



The Municipality of Arecibo, PR

HOME Investment Partnerships Program



Issue Date: December 3, 2013

Audit Report Number: 2014-AT-1001

TO: María Ortíz, Director, Community Planning and Development, San Juan Field Office, 4ND

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Municipality of Arecibo Did Not Properly Administer Its HOME Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Municipality of Arecibo's HOME Investment Partnerships Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



December 3, 2013

The Municipality of Arecibo Did Not Properly Administer Its HOME Program

Highlights

Audit Report 2014-AT-1001

What We Audited and Why

We audited the Municipality of Arecibo's HOME Investment Partnerships Program as part of our strategic plan based on the results of a recent audit of the Municipality's Community Development Block Grant program. The objectives of the audit were to determine whether dwelling units acquired under the home-ownership program complied with the U.S. Department of Housing and Urban Development's (HUD) housing standards and affordability requirements, whether the Municipality disbursed HOME funds within HUD-established timeframes, and reported accurate and supported information in HUD's Integrated Disbursement and Information System.

What We Recommend

We recommend that HUD require the Municipality to (1) support that it spent more than \$1 million on eligible activities, (2) remit \$26,094 in unexpended drawdowns, (3) reprogram and put to better use \$4,825 in unexpended and overstated commitments, and (4) develop and implement an internal control plan to ensure that only supported and accurate information is reported to HUD.

What We Found

The Municipality did not ensure that home-buyer acquisition-only activities met housing standards and that the principal residency requirement was met for the duration of the period of affordability. In addition, it failed to return more than \$26,000 in unexpended drawdowns to HUD and did not support the eligibility of \$30,000 in program charges. As a result, HUD had no assurance that more than \$1 million disbursed was used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

The Municipality failed to reprogram and put to better use more than \$3,900 in unexpended obligations associated with an activity that was terminated, did not report more than \$1,400 in program income, and in two activities it overstated the commitment amount by \$919. In addition, the Municipality reported other inaccurate information concerning HOME-funded activities. As a result, HUD had no assurance that the Municipality met HOME program commitment and disbursement requirements.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding 1: The Municipality Did Not Always Comply With HOME Requirements	5
Finding 2: The Municipality Did Not Have Adequate Controls Regarding Information Entered Into HUD's Information System	10
Scope and Methodology	14
Internal Controls	16
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	18
B. Auditee Comments and OIG's Evaluation	19
C. List of Activities Not Inspected	20
D. List of Activities Not Meeting Principal Residency Requirement	21
E. List of Activities With Undated Signatures and Missing Agreement Clauses	22

BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act as amended. The U.S. Department of Housing and Urban Development (HUD) allocates funds by formula to eligible State and local governments for the purpose of increasing the supply of decent, safe, sanitary, and affordable housing to low- and very low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new housing construction, and tenant-based rental assistance.

Participating jurisdictions are required to commit HOME funds within 24 months and expend them within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement.¹ In addition to the HOME program's regulatory 5-year disbursement requirement, the National Defense Authorization Act of 1991 (Public Law 101-510, dated November 5, 1990) requires that on September 30 of the fifth year after the period of availability for obligation of a fixed-appropriation account ends, the account be canceled and thereafter not be available for obligation or expenditure for any purpose.² Participating jurisdictions are required to expend, for eligible costs, HOME funds drawn down from the treasury account within 15 days. Any unexpended drawdowns must be returned to the treasury account. HUD also requires that HOME funds in the participating jurisdiction's local bank account, including program income and recaptured funds,³ be disbursed before additional grant funds are requested.

Participating jurisdictions draw down HOME funds through HUD's Integrated Disbursement and Information System (IDIS). HUD's information system is also used to monitor and track HOME commitments, program income, repayments, and recaptured funds, among other things. In addition, HUD uses the data that the participating jurisdiction provides in HUD's information system to report on the performance of the HOME program to Congress and other program stakeholders.

The Municipality of Arecibo was founded in 1616, and its governing system consists of an executive and legislative body: a mayor and 16 members of the municipal legislature elected for 4-year terms. The Municipality is the seventh largest local participating jurisdiction in Puerto Rico, for which HUD has approved more than \$1.7 million in HOME funds during the past 3 fiscal years. HUD's information system reflected HOME drawdowns exceeding \$1.28 million during the 24-month period ending December 31, 2012.

¹ For purposes of determining compliance with commitment and disbursement requirements, HUD considers the sum of commitments and expenditures from the fiscal year allocation being examined and later allocations.

² Fiscal year 2006 HOME funds that are not spent by September 30, 2013, would be subject to recapture by the United States Treasury.

³ Program income and recaptured funds may result from the resale and recapture requirements imposed by HUD and the participating jurisdiction on the participants to ensure affordability during predetermined periods, depending on the assistance amount provided.

The Municipality's Department of Municipal Development is responsible for administering the HOME program. Its books and records are maintained at Vidal Street, Arecibo, PR. We audited the Municipality's HOME program as part of the HUD Office of Inspector General's (OIG) strategic plan. The Municipality was selected for review based on the results of a recent OIG audit of the Municipality's Community Development Block Grant program.⁴

The objectives of the audit were to determine whether dwelling units acquired under the home-ownership program complied with the HUD's housing standards and affordability requirements, whether the Municipality disbursed HOME funds within HUD-established timeframes, and reported accurate and supported information in HUD's Integrated Disbursement and Information System.

⁴ Audit report number 2013 AT 1003 issued on March 22, 2013.

RESULTS OF AUDIT

Finding 1: The Municipality Did Not Always Comply With HOME Requirements

The Municipality did not ensure that home-buyer acquisition-only activities met housing standards and that the principal residency requirement was met for the duration of the period of affordability. In addition, it failed to return more than \$26,000 in unexpended drawdowns to HUD and did not support the eligibility of \$30,000 in program charges. These deficiencies occurred because the Municipality was not fully familiar with HOME requirements, followed incorrect advice from its consultant, and disregarded HUD's requirements. As a result, HUD had no assurance that more than \$1 million disbursed was used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

Property Standards Requirements Not Supported

The Municipality disbursed more than \$749,000 in HOME funds for 32 home-buyer acquisition-only activities without supporting whether the dwelling units met HOME property standards requirements in 24 CFR (Code of Federal Regulations) 92.251(a)(2). Neither the Municipality nor a party contracted by the Municipality inspected the 32 homes. The table in appendix C of this report shows the activities for which the Municipality did not have appropriate documentation supporting that homes met HUD's property standards requirements.

Contrary to HUD's requirements, the Municipality relied on inspections performed by Federal Housing Administration (FHA) appraisers. HUD's HOMEfires, volume 6, number 2, states that participating jurisdiction must perform inspections of units purchased with HOME funds. Participating jurisdictions may not rely on independent inspections performed by any party not under contract with the participating jurisdiction. Third parties such as consumer inspectors or FHA appraisers are not contractually obligated to perform the participating jurisdictions' duties. Their inspections cannot be used to determine compliance with HOME property standards requirements.

The Municipality's HOME program coordinator informed us that she was not familiar with this restriction and that she followed the advice of the Municipality's former HOME program consultant who instructed to use the FHA appraisals to document compliance with HOME property standards. Therefore, the Municipality lacked sufficient documentation to support that it used \$749,954

in HOME funds for eligible homes that met HUD's property standards requirements.

Principal Residency Requirement Not Supported

The Municipality disbursed more than \$307,000 for home-buyer acquisition-only activities without making appropriate monitoring efforts to ensure that home buyers met the HOME principal residency requirement in 24 CFR 92.254(a)(3). Two internal monitoring reports, dated February 2010 and 2012, identified 21 home-buyer activities that did not comply with HOME's primary residency requirement for the duration of the period of affordability. Appendix D provides details on the 21 activities.

Contrary to requirements in 24 CFR 92.504(a), the Municipality did not ensure that home buyers complied with all program requirements and did not take appropriate measures when performance issues arose. In eight activities, more than 3 years had elapsed since the Municipality became aware that the intended benefits had not occurred without making appropriate monitoring efforts. The Municipality's HOME program coordinator informed us that she was aware of the home-buyer activities that did not comply with the principal residency requirement and that notification letters were sent to the participants. She also stated that no further action was taken because the Municipality wanted to allow the home buyers an opportunity to sell the dwelling units. This was not an acceptable explanation for not performing an integral component of the Municipality's HOME program responsibilities. Section VII of HOME Notice 12-003 provides that it is the Municipality's responsibility to ensure that the HOME-assisted housing qualifies as affordable housing during the period of affordability. If the original home buyer no longer occupies the unit as his or her principal residence, the Municipality, as the entity responsible for the day-to-day operations of its HOME program, must repay its Investment Trust account with non-Federal funds. The Municipality did not enforce the residency requirement and did not reimburse the HOME program when they became aware of the noncompliance. Thus, the Municipality did not adequately manage these activities to ensure that \$307,537 in HOME funds disbursed met program objectives and fully provided the intended benefits.

Unexpended Drawdown Not Returned to HUD

The Municipality withdrew from its treasury account more than \$1.2 million in HOME funds between January 1, 2011, and December 31, 2012. Contrary to HUD's regulations at 24 CFR 92.502(c)(2), the Municipality failed to disburse two drawdowns totaling \$46,094 in HOME funds within 15 days. Further, it did not return \$26,094 in unexpended drawdowns to HUD. A Municipality official

informed us that she was not aware that unexpended funds had to be returned and that the Municipality planned instead to reassign the funds to another activity. Any unexpended drawdowns must be returned to the treasury account in accordance with HUD’s instructions. A HUD memorandum, dated April 5, 2011, provides additional guidance to participating jurisdictions on returning funds drawn down from the treasury account in advance or excess of need instead of revising vouchers in HUD’s information system.

The following table shows the voucher and activity number, date of drawdown, and HOME funds for the drawdowns that were not disbursed within 15 days.

Voucher number	Activity number	Amount	Date of drawdown deposit	Amount disbursed	Date of disbursement	Days elapsed between deposit and disbursement dates
5414943	1174	\$20,000	Apr. 20, 2012	\$17,190	June 8, 2012	49
				2,810	Oct. 23, 2012	186
5516527	1186	26,094	Jan. 14, 2013	0	Not disbursed	107 ⁵
Total		\$46,094		\$20,000		

Unsupported Home-Buyer Activity

The Municipality did not properly document the eligibility and assistance level of one home-buyer activity (number 1184). Regulations at 24 CFR 92.217 require that with respect to home-ownership assistance, HOME funds invested in dwelling units be occupied by households that qualify as low-income families. Therefore, the Municipality must determine whether each family is income eligible by determining the family’s annual income. Annual income must include income from all family members as required by 24 CFR 92.203(d)(1). The Municipality adopted additional requirements and procedures for determining the assistance level of the participant.

The Municipality did not verify discrepancies found associated with the income of the family. The Municipality’s HOME program coordinator informed us that she was aware of the discrepancies and they were not verified because she believed that lenders tend to overestimate the income of participants to qualify them for a mortgage loan. This was not an acceptable explanation for not performing an integral component of the Municipality’s HOME program responsibilities. As a result, HUD lacked assurance that all of the family’s annual income was considered and whether participants qualified as low-income families as required by HUD. HOME funds totaling \$30,000 disbursed for the acquisition of the dwelling unit was unsupported.

⁵ As of May 1, 2013, funds remained unexpended and had not been returned to HUD.

Conclusion

The Municipality did not implement adequate procedures and controls to ensure that it appropriately followed HUD's requirements. It did not (1) inspect properties to ensure compliance with property standards, (2) ensure that activities met the affordability requirements, (3) ensure that unexpended drawdowns were returned to HUD, and (4) properly verify the income eligibility of a participant. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

Recommendations

We recommend that the Director of the San Juan Office of Community Planning and Development

- 1A. Require the Municipality to submit appropriate inspection reports showing that the 32 home-buyer acquisition-only activities met HOME property standards requirements or reimburse its HOME program from non-Federal funds the \$719,954 disbursed.⁶
- 1B. Require the Municipality to submit all supporting documentation showing that 21 home-buyer activities met the principal residency requirement for the duration of the period of affordability or reimburse the HOME program from non-Federal funds the \$307,537 disbursed.
- 1C. Require the Municipality to return to its line of credit and put to better use \$26,094 associated with unexpended funds drawn from its treasury account.
- 1D. Require the Municipality to submit supporting documentation evidencing the income eligibility and level of assistance of the participant assisted with \$30,000 in HOME funds or reimburse the program from non-Federal funds.
- 1E. Require the Municipality to develop and implement controls and procedures to ensure that (1) HOME-funded dwelling units meet applicable property standards, (2) assisted activities meet applicable affordability requirements, (3) HOME funds are disbursed within HUD-established timeframes and unexpended drawdowns are returned to HUD, and (4) program participants' income eligibility is properly verified and determined.

⁶ Total disbursements of \$749,954 were adjusted to consider \$30,000 questioned in recommendation 1D.

- 1F. Provide training and increase monitoring of the Municipality's performance in the administration of its HOME program.

Finding 2: The Municipality Did Not Have Adequate Controls Regarding Information Entered Into HUD's Information System

The Municipality failed to reprogram and put to better use more than \$3,900 in unexpended obligations associated with an activity that was terminated, did not report more than \$1,400 in program income, and in two activities it overstated the commitment amount by \$919. In addition, the Municipality reported other inaccurate information and omitted information concerning HOME-funded activities. These deficiencies occurred because the Municipality did not properly monitor the accuracy of commitments and other information reported in HUD's information system. As a result, HUD had no assurance that the Municipality met HOME commitment and disbursement requirements.

Unexpended Commitments Not Reprogrammed

The Municipality did not reprogram and put to better use \$3,906 in unexpended obligations associated with a terminated home-buyer activity (number 1186). HUD's regulations at 24 CFR 92.205(e) provide that a HOME assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible activity. Therefore, HOME funds invested in the project must be repaid and unexpended funds deobligated. On March 14, 2013, the participant informed the Municipality that she was no longer interested in taking part in the home-buyer program. Therefore, the activity was terminated. As of May 1, 2013, the activity remained open, and unexpended obligations had not been reprogrammed. As a result, obligations in HUD's information system were overstated, and more than \$3,000 in HOME funds was not available for other eligible efforts. The Municipality should reprogram these funds and put them to better use.

Program Income and Recaptured Funds Not Reported

Contrary to HUD requirements, the Municipality did not report proceeds of \$1,473 in program income and recaptured funds in HUD's information system. HUD's regulations at 24 CFR 92.503 provide that program income, recaptured funds, and repayments received must be deposited into the participating jurisdictions' HOME account to carry out eligible activities. These receipts must be reported in HUD's information system and used before additional HOME withdrawals are made, as required at 24 CFR 92.50(c)(3). More than 6 months had elapsed since the Municipality received these funds, but it had not reported them in HUD's information system. Consequently, HUD had no assurance of the accuracy of the amount that the Municipality received and its compliance with HOME disbursement requirements.

Inaccurate Commitment Amount

HUD's information system reflected that the Municipality committed more than \$1.2 million in HOME funds (89 activities) between January 1, 2011, and December 31, 2012. We examined 15 commitments totaling more than \$290,000. The Municipality reported inaccurate commitment amounts in 5 of the 15 commitments reviewed. Three activities had understated commitments, and in two the committed amounts were overstated by \$919.⁷ The overstated commitments were unsupported, and the Municipality must deobligate the funds and put them to better use for other eligible activities.

Activity number	Committed amount in HUD's information system	Amount per agreement	Understated commitment	Overstated commitment
1161	\$7,440	\$7,445	\$5	
1162	\$8,467	\$8,473	\$6	
1163	\$8,643	\$8,649	\$6	
1160	\$8,932	\$8,925		\$7
1207	\$6,036	\$5,124		\$912

Inaccurate Commitment Date

The Municipality reported in HUD's information system 9 commitments of more than \$159,000 between 5 and 64 days after the grant agreement was executed. Therefore, the actual commitment data were entered into HUD's information system with delays and inaccurate commitment dates.⁷

Activity number	Committed amount	Funding date	Grant agreement date	Days elapsed between agreement and funding dates
1172	\$30,000	Feb. 3, 2012	Dec. 1, 2011	64
1202	5,694	Aug. 16, 2012	June 26, 2012	51
1161	7,440	Jan. 12, 2012	Dec. 14, 2011	29
1160	8,932	Jan. 12, 2012	Dec. 15, 2011	28
1163	8,643	Jan. 12, 2012	Dec. 15, 2011	28
1162	8,467	Jan. 12, 2012	Dec. 15, 2011	28
1219	30,000	Mar. 11, 2013	Feb. 21, 2013	18
1184	30,000	Apr. 9, 2012	Mar. 30, 2012	10
1182	30,000	Mar. 26, 2012	Mar. 21, 2012	5
Total	\$159,176			

⁷ HOMEfires, volume 2, number 5, states that HUD requires reliable IDIS information for various purposes, including reporting to Congress, monitoring financial information, tracking program performance, and identifying grantee and program needs. The reliability of the HOME IDIS data centers on participating jurisdictions reviewing, updating, and correcting their HOME program information.

Other Deficiencies

The Municipality did not comply with additional HUD requirements when committing HOME funds.

Undated signatures in agreements - The Municipality did not implement adequate controls by not requiring that the signatures of all parties be dated in 12 written agreements reviewed to show the execution date as required by HUD in section VII of HOME Notice 07-06. As a result, HUD had no assurance of the actual commitment date and Municipality's compliance with HUD's commitment requirements.

Missing agreement clauses - The Municipality did not ensure that five grant agreements reviewed included the following clauses required by HUD at 24 CFR 92.504(c)(5) and 92.254(a)(3) for home-buyer activities:

- Value of property to be acquired,
- Principal residency requirement,⁸
- Period of affordability,⁸ and
- Resale or recapture provisions.⁸

The table in appendix E of this report shows the activities for which the Municipality did not require that signatures of all parties in written agreements be dated and that agreements contain all HUD-required clauses.

Inadequate Monitoring

The Municipality did not properly monitor the accuracy of commitments and other information reported in HUD's information system. The Municipality's HOME program coordinator informed us that the most recent reconciliation between HUD's information system and its records was performed in 2008. In addition, the Municipality did not have written procedures providing guidance to its personnel regarding the monitoring of information reported to HUD and establishing responsibility among its personnel. Therefore, the Municipality had not established and implemented a system to verify the accuracy of data reported to HUD on a regular basis.

Conclusion

Because the Municipality did not properly monitor, it did not ensure the accuracy of commitments and other information entered into HUD's information system. There was no assurance that the Municipality met HUD commitment and

⁸ The clause was included in the mortgage note but not in the grant agreement.

disbursement requirements. The inaccurate data compromised the integrity of HUD's information system and the degree of reliability HUD could place on the data for monitoring commitments and compiling national statistics on the HOME program.

Recommendations

We recommend that the Director of the San Juan Office of Community Planning and Development require the Municipality to

- 2A. Deobligate and put to better use \$3,906 in unexpended commitments associated with the terminated activity.
- 2B. Correct any inaccurate information in HUD's information system, including but not limited to the receipt of \$1,473, associated with program income and recaptured funds not reported, and inaccurate commitment amounts and dates.
- 2C. Deobligate and put to better use \$919 in overstated commitments.
- 2D. Develop and implement controls and procedures to ensure that (1) accurate information on HOME-funded activities is reported in HUD's information system in a timely manner, (2) program income and recaptured funds are properly reported, and (3) grant agreements contain all HUD-required clauses and signatures are properly dated.

SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether dwelling units acquired under the home-ownership program complied with the U.S. Department of Housing and Urban Development's (HUD) housing standards and affordability requirements, whether the Municipality disbursed HOME funds within HUD-established timeframes, and reported accurate and supported information in HUD's Integrated Disbursement and Information System.

To accomplish our objectives, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements;
- Interviewed HUD and Municipality officials;
- Obtained an understanding of and reviewed the Municipality's controls and procedures related to our objectives;
- Reviewed monitoring, independent public accountant, and HUD's information system reports;
- Reviewed the Municipality's files and records, including grant agreements and bank statements; and
- Traced information reported in HUD's information system to the Municipality's records, including grant agreements, program income and recaptured funds receipts, and disbursement records.

We reviewed a sample of transactions based on the dollar amount, and/or on nature of the expenditure; examining 100 percent of the transactions were not feasible. All of the transactions associated with property standards and program income were reviewed because of the small size of the universe. The results of the audit apply only to the items selected and cannot be projected to the universe or population.

HUD's information system reflected that the Municipality committed more than \$800,000 in HOME funds between January 1, 2011, and December 31, 2012, associated with 36 home-buyer acquisition-only activities. We selected all of these activities for review. We reviewed one additional activity with a funding date of March 11, 2013, because of the large amount committed. The 37 activities were reviewed to determine whether the Municipality performed the required inspections to ensure that the dwelling unit was eligible and complied with HOME's property standards requirements.

The Municipality issued two monitoring reports in February 2010 and 2012. The reports identified 23 home-buyer activities that did not comply with HUD's principal residency requirement for the duration of the period of affordability. For these activities, the Municipality

disbursed \$324,895 in HOME funds. We reviewed the 23 activities to determine whether the Municipality made proper monitoring efforts to ensure that activities met program objectives and fully provided the intended benefits.

HUD's information system reflected that the Municipality drew down from its treasury account more than \$1.2 million (758 withdrawals) in HOME funds between January 1, 2011, and December 31, 2012. We reviewed all 21 withdrawals greater or equal to \$20,000 totaling more than \$550,000. We also reviewed a withdrawal of \$26,094 made on January 10, 2013. A total of 22 withdrawals totaling more than \$580,000 were reviewed to determine whether the Municipality expended HOME funds within HUD-established timeframes.

HUD's information system reflected that the Municipality committed more than \$1.2 million in HOME funds between January 1, 2011, and December 31, 2012, associated with 89 activities. We reviewed the seven highest commitments of the home-buyer and tenant-based rental assistance activities in 2012. The sample resulted in 14 activities with commitments totaling more than \$260,000. We reviewed one additional activity totaling \$30,000 that was committed out of our audit period. We reviewed these 15 activities to determine whether the information the Municipality reported to HUD, including commitments, was accurate and supported.

The Municipality's records showed that between October 7, 2010, and December 4, 2012, it received program income and recaptured funds in the amount of \$23,058. We reviewed all of the receipts to determine whether funds were properly reported in HUD's information system.

To achieve our audit objectives, we relied in part on computer-processed data contained in HUD's information system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data adequate for our purposes. We did not rely on computer-processed data contained in the Municipality's database.

The audit generally covered the period January 1, 2011, through December 31, 2012, and we extended the period as needed to accomplish our objectives. We conducted our fieldwork from February through July 2013 at the Municipality's offices in Arecibo, PR.

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

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 objectives:

- Program operations - Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Relevance and reliability of information - Policies and procedures that officials of the audited entity have implemented to provide themselves with reasonable assurance that operational and financial information that they use for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws, regulations, contracts, and grant agreements - Policies and procedures that the audited entity has implemented to provide reasonable assurance that program implementation complies with provisions of laws, regulations, contracts, and grant agreements.
- Safeguarding of assets and resources - Policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Municipality did not implement adequate controls and procedures to ensure that (1) home-buyer acquisition-only activities met property standards and affordability requirements, (2) funds were disbursed within HUD-established timeframes, and (3) the eligibility of program charges was supported (see finding 1).
- The Municipality did not implement adequate controls and procedures to ensure that accurate information on HOME activities was reported to HUD (see finding 2).

APPENDIXES

Appendix A

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

<u>Recommendation number</u>	<u>Unsupported 1/</u>	<u>Funds to be put to better use 2/</u>
1A	\$719,954	
1B	307,537	
1C		\$26,094
1D	30,000	
2A		3,906
2C		919
Total	<u>\$1,057,491</u>	<u>\$30,919</u>

- 1/ 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.
- 2/ 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. In this instance, if the Municipality implements recommendations 1C, 2A, and 2C, funds will be available for other eligible activities consistent with HOME requirements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

The Municipal Development Department director informed us that the Municipality was not going to submit a written response to the audit report and recommendations. Therefore, the report was issued without auditee comments and OIG's evaluation.

Appendix C

LIST OF ACTIVITIES NOT INSPECTED

Activity number	Funding date	Amount
1096	Feb. 23, 2011	\$20,000
1099	Mar. 30, 2011	30,000
1100	Mar. 30, 2011	20,000
1103	Apr. 28, 2011	30,000
1104	Apr. 28, 2011	20,000
1105	Apr. 28, 2011	30,000
1107	May 4, 2011	30,000
1112	May 20, 2011	30,000
1135	Aug. 19, 2011	19,645
1136	Aug. 19, 2011	29,258
1142	Sept. 19, 2011	30,000
1143	Sept. 23, 2011	30,000
1157	Dec. 8, 2011	29,176
1158	Dec. 19, 2011	20,000
1159	Jan. 11, 2012	12,238
1165	Jan. 27, 2012	19,127
1169	Feb. 3, 2012	20,000
1170	Feb. 3, 2012	19,298
1171	Feb. 3, 2012	10,453
1172	Feb. 3, 2012	30,000
1173	Feb. 3, 2012	17,040
1174	Feb. 10, 2012	17,190
1178	Feb. 14, 2012	29,296
1181	Mar. 20, 2012	20,000
1183	Mar. 29, 2012	29,684
1184	Apr. 9, 2012	30,000
1185	Mar. 29, 2012	20,000
1187	Apr. 23, 2012	30,000
1204	Aug. 27, 2012	11,790
1206	Oct. 29, 2012	20,000
1212	Nov. 29, 2012	15,759
1219	Mar. 11, 2013	30,000
Total		\$749,954

Appendix D

LIST OF ACTIVITIES NOT MEETING PRINCIPAL RESIDENCY REQUIREMENT

Activity number	Affordability period	Affordability period end date	Amount	Monitoring report date
11	20 years	June 29, 2013	\$5,000	Feb. 2012
17	20 years	Nov. 10, 2013	18,721	Feb. 2012
18	20 years	Nov. 10, 2013	18,721	Feb. 2012
20	20 years	Nov. 10, 2013	18,721	Feb. 2012
34	20 years	July 5, 2014	14,400	Feb. 2012
35	20 years	Sept. 19, 2014	5,600	Feb. 2012
45	20 years	July 5, 2014	5,000	Feb. 2012
88	30 years	Apr. 30, 2026	9,153	Feb. 2012
89	30 years	Apr. 30, 2026	9,746	Feb. 2012
483	10 years	Mar. 26, 2012	15,000	Feb. 2012
653	10 years	Nov. 12, 2014	20,000	Feb. 2010
654	10 years	Aug. 19, 2014	19,485	Feb. 2010
778	10 years	Mar. 29, 2016	9,407	Feb. 2010
793	10 years	July 19, 2016	18,583	Feb. 2010
795	10 years	Aug. 29, 2017	30,000	Feb. 2010
819	10 years	Oct. 19, 2016	20,000	Feb. 2010
Not available ⁹	10 years	Mar. 31, 2010	15,000	Feb. 2010
Not available ⁹	10 years	July 6, 2010	15,000	Feb. 2010
Not available ⁹	10 years	Apr. 1, 2013	20,000	Feb. 2010
Not available ⁹	10 years	May 19, 2010	15,000	Feb. 2010
Not available ⁹	20 years	July 2, 2013	5,000	Feb. 2012
Total			\$307,537	

⁹The activity was part of a global payment for several home buyer activities. The Municipality records did not contain sufficient information to trace the individual activity in HUD's information system.

Appendix E

LIST OF ACTIVITIES WITH UNDATED SIGNATURES AND MISSING AGREEMENT CLAUSES

Activity number	Undated signatures in agreement	Missing agreement clauses
1160	X	
1161	X	
1162	X	
1163	X	
1172	X	X
1184	X	X
1187	X	X
1202	X	
1207	X	
1212	X	X
1213	X	
1219	X	X
Total	12	5