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Audit Report Number	2008-NY-1001

TO: Vincent Hom, Director, Office of Community Planning and Development, 2AD

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The City of New Rochelle, New Rochelle, New York, Had Administrative Control Weaknesses in Its HOME Program

HIGHLIGHTS

What We Audited and Why

We audited the City of New Rochelle's (the City) administration of its HOME Investment Partnerships Program (HOME) in response to the Office of Inspector General's work plan goal to address Community Planning and Development program issues and improve the U.S Department of Housing and Urban Development's (HUD) execution and accountability of fiscal responsibilities. We selected the City based upon our risk assessment of HOME grantees monitored by the HUD New York City Office of Community Planning and Development and discussions with officials of that office who expressed concern about the City's accounting for HOME funds.

The objectives of our audit were to determine whether the City (1) committed and expended HOME funds in accordance with HUD rules and regulations, (2) disbursed funds for only eligible activities, and (3) used funds for eligible administrative and planning costs.

What We Found

The City generally committed and disbursed HOME funds in accordance with HOME regulations; however, there were weaknesses in its administrative controls. These weaknesses resulted in unsupported costs of \$12,000, inadequate

monitoring of the City's community housing development organization, delays in closing out activities in HUD's Integrated Disbursement and Information System, and uncertainty about the number of HOME units to be included in the City's senior rental housing. Consequently, the City lacked assurance that all funds expended were adequately supported, its community housing development organization functioned effectively, and the senior rental housing project would comply with HOME requirements.

What We Recommend

We recommend that the Director of HUD's New York Office of Community Planning and Development require the City to submit supporting documentation for the \$12,000 in unsupported disbursements or repay the amount from nonfederal funds. In addition, the City should strengthen controls over its community housing development organization monitoring and procedures to close out activities in HUD's Integrated Disbursement and Information System. Further, the City should clarify the number of HOME units to be included in its senior rental housing project.

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 discussed the results of our review during the audit and at an exit conference on October 26, 2007, at which time written comments were requested to be provided by October 31, 2007. City officials provided their written comments on October 30, 2007. City officials agreed with our recommendations and have begun to implement some of the suggested actions. The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program (HOME), authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, is designed to create affordable housing for low-income households. The program provides formula grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. Program regulations are found in the HOME Investment Partnerships Program Final Rule at 24 CFR (*Code of Federal Regulations*) Part 92 and HUD program guidance as contained in the guidebook, entitled *Building HOME*, dated February 2006.

The City of New Rochelle (the City) makes HOME funds available for affordable housing through construction of new homes for first-time homebuyers and senior rental units. The City has not used HOME funds for tenant-based rental assistance, homeowner rehabilitation, or rental rehabilitation programs. In 1999, the City began work on the West End 2000 Affordable Housing Project, which contemplated the construction of 63 townhomes for homeownership and 102 senior rental units. The City entered into agreements with the New Rochelle Community Housing Development Organization, a community housing development organization, to serve as the developer of the West End 2000 Affordable Housing Project.

The City's West End 2000 Affordable Housing Project was initially established in 2000 as one activity in HUD's Integrated Disbursement and Information System. However, in 2006 HUD required that this activity be separated into distinct activities to comply with HOME requirements that costs be allocated between homeowner and rental housing unit activity. Accordingly, two activities were established—Phase I, construction of 25 townhomes (Activity #305), and Phase II, construction of 102 senior rental units (Activity #610). A third phase is being considered for the construction of the remaining planned townhomes.

Major activity during our audit period included Phases I and II of the West End 2000 Affordable Housing Project. HOME funds have been used for site acquisition, resident relocation, demolition, and construction of the units under Phase I and Phase II; the units in Phase I closed, and construction began on Phase II.

The City was awarded approximately \$2 million in HOME funds for our audit period, January 1, 2004, through December 31, 2006, and disbursed approximately \$1.08 million during that period. The project has been supplemented with funds from a HUD Special Grant, McKinney Act funds, and state and county funds.

Our audit objectives were to determine whether the City (1) committed and expended HOME funds in accordance with HUD rules and regulations, (2) disbursed funds for only eligible activities, and (3) used funds for eligible administrative and planning costs.

RESULTS OF AUDIT

Finding: Weaknesses Existed in the City's HOME Program Administrative Controls

While the City generally committed and disbursed HOME funds in accordance with HOME regulations, there were weaknesses in program administrative controls. These weaknesses resulted in unsupported costs of \$12,000, inadequate monitoring of the City's community housing development organization, delays in closing out activity in HUD's Integrated Disbursement and Information System, and uncertainty about the number of HOME units to be included in the senior rental housing project. These weaknesses resulted from the lack of a formal monitoring plan and inadequate resource allocation at the community housing development organization. Consequently, the City lacked assurance that funds were expended for eligible activities, its community housing development organization functioned effectively, information entered into HUD's Integrated Disbursement and Information System was accurate, and its senior rental housing project would comply with HOME requirements.

Unsupported Costs of \$12,000

The City disbursed \$12,000 for housing counseling workshops for older adult homeowners and first-time homebuyers. Regulations at 24 CFR 92.206(D)(6) provide that housing counseling may be charged to project costs provided the participants become the owners or tenants of the HOME-assisted project. Additionally, regulations at 24 CFR 92.508(5) (ii) require that documentation support HOME funds disbursed.

The City established an Activity #504 in HUD's Integrated Disbursement and Information System for housing counseling workshops. However, documentation provided to support this activity was inadequate. The documentation did not identify the number of participants attending the workshops or whether they were the purchasers of HOME-funded units. Consequently, the City could not assure HUD that this disbursement complied with HUD regulations.

Inadequate Community Housing Development Organization Monitoring

The City's monitoring of its community housing development organization did not comply with HOME regulations. Regulations at 24 CFR 92.504(a) require that the City monitor its community housing development organization and conduct a performance review at least annually. Additionally, 24 CFR 92.508(4)

(iv) requires that the City maintain records to ensure that the community housing development organization complies with HOME regulations.

The City did not conduct a performance review of its community housing development organization in 2004 and 2006. While it did conduct a review in 2005, a report was never finalized and issued to the community housing development organization. Therefore, the City did not comply with the requirement to annually conduct performance reviews. Consequently, the City could not assure HUD that its community development housing organization operated effectively.

In response to a HUD monitoring report on the City's performance, in 2006 the City contracted with a consultant to evaluate its monitoring of the community housing development organization, assess the capacity of the community housing development organization, and properly allocate costs between the West End 2000 Affordable Housing Project townhomes and senior rental units to comply with HUD requirements. The consultant's draft report made recommendations on how the City could strengthen its own monitoring and identified ways in which the community housing development organization could increase its capacity. City officials stated that they would incorporate these recommendations into a revised monitoring plan. In the interim, the City completed a performance review of its community housing development organization in May and June 2007, while we were conducting our audit, and issued a report to the community housing development organization on July 19, 2007.

Activities Not Closed Out in a Timely Manner

Regulations at 24 CFR 92.502(d) provide that project completion information should be entered into HUD's Integrated Disbursement and Information System or otherwise be provided within 120 days of the final project drawdown. The City did not close out two activities within the required timeframe—Activities number 305, townhomes, and 504, housing workshops. City officials stated that they lacked proper documentation to close out these activities within the required timeframe. While the final drawdown for Activity #305 was made on January 13, 2005, officials stated that documentation to close out the activity would not become available until the buyers closed on the townhomes. All buyers closed on the townhomes by the end of July 2007. If the City had retained some HOME funds to disburse upon successful completion of the townhome closing, it would have been able to close out Activity #305 in compliance with regulations. City officials completed the close out of Activity #305 on September 6, 2007 in HUD's Integrated Disbursement and Information System. As discussed previously, the City did not collect and maintain proper documentation to close out Activity #504.

Uncertainty about the Number of Planned HOME Units

The City entered into a HOME agreement in December 2006 with its community housing development organization for the construction of senior rental units. Construction was scheduled to be completed by February 2008, and marketing was scheduled to begin in September 2007. However, there was uncertainty over the nature of the project and the number of HOME units planned. The agreement referred to the development as an assisted living facility, rather than a senior rental project. When we inquired about the nature of the development, officials initially stated that the development included assisted services, such as meals and housekeeping, but later stated that these services would be provided as an option. In addition, the HOME agreement specified that all units in the senior development would be HOME units. However, officials later stated that the number of HOME units was uncertain and needed to be determined. The plans detailing the number of HOME units should be finalized so the marketing of the units can start. HOME regulations at 24 CFR 92.252(b) require that at least 20 percent of HOME-assisted units be occupied by very low-income families. Therefore, contractual and funding arrangements should be consistent with the project's scope.

Conclusion

The City generally committed and disbursed HOME funds in accordance with HOME regulations; however, there were weaknesses in administrative controls. These weaknesses resulted from the lack of a formal monitoring plan and inadequate resource allocation at the community housing development organization. Consequently, the City lacked assurance that funds were expended for eligible activities, its community housing development organization functioned effectively, information entered into HUD's Integrated Disbursement and Information System was accurate, and its senior rental housing project would comply with HOME requirements.

Recommendations

We recommend that the Director of the New York Office of Community Planning and Development instruct the City to

- 1A. Provide documentation for the \$12,000 in unsupported disbursements made related to workshops so that the eligibility of these costs can be determined. If the costs are determined ineligible, the City should provide reimbursement from nonfederal funds.

- 1B. Strengthen controls over the disbursement of HOME funds to ensure that costs are properly supported.
- 1C. Strengthen controls over its community housing development organization monitoring to ensure that annual reviews are conducted and adequately documented in accordance with HUD regulations and that the monitoring plan reflects the recommendations of its consultant.
- 1D. Ensure that its recent monitoring report and the consultant's recommendations designed to increase the capacity of its community housing development organization are implemented.
- 1E. Strengthen controls over the disbursement of HOME funds to ensure that activities are closed out in HUD's Integrated Disbursement and Information System within the required timeframes.
- 1F. Ensure that contracts and funding agreements accurately reflect the number of HOME units to be developed in Phase II of the West End 2000 Affordable Housing Project.

SCOPE AND METHODOLOGY

The audit covered the period from January 1, 2004 through December 31, 2006, and was expanded as necessary. The City was awarded approximately \$2 million in HOME funds for our audit period, and disbursed approximately \$1.08 million during that period. To accomplish our audit objectives, we

- Reviewed applicable federal regulations relating to the administration of the HOME program and conducted interviews with and inquires of officials from the City and HUD's Office of Community Planning and Development.
- Reviewed HUD files related to the City's HOME program including the five-year consolidated plan, consolidated annual performance and evaluation report, action plans, correspondence files, and HUD's monitoring reports.
- Reviewed the fiscal years 2004 and 2005 independent public accountant's audit report covering the City's HOME program.
- Reviewed administrative drawdowns to determine whether the City complied with the 10 percent limit on disbursing funds for administrative and planning costs, and analyzed a nonstatistical sample of drawdowns totaling \$42,654 to ensure that the drawdowns were for eligible costs.
- Reviewed HOME matching funds to ensure that the City complied with the 25 percent matching fund requirement.
- Reviewed the City's agreements with its community housing development organization for compliance with HUD's HOME regulations.
- Reviewed the City's monitoring of its community housing development organization for compliance with HOME regulations.
- Reviewed a nonstatistical sample of \$337,629 in project costs to ensure that HOME funds were disbursed for eligible costs.
- Reviewed a nonstatistical sample of 10 of 25 town home buyer files to ensure compliance with HUD's income limits and other requirements.

We performed our audit fieldwork between May and August 2007 at the City of New Rochelle's Department of Development, located at 515 North Avenue, New Rochelle, New York. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- 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.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The City did not have adequate controls to ensure compliance with laws and regulations when HOME funds were disbursed for costs without adequate supporting documentation, oversight of its community housing development organization was not adequately documented, the nature and scope of the senior rental housing project was not clearly defined, and activities were not closed out in a timely manner in HUD's Integrated Disbursement and Information System (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/
1A	\$12,000

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 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

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Charles B. Strome, III
City Manager



City of New Rochelle New York

October 29, 2007

Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

RE: Audit Report for the City of New Rochelle, NY
Audit Report Number 2008-NY-100X

Dear Mr. Moore:

Thank you for the opportunity to comment on the above-referenced report, the details of which the Department of Development staff discussed last week with your members of your staff, John Harrison, Sheila Murray and Josephine Menzies.

We are pleased that we are able to enact many of the Recommendations from your report and submit the following comments pertaining to those Recommendations:

#1A - Provide documentation for the \$12,000 in unsupported disbursements made related to workshops so that the eligibility of these costs can be determined. If the costs are determined ineligible, the City should provide reimbursement from nonfederal funds. The City has already had a verbal discussion with the Region 2, Community and Planning Development Office of HUD regarding the reimbursement of the \$12,000 in question. We will put our request to them in writing this week and anticipate that this item will be closed-out without further delay.

#1B - Strengthen controls over the disbursement of HOME funds to ensure that costs are properly supported. The City has benefited from discussion with your office as to how to implement such controls and we feel the necessary safeguards are now in place.

#1C - Strengthen controls over its community housing development corporation monitoring to ensure that annual reviews are conducted and adequately documented in accordance with HUD regulations and that the monitoring plan reflects the recommendations of its consultant. The City's staff has, since this recommendation was discussed with HUD IG staff, conducted a comprehensive monitoring of the CHDO, utilizing the monitoring plan that the City has now developed. There is a calendar for monitoring that has been

Comment 1

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

developed for not only the CHDO, but for the monitoring of all of our HOME projects into future years.

#1D – Ensure that its recent monitoring report and the consultant's recommendations designed to increase the capacity of its community housing development organization are implemented. The City has received information from the CHDO that outlines its plan for increased capacity through additional staff, including a Compliance Officer (scheduled to be on-board in mid-November) and a Chief Financial Officer (national search underway), among others. The CHDO is also making plans for additional office space, which was also recommended. The City has scheduled regular progress meetings with the CHDO to keep informed of progress on all projects, including the efforts in capacity building.

#1E – Strengthen controls over the disbursement of HOME funds to ensure that activities are closed out in HUD's Integrated Disbursement and Information System within the required timeframes. The City has a greater understanding of this issue and has taken actions to prevent the full drawdown of funds to preserve the required timeframes. However, the City staff does intend to – proactively – advise the HUD CPD Office when and if the required timeframes are not able to be met due to inability to obtain qualified tenants or homeowners within the time allowed.

#1F – Ensure that contracts and funding agreements accurately reflect the number of HOME units to be developed in Phase II of the West End 2000 Affordable Housing Project. The City understands that there are a number of document changes and clarifications that need to be made regarding the Senior Building portion of the project. City staff from the Department of Development will work with the City's Law Department to make these changes as needed. Additionally, staff will ensure that the CHDO has given the City the appropriate responses to questions regarding the number of HOME units and that those documents are filed appropriately and that HUD CPD is kept well-informed.

Thank you, again for your hard work and helpful staff throughout this audit period.

Sincerely,



Charles B. Strome, III
City Manager

cc: John Harrison, Asst. Regional Inspector General for Audit
Vincent Horn, Director, CPD, HUD-NY
Barbara Maulsby, CPD Rep, HUD-NY
Craig King, Commissioner of Development, City of New Rochelle
Joan McCallion, Operations Manager, City of New Rochelle
Christine Magrin, Senior Grants Administrator, City of New Rochelle

OIG Evaluation of Auditee Comments

- Comment 1** City officials agreed with the recommendation and have taken action to implement the recommendation.
- Comment 2** City officials agreed and plan to take action to implement the recommendation.