sessions that had already been reimbursed. As a result of Consumer Credit's noncompliance,

HUD and the National Foundation lacked assurance that Consumer Credit's housing counseling services were effective and resulted in the best outcome for the clients that received housing counseling services.

For Consumer Credit's fiscal year 2011, which begins October 1, 2010, it is expected to receive at least \$130,756 in grant funding for housing counseling. Therefore, in applying the 96.6 percent rate of errors estimation to the anticipated funding, we estimate that if Consumer Credit does not improve its procedures and controls, \$126,310 (\$130,756 times 96.6 percent) would be used for housing counseling sessions that are not in compliance with HUD's requirements and its agreement with the National Foundation (see Scope and Methodology section of this audit report).

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require Consumer Credit to

- 1A. Provide documentation to support the eligibility of the 14 housing counseling sessions in which the clients' files did not accurately support the clients' eligibility or reimburse HUD \$1,400 from non-Federal funds for the sessions.
- 1B. Reimburse HUD \$1,300 from non-Federal funds for the housing counseling sessions that received duplicate reimbursements.
- 1C. Provide documentation or reimburse HUD from non-Federal funds for the three housing counseling sessions that were reimbursed for \$300 due to the lack of supporting documentation.
- 1D. Reimburse HUD \$7,574 from non-Federal funds for the housing counseling sessions that were funded by both HUD and the Ohio Department of Development grant.
- 1E. Maintain records of its housing counselors' training and monitoring of its housing counselors' housing counseling activities.
- 1F. Implement adequate procedures and controls to ensure that clients' housing counseling files and action plans are properly prepared and contain complete documentation to support its housing counseling activities.
- 1G. Implement adequate procedures and controls to ensure that there is a clear distinction between a housing counseling session and a debt management counseling session, such as maintaining separate files and records.

- 1H. Implement adequate procedures and controls to ensure that it complies with HUD's requirements and its agreement with the National Foundation if its contract is not cancelled. These procedures and controls should include but not be limited to ensuring that its uncertified housing counselors are properly trained and monitored and performing reviews of clients' files to ensure compliance with HUD's requirements and its agreement. Such procedures and controls would ensure that more than \$126,310 in anticipated HUD grant funds for fiscal year 2011 (grant year October 1, 2010, through September 30, 2011) are used in accordance with established requirements and for their intended purposes.

We also recommend that HUD's Deputy Assistant Secretary for Single Family Housing

- 1I. Require National Foundation to cancel its agreement(s) with Consumer Credit to provide services under its housing counseling program(s).

We recommend that HUD's Associate General Counsel for Program Enforcement

- 1J. Determine legal sufficiency and if legally sufficient, pursue remedies under the Program Civil Remedies Act against Consumer Credit for incorrectly submitting claims for reimbursement for housing counseling sessions that had already been reimbursed or did not comply with HUD's requirements and/or its agreement with the National Foundation.

SCOPE AND METHODOLOGY

We performed our audit work between October 2009 and May 2010. We conducted our audit at Consumer Credit's headquarters in Columbus, OH, HUD's Chicago regional office, and HUD's Columbus field office. The audit covered the period October 1, 2007, through September 30, 2009.

To accomplish our audit, we researched and reviewed applicable HUD handbooks, regulations, contracts, and grant agreements. We additionally conducted interviews with Consumer Credit's staff, HUD's staff, and the National Foundation's staff. We used hardcopy documentation, that was imaged documents, maintained in Consumer Credit's database. Therefore, since the audit was based on actual hard-copy documentation, an assessment of the reliability of computerized-processed data was unwarranted.

We obtained the HUD comprehensive grant affiliate reimbursement request forms for fiscal year 2008 and 2009. These forms were submitted by Consumer Credit to the National Foundation and contain the reimbursement requests for the month along with an activity log identifying the specific session, client, counselor, outcome, and date of the sessions. There were 2,473 reimbursed housing counseling sessions during the scope of the audit. Of these, we identified a total of 507 sessions completed by counselors who had not obtained their housing counseling certification.

For the counseling session and client file review, we divided up the universe between those sessions the counselor identified as resulting in a debt management plan and those that had a result other than a debt management plan. There were a total of 624 sessions that resulted in the clients being put on a debt management plan and 1,849 that did not result in a debt management plan. Using unrestricted attribute sampling with a 90 percent confidence level, 10 percent precision, and estimated error rate of 10 percent, we statistically selected 61 of the 624 sessions that resulted in the clients being put on Consumer Credit's debt management plan service and 66 of the 1,849 sessions that did not result in a debt management plan.

In interpreting the results of the samples and projecting the sampling results to the universe, using hypergeometric³ modeling and the Office of Inspector General's (OIG) typical safety threshold of a one-sided, 90 percent confidence interval, we can say that an error rate of 61 of 61 housing counseling sessions that resulted in the clients' being on Consumer Credit's debt management plan indicates that at least 96.6 percent or 603 of the 624 total debt management plan housing counseling sessions are 90 percent likely to have similar errors. At \$100 per session, this equates to a projection of at least \$60,300 affected by these types of errors.

Similarly, with regard to the non-debt management plan housing counseling sessions, we estimate that an error rate of 66 of 66 housing counseling sessions indicates that at least 96.6 percent or 1,786 of the 1,849 total housing counseling sessions are likely to have similar errors.

³ Hypergeometric Modeling is an exact probability model of underlying error rates in a population which would yield the error rate found in the audit sample. It is the most accurate approach to interpreting a binomial error rate (i.e. pass/fail).

At \$100 per session, this equates to a projection of at least \$178,600 affected. Therefore, the likely errors resulted in an estimation of (\$178,600 plus \$60,300) \$238,900 for its fiscal year 2008 and 2009 grant years.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- Consumer Credit did not ensure that its housing counseling sessions met HUD's requirements and/or the requirements under its agreement with the National Foundation in regard to (1) housing counseling action plans, (2) documentation, (3) training and monitoring of its housing counselors, and (4) controls over its request for reimbursement submissions (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$1,400	
1B	\$1,300		
1C		<u>300</u>	
1D	<u>7,564</u>		
1H			<u>\$126,310</u>
Totals	<u>\$8,864</u>	<u>\$1,700</u>	<u>\$126,310</u>


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Apprisen
Financial Advocates
Michael S. Kappas, President

Consumer Credit Counseling Service 814-552-2222 tel
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Columbus OH 43213 800-355-2227 toll free

September 23, 2010

VIA FEDERAL EXPRESS

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DEPUTY ASSISTANT
REGIONAL INSPECTOR
GENERAL

Re: Consumer Credit Counseling Service of the Midwest —
Response to Discussion Draft Audit Report Dated September 2, 2010

Dear Ms. Anderson:

This letter is submitted as the formal response of Consumer Credit Counseling Service of the Midwest ("CCCS") to the above-referenced Discussion Draft Audit Report ("DAR"). It is CCCS's objective to comply with each and every HUD requirement for providing housing counseling. CCCS has implemented a number of new or enhanced procedures to address any issue for which it has been determined that corrective action is required or would be beneficial, even if not required. (See Plan of Corrective action attached hereto as Exhibit A.)

Although there may be areas where improved documentation and controls were called for, the DAR contains many inaccurate allegations of deficiencies with respect to CCCS's compliance with HUD's requirements for housing counseling. In addition, there are many instances of questionable interpretations of the legal requirements for housing counseling with which we respectfully disagree. Below please find information regarding the background and operations of CCCS, as well as an analysis of the alleged compliance deficiencies set forth in the DAR.

BACKGROUND

Before addressing the specific findings set forth in the DAR, it is useful to provide some additional information regarding CCCS and its operations in order that the DAR can be placed in context. This is necessary because CCCS provides very substantial and beneficial housing counseling services to an extremely large number of individuals throughout the United States. If the housing counseling services of CCCS were to become unavailable, literally tens of thousands of primarily low to moderate income Americans who are at risk of losing their housing or in some other housing distress could be left without a viable alternative to secure housing counseling services of the type offered by CCCS. The United States is in a housing crisis and to deny valuable housing counseling to thousands of Americans would exacerbate the problem and increase the level of human suffering needlessly.

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History of CCCS

CCCS traces its origins to 1955, at which time Leon J. Ingram developed the idea of a free debt-counseling service in Columbus, Ohio. Mr. Ingram established Economy Budget Services ("EBS") to provide free debt counseling services to debt-distressed individuals in the Columbus community. This was prompted by his outrage at commercial debt proration companies operating at that time that retained 15 to 25 percent of the debt as a fee for themselves. In contrast, EBS provided free one-on-one credit counseling and debt proration services, with all costs being underwritten by Mr. Ingram's company. This was the first free credit counseling service in the United States.

The concept of free credit counseling began to proliferate across the United States. In 1967, it was determined that the EBS program should be turned over to the community so that it could grow and serve more people in need. Thus, on February 10, 1967, Consumer Credit Counseling Service of Greater Columbus, Inc. ("CCCSGC"), was formed as an Ohio nonprofit corporation and took over the program previously operated by EBS. CCCSGC applied for, and was granted, 501(c)(3) tax-exempt charitable status by the Internal Revenue Service ("IRS") on July 24, 1968. CCCSGC subsequently changed its corporate name to the Consumer Credit Counseling Service of the Midwest, Inc.

CCCS has been a member of the National Foundation of Credit Counseling ("NFCC") since its incorporation in 1967. NFCC is a section 501(c)(3) charitable organization and is the nation's oldest and most prominent network of nonprofit credit counseling agencies. NFCC has received Congressional praise for its high standards. See Report of the Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate (April 13, 2005) (Senate Report 109-55). CCCS has a history of operating with the highest standards of compliance and ethics, as it has operated under standards and procedures that either met or exceeded those promulgated by NFCC.

NFCC Standards Adhered to by CCCS

As indicated above, CCCS is a member of NFCC. NFCC maintains mandatory membership standards for its members, which are the most restrictive standards in the nonprofit credit counseling industry. NFCC standards are adopted through the Council on Accreditation for Children and Family Services ("COA"), which is an independent third-party 501(c)(3) accrediting body. COA has accredited over 4,000 programs throughout the United States and Canada, including nearly 200 credit counseling services. The IRS Office of Chief Council has referred to the COA standards as "Model Codes" and made the following observations:

The Model Codes described in this section are voluntary. We discuss them here because they provide a model for exemplary credit counseling organizations and are helpful in guiding the development and consideration of applications for exemption under I.R.C. 501(c)(3). 2004 Exempt Organizations Continuing

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Professional Education article, "Credit Counseling Organizations", by Debra Cowan and Debra Kawecki.

Therefore, both the IRS and Congress have agreed that the COA standards are the best standards in the industry. All of CCCS's activities are conducted in accordance with NFCC/COA standards, specifically including its debt management program ("DMP") activities.

Housing Counseling Provided by CCCS

CCCS provides a broad variety of quality counseling services to tens of thousands of individuals across the country annually. The organization prides itself in successfully implementing its mission to provide assistance to clients of all ethnic and socioeconomic backgrounds. The primary activity of CCCS is to provide counseling to debt-distressed individuals. From 2007 to 2009, CCCS provided its clients with 175,790 counseling sessions (51,143 in 2007, 55,262 in 2008, an increase of 8 percent, and 69,385 sessions in 2009, an increase of 25 percent year over year). Each client of CCCS is given the opportunity to receive one-on-one counseling with a highly trained CCCS certified counselor.

As part of its core mission, CCCS also provides housing counseling to thousands of the residents of nine states: Ohio, Kentucky, Tennessee, Florida, Missouri, Kansas, Indiana, Pennsylvania, Oregon and Washington. Following the crisis in the housing market that became visible in 2007, CCCS reaffirmed its commitment to assisting troubled homeowners. The increased need for such counseling led to increases in the number of individuals counseled on housing matters each year. In fiscal year 2007, 12,843 individuals received counseling under the HUD comprehensive, HUD reverse mortgage, NFMCP and Ohio Department of Development counseling programs. This increased by 21 percent to 15,582 in 2008, and in 2009 it increased by 29 percent to 20,209. Over the period, housing counseling services provided increased 64 percent. See Exhibit B attached hereto.

CCCS completed 13,545 HUD Comprehensive housing counseling sessions in fiscal years 2007-2008, but only received funding for 2,473 of these sessions. The remaining 11,072 sessions were free to clients and paid for by CCCS out of its resources. Thus, CCCS was only reimbursed for 18.2 percent of the HUD comprehensive housing counseling it conducted. It absorbed the cost of the remaining 81.8 percent as part of its charitable mission. Of the individuals counseled, approximately 28 percent were of minority backgrounds and approximately 47 percent had income levels at or below the adjusted median income for the geographic area in which they reside. Consequently, if CCCS were to be precluded from continuing to provide housing counseling, over 20,000 Americans, many of whom are in very vulnerable situations, annually would be placed at risk of being denied access to critically needed housing counseling. It is recognized that some will find alternative sources for such counseling, but certainly many will not. It is respectfully submitted that, if even one person becomes homeless or loses their home to foreclosure as a result of an unreasonable denial of access to housing counseling, that is one person too many.

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Debt Management Program Aspect of Counseling

CCCS's counseling results in a plan of action for each client. In appropriate circumstances, such plan of action may recommend participation in a DMP that is coordinated by CCCS. In such a program, CCCS and the client establish a repayment plan by which CCCS may continue to help the client to reduce and eliminate debt and to learn how to avoid relying on credit. Under a DMP, CCCS and the client establish a repayment plan, the client makes a single, lump-sum payment to CCCS each month, and CCCS uses those funds to pay off the client's unsecured creditors in a fair manner. CCCS maintains and monitors the repayment plans until the client's debt is entirely eliminated. This usually occurs over a 48 to 60 month period.

The DMP is also operated under standards adopted by the NFCC through COA. CCCS strictly adheres to these standards. The vast majority of individuals participating in the DMP are poor and deeply in debt.

Value of Debt Management Programs Conducted under NFCC Guidelines

Numerous scientific studies confirm the value of credit counseling, including DMPs.¹

In a study conducted through the Credit Research Center at Georgetown University and entitled, "The Impact of Credit Counseling on Subsequent Borrower Credit Usage and Payment Behavior", researchers observed over a three-year period borrowers who received financial counseling utilizing the NFCC methodology and similar borrowers who did not receive counseling. The study concluded that those receiving the counseling improved their financial behavior in the three years after receiving counseling. These findings led the researchers to conclude as follows:

These results provide strong evidence that credit counseling that utilizes the NFCC agency methodology affects credit use and payment behavior in a positive way. Most counseled borrowers improved their risk scores relative to other borrowers with similar initial risk scores in the three-year evaluation period following their counseling. And, the large majority of counseled borrowers

¹ See, e.g., E. Thomas Garman, *et al.*, "Financial Distress Among American Workers", at 21 *citing* Dreteia & Lavrakas, "Over the Limit: The Association Between Health, Race and Debt", *Social Sciences & Medicine* (2000). See also Kim & Garman, "Financial Stress and Absenteeism: An Empirically Derived Model", *Fin'l Counseling & Planning*, 14(1) (2003). One study concluded that 43 percent of those enrolled in a DMP reported improved health soon after enrolling. See E. Thomas Garman, *et al.*, "Financial Distress Among American Workers", at 21 *citing* Xiao B. O'Neill, *et al.*, "Relationships Among Financial Practices, Financial Well-being, and Health of Financially Distressed Consumers", *Consumer Interest Annual*, American Council on Consumer Interests (in press).

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had significantly fewer accounts, lower debt, and *fewer delinquencies* relative to other borrowers, behavior that is consistent with the advice provided in credit counseling.

SPECIFIC COMMENTS REGARDING DRAFT AUDIT REPORT

Structure of Audit Was Problematic

Comment 1

The audit covered the period October 1, 2007, through September 30, 2009. This is problematic in that CCCS was the subject of a biennial review by HUD in 2007, the findings of which were set forth in a letter dated October 30, 2007. The October 30, 2007, letter made findings which required correction and granted CCCS 90 days, or until January 30, 2008, in which to correct the areas identified or provide a plan for doing so. As discussed more fully below, CCCS has, in fact, corrected the items identified in the October 30, 2007, letter. We believe that to include items already identified as needing correction and which were in the process of being corrected is unfair and inappropriate.

Comment 2

The statistical sampling appears to be much too small to be used as a basis for recommending severe penalties. As indicated above, CCCS conducted a total of 15,582 housing counseling sessions in Fiscal Year 2008, and 20,209 housing counseling sessions in Fiscal Year 2009. These numbers include all housing counseling sessions reimbursed under all grant programs offered by HUD. However, the audit focused only on HUD's comprehensive housing counseling program and, therefore, only 2,473 counseling sessions were included in the universe of counseling sessions which were to be audited. Of the 2,473 sessions, only 127 files were selected for review; a process that took seven months although each file was only a few pages in length. Of the 35,791 (15,582 + 20,209) housing counseling sessions conducted by CCCS under all housing programs in which it participated during Fiscal Years 2008 and 2009, if all of the 127 sessions were properly included in the sample, the sample size is 0.35 percent (.0035) of the total housing counseling sessions provided during the period. CCCS does not believe this sample is of sufficient size to derive conclusions with respect to CCCS's compliance with HUD's housing counseling requirements and justify severe penalties. Additionally, CCCS objects to the DAR extrapolating results from the limited sample and its conclusions based upon it, to attempt to predict compliance with unreviewed current files and, by implication, future performance of CCCS. This is particularly true in light of the fact that CCCS was already engaged in a program of correcting deficiencies identified in the already conducted biennial review.

RESPONSES TO SPECIFIC ALLEGATIONS OF DEFICIENCIES

Below are the deficiencies alleged in the DAR and the CCCS response thereto. Exhibits are attached which contain the specific files which were alleged to be deficient in the DAR but which, as demonstrated by the additional evidence provided herein, are not deficient and are in compliance with HUD requirements.

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Comment 1: *For 126 sessions, the clients' housing counseling action plans did not contain actions to be undertaken by the housing counselors, or the actions taken by the housing counselors were insufficient to assist clients in accomplishing their housing goals/needs. Section IV, exhibit b(4), of the agreement between the National Foundation and Consumer Credit requires that affiliate counselors design action plans that identify and document the actions required to be taken by both the client and the counselor to address the stated need. Further, HUD's regulations at 24 CFR 214.3 define the action plan as a plan that outlines what the housing counseling agency and client will do to meet the client's housing goals (see appendix C).*

Comment 3

General Response:

CCCS disagrees with the DAR with respect to 85 sessions. As discussed above, CCCS's DMP activities, which are conducted in accordance with NFCC Guidelines, have been demonstrated to be effective devices to resolve financial issues, including, specifically, housing issues. Nevertheless, throughout the DAR, DMP activities are not given credit for being an appropriate and integral part of the provision of housing counseling. DMP activities directly assist clients in resolving their housing issues. Just as importantly, debt management under a DMP is specifically recognized as an acceptable component of housing counseling under the HUD Handbook at ¶3-3.D. However, the DAR consistently completely discredits DMP as an acceptable tool to accomplish housing objectives, despite the fact that it is specifically recognized and authorized by the HUD Handbook. Of the 126 sessions which the DAR alleges lack an indication of action to be taken by the CCCS counselor, 61 are sessions in which the client entered into a DMP. Thus, by enrolling the client on a DMP (which typically lasts 48 months), the counselor has indicated an acceptable counselor action. Further, there are 24 additional cases involving non-DMP clients whose files contain specific references to counselor actions. This constitutes 85 of the 126 alleged deficiencies. CCCS believes that counselor action is discussed in substantially all cases, but that proper documentation was not placed in client files in a relatively small number of the sessions. Procedures to ensure proper documentation of counselor actions in the future have already been promulgated **and are being implemented** that will ensure that follow-up actions are properly documented. These procedures are described in the Preliminary Plan of Correction attached as Exhibit A.²

Specific Errors:

Thirty-three client files (24 of which are for non-DMP clients) were erroneously listed and are attached as Exhibit C.

² The Preliminary Plan of Correction includes procedures to strengthen internal controls, training materials and specific responses to recommendations and comments made in the DAR.

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Comment 2: *For 94 sessions, the clients' files lacked documentation to support whether the housing counselors followed up on clients' housing concerns. Either the clients' file did not contain documentation of any follow-up discussions, or the documented follow-up discussions were related to Consumer Credit's debt management service, instead of the clients' progression toward achieving their housing goals. The housing counselors contacted the clients to (1) inquire about whether the clients wanted to sign up for the debt management plan service; (2) encourage clients to continue with their debt management plan; (3) inform clients that their initial payment had been received or was due; or (4) remind them that as part of their debt management plan program, they should send a deposit. According to HUD requirements at 24 CFR 214.300(c), the counselor is required to follow up with the client to be assured that the client is progressing toward his goal (see appendix C). Additionally, Consumer Credit's agreement with the National Foundation requires that subgrantees' counselors monitor the client's progress toward meeting the need or resolving the problem.*

Comment 4

General Response:

As indicated in the response to Comment 1, DMP activities are acceptable components of housing counseling pursuant to the HUD Handbook. Of the 94 sessions identified as lacking documentation regarding counselor follow-up, 54 of such cases involved clients who were enrolled in a DMP. CCCS respectfully submits that enrollment in a DMP constitutes documentation of counselor follow-up, given the fact that the average DMP lasts 48 months. An additional 10 client files for non-DMP clients contained specific documentation of counselor follow-up. Thus, 64 of the 94 sessions identified contained documentation of counselor follow-up. CCCS believes that there was appropriate follow up for substantially all cases, but that the case files lacked documentation. Procedures to ensure proper documentation of counselor actions in the future have already been or are being promulgated **and are being implemented** that will ensure that follow-up actions are properly documented. These procedures are described in the Preliminary Plan of Correction attached as Exhibit A.

Specific Errors:

Twenty-nine files (10 of which are for non-DMP clients) were erroneously listed and are attached hereto as Exhibit D.

Comment 3: *For 31 sessions, Consumer Credit reported program results on its reimbursement request form and HUD form 9902 that were not accurate or properly supported. Specifically, for 19 of the 30 sessions, Consumer Credit reported to HUD that the clients enrolled in its debt management plan service; however, the clients did not complete their enrollment. For the remaining 11 sessions, Consumer Credit reported that the clients were receiving housing counseling or would receive ongoing housing counseling; however, the clients' files did not contain documentation to support these assertions.*

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General Response:

CCCS agrees generally with the finding that its report to HUD was not corrected. By way of explanation, the 19 clients that did not enroll in a DMP originally agreed to do so during the original counseling session. Subsequently, the clients failed to take the required actions to complete enrollment. When this occurred, the counselor did not change the coding of the results of the counseling session prior to the submission of the Form 9902 to HUD, resulting in an inaccurate report. However, it is respectfully submitted that these clients did, in fact, receive an appropriate housing counseling session, even though their DMP status was miscoded on the HUD Form 9902. CCCS disagrees with respect to 7 of the remaining sessions as the results entered on Form 9902 were correct for these clients. The remaining clients were coded as "currently receiving counseling" on the Form 9902, which was correct when the form was filed. Subsequent to filing the form, the clients' result status changed because counseling was terminated. Such termination may have been the result of the inability of the counselor to contact the client for follow-up or the client declared bankruptcy. This is a timing issue as CCCS is not aware of an appropriate procedure to change a correct result code for a client where the result changes after filing the Form 9902.

Specific Errors:

Seven (7) files erroneously listed are attached as Exhibit E.

Comment 4: *For 76 sessions, the clients' files did not contain documentation to determine whether the housing counselors referred the clients to local, State, and Federal resources when they expressed concerns about meeting their payment obligations under their rental agreement or mortgage. For example, client number 300090's action plan goal was to eliminate debt, reduce interest rates, and stay current with rental payments due to becoming unemployed. However, the housing counselor did not refer the client or provide the client with information regarding available resources to assist the client in staying current with rental payments, such as rental assistance programs. The housing counselor only encouraged the client to enroll in Consumer Credit's debt management plan service. HUD requirements at 24 CFR 214.390(b)(2) stipulate that the counseling agency is to provide the client with referrals to local, State, and Federal resources. Further, the applicant or its branches or affiliates must have established working relationships with private and public community resources to which it can refer clients who need help that the agency cannot offer (see appendix C).*

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General Response:

CCCS disagrees with the DAR finding and conclusion. CCCS did, in fact, make referrals to appropriate sources in 58 of the 76 case files identified in the DAR as lacking appropriate referrals. In addition, 24 CFR 214.300(b)(2) only requires referrals to local, State and Federal resources if such a referral is needed. As evidence that this is the proper interpretation of this regulation, please see CCCS's agreement with NFCC, Exhibit B, Page 2, Nos. 7-8, which states:

7. Sub-Grantee counselors will, *if needed*, identify resources within the Sub-Grantee, the community and/or HUD that might assist in meeting the client's housing need or resolving the client's housing problem.
8. Sub-Grantee counselors will, *if needed*, refer the client to other resources within the community and assist the client in arranging appointments with those resources.

Therefore, it was the counselors' judgment that further referrals were not required in the remaining files. Procedures to ensure proper documentation of counselor actions in the future have already been or are being promulgated and **are being implemented** that will ensure that follow-up actions are properly documented. These procedures are described in the Preliminary Plan of Correction attached as Exhibit A.

Further, CCCS has, in fact, established excellent working relationships with private and public community resources and made referrals to them when advisable. Letters of recommendation from the Franklin County Treasurer, FIRSTLINK, The Legal Aid Society of Columbus, Franklin County Foreclosure Mediation Project, United Way, 211/First Call for Help, Clermont County Saves Homes Task Force, Legal Aid Society of Southwest Ohio, Summit County Office of Consumer Affairs, Stark County Auditor, Office of Ohio Attorney General Richard Cordray, WGTE Public Media, Office of Lucas County Treasurer Wade Kapszukiewicz, Housing Opportunities Made Equal (HOME), Resources, Education & Assistance for Community Housing (REACH), Lexington Habitat for Humanity, Supportive Housing Opportunities for Women (SHOW), Hope Center, United Way of Erie County, Office of Sandusky County Treasurer Irma G. Celestino, Public Library of Youngstown & Mahoning County, Family Service Agency, Community Action Partnership, Allen Metropolitan Housing Authority, Community Ventures Corporation, Office of B. G. Janzen Attorney at Law, A Regional Coalition for Housing (ARCH), Neighborhood Housing Services of Toledo, Inc., United Services Community Action Agency, Northwest Justice Project, Legal Aid Society of Southwest Ohio, LLC, and First Federal of Lakewood issued in support of CCCS which evidence of such relationships are collectively attached hereto as Exhibit F.

Specific Errors:

Fifty-eight (58) files were erroneously listed and are attached as Exhibit G.

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Comment 5: *For 14 sessions, Consumer Credit's housing counselors did not discuss the items outlined in its work plan when clients disclosed that they were either delinquent or had defaulted on their rental or mortgage payments. According to section 2 of Consumer Credit's work plan, if a client has a rent delinquency or mortgage default concern or is interested in foreclosure prevention counseling, the following would be discussed with the client during the counseling session: (1) identifying the cause of the default or delinquency, (2) determining the extent of the delinquency, (3) working with the landlord or mortgage company to cure the default, (4) working out repayment plans/loss mitigation with the mortgage company, (5) discussing foreclosure and what it is, (6) discussing alternatives to foreclosure if unable to cure default, (7) discussing alternatives to rent eviction, (8) looking at other options including family assistance, and (9) referrals to other community agencies as appropriate. Further, the clients' files did not contain documentation showing that Consumer Credit assisted the clients with contacting their mortgage lenders when they were either delinquent or in default on their mortgage. According to article IV, A(2), of the National Foundation's grant agreement with HUD, when providing services, the grantee and its subgrantees, as applicable, shall coordinate with HUD, mortgagees, lenders, and public and private community organizations that are also working with the clients to provide maximum service to the client. They should also contact and work with the appropriate lender and HUD office to assist clients who are (1) in default on their monthly mortgage payments, (2) being considered under HUD's Loss Mitigation Program, or (3) in financial difficulty or in default under a forbearance agreement (see appendix C).*

Comment 7

General Response:

CCCS generally agrees that 13 of 14 files do not contain documentation of discussions regarding various items in the work plan. That is not to say that such discussions did not take place, but rather that the files were not adequately documented. However, CCCS disagrees that it violated its grant agreement with the NFCC by not contacting HUD, mortgagees, lenders, and others in each and every case involving a rent or mortgage delinquency or foreclosure. As indicated above, the agreement with NFCC, Exhibit B, Page 2, Nos. 7-9, only requires that such contact be made "if needed." Thus, this is a judgment call on the part of the counselor. Procedures to ensure proper documentation of counselor actions in the future have already been or are being promulgated **and are being implemented** that will ensure that follow-up actions are properly documented. These procedures are described in the Preliminary Plan of Correction attached as Exhibit A.

Specific Errors:

One (1) file which was erroneously listed is attached as Exhibit H.

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Comment 6: *For 68 sessions, the clients' files did not contain documentation showing that Consumer Credit provided the clients with the required disclosures. During these housing counseling sessions, its housing counselors verbally requested clients' consent to provide counseling services and read to the clients a privacy disclosure. However, the clients' file did not contain documentation to determine whether the housing counselors provided its clients with disclosures that (1) described the various types of services provided by the agency and any financial relationships between this agency and any other industry partners; (2) stated that the client was not obligated to receive any other services offered by the organization or its exclusive partners; and (3) provided information on alternative services, programs, and products. According to Consumer Credit's contracts/grants administrator, clients were mailed a statement of counseling service form that contained the required disclosures after the housing counseling sessions. However, the clients' files did not contain the forms, which were required to be signed by the clients. According to HUD Handbook 7610.1, paragraph 4-3(j), a client's file must contain copies of pertinent records and correspondence (see appendix C).*

Comment 8

General Response:

CCCS disagrees that HUD rules clearly required that the disclosures described be included in client files. 24 CFR 214.303(g) sets forth the foreclosure requirements. It states: "A participating agency must provide to all clients a disclosure statement . . ." The auditor acknowledges that CCCS advised that it verbally provided disclosures and that disclosures were mailed after the counseling session. The auditor was also informed that CCCS maintained a system by which its electronic files for telephone counseling sessions were notated that clients were verbally provided with disclosures. The DAR relies on HUD Handbook 7610.1 ¶4-3(j) as support for a requirement that the disclosure statements physically be placed in all files. However, that section is a general statement which only indicates that client files must contain copies of "pertinent records and correspondence." This clearly does not specifically require that disclosure statements be maintained within the clients' files. Further, HUD Handbook 7610.1 ¶4-1(A) provides that any record keeping method may be used and ¶4.1(B) states that an agency must maintain such records as are necessary for it to comply with the reporting requirements set forth in ¶4-9 of the Handbook. The disclosure statements are not necessary to meet such reporting requirements. However, procedures to ensure proper documentation of counselor actions in the future have already been or are being promulgated **and are being implemented** that will ensure that follow-up actions are properly documented. These procedures are described in the Preliminary Plan of Correction attached as Exhibit A.

Comment 7: *For 14 sessions totaling \$1,400 (14 times \$100), Consumer Credit did not accurately identify the clients' eligibility for housing counseling services. Specifically, for 12 of the 14 sessions, the clients' action plans identified that the purpose of the session was to prevent foreclosure or rent delinquency. However, the clients' budgets did*

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not include a rental or mortgage payment. For the remaining two sessions, the notes in the clients' files indicated that the clients believed that they did not have a housing problem. HUD's regulations at 24 C.F.R. 214.3 define "clients" as individuals or households who seek the assistance of an agency participating in HUD's program to meet a housing need or resolve a housing problem (see appendix C).

General Response:

CCCS disagrees with the DAR in that it has identified references to housing-related expenses in 11 of the 14 files cited. It agrees with the DAR with respect to three files. CCCS anticipates that, through the rigorous training that has been implemented as part of the Preliminary Plan of Correction, this small error rate can be further reduced or eliminated.

Comment 9

Specific Errors:

Eleven (11) files erroneously listed are attached as Exhibit I.

Comment 8: *Consumer Credit did not separate its housing counseling from its debt management service. For 106 of the 127 sessions reviewed, Consumer Credit prepared action plans for clients that discussed its debt management plan service. Further, the housing counselors' review of its clients' money management consisted of a budget that did not include their revolving accounts. Instead, the budget contained an amount for the clients' monthly payment under their debt management plan agreement with Consumer Credit.*

General Response:

CCCS disagrees that the HUD Handbook required that CCCS separate its housing counseling from its DMP service. Chapter 3 of the HUD Handbook sets forth the requirements for "Delivery of Counseling." ¶3-3(D) of the HUD Handbook specifically identifies Debt Management Plan activities as a proper component of counseling. There was no specific requirement that housing counseling be separate from debt management services.³ To the contrary, it appears that debt management is a permissible component of counseling. We note that Chapter 6 — Funding, contains a reference to debt management service under ¶6-2, relating to counseling fees. However, this provision appears limited to the issue of fees, as opposed to what comprises proper components of housing counseling.

Comment 10

³ In May, 2010, as part of a complete review of the HUD Handbook, a specific requirement to maintain separate reporting for DMP services and housing counseling was added to ¶3-10. No such requirement was previously contained in the HUD Handbook.

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However, CCCS is developing and has implemented procedures as part of the Corrective Plan, where it will separate its debt management plan records from its housing counseling records.

With respect to the observation that clients' budgets contain amounts for payments under their DMP, but not their revolving accounts, it is CCCS's view that this approach is consistent with the requirements of the HUD Handbook. HUD Handbook ¶3-3(C)3 states that "An agency should create a budget suitable to the housing the client can afford." Thus, where revolving accounts will be paid through a DMP, there is no requirement to create two budgets showing both the DMP, as well as a separate budget showing revolving accounts, which would result in a higher expense for the client and that makes it more difficult for the client to afford housing. However, CCCS is developing and has implemented procedures where it will provide budgets showing payments for revolving accounts versus payments under a DMP as suggested in the DAR, even though this does not appear to be a clear requirement of the HUD Handbook.

Comment 9: Further, for 85 housing counseling sessions, the clients' action plan specifically included documentation of the housing counselors' referral to Consumer Credit's debt management plan service without discussing alternative products or services. For 92 housing counseling sessions, the clients' files contained documentation of the housing counselors' discussions with the clients regarding Consumer Credit's debt management service instead of the clients' progression toward meeting their housing needs. According to HUD regulations at 24 CFR 214.303(g), for each session, the counselors must provide information on alternative services, programs, and procedures. Debt management service is to be an activity related to but separate from the housing counseling session. According to HUD Handbook 7610.1, paragraph 3-9(C), negotiating payment plans with creditors, handling the client's money, and making payment to the creditors for the client are usually done under a client-counselor contract (see appendix C). However, Consumer Credit's housing counseling sessions and debt management service were not separated.

General Response:

CCCS disagrees with the DAR's interpretation of 24 CFR 214.303(g). It is CCCS's view that it only requires that information be provided on alternative services, programs and procedures if such information is needed and appropriate. This is consistent with CCCS's contract with NFCC, which specifically states at Exhibit B, Page 2, Nos. 7-10, that referral to other sources and agencies will be made "if needed." Thus, where a DMP is the best approach to accomplish a resolution of a client's housing issue, CCCS respectfully submits it was not required to make referrals or reference to other resources which would be less advantageous. As noted above, ¶3-3(D) of the HUD Handbook, which specifically relates to counseling, identifies Debt Management as an appropriate subject of housing counseling. However, in

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the attached Corrective Plan, separate records will be kept with respect to Housing Counseling and DMP Services.

Comment 12

Comment 10: Consumer Credit's work plan was not consistent with the housing counseling services it provided. According to Consumer Credit's work plan, it would provide preoccupancy counseling and rent delinquency/mortgage default/foreclosure prevention counseling services. However, for 110 of the 127 sessions reviewed, the clients' actions plans identified that the clients' objectives were to stay current with their mortgage or rental obligation; thus, the clients were not delinquent on their rental or mortgage payments. However, they had difficulty in managing their unsecured debts.

General Response:

CCCS agrees with this observation in the DAR. However, it appears that providing counseling to assist clients and staying current on their mortgage and rental obligations is an appropriate subject of housing counseling. The proper subjects of housing counseling are set forth in 24 CFR section 214.300(F). There it is indicated that pre-purchase/home buying, budgeting and credit, financial management, resolving or preventing mortgage delinquency and rent delinquency all are proper topics of housing counseling. Thus, although CCCS's work plan did not include this specific reference to these topics, the counseling CCCS provided was in fact on a proper topic of housing counseling. In light of the DAR observations, however, CCCS will submit a revised work plan that will include these proper topics of counseling.

Comment 13

Comment 11: Consumer Credit was unable to provide documentation to support that its uncertified housing counselors were adequately trained and/or monitored. For 145 housing counseling sessions that occurred in 2008 and 156 sessions that occurred in 2009, Consumer Credit was unable to provide documentation showing that the housing counselors who performed these sessions were adequately monitored. According to exhibit B of its agreement, all subgrantee housing counselors must be National Foundation-certified housing counselors or be supervised by a National Foundation-certified housing counselor who serves in a supervisory role within the subgrantee's housing counseling program. HUD Handbook 7610.1, REV-4, paragraph 5-1, states that supervisors of the counselors must periodically monitor the work of the counselors. This monitoring includes reviewing client files with the counselor. The agency must document these monitoring activities and make the documentation available to HUD upon request (see appendix C).

General Response:

CCCS disagrees with the DAR. CCCS's contract with the NFCC for the fiscal year ending September 30, 2008, provided that its housing counselors must be NFCC certified counselors or be supervised by an NFCC counselor. It further provided that all NFCC housing

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counseling should be either Book 7 certified or actively working toward achieving Book 7 certification. The contract with NFCC for the fiscal year ending September 30, 2009, provides that housing counselors must be NFCC-certified housing counselors or be supervised by an NFCC-certified housing counselor. All CCCS counselors were either Book 7 certified housing counselors or actively working toward such certification. Currently, all CCCS housing counselors are Book 7 certified. Attached hereto as Exhibit J please find a spreadsheet which lists all counselors, and their Book 7 housing certification issue date, as well as their housing counselor certification expiration date. For those counselors who were not Book 7 certified during the audit period, the HUD Handbook requires that supervisors "periodically" monitor their work. It is respectfully submitted that this periodic monitoring requirement was complied with by CCCS. CCCS has now implemented procedures which are even more stringent whereby, in the event a counselor has not yet completed the Book 7 certification process, a Book 7 certified counselor must review each file to make sure that it meets all requirements for housing counseling, and a certified counselor must sign off on the counseling and the Action Plan.

Comment 12: Further, Consumer Credit did not maintain adequate records to ensure that its housing counselors continuously improved their housing counseling skills. According to HUD Handbook 7610.1, paragraph 2-10, HUD expects an approved agency to ensure the upgrading of the counseling skills and techniques of its housing counseling staff (see appendix C). Consumer Credit's management had to solicit training documentation from its staff to address our request for documentation. As of August 15, 2010, Consumer Credit had not provided all of the requested documentation.

General Response:

CCCS disagrees with this observation in the DAR. Attached hereto as Exhibit K, please find CCCS's policies, which were adopted in March, 2007, requiring that counselors complete continuing education. In the same exhibit, also please find "NFCC Professional Development Units System, Effective April 1, 2006." In order to be re-certified, a counselor must complete additional professional development units as required by the above-referenced policies. Please note that there is no requirement in the HUD Handbook or in the applicable regulations that all documentation be maintained in a single location, nor was it improper for CCCS to request training documentation from its staff to address the Auditor's request. It was CCCS's understanding that the auditor had been provided with all information requested.

Comment 13: Consumer Credit submitted duplicate requests for 13 housing counseling sessions, which cost \$100 per session, \$1,300 total (13 times \$100), to the National Foundation for reimbursement from the HUD grant funds. Further, Consumer Credit lacked sufficient documentation to support that three additional housing counseling sessions totaling \$300 (3 times \$100) occurred. Consumer Credit's contract/grant administrator acknowledged that Consumer Credit submitted

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Comment 14

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duplicate reimbursement requests for the same housing counseling sessions. He stated that the housing counselors did not properly code the sessions in Consumer Credit's debt management system.

General Response:

CCCS agrees with this finding of the DAR. Unfortunately, this was the result of a clerical error; and CCCS will provide reimbursement for the amounts indicated. Further, the Preliminary Plan of Correction sets forth procedures and controls that will ensure compliance going forward. These procedures and controls will be subject to extensive oversight by the management of CCCS and to periodic internal audit and control reviews to ensure their continued effectiveness in preventing such errors in the future.

Comment 14: *For 103 housing counseling sessions that were reimbursed by the HUD grant funds, Consumer Credit also received reimbursement from a grant it received from the Ohio Department of Development. The cost of the 103 sessions was reimbursed for the entire amount, instead of using HUD grant funds to offset the cost of the sessions that exceeded the State grant funding. Therefore, Consumer Credit was reimbursed \$7,574 in HUD grant funds above the cost of the sessions. Consumer Credit's reimbursement request forms required it to confirm that it had not received reimbursement for the services at the time of the request and that all services included in the request complied with the contract (agreement). However, it inaccurately submitted reimbursement requests to the National Foundation for duplicate housing counseling sessions and housing counseling sessions that were reimbursed by another funding source. Further, as previously mentioned, all provided services did not comply with its agreement.*

General Response:

In the Exit Conference, CCCS was advised that the 103 sessions identified were drawn from a review of the entire 2,473 comprehensive counseling sessions which were reviewed. CCCS agrees with the finding, which occurred as a result of a clerical error. However, it is respectfully submitted that this is a relatively small percentage of the overall files and CCCS will reimburse for the amount indicated. Please note that corrective procedures are being and have been implemented as part of the Preliminary Plan of Correction that will prevent these errors from occurring in the future.

Comment 15: *In 2007, HUD performed an affiliate review of Consumer Credit. The review identified that: Consumer Credit did not maintain adequate client files, clients were always referred to Consumer Credit's debt management plan service, the housing clients' files lacked documentation to support adequate follow-up was performed and clients termination from the program, the staff performing housing counseling lacked capacity including adequate training, and the lack*

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of consistency between its housing counseling work plan and eligible activities under its agreement the National Foundation, etc. As a result, HUD required Consumer Credit to correct the identified deficiencies within 90 days to continue its participation in the housing counseling program. However, we determined that many of the issues that HUD identified during its review of Consumer Credit in 2007 still existed.

General Response:

Comment 15

CCCS disagrees with the DAR. CCCS has implemented procedures that address substantially all of the issues that were determined in the 2007 Affiliate Review. As indicated previously, the Affiliate Review was completed and a report issued on October 30, 2007. At that point, CCCS was in the initial stages of providing housing counseling. The October 30, 2007, Report (the "Affiliate Report") recommended that CCCS incorporate housing into its agency business model for clients who enroll in a DMP and for those who do not. CCCS has done this. The Affiliate Report also recommended that CCCS develop standards for files for all clients consistent with the HUD Handbook. CCCS has developed standards which it understood would comply with the HUD Handbook. As indicated above, there is not great clarity on many of the requirements of the HUD Handbook and CCCS has implemented corrective action now that the requirements have been clarified by the OIG. The Affiliate Review recommended that CCCS provide follow-up counseling until the housing problem is resolved or the counseling is terminated.

It is respectfully submitted that CCCS has implemented procedures to do this although better documentation was needed in some cases. CCCS is developing and has implemented procedures in the Preliminary Plan of Correction to address any deficiencies in this area. The Affiliate Review also recommended that CCCS develop a training plan for its entire counseling staff. As indicated above, all of CCCS's housing counselors are Book 7 certified, and thus CCCS has accomplished this. Finally, the Affiliate Review recommended that CCCS add various types of counseling to its work plan and CCCS has done this. Therefore, it is respectfully submitted that CCCS is taking and has taken appropriate action to comply with substantially all of the recommendations of the 2007 Report.

CONCLUSION REGARDING SPECIFIC ALLEGATIONS OF DEFICIENCIES

Comment 16

CCCS has responded above to all of the specific concerns raised in the DAR. A corrective plan of action is being and has been developed and, in fact, is being implemented to address all of the concerns regarding procedures and controls. The types of deficiencies that were identified in the DAR were in many cases a result of a lack of clear guidance either in the HUD Handbook or in the regulations regarding the expectations of CCCS. CCCS has implemented procedures and internal controls to comply with the HUD Handbook and Regulations, as interpreted by the OIG. Substantially all of the alleged deficiencies relate to insufficient documentation, books and records violations, rather than the lack of providing counseling services. CCCS admits that, as the result

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of clerical errors, it received a small number of duplicative reimbursements but there is no evidence of any intentional misrepresentation or fraud and no allegation of fraud was made in the DAR. The extrapolation set forth in the DAR with respect to payment for noncompliant sessions is inflammatory, extremely unfair and misleading. It includes every alleged deficiency, no matter how minor, and implies that these are a valid basis for concluding there will be substantial noncompliance with HUD regulations in CCCS continuing operations. This ignores the efforts of CCCS to ensure substantial compliance with substantive and important provisions of the HUD regulations and to address identified deficiencies in the Preliminary Plan of Correction. The Plan is a work in progress, and CCCS intends to seek guidance and review of the Plan from the OIG to ensure that it adequately addresses the concern of your office. Furthermore, the Plan will be subject to periodic review and modification by CCCS to update its provisions to reflect changes in rules and CCCS operations.

Comment 18

RESPONSE TO RECOMMENDATIONS

The response to the recommendations set forth in the DAR is attached hereto as Appendix I.

If additional information is required, please do not hesitate to contact me.

Sincerely,


Michael S. Kappas

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Attachments:
Exhibits A through K

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OIG Evaluation of Auditee Comments

Comment 1 Consumer Credit contends that our audit structure was problematic because the report included items that were already identified as needing correction by HUD in October 2007 as part of its biennial review. Additionally, HUD allowed Consumer Credit 90-days to institute corrective actions to address the identified deficiencies. HUD's review covered housing counseling sessions that occurred during Consumer Credit's fiscal year 2007 grant. HUD notified Consumer Credit in a letter, dated October 30, 2007, of the results of its review and gave Consumer Credit until January 2008 to implement corrective action.

Our audit included counseling sessions that occurred during Consumer Credit's 2008 and 2009 grant years. For the 2008 grant year, which covered the period October 1, 2007, through September 30, 2008, we reviewed the housing counseling sessions that occurred during Consumer Credit's 90-day corrective period because the housing counseling sessions that were reimbursed by HUD occurred during the first 2 months of the 12-month grant. Further, we wanted to obtain a complete picture of Consumer Credit's housing counseling program before and after corrective actions were implemented. Therefore, in addition to reviewing the 61 housing counseling sessions that occurred during Consumer Credit's 2008 grant year, we also reviewed 66 sessions that occurred during the 2009 grant year, which covered the period October 1, 2008, to September 30, 2009. However, as indicated in this audit report, the same issues that were identified by HUD in Consumer Credit's 2007 grant year also occurred in its 2008 and 2009 grant years, thus indicating that little or no improvements were made.

Comment 2 Consumer Credit contends that our statistical sample is not representative because it does not contain all housing counseling sessions of the agency, including housing counseling from other grants and unreimbursed housing counseling sessions. The statistical sample was representative of the housing counseling sessions that were reimbursed by HUD for Consumer Credit's Comprehensive Housing Counseling Program. Additionally, although the sample size of 127 of the 2,473 reimbursed sessions represents 5 percent of the total population, a probability sample, as in the one used for this audit, estimates the likelihood of finding a particular condition based on the number of draws (samples) and is little influenced by the size of the universe from which it is drawn.

Our audit did not review the housing counseling sessions that were reimbursed as part of other grants (Federal or State) or not reimbursed because the audit only encompassed the housing counseling sessions that were submitted for reimbursement under HUD's Comprehensive Housing Counseling grant, thus indicating that these sessions were in compliance with HUD's and other related Federal requirements for housing counseling. According to Consumer Credit, it conducted a total of 35,791 housing counseling sessions, and it only received reimbursement from HUD for its comprehensive and home equity conversion mortgage housing counseling sessions. Additionally during our audit, Consumer

Credit's management informed us that the housing counseling sessions were not submitted to HUD for reimbursement, lacked required data elements, and, therefore, did not meet the reporting standards of a HUD housing counseling session to qualify for reimbursement. Therefore, we did not review these housing counseling sessions.

Comment 3 Consumer Credit contends that 85 of the 126 housing counseling sessions identified in this audit report contained sufficient actions by its counselors. It also contends that activities related to its debt management plan services are acceptable actions to be undertaken by the housing counselors. Therefore, for 61 housing counseling sessions, the enrollment of clients in Consumer Credit's debt management plan service is acceptable. Additionally, for another 24 housing counseling sessions, the actions taken by the counselors were identified in the housing counseling files. We disagree. HUD Handbook 7610.1, REV-4, paragraph 6-2, states that debt management is an activity related to but apart from the housing counseling process. Further, for the 61 housing counseling sessions, the clients' action plans did not outline the act of enrolling clients in Consumer Credit's debt management plan service as an action of the housing counselor. Instead, the plans identified that the clients would enroll in debt management plans, thus indicating that it was an action by the client instead of the housing counselor. Additionally, we reviewed exhibit C provided by Consumer Credit as support for 33 client files it contends was erroneously listed in this audit report. Of the 33 files, based on the provided documentation, we agree that 1 of the 33 files contained actions to be undertaken by the counselor. However, the clients' action plans for the remaining 32 files indicated that the housing counselors would follow up with the clients regarding their progress with their debt management plans or actions the housing counselors suggested for the clients. For instance, for one of the files Consumer Credit provided to demonstrate an action by its housing counselor, the client identified that she was delinquent with her housing payments and the action plan stated that the housing counselor would follow up with the client in approximately 6 months as an action of the housing counselor. Nonetheless, we adjusted this report to reflect the result of this review.

Comment 4 Consumer Credit contends that the 54 housing counseling sessions that resulted in clients enrolling in Consumer Credit's debt management plan constitutes an acceptable form of follow up since the debt management plan last an average of 48 month. Additionally, it also contends that the remaining 10 housing counseling sessions in which the clients did not enroll in a debt management program contained acceptable follow-up. As previously mentioned in comment 3, according to HUD's requirements, debt management is related to but apart from the housing counseling process. Therefore, follow-up related to the clients' enrollment in a debt management plan, in particular the receipt of payments is a part of a client-counselor contract; thus separate from the housing counseling session. Additionally, for the 54 housing counseling sessions, the clients' files disclosed follow-up discussions between the clients and the housing counselors concerning the debt management plan service, such as informing the counselors

of the clients' progress in the debt management program, including receipts and payments due, without discussions of the clients' housing problems.

Consumer Credit contends that 29 of the files were erroneously identified in our audit report based on the documentation provided as exhibit D. We agree that seven client files contained documentation of the housing counselors following up with the clients regarding their progress toward meeting their housing goals. However, the remaining 22 client files either identified that no follow-up was needed or the follow-up documented in the clients' files was related to Consumer Credit's debt management plan service. We adjusted this report as needed.

Comment 5 Consumer Credit generally agreed that the results reported to HUD on the 9902 were not accurate for 19 clients. However, it contends that the results for an additional seven files were accurately reported to HUD, thus erroneously listed in our audit report. We agree based on the documentation provided by Consumer Credit, as exhibit E, that the results for two of the seven housing counseling sessions were reported accurately. Therefore, we adjusted this audit report accordingly. However, the remaining five were not. In particular, for two of the five clients, Consumer Credit provided documentation that indicated the clients were currently receiving housing counseling. However, documentation in its client management system specifically stated that more counseling would not resolve the clients' issues. For the remaining three clients, the results reported to HUD were not consistent with documentation maintained in the clients' files.

Comment 6 Consumer Credit contends that it made referrals to appropriate sources in 58 of the 76 case files. It also contends that referrals are only required under its grant agreement with the National Foundation on an "if needed" basis. Although the grant agreement states that referrals are required on an "if needed" basis, HUD's requirements at 24 CFR 214.300(b)(2) state that for each client, all agencies participating in HUD's housing counseling program shall offer the following basic services: referrals to local, State, and Federal resources. For the 58 housing counseling sessions, the clients indicated that they wanted (1) to stay current with their rent or mortgage payment or (2) pre-purchase counseling. These clients were referred to Internet Web sites to obtain copies of their credit reports or for financial budgeting and/or products. We agree based on documentation provided by Consumer Credit, as exhibit G, that for 3 of the 58 clients, the housing counselors referred the clients to local, State, or Federal resources; therefore, we removed these cases and adjusted this report accordingly.

Comment 7 Consumer Credit contends that it did not violate its grant agreement with the National Foundation by not contacting HUD, mortgagees, lenders, and others in every case involving a rent or mortgage delinquency or foreclosure. Further, it contends that the agreement only requires that such contact be made "if needed." Our audit report states that clients' files did not contain documentation showing that Consumer Credit assisted the clients with contacting their mortgage lenders when they were either delinquent or in default on their mortgage. According to

article IV, A(2), of its agreement with the National Foundation, when providing services, the grantee and its subgrantees, as applicable, shall coordinate with HUD, mortgagees, lenders, and public and private community organizations that are also working with the clients to provide maximum service to the client. They should also contact and work with the appropriate lender and HUD office to assist clients who are (i) in default on their monthly mortgage payments, (ii) being considered under the Loss Mitigation Program, or (iii) in financial difficulty or in default under a forbearance agreement. However, based on the documentation provided by Consumer Credit as exhibit, H, we agree that housing counselors assisted the clients in contacting their lender. Therefore, we adjusted this audit report accordingly.

Comment 8 Consumer Credit contends that for the 68 housing counseling sessions, its housing counselors provided verbal disclosures, and the disclosures were mailed after the sessions. It also contends that disclosure statements are not required to be maintained in client files. According to HUD's requirements, Consumer Credit is required to maintain copies of pertinent records and correspondences related to every housing counseling session. Further, although Consumer Credit provided its clients with verbal disclosures, the content of the verbal disclosures did not cover the full disclosure requirements set forth in HUD's requirements at 24 CFR 214.303(g). Moreover, Consumer Credit acknowledged during our audit that it mails the disclosures to its clients after the housing counseling session. In many instances, this is well after the clients have already decided to purchase a product or enroll in its debt management plan service. Therefore, without documentation and based on only the verbal disclosures provided to the clients, the clients were not provided the required disclosures. Additionally, disclosures are considered pertinent records and correspondence to ensure compliance with the consumer protections.

Comment 9 Consumer Credit contends that for 11 of the 14 housing counseling sessions cited in this audit report, it identified references to housing-related expenses. Our audit report cited the 11 housing counseling sessions because the clients' files did not indicate that they were responsible for paying a mortgage or rental expense. However, the purposes/goals of the clients' housing counseling sessions were to prevent foreclosure or rent delinquency. Therefore, Consumer Credit did not accurately verify the clients' eligibility.

Comment 10 Consumer Credit contends that HUD regulations do not require that it separate housing counseling from debt management plan service, but acknowledged that in May 2010, a specific requirement was added to an updated version of HUD's handbook requiring debt management and housing counseling to be separate. We disagree. As mentioned in comment 3, HUD Handbook 7610.1, REV- 4, paragraph 6-2, states that debt management is an activity related to but apart from the counseling process. The handbook also states that negotiating payment plans with creditors and handling the client's money and making payments to the creditors for the client are usually done under a client-counselor contract. Further,

in reviewing the revised handbook, we determined that the requirement was the same.

Additionally, according to HUD Handbook 7610.1, REV-4, paragraph 3-3(c), almost every housing problem brought to a counseling agency requires a review of how the client manages his/her money. Without this financial analysis, no matter how basic, the counselor cannot adequately advise the client. Therefore, omitting clients' revolving accounts in reviewing their finances could not provide the housing counselors with a complete picture of a client's housing problem. As discussed in our finding, the housing counselors' review of the clients' money management consisted of a budget that did not include their revolving accounts. Instead, the budget contained an amount for the clients' monthly payment under their debt management plan agreement with Consumer Credit. Also, as previously mentioned, the debt management service should be separate from housing counseling.

We acknowledge Consumer Credit's development and implementation of procedures to ensure that it separates its debt management plan records from its housing counseling records.

Comment 11 Consumer Credit contends that according to its agreement with the National Foundation, it is only required to inform clients of alternative services, programs, and procedures if such information is needed and appropriate." We disagree. HUD's regulations at 24 CFR 214.303(g) state that for each session, the counselors must provide information on alternative services, programs, and products. The requirement does not state, "if needed, or appropriate". Additionally, its agreement with the National Foundation, in particular exhibit B, page 2, numbers 7-10, as identified by Consumer Credit, does not discuss alternative services. This section of the agreement addresses referrals to other resources that might help clients in solving their housing problems, other agencies, etc. It does not address information on alternative services, programs, and products that the counselor is required to provide for each session in accordance with Federal requirements. Additionally, HUD Handbook 7610.1, REV-4, does not state that debt management is an appropriate subject of housing counseling. According to the handbook, debt management is related to but apart from the housing counseling process. Additionally, negotiating payments with creditors, handing the client's money are usually done under a client-counselor contract; thus separate from the housing counseling session.

Comment 12 We acknowledge Consumer Credit for ensuring that its work plan describes all provided services.

Comment 13 Consumer Credit contends that all counselors are now certified and that those counselors who were not certified are only required to be periodically monitored. As discussed in this audit report, for 145 housing counseling sessions that occurred in 2008 and 156 sessions that occurred in 2009, Consumer Credit was

unable to provide documentation showing that the housing counselors were adequately supervised and/or monitored. Consumer Credit provided as exhibit J a listing of its housing counselors and the dates on which they received their certifications. However, it did not provide copies of the certifications to determine whether the counselors were certified or monitored when these 301 (145 plus 156) housing sessions occurred.

Comment 14 Consumer Credit contends that it has policies in place, as indicated by exhibit K, that require its counselors to complete continuing education. Additionally, in order for a counselor to be re-certified, the counselor must complete additional professional development units as required. Also, the HUD handbook or applicable regulations do not require that all documentation be maintained in a single location, nor was it improper for Consumer Credit to request training documentation from its staff to address our request. We agree that while there may be no specific requirement for Consumer Credit to maintain training documentation. HUD Handbook 7610.1, paragraph 2-10, states that HUD expects an approved agency to ensure the upgrading of the counseling skills and techniques of its housing counseling staff. Consumer Credit did not provide documentation to support its housing counselors' continuing education.

Comment 15 Consumer Credit contends that it implemented procedures to address all of the issues identified in its affiliate review. We disagree. As mentioned in this audit report, Consumer Credit had not implemented adequate procedures to become compliant with the deficiencies noted during the affiliate review. Consumer Credit acknowledged in its response that better documentation is needed in some cases, and it is developing and has implemented procedures in the preliminary plan of correction to address any deficiencies in this area.

Comment 16 Consumer Credit contends that the identified deficiencies resulted from a lack of clear guidance and that all deficiencies relate to insufficient documentation and books and records violations, rather than a lack of providing counseling services. We disagree. Consumer Credit was aware of HUD's documentation requirements because it was reviewed by HUD and the National Foundation, in which the issues similar, as identified in this audit report, were cited. Additionally, without maintaining proper documentation, Consumer Credit would not be able to support the services it provides.

We acknowledge that Consumer Credit implemented procedures to ensure compliance with HUD's requirements. However, HUD's requirements and the requirements outlined in its agreement with the National Foundation were not reinterpreted by us. We obtained an understanding of HUD's requirements and Consumer Credit's agreement requirements from HUD and/or the National Foundation.

Comment 17 Consumer Credit contends that the extrapolation set forth in our draft audit report with payment for noncompliant sessions is inflammatory, extremely unfair, and

misleading. We disagree. The audit report identified that Consumer Credit received duplicate reimbursements for 126 (13 plus 103) housing counseling sessions, which Consumer Credit also acknowledged. However, we clarified that the 126 sessions was from the 2,473 total reimbursed sessions. In addition to receiving duplicate payments, it did not comply with HUD's requirements and its agreement with the National Foundation. The issues identified in the audit report were similar, if not the same, as the issues that were identified by National Foundation and HUD. Therefore, Consumer Credit was aware of its noncompliance; however, it neglected to correct the deficiencies. Therefore, the recommendations cited in the audit report were substantiated.

Further, Consumer Credit contends that it has a preliminary plan for corrective action and will seek guidance from HUD OIG to ensure that it adequately addressed the concerns of our office. Consumer Credit should consult with HUD regarding its corrective action plan and the items identified in this audit report.

Comment 18 Consumer Credit disagreed with recommendation 1I in this audit report. It provided appendix I to dispute our recommendation. However, based on the issues identified in this audit report, we did not remove the recommendation.

Appendix C

FEDERAL REQUIREMENTS AND THE NATIONAL FOUNDATION'S GRANT AGREEMENT

National Foundation for Credit Counseling, Incorporated, subgrantee agreement, effective 2008 and 2009, exhibit b(2), states that all affiliate housing counselors must be National Foundation-certified counselors or be supervised by a National Foundation-certified counselor who serves in a supervisory role within an affiliate's housing counseling program. All National Foundation housing counselors should be either book seven certified or actively working toward achieving book seven certification. Section IV, exhibit b(4), of the agreement requires that affiliate counselors design action plans that identify and document the actions required to be taken by both the client and the counselor to address the stated need.

HUD Handbook 7610.1, REV-4, paragraph 5-1, states that supervisors of the counselors must periodically monitor the work of the counselors. This monitoring includes reviewing client files with the counselor. The agency must document these monitoring activities and make the documentation available to HUD upon request.

Paragraph 3-1 of the handbook states there is to be follow-up communication with the client to ensure that the client is progressing toward his or her housing goal or that the agency should modify or terminate housing counseling.

Paragraph 2-10 of the handbook states that HUD expects an approved agency to ensure the upgrading of the counseling skills and techniques of its housing counseling staff.

Paragraph 3-9(C) of the handbook states that almost every housing need and problem brought to a counseling agency requires at least a review of how the client manages his or her money. Without this financial analysis, no matter how basic, the counselor cannot adequately advise the client. Depending upon whether the client is or seeks to be a renter or homeowner, counseling in this area might include any or all of the following components:

1. Review of client's income and expenses
2. Determination of how the client spends money (Does he or can he save? Does she spend beyond her income? Does he make prudent use of credit? Do her spending habits fit better into renting or owning, etc.?)
3. Creating a budget suitable to the housing the client can afford.
4. Review of interest rates at the time the client wants to purchase housing
5. Use and cost of credit
6. Shopping for a loan to purchase housing
7. Effect of property taxes and mortgage interest on income taxes--cash flow
8. Homeowner's insurance covering property and liability
9. Downpayments and rent escrow
10. Bankruptcy

HUD's regulations at 24 CFR 214.300(c) state that follow-up is making a reasonable effort to have follow-up communication with the client, when possible, to ensure that the client is progressing toward his or her housing goal, to modify or terminate housing counseling, and to learn and report outcomes.

HUD's regulations at 24 CFR 214.3 define the action plan as a plan that outlines what the housing counseling agency and client will do to meet the client's housing goals.

HUD's regulations at 24 CFR 214.300(b)(2) states that for each client, all agencies participating in HUD's housing counseling program shall offer the following basic services: referrals to local, State, and Federal resources.

HUD's regulations at 24 CFR 214.303(g) state that a participating agency must provide to all clients a disclosure statement that explicitly describes the various types of services provided by the agency and any financial relationships between this agency and any other industry partners. The disclosure must clearly state that the client is not obligated to receive any other services offered by the organization or its exclusive partners. Further, the agency must provide information on alternative services, programs, and products.

HUD's regulations at 24 CFR 214.103(g)(2) state that the agency must employ staff trained in housing counseling, and at least half the counselors must have at least 6 months of experience in the job they will perform in the agency's housing counseling program.

HUD's regulations at 24 CFR 214.303(g) state that for each session, the counselors must provide information on alternative services, programs, and products. Further, debt management service is to be an activity related to but separate from the housing counseling session.

HUD form 9902, frequently asked questions reference sheet, states that HUD uses the HUD 9902 numbers to justify proposed appropriations, develop proposed indicators, and report accomplishment of performance goals.

The National Foundation's agreement, article IV, A(2), states that when providing services, the grantee and its subgrantees, as applicable, shall coordinate with HUD, mortgagees, lenders, and public and private community organizations that are also working with the clients to provide maximum service to the client. They should also contact and work with the appropriate lender and HUD office to assist clients who are (i) in default on their monthly mortgage payments, (ii) being considered under the Loss Mitigation Program, or (iii) in financial difficulty or in default under a forbearance agreement.