Issue Date September 26, 2007	
Audit Report Number 2007-CH-1015	

TO: Ray E. Willis, Director of Community Planning and Development, 5AD

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

SUBJECT: Cook County, Illinois, Lacked Adequate Controls over Its HOME Investment Partnerships Program

HIGHLIGHTS

What We Audited and Why

We audited Cook County's (County) HOME Investment Partnerships Program (Program). The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the County based upon on our analysis of risk factors relating to Program grantees in Region V's jurisdiction. Our audit objectives were to determine whether the County effectively administered its Program and followed the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

The County did not effectively administer its Program and violated HUD's Program requirements. It did not comply with HUD's regulations and/or its manual of administrative procedures for residential rehabilitation (manual) and/or policies and procedures for lead-based paint in housing programs (policies and procedures) in providing housing rehabilitation assistance for owner-occupied single-family rehabilitation projects (projects) and/or American Dream Downpayment Initiative (Initiative) activities' (activities) assistance with downpayments and closing costs. It inappropriately provided more than $100,000 in Program funds to assist two projects that did not qualify as affordable housing, used $15,000 in Program funds for excessive project delivery costs for two projects, and was unable to support its use of nearly $828,000 in Program and Initiative funds for projects and activities, respectively.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the County to reimburse its Program from nonfederal funds for the improper use of funds, provide support or reimburse its Program from nonfederal funds for the unsupported payments, and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that nearly $154,000 in Program funds is used over the next year for projects that qualify as affordable housing.

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 issued because of the audit.

Auditee's Response

We provided our discussion draft audit report and supporting schedules to the director of the County's Department of Planning and Development, the president of its board of commissioners, and HUD's staff during the audit. We held an exit conference with the County's director on August 21, 2007.

We asked the County's director to provide comments on our discussion draft audit report by September 10, 2007. The director provided written comments, dated September 10, 2007. The director generally did not agree with finding 1, but generally agreed with finding 2. The complete text of the written comments, except for 91 pages of documentation that were not necessary to understand the director's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided the Director of HUD's Chicago Office of Community Planning and Development with a complete copy of the County's written comments plus the 91 pages of documentation.

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BACKGROUND AND OBJECTIVES

The Program. Authorized under Title II of the Cranston-Gonzales National Affordable Housing Act, as amended, the HOME Investment Partnerships Program (Program) is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new homebuyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance. The American Dream Downpayment Assistance Act established a separate funding formula for the American Dream Downpayment Initiative (Initiative) under the Program to provide downpayment assistance, closing costs, and rehabilitation assistance to eligible first-time homebuyers.

The County. Organized under the laws of the State of Illinois, Cook County (County) is governed by a 17-member board of commissioners (board), including a board president, elected to four-year terms. The board designated the County's Department of Planning and Development (Department) as the lead agency to administer the County's Program. The overall mission of the Department is to work with municipalities, nonprofit organizations, businesses, developers, and other organizations to revitalize communities and promote economic opportunity in the County. The County's Program records are located at 69 West Washington Street, Chicago, Illinois.

The following table shows the amount of Program and Initiative funds the U.S. Department of Housing and Urban Development (HUD) awarded the County for Program years 2003 through 2006.

Program year	Program funds	Initiative funds
2003	$6,555,837	$354,822
2004	6,565,213	398,640
2005	6,297,078	227,313
2006	5,820,276	111,012
Totals	$25,238,404	$1,091,787

The County awarded Program funds to four subrecipients to provide housing rehabilitation assistance for owner-occupied single-family rehabilitation projects (projects) during our audit period. Our audit only included projects from two of the subrecipients: the West Suburban Neighborhood Preservation Agency (Agency), a governmental entity, and the North West Housing Partnership (Partnership), a nonprofit organization. The County provided Initiative funds directly to homebuyers to assist with downpayments and closing costs for Initiative activities (activities).

Our audit objectives were to determine whether the County effectively administered its Program and followed HUD's requirements. This is the first of two audit reports on the County's Program.

RESULTS OF AUDIT

Finding 1: Controls over the County's Projects Were Inadequate

The County did not comply with HUD's regulations and its manual of administrative procedures for residential rehabilitation (manual) and policies and procedures for lead-based paint in housing programs (policies and procedures) in providing housing rehabilitation assistance for projects. It provided assistance for ineligible projects and excessive project delivery costs and lacked documentation to support that projects and payments for project delivery costs were eligible because it lacked adequate procedures and controls to ensure that HUD's regulations and its manual and policies and procedures were appropriately followed. As a result, it inappropriately provided more than $100,000 in Program funds to assist two projects that did not qualify as affordable housing, used $15,000 in Program funds for excessive project delivery costs for two projects, and was unable to support its use of nearly $670,000 in Program funds. Based on our statistical sample, we estimate that over the next year, the County will use nearly $154,000 in Program funds for projects that do not qualify as affordable housing.

The County Provided More Than $100,000 in Program Funds for Improper Projects

From the 56 projects the County started and completed from January 1, 2005, through March 15, 2007, we statistically selected 17 projects for review. The County provided $100,969 in Program funds to assist two projects that did not qualify as affordable housing. The following table shows the project number, the appraisal date, the prerehabilitation appraisal for the after-rehabilitation value of the house, the affordability limit, the percentage by which the after-rehabilitation appraised value of the house exceeded the affordability limit, and the housing assistance amount.

Project number	Appraisal date	Appraised value	Affordability limit	Percentage over limit	Assistance amount
2637	August 23, 2006	$365,000	$309,962	17.8	$65,919
2908	July 6, 2006	307,000	304,000	1.0	35,050
		Total			**$100,969**

In addition, the prerehabilitation appraisal on the after-rehabilitation value of the house for project number 2908 was only $4,000 more than the prerehabilitation appraised value of the house.

The County Lacked Documentation to Support Its Use of More Than $550,000 in Program Funds

The County lacked documentation for 9 of the 17 projects statistically selected for review to support that it used $550,581 in Program funds for eligible projects. The following table shows the nine projects for which the County did not have final inspection reports or certifications supporting that the projects met HUD's property standards requirements, sufficient income documentation to demonstrate that households were income eligible, and/or a prerehabilitation appraisal for the after-rehabilitation value of a house to show that the project qualified as affordable housing.

Project number	Final inspections or certifications	Sufficient income documentation	Pre-rehabilitation appraisal	Assistance amount
2484	X		X	$117,077
2492	X			34,219
2629	X			34,788
2630		X		69,447
2637	X	X		65,919
2642	X			21,144
2714	X	X		100,994
2720	X			62,669
2910	X			44,324
Totals	**8**	**3**	**1**	**$550,581**

Further, files for 13 of the 17 projects were missing and/or had incomplete documents as follows:

- 11 were missing initial inspection reports specifying code violations,
- Nine were missing subrecipients' work write-ups or itemized cost estimates,
- Nine were missing contractor documentation required before disbursements,
- Eight were missing equal employment opportunity and Section 3 documentation,
- Eight were missing signed participant documentation, and
- Two were missing environmental review documentation.

The County Used Program Funds for Excessive Project Delivery Costs

The County paid its subrecipients, the Agency and the Partnership, $140,000 in Program funds from June 2005 through November 2006 for project delivery costs for the 17 projects statistically selected for review.

The County paid an administrative fee of $5,000 to the Agency for each housing unit within a project and to the Partnership for each project. In addition, the County disbursed a lead-based paint clearance fee of $2,500 to the Agency for each housing unit within a project involving lead rehabilitation work and to the Partnership for every project after lead-based paint clearance was obtained. However, the County could not provide a basis for the fees and could only provide documentation to support $6,395 in lead-based paint testing for 11 of the 17 projects. Further, the County's manual and policies and procedures contained conflicting requirements regarding the maximum amount allowed for project delivery costs. The manual limited project delivery costs to $4,500 per unit without a waiver; while the policies and procedures limited the project delivery costs to $7,500 per project. The County could not provide documentation as to showing which requirement governed its use of Program funds for project delivery costs. Neither of the subrecipients submitted a waiver to exceed $4,500 for any of the projects.

Using the upper maximum limits between the manual and the policies and procedures ($7,500 for single-unit projects and $4,500 per unit for multi-unit projects), the County used $15,000 in Program funds for excessive project delivery costs for two projects. Further, the County could not support its use of an additional $118,605 in Program funds for project delivery costs for the 17 projects. The $118,605 included $42,500 that exceeded the lower maximum limits between the manual and the policies and procedures ($7,500 for multi-unit projects and $4,500 for single-unit projects). The table in appendix D of this report shows the following for the 17 projects: the project number, the number of units within each project, the Program funds the County disbursed to the subrecipients for project delivery costs, the upper maximum limits for project delivery costs, the amount of Program funds used for excessive project delivery costs, the project delivery costs for which the County could provide supporting documentation, and the remaining unsupported Program funds.

Although the Agency only provided HUD-funded (Community Development Block Grant and Program) housing rehabilitation assistance for projects, its audited financial statements for the year ending September 30, 2005, showed that it had an increase in net assets totaling $134,330. The Partnership's audited financial statements for the year ending September 30, 2006, showed that it had an increase in net assets totaling $117,898. The Partnership received funding from sources other than HUD.

The County Lacked Adequate Procedures and Controls

The weaknesses regarding the County's providing assistance for inappropriate projects and excessive project delivery costs and lacking documentation to support that projects and payments for project delivery costs were appropriate occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its manual and policies and procedures. The County did not ensure that it fully implemented HUD's regulations and its manual and policies and procedures.

The Agency's executive director said he believed that 95 percent of the median area purchase price for single-family housing in the jurisdiction of project number 2637 was greater than the single-family mortgage limit. However, the County did not request from HUD an increase in the single-family mortgage limit. The Partnership's director said she mistakenly used the prerehabilitation appraised value of the house for project number 2908. The director also said she believed the after-rehabilitation appraised value of the house was too high.

The construction manager of the County's Department said the County conducted final inspections of all the projects. However, he could not explain why the County did not have final inspection reports or certifications supporting that the eight projects met HUD's property standards requirements. The Agency's executive director said he did not believe that a prerehabilitation appraisal for the after-rehabilitation value of the house for project number 2484 was necessary since the household did not have a mortgage on the house.

The construction manager said that before 1997, the County completed an analysis on the appropriateness of the fees for project delivery costs. Further, he said the fees were probably too low since the amount had increased by only $500 since the analysis was done more than 10 years ago. However, the construction manager could not provide the analysis or any supporting documentation.

The County did not adequately monitor its subrecipients, including not closing out the subrecipient grant agreements, to ensure that assistance was only provided for appropriate projects and adequate supporting documentation was maintained. The construction manager said the problems with monitoring were due to a lack of staffing. However, as of June 2007, the County had more than $1.5 million in unused administrative Program funds from program years 2004 through 2006 that it could have used for additional staffing.

Conclusion

The County did not properly use its Program funds when it failed to comply with HUD's requirements and its manual and policies and procedures. As previously mentioned, the County provided $100,969 in Program funds to assist two projects that did not qualify as affordable housing, used $15,000 in Program funds for excessive project delivery costs for two projects, and was unable to support its use of more than $669,186 ($550,581 for the nine projects without documentation supporting eligibility plus $118,605 in project delivery costs for the 17 projects) in Program funds.

If the County implements adequate procedures and controls over Program funds to ensure compliance with HUD's regulations and its manual, we estimate that it will not use $153,805 in Program funds over the next year for projects that do not qualify as affordable housing. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the County to

1A. Reimburse its Program $100,969 from nonfederal funds for the Program funds used to assist the two projects cited in this finding that did not qualify as affordable housing.

1B. Provide supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the $550,581 in Program funds used for the nine projects cited in this finding for which the County did not have final inspection reports or certifications supporting that projects met HUD's property standards requirements, sufficient income documentation to demonstrate that homeowners were income eligible, and/or a pre-rehabilitation appraisal on the after-rehabilitation value of the house to show that the project qualified as affordable housing.

1C. Reimburse its Program from nonfederal funds, as appropriate, for the $15,000 in Program funds used for excessive project delivery costs for the two projects cited in this finding.

1D. Provide documentation showing that the lower maximum limit is not applicable for project delivery costs and for the $42,500 in Program funds used for project delivery costs without support. If the County cannot provide appropriate documentation, it should reimburse its Program from nonfederal funds for the applicable portion of the $42,500.

1E. Provide supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the $76,105 ($118,605 used for project delivery costs without support less $42,500 that exceeded the lower maximum limit) in unsupported Program funds.

1F. Implement adequate procedures and controls to ensure that housing rehabilitation assistance is only provided to appropriate projects to prevent $153,805 in Program funds from being used over the next 12 months contrary to HUD's regulations and its policies.

1G. Provide documentation to support that the subrecipients' increases in net assets cited in this report were not from Program funds.

1H. Revise its manual and/or policies and procedures so they do not contain conflicting requirements regarding the maximum amount for project delivery costs.

Finding 2: Controls over the County's Activities Were Inadequate

The County lacked documentation to support that it followed HUD's regulations when it provided Initiative funds to assist homebuyers with downpayments and closing costs for activities. The weaknesses occurred because the County lacked adequate procedures and controls to ensure that it used Initiative funds for eligible activities and maintained adequate documentation. As a result, HUD and the County lack assurance that more than $158,000 in Initiative funds was used efficiently and effectively and in accordance with HUD's regulations.

The County Lacked Documentation to Support Its Use of More Than $158,000 in Initiative Funds for Activities

From the 64 activities that the County started and completed from January 1, 2005, through March 15, 2007, we statistically selected 18 activities for review. The County lacked documentation for the 18 activities to support that it followed HUD's regulations when it provided $158,321 in Initiative funds to assist homebuyers with downpayments and closing costs. It did not conduct its own inspections to determine whether houses met all applicable state and local housing quality standards and code requirements.

The County's activity files contained homebuyers' consumer housing inspection reports (reports) for 15 of the activities. However, the reports did not focus on whether the houses met all applicable state and local housing quality standards and code requirements. The reports for 13 of the activities stated that the houses contained multiple deficiencies. For example, the report for activity number 2741 contained the following items: a gas leak from the water heater, garage paint deterioration, electrical outlets do not have three wire receptacles, the main panel box had four spliced wires and needed to be upgraded to 100 amps, and the ground-fault circuit interrupter outlet in the kitchen trips immediately. In addition, the County's activity files for the 13 activities did not contain documentation showing that the items in the reports were either corrected or in the process of being corrected.

The County's Procedures and Controls Had Weaknesses

The weaknesses regarding the County not conducting inspections occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. The County did not ensure that it fully implemented HUD's regulations.

The construction manager and former assistant director of the County's Department said they were not aware that the County could not rely on independent inspections performed by a party not under contract with the County. The construction manager also said the County relied on the mortgage companies to ensure that the houses met all applicable state and local housing quality standards and code requirements.

Conclusion

HUD and the County lack assurance that the County used $158,321 in Initiative funds to assist homebuyers with downpayments and closing costs for houses that met all applicable state and local housing quality standards and code requirements.

Recommendations

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the County to

2A. Provide supporting documentation or reimburse its Initiative funds $158,321 from nonfederal funds for the 18 activities for which the County lacked documentation to demonstrate that activities met applicable state and local housing quality standards and code requirements.

2B. Implement adequate procedures and controls to ensure that Initiative funds are only used for eligible activities. These procedures and controls should include but not be limited to ensuring that houses meet applicable state and local housing quality standards and code requirements.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 5, 35, 84, 85, 92, and 982; HUD's Office of Community Planning and Development Notice 96-9; Office of Management and Budget Circulars A-87 and A-122; and "Building HOME: a Program Primer."

- The County's accounting records; annual audited financial statements for 2005 and 2006; data from HUD's integrated disbursement information system; Program, project, and activity files; computerized databases; by-laws; policies; procedures; organizational chart; consolidated community development and annual plans; and consolidated annual performance and evaluation reports.

- The Agency's and the Partnership's accounting records, annual audited financial statements for 2005 or 2006, Program and project files; policies; and procedures.

- HUD's files for the County.

We also interviewed the County's employees, subrecipients' employees, Program participants, and HUD staff.

<u>Finding 1</u>

We statistically selected 17 of the County's projects using the U.S. Army Audit Agency's Statistical Sampling System software from the 56 projects with settlement statements completed after January 1, 2005, and zero balances as of March 15, 2007. The 17 units were selected to determine whether the County effectively administered its Program and provided assistance for eligible projects. Our sampling criteria used a 90 percent confidence level, 10 percent error rate, and precision of plus or minus 9.9 percent.

Our sampling results determined that the County inappropriately provided housing rehabilitation assistance to two (11.7 percent) of the 17 projects. The County provided more than $2.9 million in Program funds for the 56 projects from January 2005 through March 2007 for an average of $52,583 per project. The County starts and completes approximately 25 (56 projects divided by 27 months times 12 months) projects per year.

We estimated that the County will annually use at least $153,805 (25 projects times $52,583 times 11.7 percent) in Program funds for projects that do not qualify as affordable housing. This estimate is presented solely to demonstrate the annual amount of Program funds that could be put to better use on eligible projects if the County implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Finding 2

We statistically selected 18 of the County's activities using the U.S. Army Audit Agency's Statistical Sampling System software from the County's 64 activities with settlement statements completed after January 1, 2005, and zero balances as of March 15, 2007. The 18 units were selected to determine whether the County effectively administered its Program and provided assistance for eligible activities. Our sampling criteria used a 90 percent confidence level, 10 percent error rate, and precision of plus or minus 9.9 percent.

We performed our on-site audit work from February through August 2007 at the County's office located at 69 West Washington Street, Chicago, Illinois. The audit covered the period January 2005 through December 2006 and was expanded as determined necessary.

We performed our audit 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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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 Weakness

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

- The County lacked adequate procedures and controls to ensure compliance with HUD's regulations and/or its manual and policies and procedures regarding the use of Program funds for eligible projects and project delivery costs and Initiative funds for eligible activities (see findings 1 and 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$100,969		
1B		$550,581	
1C	15,000		
1D		42,500	
1E		76,105	
1F			$153,805
2A		158,321	
Totals	$115,969	$827,507	$153,805

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reduction in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the County implements our recommendation it will cease to use Program funds for improper projects. Once the County successfully improves its procedures and controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

BUREAU OF ADMINISTRATION
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September 10, 2007

United States Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson Blvd.
Suite 2646
Chicago, IL 60604-3507
Attn: Brent G. Bowen, Asst. Regional Inspector General for Audit

RE: Office of Inspector General's Draft Audit Report
Cook County HOME Investment Partnership Program
Audit Report No. 2007-CH-101X

Dear Mr. Bowen:

Cook County Department of Planning and Development acknowledge receipt of the Office of Inspector General's ("OIG") Audit Report on Cook County's HOME Investment Partnership Program.

As a participating jurisdiction in the HOME Investment Partnership Program, we are wholeheartedly committed to the goals of developing viable urban communities by providing decent affordable housing and suitable living environments. We share in the OIG's objectives in assuring that the programs are administered properly and effectively with absolute regard to the guidelines and regulations of the United States Department of Housing and Urban Development ("HUD").

As such, we offer the following response to the OIG's report:

FINDING 1

A. Cook County used a total $100,969 in Program funds to assist two projects that did not qualify as affordable housing based on the homes after rehabilitation value being greater than the allowable affordability limit.

Response: Proj. No. 2908

Both projects involved the rehabilitation of single family homes under Cook County's single family rehabilitation program. As indicated in the OIG's report, Cook County awarded funds to five subrecepients to administer our single family rehabilitation projects. The two single family homes in question involved subrecipients, North West

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Housing Partnership ("NWHP") and West Suburban Neighborhood Preservation Agency ("WSNPA").

Comment 1

According to our records, Project No. 2908 is within the affordability limits.

Project No.	Pre Rehab Appraised Value	Post Rehab Appraised Value	Affordability Limit	Assisted Amount (Funds + Project delivery costs)
2908	$303,000	$304,000	$304,000	$35050

Project No. 2908 involved the replacement of windows and siding. The property's after rehabilitation appraisal amount was documented at $304,000.00 (Exh. 1A). The OIG independently estimated that the property was valued at $307,000.00 which is $3,000.00 over the affordability limit.

Replacement of windows and siding did not add much value to the home as evidenced by comparable homes in the area of Northwest Cook County, Illinois ranging from $270,000 to $303,000 (see Exh. 1AA). As further evidence that the after appraisal amount is closer to $303,000 then $307,000, NWHP hired two independent appraisers to conduct appraisals of the property as of the post rehabilitation date and provide their estimate of the property's appraised value. Vicky Hoffman, an Illinois State Certified Real Estate Appraiser estimated the value of the home to be $297,000 (Exh. 1AAA) and Steven L. Smith, an Illinois State Certified Real Estate Appraiser, valued the home to be $285,000 (Exh. 1AAAA).

Conclusion

Project No. 2908 does fall within the affordability limits.

Response: Proj. No. 2637

We are continuing to investigate whether Project No. 2637 falls within the affordability limits.

Project No.	Pre Rehab Appraised Value	Post Rehab Appraised Value	Affordability Limit	Assisted Amount (Funds + Project delivery costs)
2637	$	$	309,962	$65,919

WSNPA, our administrator, of this project, hired Equity Appraisals, who estimated the pre rehabilitation appraisal amount to be $315,000. However, we are investigating the appraiser as well as the appraisal company as to whether the appraiser followed standard operating guidelines in providing appraisals.

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Conclusion

We are continuing our investigation to determine whether the affordability limits were adhered to. In the meantime, we have requested WSNPA refrain from using Equity Appraisals and the appraiser, Sam S. Messina, until our investigation is concluded.

FINDING 1

B. Cook County lacked documentation in the form of final inspections, income verification and pre rehabilitation appraisals for 9 project totaling $550,581.

Proj. No.	Final Inspections Missing	Insufficient income documentation	Pre rehabilitation appraisal	Assistance Amount
2484	√		√	117,077
2492	√			34,219
2629	√			34,788
2630		√		69,447
2637	√	√		65,919
2642	√			21,144
2714	√	√		100,994
2720	√			62,669
2910	√			44,324
Total	**8**	**3**	**1**	***$550,581**

Response

Comment 2 Cook County has completed all final inspections on the project numbers indicated. Also, we have verified that the noted applicants met the required income guidelines and we are attempting to obtain the pre appraised value for Project No. 2484.

Cook County has changed its inspection sheet to reflect current housing property and quality standards and have made the inspection sheet more detailed and in compliance with current forms that HUD is utilizing (Exh. 1B). We are implementing new policy changes and have restructured our current staff to ensure that we closely monitoring our subrecipients and insure that all close out procedures are taking place.

*Please note: The total of $550,681 includes Project No. 2637 in the amount of $65,919. The dollar figure for project number 2637 has already been included in Finding 1A.

FINDING 1

Comment 3 C. Cook County used excessive project delivery costs for projects #2908 and 2937.

Response

Cook County's policy on project delivery costs is based on the estimated and average soft cost of a subrecipient completing a project.

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Comment 4

Although our single family rehabilitation manual of May 1, 1996 states that project delivery costs will be no more than $4,500, the amount was increased to $5,000 in a letter to our subrecipients dated October 25, 2000 (Exh. 1C).

Comment 5

The project delivery costs is directly related to the soft costs of the project as it became more efficient to assign a fixed dollar amount to the project as the costs ranges from $4,500 per project o $7,000 per project (Exh. 1CC).

Conclusion

We are revisiting the issue as to whether a fixed project delivery costs remains the most feasible and effective manner to reimburse the subrecipients. We are requesting the subrecipeints provide additional documentation to verify their costs relating to administering a project.

A policy decision will be made as to whether $5,000 remains an accurate reflection of average project delivery costs today or whether we will require each project to submit exact project delivery costs for reimbursement. In either scenario, we are implementing new policies that require the subrecipient to maintain more detailed records on their project delivery costs.

FINDING 1

D. Cook County lacked sufficient documentation to show that project delivery costs were $42,500.

E. Cook County lacked sufficient documentation to show that project delivery costs were $76,105.

Response

Comment 5

Again, Cook County has substantial documentation that $5,000 delivery costs and $2,500 lead removal delivery costs are substantially related to the soft costs involved in the projects.

We are revisiting this issue as well as researching and obtaining information on whether a fixed project delivery costs (that accurately estimates the average project delivery costs) is more efficient and effective than reimbursement for actual project delivery costs.

Conclusions

We are implanting new policies and procedures that changes and updates our monitoring of subrecipients including more hands on contact, bi-annual or annual in

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house training for subrecipients and more staff to handle the day to day demands of increased paperwork relating to the oversight of the program.

FINDING 1

F. Cook County lacked appropriate controls to ensure that housing rehabilitation is not performed on ineligible projects.

Response

Comment 6

In December 2006, the Cook County Department of Planning and Development began discussions with Dennison & Associates, Inc. ("Dennison"), a HUD Technical Assistance Provider, to begin examining all program related manuals for updating. In January 2007, the County successfully contracted with Dennison to proceed officially with providing updated manuals for both CDBG and HOME programs and all related activities. The overall goal was to improve policies and procedures related to the monitoring process, record retention, project delivery cost, change orders and other federal requirements which will allow the programs to operate both efficiently and timely.

The County in conjunction with Dennison has spent enormous staff time to redevelop the single family rehabilitation administrative manual to include new policy changes and procedures, new HUD checklist and appropriate monitoring and inspection forms, as well as other federal requirements. The new manual will provide a complete "How to Administer a Successful SFR Program" for all eligible sub-recipients.

The County is now in the final draft stages with Dennison, and will have a final product within the next 30 days.

Additionally, the County, in conjunction with Dennison, is in the final stages of building a web designed system which will compliment all new components in the new program manuals and enable the County to monitor projects from inception to completion.

Because the new manual and web tools are being designed by Dennison, the County is confident that the new procedures will address the internal control method's cited under Internal Control on the OIG's report.

It is important to note that the County considered the same internal control methods when contracting with Dennison prior to the HUD/OIG notifying the County of the selection to be audited based on analysis of risk factors.

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Comment 6

The following is a list of items included in the manual and electronic tool which will improve the County's daily management and monitoring substantially. These new processes will provide the assurance, that the HUD/OIG cited figure of $178,000 in future funds utilized for non-qualified projects, is fully preventable and/or drastically minimized.

- The web system has an "encumbrance" capability that prevents the planner, internal staff or sub-recipient from proceeding to the next step until the action has been completed or documentation submitted, etc. (Examples are: "Environmental Review Not Completed – Do not issue Notice to Proceed," Risk assessment report/work write-up or bid tabulation Not Received – Do not approve payment for LBP delivery costs). Email alerts are automatically sent to the applicable planner, staff member or sub-recipient until the encumbrance is "cleared."
- Provide HUD related checklists and electronic document repository capability which will help streamline and standardize County and sub-recipient work processes, eliminate redundant and unnecessary paper documents, and facilitate the compliance monitoring and record keeping functions.
- Replacement of existing ad-hoc systems (i.e., Lotus Notes Approach database(s)) and spreadsheets with a single system for inputting data to IDIS and the County's financial management information system and maintaining three-way reconciliation.
- The web system has an "email alert" capability to advise County and sub-recipient staff of actions or reports due, milestones, return of applications or requests for payment for further information or substantiating documents, site and monitoring visits.
- Track multiple projects and grant activities (residential or commercial rehabilitation, homeowner, homebuyer or rental, revitalization, new construction, etc.) by grant year and manage approved budgets and draw downs.
- Provide better oversight and management of sub-grantee/ sub-recipient activities, Davis-Bacon, environmental compliance and single audit reporting requirements.
- Improve methods for grant compliance and reporting and provide centralized programmatic record keeping and case file document management.
- Availability of information (electronic files/records) for improved desk audits and compliance monitoring. E-mail alerts and encumbrances will be set by County staff with

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Comment 6

appropriate roles and privileges at the process and/or document level based on data fields or data values.

- Standardize program rules and processes (checklists and document templates) such as environmental reviews, monitoring checklists, grant/loan limits and agreements.

Conclusion

The County is committed to enhancing all program systems and will introduce the new policies, practices and systems to all sub-recipients at a County sponsored training workshop in October 2007. All sub-recipients will be provided complete handbooks, the new policies will be announced as well as the new implemented monitoring risk analysis procedures. Additionally, a complete session will be devoted to the new electronic system that will be required for all sub-recipients to utilize. These enhancements are never before tools used by the Planning Department and will allow for improved management and oversight of programs.

FINDING 1

G. Cook County lacked sufficient documentation to show that NWHP and WBNPA net assets listing in their financial statements are not program funds.

Response

Comment 7

NWHP has other projects and other sources of income that are non Cook County related. We have spoken to NWHP's accountant who has submitted a letter (Exh. 1G) confirming that any increases in NWHP's assets are not the result of Program Funds.

Conclusion

We will continue to monitor and analyze the annual reports of our subrecipients. We will require documentation, as we have done here, to verify that any increases in net assets are not a result of Program funds.

FINDING 1

H. Cook County manual and/or policies contain conflicting requirements regarding the maximum amount for project delivery costs. lacked sufficient documentation to show that.

Response

Comment 6

(See Funding 1F Response)

Conclusion

(See Funding 1F Conclusion)

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FINDING 2
A. Cook County lacked documentation to demonstrate that 18 ADDI projects for $158,321 met applicable state and local housing quality standards and code requirements.

Response

At the time of the audit, housing inspections had been completed on all eighteen American Dream Down Payment Initiative ("ADDI ") loans ("projects"). However, Cook County allowed the municipality's inspector and/or the borrower's private contracted inspector to conduct inspections. These inspections either met all applicable codes requirements or the borrowers were given sufficient time to bring the property into code.

Comment 8

According to the regulations, the participating jurisdiction must conduct their own inspections. Since the audit, we have satisfied the requirement and all eighteen properties have been re-inspected. All have either met the applicable code requirements or we are working with the homeowners to satisfy the code requirements.

Conclusion

Cook County's staff has been updated and trained on the regulations regarding inspections and now are conducting our own inspections prior to the borrower being approved for ADDI funding.

We have also instituted a more detailed inspection form (Exh. 1B) which illustrated whether or not the property has met all applicable housing quality standards.

FINDING 2
B. Cook County lacked adequate procedures to ensure that ADDI funding were used for eligible activities

Response

Pursuant to the regulations, Cook County allowed ADDI funds to be utilized for down payment assistance including closing costs. However, closing costs have not been defined.

Conclusion

Comment 6

We are currently revising the ADDI policy and procedure manual whereby the guidelines of the program will be clearly articulated including listing eligible and ineligible costs. The inspection forms have been updated to ensure that the ADDI properties meet applicable quality standards and state and local code requirements.

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SUMMARY
Cook County acknowledges the need for better controls and clear procedures in place to ensure that we are adhering to federal, state and county rules and regulations.

We are restructuring our office internally to ensure that the communication process between staff persons is better utilized. In the last year, we have hired an additional ten members of our staff that will be utilized in the areas of monitoring, compliance, community outreach, underwriting, participant eligibility, subrecipient training and construction oversight. We have a talented group of individuals who are committed to making sure that the HOME program requirements are upheld and that our funds are efficiently and effectively utilized to address the housing, homeless and community development needs throughout Cook County.

You can be assured that my staff will work diligently with your office now and in the future to ensure that any and all deficiencies that we have are properly addressed and corrected.

Thank you for your assistance and we look forward to working with you closely in the coming months.

Sincerely,

Peter C. Nicholson

Peter C. Nicholson, Director
Department of Planning and Development

Cc: Todd H. Stroger, President, Cook County Board of Commissioners (w/o attchmts.)
Mark Kilgallon, Chief Administrative Officer (w/o attchmts.)

OIG's Evaluation of Auditee Comments

Comment 1 We did not independently estimate that the after-rehabilitation value of the house for project number 2908 was $307,000. The prerehabiliation appraisal, obtained by the Partnership and dated July 6, 2006, stated the after-rehabilitation value of the house for project number 2908 was $307,000. The County did not provide any documentation to support that the prerehabiliation appraisal was invalid. Therefore, the project did not qualify as affordable housing.

Comment 2 The County did not provide inspection reports to show that the eight projects met HUD's property standard requirements or income documentation for the three projects to demonstrate that the households were income eligible.

Comment 3 The County used Program funds for excessive project delivery costs for project numbers 2637 and 2714.

Comment 4 The County did not provide documentation that it ever updated its manual.

Comment 5 The County did not provide additional supporting documentation for the project delivery costs it paid to the subrecipients for the 17 projects.

Comment 6 The County's updated Program and Initiative manuals and new web designed system should improve its procedures and controls over its projects and activities, if fully implemented.

Comment 7 The County did not provide documentation to support that the Partnership's increase in net assets was not from Program funds.

Comment 8 The County did not provide inspection reports or other documentation to show that the 18 projects either met applicable state and local housing quality standards and code requirements or the County is working with the homebuyers to ensure that the projects meet applicable state and local housing quality standards and code requirements.

Appendix C

FEDERAL REQUIREMENTS AND THE COUNTY'S POLICIES

Finding 1

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 84.21(b)(2) require recipients to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Section 84.21(b)(6) states that recipients must have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles. Section 84.21(b)(7) states that accounting records must be supported by such source documentation.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 85.20(b)(2) require grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.203 state that a participating jurisdiction must determine households' annual income by examining source documentation evidencing households' annual income.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.206(d) state that a participating jurisdiction may use Program funds for reasonable and necessary soft costs associated with the financing and/or development of rehabilitation. The costs include but are not limited to professional services to prepare specifications or work write-ups, credit reports, building permits, private appraisal fees, fees for title evidence, and staff and overhead costs directly related to carrying out a project.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.251(a)(1) state that housing rehabilitated with Program funds must meet all applicable local codes, rehabilitation standards, and ordinances at the time of project completion.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.254(a)(2)(iii) state that if a participating jurisdiction intends to use Program funds for projects, the participating jurisdiction may use the single-family mortgage limits under section 203(b) of the National Housing Act or it may determine 95 percent of the median area purchase price for single-family housing in the jurisdiction.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.254(b) state that for rehabilitation not involving acquisition, a project qualifies as affordable housing only if the estimated value of the property after rehabilitation does not exceed 95 percent of the median purchase price for the area as described in 24 CFR [*Code of Federal Regulations*]

92.254(a)(2)(iii) and the household qualifies as a low-income household at the time Program funds are committed to the project.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.505(a) state that the requirements of Office of Management and Budget Circular A-87 and 24 CFR [*Code of Federal Regulations*] 85.20 apply to participating jurisdictions and any governmental subrecipient receiving Program funds. Section 92.505(b) states that the requirements of Office of Management and Budget Circular A-122 and 24 CFR [*Code of Federal Regulations*] 84.21 apply to nonprofit organizations, which are not governmental subrecipients, receiving Program funds.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR [*Code of Federal Regulations*] Part 92. The participating jurisdiction must maintain records demonstrating the following:

- Each project meets the property standards of 24 CFR [*Code of Federal Regulations*] 92.251 and the lead-based paint requirements of 24 CFR [*Code of Federal Regulations*] 92.355.
- Each household is income eligible in accordance with 24 CFR [*Code of Federal Regulations*] 92.203.
- Each project's estimated value after rehabilitation does not exceed 95 percent of the median purchase price for the area in accordance with 24 CFR [*Code of Federal Regulations*] 92.254(a)(2).

Attachment A, section C(1), of Office of Management and Budget Circular A-87, revised May 10, 2004, requires all costs to be necessary, reasonable, and adequately documented. Section C(3)(d) requires a cost allocation plan when indirect costs are charged to a federal award.

Attachment A**,** section A(1), of Office of Management and Budget Circular A-122, revised May 10, 2004, states that the composition of total costs of an award is the sum of the allowable direct and allocable indirect costs. Section A(2) requires all costs to be reasonable, allocable, and adequately documented.

Paragraph 10 of the County's subrecipient grant agreements with the Agency and the Partnership state that the Agency and the Partnership agree to be bound by and comply with the County's manual and policies and procedures.

Chapter III, paragraph B, of the County's manual, revised June 16, 1997, states that subrecipients must retain records illustrating that the subrecipients completed a due diligence effort to verify the credibility of the income information by which the subrecipients certify.

Chapter IX, paragraph B, of the County's manual states that subrecipients' project files must include the following:

- Initial inspection reports specifying code violations and deficiencies,
- Work write-up and an itemized cost estimate,

- Required equal employment opportunity and Section 3 documentation,
- Proceed order to the contractor,
- Signed owner's participation agreement,
- Sworn owner's statement,
- Itemized bids from at least three contractors,
- Documentation of environmental review record requirements, and
- Final inspection reports certifying that all work has been satisfactorily completed.

Chapter X, paragraph A, of the County's manual states that subrecipients are allowed to expend up to 25 percent of each project fund allocation for eligible project delivery (administrative) costs. Project delivery costs should not exceed $4,500 per unit. Subrecipients with project delivery costs exceeding $4,500 per unit, must seek a waiver from the County, explaining the circumstances causing the project delivery costs to exceed $4,500 per unit. Subrecipients must document all project delivery costs and keep time sheets for all personnel whose salary and fringe benefits are paid with Program funds.

Page 14 of the County's policies and procedures, dated April 2002, states that the County will provide a maximum of $7,500 for administrative costs for each house or two, three, or four flat rehabilitated with Program funds. The County will disburse $5,000 when the contract for work is signed and submitted to the County and $2,500 when lead-related work is completed and a lead-based paint draw request is submitted to the County.

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.251(a)(2) state that housing acquired with Program funds must meet all applicable state and local housing quality standards and code requirements. If there are no such housing quality standards or code requirements, the housing must meet HUD's housing quality standards.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR [*Code of Federal Regulations*] Part 92. The participating jurisdiction must maintain records demonstrating that each project meets the property standards of 24 CFR [*Code of Federal Regulations*] 92.251.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.612(b) state that housing assisted with Initiative funds must meet the property standards contained in 24 CFR [*Code of Federal Regulations*] 92.251.

Appendix D

SCHEDULE OF PROGRAM FUNDS USED FOR PROJECT DELIVERY COSTS

Project number	*Number of units*	*Program funds used*	*Upper maximum limit*	*Excessive Program funds*	*Project delivery costs*	*Unsupported Program funds*
2484	1	$7,500	$7,500			**$7,500**
2492	1	5,000	7,500			**5,000**
2626	1	7,500	7,500		$275	**7,225**
2629	1	5,000	7,500			**5,000**
2630	1	7,500	7,500		665	**6,835**
2631	1	7,500	7,500		275	**7,225**
2635	1	7,500	7,500		640	**6,860**
2637	2	15,000	9,000	**$6,000**	300	**8,700**
2642	1	5,000	7,500			**5,000**
2652	1	7,500	7,500		275	**7,225**
2714	3	22,500	13,500	**9,000**	1,300	**12,200**
2720	1	7,500	7,500		1,450	**6,050**
2724	1	7,500	7,500		275	**7,225**
2726	1	7,500	7,500		275	**7,225**
2906	1	7,500	7,500		665	**6,835**
2908	1	7,500	7,500			**7,500**
2910	1	5,000	7,500			**5,000**
Totals		**$140,000**		**$15,000**	**$6,395**	**$118,605**