
# Office of Community Planning and Development, Washington, DC

## HOME Investment Partnerships Program Matching Requirements

**Office of Audit, Region 7**
**Kansas City, KS**

**Audit Report Number: 2015-KC-0002**
**August 11, 2015**

**To:** Harriet Tregoning, Principal Deputy Assistant Secretary for Community Planning and Development, D

//**signed**//

**From:** Ronald Hosking, Regional Inspector General for Audit, 7AGA

**Subject:** The Office of Community Planning and Development's Reviews of Matching Contributions Were Ineffective and Its Application of Match Reductions Was Not Always Correct

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 Office of Community Planning and Development's administration of the HOME Investment Partnerships Program's matching requirements.

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 8M, 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 913-551-5870.

**Audit Report Number: 2015-KC-0002**
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**The Office of Community Planning and Development's Reviews of Matching Contributions Were Ineffective and Its Application of Match Reductions Was Not Always Correct**

# Highlights

## What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development's (CPD) administration of the HOME Investment Partnerships Program's matching requirements to determine whether CPD effectively reviewed participating jurisdictions' match logs and the support for their match contributions and whether it applied the correct match reductions in fiscal year 2013. We selected this audit because of the results of recent external audits (2014-SE-1003, 2013-SE-1001, 2012-SE-1003) in HUD's Region 10 (Alaska, Idaho, Oregon, and Washington) and to address congressional interest in improving the efficiency of the HOME program.

## What We Found

CPD did not always enforce the HOME requirement that participating jurisdictions maintain sufficient and supported match logs. As a result, not all participating jurisdictions maintained match logs or support for their match contributions.

CPD applied incorrect match reductions for 63 participating jurisdictions in fiscal year 2013. As a result, it improperly waived almost $1.7 million in match liabilities for 18 participating jurisdictions and required 42 to provide almost $8.1 million more match than necessary.

Although we found incomplete match logs, unsupported match contributions, and incorrect match reductions, there was no appreciable impact on the HOME grant funds. Therefore, we are not claiming any monetary benefits.

## What We Recommend

We recommend that CPD (1) issue guidance to help participating jurisdictions accurately report the amount of match contributed and consumed; (2) include monitoring of HOME match during its performance reviews to ensure that match contributions exist, are eligible, and are supported; (3) require the 10 jurisdictions that overstated their excess match balances to remove the overstated amounts from their reported HOME match carry-forward balances; (4) create and implement policies and procedures specifying the process for assigning match reductions; (5) begin using the poverty rate instead of the family poverty rate for determining eligible fiscal match reductions; (6) use the national average for per capita income reported by the U.S. Census Bureau for determining eligible fiscal match reductions; and (7) review the reductions assigned in HUD's systems by pulling a report of all match liabilities and comparing that report to the calculated reductions.

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# Background and Objectives

The HOME Investment Partnerships Program creates affordable housing for low-income households by providing formula grants to States and localities. Communities use these grants – often in partnership with local nonprofit groups – to fund a wide range of activities, including building, buying, or rehabilitating affordable housing for rent or home ownership or providing direct rental assistance to low-income people.

Each jurisdiction participating in the HOME program must make contributions to HOME-qualified housing in an amount equal to 25 percent of the HOME funds drawn down for housing projects. These contributions are referred to as "match." A jurisdiction incurs a match liability each fiscal year based on the amount of HOME funds drawn down from its U.S. Treasury account. In each fiscal year, a jurisdiction must make eligible matching contributions in an amount that equals the match liability incurred during that fiscal year. Matching contributions made in excess of the match liability may be carried forward as match credit toward meeting the match liability incurred in future years.

For the HOME program, participating jurisdictions rely on the match liability amounts applied in HUD's Integrated Disbursement and Information System (IDIS) when determining how much match they need to provide. IDIS is HUD's draw down and reporting system for the HOME program. It provides HUD with current information regarding the program activities underway across the Nation, which it uses to report to Congress and to monitor grantees. It also provides grantees information for their consolidated planning.

Each participating jurisdiction must maintain a running log and project records documenting the type and amount of match contributions by project. This match log should serve as the basis for reporting match contributions to the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development (CPD) as part of the jurisdiction's consolidated annual performance and evaluation report.

CPD may reduce the matching requirements for participating jurisdictions that are either in fiscal distress or located in a major disaster area. Specific regulations describe the conditions that must exist for a match reduction of 50 percent or 100 percent to be awarded. For local governments, the fiscal distress level is based on the average poverty rate and the average per capita income. The average personal income growth rate is a third factor applicable to State governments. If a participating jurisdiction is located in a disaster area, it may request a reduction of its matching requirement, and CPD may reduce it by up to 100 percent. Both fiscal and disaster reductions remain in place for the fiscal year in which the determination is made and for the following fiscal year. At its discretion and upon request of the participating jurisdiction, the HUD field office may extend the disaster reduction for an additional year.

Our objectives were to determine whether CPD effectively reviewed participating jurisdictions' match logs and the support for their match contributions and whether it applied the correct match reductions in fiscal year 2013.

# Results of Audit

## Finding 1: CPD's Reviews of Matching Contributions Were Ineffective

CPD did not always enforce the HOME requirement that participating jurisdictions maintain sufficient and supported match logs. This condition occurred because CPD did not consider noncompliance with HOME match requirements to be a significant risk to the program. As a result, not all participating jurisdictions maintained match logs or support for their match contributions.

### Match Reports Not Always Reviewed

CPD did not always review match reports for completeness, eligibility, and accuracy. CPD is required by 24 CFR (Code of Federal Regulations) 92.550 to review the records of jurisdictions participating in the HOME program to ensure that the jurisdictions have met the matching requirements. While HUD has review requirements for other programs with matching requirements, CPD did not instruct field offices to review HOME match. It did not expect them to focus on match unless something had been flagged in a previous review.

The applicable requirements are included in appendix B.

### Match a Low Priority

CPD indicated that match contributions did not play an important role in fulfilling the HOME program's mission. Instead, the more important issue to CPD was leverage. Leverage refers to all outside funds and services contributed to a HOME project. However, most leverage, such as owner equity contributions or market-rate bank loans, is not eligible as match. CPD said that leverage increased the power of HOME funding, while match was only a statutory requirement that must be documented by the participating jurisdictions. Therefore, compared to income targeting, affordability, and the acceptable use of grant funds, match contributions were a lower priority in CPD's risk assessment.

### Inadequate Match Documentation

Not all participating jurisdictions maintained match logs or support for their match contributions. These issues included

- Having insufficient logs or no logs,
- Not identifying all contributions in their carry-forward balance,
- Including nonexistent contributions in their carry-forward balance, and
- Not fully supporting their match contributions.

Of the 20 jurisdictions sampled, 13 had logs that insufficiently tracked their match contributions, while 6 did not maintain a match log. We considered a log to be sufficient if it could identify the specific match contributions that made up the carry-forward balance. Only one jurisdiction sampled kept such a log, but this was because it had not had a match liability and not needed to subtract from its running list of match contributions.

Four jurisdictions could not identify all of the contributions in their carry-forward balances. They were not able to provide us with records dating back far enough to include their entire balances. Therefore, they could not support more than $175.4 million of their match carry-forward balances. Without this information, we could not identify the match contributions associated with 2 of the 28 monetary units statistically selected, and they could not be reviewed.

Eight jurisdictions had nonexistent contributions included in their carry-forward balances. Based on the information available at some jurisdictions, we had to use their match reports to build a log that would reconcile to the reported carry-forward balance amount included in the sample universe. When filling out their annual match reports, some jurisdictions took the ending balance from the previous year and entered it as the beginning balance of the next year. We discovered, however, that some jurisdictions had a beginning balance that exceeded the ending balance on the previous year's report. Once this mistake was made, that excess amount became part of the carry-forward balance, although it was not related to a real match contribution. Nonexistent contributions such as these totaled more than $61.6 million and included 1 of the 28 sample items that could not be reviewed.

Of the 25 match contributions reviewed, 9 were not fully supported. As noted above, 3 of the 28 sampled monetary units were associated with contributions that could not be identified or did not exist. The 25 contributions reviewed represented more than $293.5 million in match contributions, of which more than $54.3 million was unsupported.

Appendix C lists the jurisdictions that overstated their match balances due to the issues noted above.

### Recommendations

We recommend that the Deputy Assistant Secretary for Grants Programs

1A. Issue guidance to help participating jurisdictions accurately report the amount of match contributed and consumed.

1B. Include monitoring of HOME match during its performance reviews to ensure that match contributions exist, are eligible, and are supported.

1C. Require the 10 jurisdictions that overstated their excess match balances to remove the overstated amounts from their reported HOME match carry-forward balances.

## Finding 2: CPD's Application of Match Reductions Was Not Always Correct

CPD applied incorrect match reductions for 63 participating jurisdictions in fiscal year 2013. This condition occurred because CPD based its decisions on the wrong information and lacked policies and procedures for assigning and reviewing match reductions. As a result, CPD improperly waived almost $1.7 million in match liabilities for 18 participating jurisdictions and required 42 to provide almost $8.1 million more match than necessary.

### Incorrect Match Reductions

CPD did not apply the correct match reductions as defined by 24 CFR 92.222 for 63 participating jurisdictions in 2013. Errors included using the incorrect poverty rate, using the incorrect national per capita income, failing to award higher reduction rates for the second applicable year, and entering incorrect reductions into HUD's Integrated Disbursement and Information System (IDIS). The applicable requirements are included in appendix B.

<u>Incorrect Poverty Rate</u>

CPD used the family poverty rate instead of the average poverty rate. According to 24 CFR 92.222, eligibility for a match reduction is based on the average poverty rate as determined by the U.S. Census Bureau. CPD, however, used the family poverty rate, which applied the wrong reduction to 43 participating jurisdictions.

<u>Incorrect Per Capita Income</u>

CPD used the incorrect national average for per capita income. The regulations state that participating jurisdictions with a per capita income of less than 75 percent of the average national per capita income are entitled to a match reduction. In 2013, CPD used a different figure as its threshold, which affected the match reductions of two jurisdictions.

<u>Incorrect Second-Year Reduction Rates</u>

CPD did not apply higher reduction rates from fiscal year 2012 to 2013. Match reductions are effective for the fiscal year in which they are made and for the following fiscal year. Therefore, if a jurisdiction qualified for a full match reduction in 2012 but not in 2013, that full reduction would still apply in 2013. However, CPD did not properly carry these higher reductions forward for two jurisdictions.

<u>Incorrect IDIS Reductions</u>

CPD entered incorrect reductions into IDIS. Participating jurisdictions rely on the match liability amounts applied in IDIS when determining how much match they need to provide. We found 14 instances in which CPD determined the correct match reduction levels but the reduction levels shown in IDIS were wrong.

### Incorrect Information and Lack of Policies and Procedures

CPD based its decisions on the wrong information and lacked policies and procedures for assigning and reviewing match reductions.

Incorrect Information

CPD had family poverty rate data and did not believe using it in place of poverty rate data would make a difference in the reduction amounts. The family poverty rate is one of the factors in the HOME allocation formula. While it was aware of the difference in the requirements, CPD decided to use the family poverty rate instead of obtaining poverty rate data.

In addition, CPD incorrectly calculated the national per capita income instead of relying on the national average identified by the U.S. Census Bureau. CPD calculated its per capita income threshold based on a weighted average of the per capita incomes of the States, which should equal the national average reported by the U.S. Census Bureau. However, it did not include the per capita income for one Pennsylvania county in its calculation. This error threw off the State's per capita income amount and, by extension, the calculated national average amount as well.

No Policies and Procedures

CPD lacked policies and procedures specifying the process for assigning match reductions. There were no written policies and procedures related to retrieving, evaluating, or entering the data into IDIS. Instead, the general program requirements at 24 CFR 92.222 were used to guide CPD's process.

CPD also lacked review policies and procedures to ensure that the calculated match reductions were correctly assigned. Despite not having written policies and procedures, CPD staff reviewed the reductions that were calculated and confirmed that the conclusions were correct but did not verify the accuracy of the calculations. CPD did not conduct routine checks or periodic audits of IDIS match reduction levels to ensure that they equaled those that were calculated.

## Improperly Waived and Overrequired Match

CPD improperly waived almost $1.7 million in match liabilities for 18 participating jurisdictions and required 42 to provide almost $8.1 million more match than necessary, as summarized by cause in the table below. Three of the 63 jurisdictions drew no HOME funds requiring match in 2013 so there was no impact. For a list of the affected jurisdictions and the size of the impact on each, see appendix D.

| Issue | Improperly waived | | Overrequired | | Absolute effect |
|---|---|---|---|---|---|
| Wrong poverty rate | 14 | $1,104,268 | 29 | $2,268,642 | $3,372,910 |
| Proper waiver not carried forward | | | 2 | $218,996 | $218,996 |
| Wrong per capita income threshold | | | 2 | $92,557 | $92,557 |
| Data entry errors | 4 | $643,563 | 10 | $5,550,291 | $6,193,854 |
| **Subtotal** | **18** | **$1,747,831** | **43** | **$8,130,486** | **$9,878,317** |
| Overlapping issues[1] | | $(58,890) | -1 | $(58,890) | $(117,780) |
| **Net impact** | **18** | **$1,688,941** | **42** | **$8,071,596** | **$9,760,537** |

## Recommendations

We recommend that the Deputy Assistant Secretary for Grants Programs

2A. Create and implement policies and procedures specifying the process for assigning match reductions.

2B. Begin using the poverty rate instead of the family poverty rate for determining eligible fiscal match reductions.

2C. Use the national average for per capita income reported by the U.S. Census Bureau for determining eligible fiscal match reductions.

2D. Review the reductions assigned in IDIS by pulling a report of all match liabilities from IDIS and comparing that report to the calculated reductions.

[1] For one jurisdiction, the wrong match liability was the result of two separate issues that had opposite effects on the size of its match reduction. While these two errors had an absolute impact of $176,670, they combined for only $58,890 in improperly waived match. This correction is presented in the table above to reconcile the impact of the individual issues to their net impact on the affected jurisdictions.

# Scope and Methodology

Our review period generally covered October 1, 2011, through September 4, 2014, and was expanded as needed. We performed our work from September 2014 through March 2015 at the HUD OIG Office of Audit in Seattle, WA, the State of California's office in Sacramento, CA, and HUD's headquarters in Washington, DC.

To accomplish our objectives, we performed the following review steps:

- Reviewed match requirements.
- Interviewed CPD staff and obtained additional information about its processes.
- Pulled nationwide data from the U.S. Census Bureau and reperformed CPD's match reduction calculations.
- Compared the match liabilities required by the recalculated match reductions to those required by CPD.
- Gathered the most recent match reports from HUD field offices for all participating jurisdictions reporting a carry-forward balance.
- Obtained a copy of the sampled jurisdictions' match logs and reports as necessary.
- Evaluated the quality of the match logs covering the sampled contributions and determined whether they were sufficient.
- Reconciled sampled contributions from the match log to supporting documentation.

### Sample Selection

We selected the sample using statistical sampling methods; however, we completed the initial survey of only 28 monetary units so we did not project the results.

The universe for this audit was the more than $8.75 billion in match carry-forward balances that were reported to HUD as contributed and available for future use as match funds in a HOME-funded project. These funds were contributed by 543 jurisdictions, which had positive, non-zero amounts reported as available for future use in matching Federal funds. This audit universe was divided into two domains to allow separate analysis of jurisdictions with larger match balances compared to the rest of the country. The first domain covered the jurisdictions of New York, NY, the State of Massachusetts, Prince Georges County, MD, the State of Georgia, the State of California, and Phoenix, AZ. The second domain was made up of the remaining 537 jurisdictions in the country that had reported available match.

We sampled the match balances using monetary unit sampling. Without information about the size of individual transactions, we stacked all dollars in the universe together and sampled individual dollars at even intervals within each of the two domains. Jurisdictions were ordered in each domain according to the amount of match contributed. Intervals were estimated as needed to sample 125 dollar points, and a random start point was selected for each domain using a random number generator for uniform distributions. A separate sample of 125 dollar points was selected for each domain, from which an initial survey of 14 records was selected for each domain.

We did not rely on computer-processed data as the basis for our conclusions.  We verified the reported information using supporting documentation.

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 objective(s).  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:

- Policies and procedures implemented for reviewing participating jurisdictions' match logs and support for their match contributions.
- Policies and procedures implemented for applying the correct match reductions.

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:

- CPD lacked controls to effectively enforce the HOME requirement that participating jurisdictions maintain sufficient and supported match logs (finding 1).
- CPD lacked policies and procedures for assigning and reviewing match reductions (finding 2).

# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

| Ref to OIG Evaluation | Auditee Comments |
|---|---|

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

JUL 2 4 2015

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, Seattle Region, 0AGA

for

FROM: Virginia Sardone, Director Office of Affordable Housing Programs, DGH

SUBJECT: Response to Discussion Draft Audit Report - HOME Match

This memorandum is in response to the Discussion Draft Audit Report – HOME Match, dated June 24, 2015. The Office of Affordable Housing Programs (OAHP) is generally in agreement with the results of the audit work performed by the Seattle Regional Inspector General's Office.

Comment 1

One overarching comment is that the audit assumes that the Office of Affordable Housing Programs (OAHP) performs or is responsible for all of the functions related to HOME match that are outlined in the Discussion Draft Audit Report. This is not the case. While OAHP develops policy, technical assistance and compliance materials related to match, the Systems Development and Evaluation Division in Community Planning and Development (CPD) Headquarters is responsible for match reduction calculations and the CPD Field Offices, which report to CPD's Office of Field Management, are responsible for reviewing match reports and conducting compliance monitoring reviews of HOME participating jurisdictions (PJs). In recognition of these organizational responsibilities, we recommend that you replace "OAHP" with "CPD" throughout the Audit Report and issue the report to the Principal Deputy Assistant Secretary for CPD.

Specifically, the audit report found that OAHP did not always enforce the HOME requirement that PJs maintain sufficient and supported match logs. As a result, not all PJs maintained match logs or support for their match contributions. The Report also found that OAHP applied incorrect match reductions for 63 PJs in fiscal year 2013. As a result, it improperly waived almost $1.7 million in match liabilities for 18 PJs and required 42 to provide almost $8.1 million more match than necessary. In addition, during the course of the audit, OIG found incomplete match logs, unsupported match contributions, and incorrect match reductions, but determined that there was no appreciable impact on the HOME grant funds and, therefore, are not claiming any monetary benefits.

Finding 1: OAHP's Reviews of Matching Contributions Were Ineffective

OAHP did not always enforce the HOME requirement that participating jurisdictions maintain sufficient and supported match logs. This condition occurred because OAHP did not consider noncompliance with HOME match requirements to be a significant risk to the program.

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| Ref to OIG Evaluation | Auditee Comments |
|---|---|
| | As a result, not all participating jurisdictions maintained match logs or support for their match contributions. OIG's audit work determined that Match Reports were not always reviewed by CPD, match is considered a low priority among the many requirements of the HOME program, and that many PJs had inadequate match documentation.<br><br>Recommendations<br><br>OIG recommended that the Deputy Assistant Secretary for Grants Programs:<br><br>1A. Issue guidance to help participating jurisdictions accurately report the amount of match contributed and consumed.<br>1B. Include monitoring of HOME match during its performance reviews to ensure that match contributions exist, are eligible, and are supported.<br>1C. Require the 10 jurisdictions that overstated their excess match balances to remove the overstated amounts from their reported HOME match carry-forward balances.<br><br>HUD Response |
| Comment 1 | Finding 1 and Recommendations A-C should be directed to CPD and not OAHP. CPD agrees that additional guidance on HOME match requirements would be helpful to HOME PJs (Recommendation 1A). CPD also agrees that PJs that overstated their excess match and carried it forward should correct those amounts (Recommendation 1C). However, CPD does not agree that HOME match should be included during its monitoring reviews to ensure that match contributions exist, are eligible, and are supported to a greater extent than currently occurs. CPD monitors a limited number of HOME PJs each year based on its annual risk analysis conducted by CPD Field Offices. |
| Comment 2 | The time spent on site at each PJ is extremely limited in comparison to the number of requirements that must be reviewed. To the extent that HOME match is monitored, that means other, high priority program requirements cannot be reviewed. These priority compliance reviews include income targeting, long-term affordability, and the eligible use of HOME funds. Consequently, CPD requests that OIG change Recommendation 1B to a more appropriate recommendation that does not include increased monitoring of HOME match without increased resources to perform the monitoring. CPD suggests a recommendation that it provide improved CAPER review procedures, to include a mandatory review of the HOME Match Report by CPD Field Office staff. In addition, CPD suggests providing guidance to CPD Field Office staff on how to review the Match Report and how to identify and address errors or potential non-compliance as a result of the review.<br><br>Finding 2: OAHP's Application of Match Reductions Was Not Always Correct<br><br>OIG found that OAHP applied incorrect match reductions for 63 participating jurisdictions in fiscal year 2013. It determined this condition occurred because OAHP based its decisions on the wrong information and lacked policies and procedures for assigning and reviewing match reductions. According to OIG calculations, OAHP improperly waived almost $1.7 million in match liabilities for 18 participating jurisdictions and required 42 to provide almost $8.1 million more match than necessary. OIG's audit work determined that OAHP did not apply the correct match reductions as defined by 24 CFR 92.222:it used the incorrect poverty rate, the incorrect national per capita income, it failed to award higher reduction rates for the second applicable year, and entered |

| Ref to OIG Evaluation | Auditee Comments |
|---|---|
| | incorrect reductions into IDIS. OIG also determined there was incorrect information and lack of policies and procedures because OAHP based its decisions on the wrong information and lacked policies and procedures for assigning and reviewing match reductions.<br><br>Recommendations<br><br>OIG recommended that the Deputy Assistant Secretary for Grants Programs:<br>2A. Create and implement policies and procedures specifying the process for assigning match reductions.<br>2B. Begin using the poverty rate instead of the family poverty rate for determining eligible fiscal match reductions.<br>2C. Use the national average for per capita income reported by the U.S. Census Bureau for determining eligible fiscal match reductions.<br>2D. Review the reductions assigned in IDIS by pulling a report of all match liabilities from IDIS and comparing that report to the calculated reductions.<br><br>HUD Response |
| Comment 1 | Finding 2 and Recommendations A-D should be directed to CPD and not OAHP. CPD agrees that it should develop policies and procedures specifying the process for assigning match reductions. It also agrees that it should begin using "poverty rate" instead of the "family poverty rate" for determining eligible fiscal match reductions. , This change should be phased in so that it does not adversely affect PJs that were receiving a match reduction under "family poverty rate", but will no longer receive a reduction under "poverty rate." CPD also agrees to use the national average for per capita income reported by the U.S. Census Bureau for determining eligible fiscal match reductions. Finally, CPD thinks it will be beneficial to review the reductions assigned in IDIS by reviewing IDIS data identifying all match liabilities and comparing that data to the calculated reductions that are posted annually on HUD Exchange.<br><br>If you have any questions regarding the CPD response outlined in this memorandum, please do not hesitate to contact me or Peter Huber, Director, Financial and Information Services Division, Office of Affordable Housing Programs. |

## OIG Evaluation of Auditee Comments

Comment 1 We agree that the report should refer to the broader Office of Community Planning and Development (CPD) instead of the specific Office of Affordable Housing Programs (OAHP). Consequently, we made changes to the audit report to address this comment.

Comment 2 The recommendations suggested by the auditee, if implemented, should expose some of the issues we noted during our review and would be constructive steps toward addressing Recommendation 1B. However, reviewing the HOME Match Reports alone would not uncover all of the issues identified in this finding. While we do not expect CPD Field Office staff to review each and every HOME match contribution, some additional measures should be implemented that could uncover unsupported contributions in future performance reviews. Therefore, we have left Recommendation 1B unchanged.

# Appendix B

## Criteria

**24 CFR 92.222 – Reduction of matching contribution requirement**

a) *Reduction for fiscal distress*. HUD will determine match reductions annually.

1) *Distress criteria for local government participating jurisdictions*. If a local government participating jurisdiction satisfies both of the distress factors in paragraphs (a)(1)(i) and (ii) of this section, it is in severe fiscal distress and its match requirement will be reduced by 100% for the period specified in paragraph (a)(3) of this section. If a local government participating jurisdiction satisfies either distress factor in paragraphs (a)(1)(i) or (ii) of this section, it is in fiscal distress and its match requirement will be reduced by 50 percent, for the period specified in paragraph (a)(4) of this section.

i) *Poverty rate*. The average poverty rate in the participating jurisdiction was equal to or greater than 125 percent of the average national poverty rate during the calendar year for which the most recent data are available, as determined according to information of the Bureau of the Census.

ii) *Per capita income*. The average per capita income in the participating jurisdiction was less than 75 percent of the average national per capita income, during the calendar year for which the most recent data are available, as determined according to information from the Bureau of the Census.

2) *Distress criteria for participating jurisdictions that are States*. If a State satisfies at least 2 of the 3 distress factors in paragraphs (a)(2)(i) through (iii) of this section, it is in severe fiscal distress and its match requirement will be reduced by 100% for the period specified in paragraph (a)(3) of this section. If a State satisfies any 1 of the 3 distress factors in paragraphs (a)(2)(i) through (iii) of this section, it is in fiscal distress and its match requirement will be reduced by 50 percent, for the period specified in paragraph (a)(4) of this section.

i) *Poverty rate*. The average poverty rate in the State was equal to or greater than 125 percent of the average national poverty rate during the calendar year for which the most recent data are available, as determined according to information from the Bureau of the Census.

ii) *Per capita income*. The average per capita income in the State was less than 75 percent of the average national per capita income, during the calendar year for which the most recent data are available, as determined according to information from the Bureau of the Census.

iii) *Personal income growth*. The average personal income growth rate in the State over the most recent four quarters for which the data are available was less than 75 percent of the average national personal income growth rate during that period, as determined according to information from the Bureau of Economic Analysis.

3) *Period of match reduction for severe fiscal distress*. A 100% match reduction is effective for the fiscal year in which the severe fiscal distress determination is made and for the following fiscal year.

4) *Period of match reduction for fiscal distress*. A 50% match reduction is effective for the fiscal year in which the fiscal distress determination is made and for the following fiscal year, except that if a severe fiscal distress determination is published in that following fiscal year, the participating jurisdiction starts a new two-year match reduction period in accordance with the provisions of paragraph (a)(3) of this section.

b) *Reduction of match for participating jurisdictions in disaster areas*. If a participating jurisdiction is located in an area in which a declaration of major disaster pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act is made, it may request a reduction of its matching requirement. For a local participating jurisdiction, the HUD Field office may reduce the matching requirement specified in § 92.218 by up to 100 percent for the fiscal year in which the declaration of major disaster is made and the following fiscal year. For a State participating jurisdiction, the HUD Field office may reduce the matching requirement specified in § 92.218, by up to 100 percent for the fiscal year in which the declaration of major disaster is made and the following fiscal year with respect to any HOME funds expended in an area to which the declaration of a major disaster applies. At its discretion and upon request of the participating jurisdiction, the HUD Field Office may extend the reduction for an additional year.

**24 CFR 92.550 – Performance reviews**

a) *General*. HUD will review the performance of each participating jurisdiction in carrying out its responsibilities under this part whenever determined necessary by HUD, but at least annually. In conducting performance reviews, HUD will rely primarily on information obtained from the participating jurisdiction’s and, as appropriate, the State recipient’s records and reports, findings from on-site monitoring, audit reports, and information generated from the disbursement and information system established by HUD. Where applicable, HUD may also consider relevant information pertaining to a participating jurisdiction’s or State recipient’s performance gained from other sources, including citizen comments, complaint determinations, and litigation. Reviews to determine compliance with specific requirements of this part will be conducted as necessary, with or without prior notice to the participating jurisdiction or State recipient. Comprehensive performance reviews under the standards in paragraph (b) of this section will be conducted after prior notice to the participating jurisdiction.

b) *Standards for comprehensive performance review*. A participating jurisdiction’s performance will be comprehensively reviewed periodically, as prescribed by HUD, to determine:

1) For local participating jurisdictions and State participating jurisdictions administering their own HOME programs, whether the participating jurisdiction has committed the HOME funds in the United States Treasury account as required by § 92.500 and expended the funds in the United States Treasury account as required by § 92.500, and has met the requirements of this part, particularly eligible activities, income targeting, affordability, and matching requirements; or

2) For State participating jurisdictions distributing HOME funds to State recipients, whether the State has met the matching contribution and other requirements of this part; has distributed the funds in accordance with the requirements of this part; and has made such reviews and audits of its State recipients as may be appropriate to determine whether they have satisfied the requirements of paragraph (b)(1) of this section.

## Appendix C

### Schedule of Overstated Match Balances

| Participating jurisdiction | Match balance | Match information not provided | Nonexistent match | Unsupported match | Overstated match balance |
|---|---|---|---|---|---|
| New York, NY | $718,713,614 | $0 | $0 | $5,567,994 | $5,567,994 |
| State of Massachusetts | $640,743,258 | $0 | $2,020,102 | $38,387,603 | $40,407,705 |
| Prince Georges Co., MD | $312,644,062 | $133,875,588 | $1,007,985 | $7,999,313[2] | $142,882,886 |
| Riverside Co., CA | $101,436,162 | $0 | $8,362,721 | $0 | $8,362,721 |
| San Bernardino Co., CA | $92,738,149 | $0 | $32,461,940 | $0 | $32,461,940 |
| State of Louisiana | $61,089,831 | $31,708,766 | $4,970,048 | N/A[3] | $36,678,814 |
| Hudson Co., NJ | $47,169,174 | $9,542,600 | $1,070,281 | $2,370,000 | $12,982,881 |
| Merced, CA | $25,396,716 | $0 | $0 | $3,404 | $3,406 |
| Allegheny Co., PA | $19,677,615 | $0 | $11,299,648 | N/A[4] | $11,299,648 |
| Somerset Co., NJ | $8,811,183 | $353,089 | $499,860 | $0 | $852,949 |
| **Total** | **$2,028,419,764** | **$175,480,043** | **$61,692,585** | **$54,328,314** | **$291,500,944** |

[2] One of the two sampled contributions occurred in the period for which the jurisdiction could not provide a log or summary of contributions. Therefore, we were not able to select a specific contribution to review for that sample item. The unsupported amount listed here is for the contribution we were able to review.
[3] The sampled contribution occurred in the period for which the jurisdiction could not provide a log or summary of contributions. Therefore, we were not able to select a specific contribution to review.
[4] The sampled contribution did not exist so no support could be provided.

# Appendix D

## Schedule of Improperly Waived and Overrequired Match Amounts

| Participating jurisdiction | Qualified reduction | Applied reduction in IDIS | Wrong poverty rate | Not carried forward | Wrong per capita income threshold | Data entry error |
|---|---|---|---|---|---|---|
| Jefferson Co., AL | 100% | 0% | | $(142,229) | | |
| Baldwin Park, CA | 50% | 100% | $23,142 | | | |
| Bellflower, CA | 50% | 0% | | | $(1,958) | |
| Berkeley, CA | 50% | 0% | $(128,904) | | | |
| Chico, CA | 50% | 0% | $(120,112) | | | |
| Davis, CA | 50% | 0% | $(1,775) | | | |
| Moreno Valley, CA | 50% | 100% | $50,000 | | | |
| Pomona, CA | 50% | 100% | $34,184 | | | |
| Sacramento, CA | 50% | 0% | $(169,526) | | | |
| Santa Cruz, CA | 50% | 0% | $(44,645) | | | |
| Aurora, CO | 0% | 50% | $70,522 | | | |
| Fort Collins, CO | 50% | 0% | $(132,374) | | | |
| Pueblo, CO | 0% | 50% | $141,344 | | | |
| State of Connecticut | 100% | 0% | | | | $(1,756,045) |
| New Haven, CT | 100% | 50% | | | | $(97,556) |
| Stamford, CT | 100% | 0% | | | | $(84,658) |
| Waterbury, CT | 100% | 50% | | | | $(37,780) |
| Orlando, FL | 0% | 50% | $215,780 | | | |
| Tallahassee, FL | 50% | 100% | | | | $187,407 |
| Augusta-Richmond Co., GA | 100% | 50% | | $(76,767) | | |
| Clayton Co., GA | 50% | 100% | $119,474 | | | |
| Iowa City, IA | 50% | 0% | $(66,849) | | | |
| Waterloo, IA | 50% | 0% | $(74,589) | | | |
| Urbana, IL | 50% | 0% | $(99,626) | | | |
| Lafayette, IN | 50% | 0% | $(66,569) | | | |
| Lawrence, KS | 50% | 0% | $(44,898) | | | |
| Lexington-Fayette, KY | 50% | 0% | $(86,222) | | | |
| Barnstable Co., MA | 0% | 100% | | | | $32,933 |
| Fall River, MA | 100% | 50% | | | | $(104,044) |
| New Bedford, MA | 100% | 50% | | | $(90,599) | |
| Duluth, MN | 50% | 0% | $(72,527) | | | |
| Columbia, MO | 50% | 0% | $(61,201) | | | |
| Gulfport, MS | 0% | 50% | $116,190 | | | |
| Missoula, MT | 50% | 0% | $(35,000) | | | |

| Participating jurisdiction | Qualified reduction | Applied reduction in IDIS | Wrong poverty rate | Not carried forward | Wrong per capita income threshold | Data entry error |
|---|---|---|---|---|---|---|
| State of North Dakota | 50% | 0% | | | | $(283,227) |
| Vineland, NJ | 100% | 50% | $(60,261) | | | |
| State of New Mexico | 100% | 50% | | | | $(937,778) |
| Ithaca, NY | 100% | 50% | $(63,016) | | | |
| Norman, OK | 50% | 0% | $(21,458) | | | |
| Corvallis, OR | 50% | 0% | $(104,413) | | | |
| Eugene, OR | 50% | 0% | $(67,305) | | | |
| State of Pennsylvania | 50% | 0% | | | | $(2,053,791) |
| State College, PA | 100% | 50% | $(59,398) | | | |
| Woonsocket, RI | 100% | 50% | | | | $(36,439) |
| Charleston, SC | 50% | 0% | $(182,609) | | | |
| Georgetown Co., SC | 50% | 0% | $(23,062) | | | |
| Nashville-Davidson, TN | 50% | 0% | | | | $(158,973) |
| Amarillo, TX | 0% | 50% | $93,910 | | | |
| Bexar Co., TX | 0% | 100% | | | | $305,443 |
| Denton, TX | 50% | 0% | $(52,898) | | | |
| Irving, TX | 0% | 50% | $45,718 | | | |
| Killeen, TX | 50% | 100% | $31,793 | | | |
| Odessa, TX | 0% | 50% | $36,257 | | | |
| Wichita Falls, TX | 0% | 50% | $50,856 | | | |
| Salt Lake City, UT | 50% | 0% | $(98,720) | | | |
| Blacksburg, VA | 50% | 0% | $(65,788) | | | |
| Portsmouth, VA | 0% | 50% | $75,098 | | | |
| Bellingham, WA | 50% | 0% | $(92,088) | | | |
| Eau Claire, WI | 50% | 100% | $(58,890) | | | $117,780 |
| Madison, WI | 50% | 0% | $(113,919) | | | |
| **Count** | | | **43** | **2** | **2** | **14** |
| **Absolute impact** | | | **$3,372,910** | **$218,996** | **$92,557** | **$6,193,854** |
| **Net impact** | | | **$(1,164,374)** | **$(218,996)** | **$(92,557)** | **$(4,906,728)** |