

Issue Date	September 30, 2007
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Audit Report Number	2007-CH-1017
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TO: Jorgelle Lawson, Director of Community Planning and Development, 5ED

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

SUBJECT: The City of Cincinnati, Ohio Lacked Adequate Controls over Its HOME Investment Partnerships Program

HIGHLIGHTS

What We Audited and Why

We audited the City of Cincinnati's (City) HOME Investment Partnerships Program (Program). The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the City based upon a request from the U.S. Department of Housing and Urban Development's (HUD) Columbus Office of Community Planning and Development and our analysis of risk factors relating to Program grantees in Region V's jurisdiction. Our audit objectives were to determine whether the City effectively administered its Program and followed HUD's requirements. This is the first of two audit reports on the City's Program.

What We Found

The City did not effectively administer its Program and violated HUD's requirements. It did not comply with HUD's regulations in providing housing rehabilitation assistance for owner-occupied single-family rehabilitation projects (projects) and/or downpayments, closing costs, homebuyer counseling, and home inspections for American Dream Downpayment Initiative (Initiative) activities. It inappropriately provided more than \$225,000 in Program funds to assist three projects that either did not qualify as affordable housing or in which the household was not income eligible, inappropriately provided \$41,000 in Initiative

funds to assist five households in which they were not income eligible, and was unable to support its use of nearly \$1.4 million in Program and Initiative funds for projects and activities.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the City to reimburse its Program and Initiative from nonfederal funds for the improper use of funds, provide support or reimburse its Program and Initiative 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 more than \$134,000 in Program and Initiative funds is appropriately used over the next year.

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 City's Department, the City's mayor, and HUD's staff during the audit. We held an exit conference with the City's director on September 17, 2007.

We asked the City's director to provide comments on our discussion draft audit report by September 21, 2007. The director provided written comments, dated September 20, 2007. The director generally did not agree with the findings. The complete text of the written comments, except for 175 pages 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 Columbus Office of Community Planning and Development with a complete copy of the City's written comments plus the 175 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 City. Organized under the laws of the state of Ohio, the City of Cincinnati (City) is governed by a mayor and a nine-member council, elected to two-year terms. The City’s Department of Community Development and Planning (Department) administers the City’s Program. The Department’s overall mission is to serve as an innovative, proactive partner in supporting comprehensive economic and workforce development, quality housing development, historic conservation, land use management, arts and cultural amenities, and social services for all of the City’s citizens. The City’s Program records are located at 805 Central Avenue, Cincinnati, Ohio.

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

Program year	Program funds	Initiative funds
2003	\$4,434,528	\$228,566
2004	4,428,285	269,714
2005	4,219,448	153,797
2006	<u>3,977,487</u>	<u>76,743</u>
Totals	<u>\$17,059,748</u>	<u>\$728,820</u>

The City awarded Program funds to the Home Ownership Center (Center), a nonprofit organization subrecipient, to provide housing rehabilitation assistance for owner-occupied single-family rehabilitation projects (projects) during January 2005 through January 2007. It provided Initiative funds directly to homebuyers to assist with downpayments and closing costs for Initiative activities (activities). It also used Initiative funds to provide homebuyer counseling and pay for home inspections associated with the activities.

Effective June 2007, the City executed an agreement with HUD and the U.S. Department of Justice to settle all outstanding issues regarding the City’s improper use of Program funds for the Huntington Meadows apartment project. The settlement agreement requires the City to reimburse its Program \$3.95 million. The final payment under the agreement is due by January 31, 2009.

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

RESULTS OF AUDIT

Finding 1: Controls over the City's Program Projects Were Inadequate

The City did not comply with HUD's regulations in providing housing rehabilitation assistance for projects. It provided assistance for ineligible projects and did not have documentation to support that projects were eligible because it lacked adequate procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, it inappropriately provided more than \$225,000 in Program funds to assist three projects that either did not qualify as affordable housing or in which the household was not income eligible and was unable to support its use of more than \$1.1 million in Program funds. Based on our sample, we estimate that over the next year, the City will use more than \$100,000 in Program funds for improper projects.

The City Provided More Than \$225,000 in Program Funds for Improper Projects

We selected for review the 18 projects that the City completed from January 1, 2005, through March 23, 2007. The City provided \$155,090 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
2031	January 10, 2005	\$222,000	\$179,901	23.4	\$75,324
1928	July 12, 2005	189,000	179,901	5.1	79,766
Total					\$155,090

The City also provided \$69,995 in Program funds to assist one project in which the household was not income eligible. The household income for project number 1783 exceeded the required income guideline by \$1,934 (5.4 percent). The City awarded and began providing assistance to the household in December 2003 and September 2004, respectively.

The City Lacked Documentation to Support Its Use of More Than \$1.1 million in Program Funds

The City lacked documentation for 15 of the 18 projects selected for review to support that it used more than \$1.1 million in Program funds for appropriate projects. The following table shows the 15 projects for which the City lacked sufficient income documentation to demonstrate that households were income eligible and/or a preresidential appraisal for the after-rehabilitation value of the house to show that the projects qualified as affordable housing.

<i>Project number</i>	<i>Sufficient income documentation</i>	<i>Pre-rehabilitation appraisal</i>	<i>Assistance amount</i>
1774	X		\$56,831
1775	X	<u>X</u>	79,773
1776	X		55,256
1782	X		88,325
1785	X		67,224
1786	X		131,127
1886	X		47,063
1905	X		32,181
1907	X		65,437
1928	X		75,324
2031	X		79,766
2032	X		88,756
2033	X		77,739
2034	X		89,626
2140	<u>X</u>		<u>72,346</u>
Totals	<u>15</u>	<u>1</u>	<u>\$1,106,774</u>

The City Lacked Adequate Procedures and Controls

The weaknesses regarding the City’s providing assistance for improper projects and lacking documentation to support that projects were appropriate occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed HUD’s regulations. The City did not ensure that it fully implemented HUD’s regulations.

The City did not adequately monitor the Center to ensure that assistance was only provided for appropriate projects and that the necessary supporting documentation was maintained. The senior community development analyst for the City’s Department stated that the City performed file reviews during its monitoring. However, it did not document which files it reviewed. Further, it did not verify eligibility determinations and income calculations. It only determined whether

the file appeared to contain all of the appropriate documentation. In addition, the housing division manager of the City's Department stated that the Department's and the Center's staff needed additional training regarding income calculations.

Conclusion

The City did not properly use its Program funds when it failed to comply with HUD's requirements. As previously mentioned, the City provided \$225,085 (\$155,090 plus \$69,995) in Program funds to assist three projects that either did not qualify as affordable housing or in which the household was not income eligible and was unable to support its use of more than \$1.1 million in Program funds for the 15 projects without sufficient documentation supporting eligibility.

If the City implements adequate procedures and controls over Program funds to ensure compliance with HUD's regulations, we estimate that it will not use \$100,147 in Program funds over the next year for improper projects. 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 Columbus Office of Community Planning and Development require the City to

- 1A. Reimburse its Program \$225,085 (\$155,090 to assist the two projects that did not qualify as affordable housing plus \$69,995 used to assist the one project in which the household was not income eligible) from nonfederal funds for the improper use of Program funds cited in this finding.
- 1B. Provide supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the \$1,106,774 in Program funds used for the 15 projects cited in this finding for which the City lacked sufficient income documentation to demonstrate that households were income eligible and/or a pre-rehabilitation appraisal for the after-rehabilitation value of the house to show that the projects qualified as affordable housing.
- 1C. Implement adequate procedures and controls to ensure that housing rehabilitation assistance is only provided to appropriate projects to prevent \$100,147 in Program funds from being used over the next 12 months contrary to HUD's regulations.

Finding 2: Controls over the City’s Initiative Activities Were Inadequate

The City did not comply with HUD’s regulations in providing downpayments, closing costs, homebuyer counseling, and home inspections for Initiative activities. It provided assistance for ineligible activities and did not have documentation to support that activities were eligible because it lacked adequate procedures and controls to ensure that HUD’s regulations were appropriately followed. As a result, it inappropriately provided \$41,000 in Initiative funds to assist five activities in which the households were not income eligible and was unable to support its use of more than \$266,000 in Initiative funds. Based on our statistical sample, we estimate that over the next year, the City will use more than \$34,000 in Initiative funds for activities in which the households are not income eligible.

The City Provided \$41,000 in Initiative Funds for Improper Activities

From the 85 activities that the City started and completed from January 1, 2005, through March 23, 2007, we statistically selected 38 activities for review. The City provided \$41,000 in Initiative funds to assist five households that were not income eligible. The Initiative funds were used to provide downpayments, closing costs, homebuyer counseling, and home inspections. The following table shows the activity number, the date the assistance was awarded, the amount of the household’s income that exceeded HUD’s income guidelines, the percentage that the household’s income exceeded HUD’s income guidelines, and the amount of assistance provided.

Activity number	Award date	Amount overincome	Percentage over income	Assistance amount
1934	July 20, 2005	\$3,275	7.9	\$9,835
2065	April 11, 2006	750	1.8	8,880
2068	May 2, 2006	4,688	10.0	7,905
2113	August 4, 2006	3,273	6.3	5,820
2144	November 20, 2006	932	2.0	8,560
Total				\$41,000

For activity number 2113, the City did not include child support payments received in the household’s income. If the City had performed a third party verification with Hamilton County, Ohio’s (County) Department of Job and Family Services when it determined eligibility for activity number 2113, it would have been notified that the household was due \$11,676 in child support in arrears as of June 2006 and was supposed to be receiving \$368 in child support per month. Therefore, the City should have checked again with the County’s Department of Job and Family Services for child support payments before providing Initiative funds to the homebuyer on August 14, 2006. The City would have been notified that the household was receiving more than \$170 in child

support every two weeks, or \$4,422 when annualized causing the household's income to exceed HUD's income guidelines.

The City Lacked Documentation to Support Its Use of More Than \$266,000 in Initiative Funds for Activities

The City lacked documentation for the 38 activities to support that it followed HUD's regulations when it used \$266,382 in Initiative funds to provide downpayments, closing costs, homebuyer counseling, and home inspections. The City did not conduct inspections to determine whether houses met all applicable state and local housing quality standards and code requirements. Further, the City could not provide adequate environmental review documentation for the 38 activities and a lead-based paint disclosure form for 14 activities.

The City Lacked Adequate Procedures and Controls

The weaknesses regarding the City's providing assistance to overincome individuals and lacking documentation to support that activities were appropriate occurred because the City lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. It did not ensure that it fully implemented HUD's regulations.

The City required applicants to sign authorizations for the release of information. However, it did not always use the authorizations to obtain third party verifications for income, child support, or Social Security benefits. The housing division manager of the City's Department stated that the Department's staff needed additional training regarding income calculations.

The housing division manager stated that the Department had been inspecting the activities for HUD's housing quality standards rather than all applicable state and local housing quality standards and code requirements since before he became the housing division manager in April 2005. As of July 2, 2007, and in response to our audit, the City's Department started conducting inspections to determine whether houses met all applicable state and local housing quality standards and code requirements.

The housing division manager stated that it appeared that the City's Department followed its initial environmental review record without determining whether it was completed in accordance with HUD's requirements. The housing division manager said that the lack of lead-based paint disclosure forms occurred due to oversights.

Conclusion

The City did not properly use its Initiative funds when it failed to comply with HUD's requirements. As previously mentioned, the City provided \$41,000 in Initiative funds to assist five activities in which the households were not income eligible and was unable to support its use of \$266,382 in Initiative funds for the 38 activities without sufficient documentation supporting eligibility.

If the City implements adequate procedures and controls over Initiative funds to ensure compliance with HUD's regulations, we estimate that it will not use \$34,308 in Initiative funds over the next year for activities in which homebuyers are not income eligible. 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 Columbus Office of Community Planning and Development require the City to

- 2A. Reimburse its Initiative \$41,000 from nonfederal funds for the five activities cited in this finding in which the households were not income eligible.
- 2B. Provide supporting documentation or reimburse its Initiative from nonfederal funds the \$266,382 used for the 38 activities cited in this finding in which the City did not conduct inspections to determine whether the houses met all applicable state and local housing quality standards and code requirements and/or could not provide adequate environmental review documentation and/or a lead-based paint disclosure form.
- 2C. Implement adequate procedures and controls to ensure that Initiative funds are only used for eligible activities to prevent \$34,308 in Initiative funds from being used over the next 12 months contrary to HUD's regulations.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 5, 35, 58, 84, 85, and 92; HUD's Office of Community Planning and Development Notices 96-9 and 01-11; Office of Management and Budget Circulars A-87 and A-122; and HUD's "Building HOME: a Program Primer."
- The City's accounting records; annual audited financial statements for 2005 and 2006; most recent internal audit report, dated October 2004; data from HUD's Integrated Disbursement Information System; Program, project, and activity files; computerized databases; by-laws; policies; procedures; organizational chart; consolidated annual plans; and consolidated annual performance and evaluation reports.
- The Center's accounting records, annual audited financial statements for 2005 and 2006, Program and project files; policies; and procedures.
- HUD's files for the City.

We also interviewed the City's employees, the Center's employees, Program participants, and HUD staff.

Finding 1

We selected all 18 projects that the City completed from January 1, 2005, through March 23, 2007. The 18 units were selected to determine whether the City effectively administered its Program and provided assistance for eligible projects. Our sampling results determined that the City inappropriately provided housing rehabilitation assistance to three (16.6 percent) of the 18 projects. The City provided nearly \$1.4 million in Program funds for the 18 projects for an average of \$75,412 per project. The City completes approximately eight (18 projects divided by 27 months times 12 months) projects per year.

We estimated that the City will annually use at least \$100,147 (8 projects times \$75,412 times 16.6 percent) in Program funds for improper projects. 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 City 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 38 of the City's activities using the U.S. Army Audit Agency's Statistical Sampling System software from the 85 activities completed from January 1, 2005,

through March 23, 2007. The 38 units were selected to determine whether the City effectively administered its Program and provided assistance for eligible activities. Our sampling criteria used a 90 percent confidence level, 50 percent error rate, and precision of plus or minus 10 percent.

Our sampling results determined that the City inappropriately used Initiative funds for five (13.1 percent) of the 38 activities. The City provided nearly \$586,000 in Initiative funds for the 85 activities from January 2005 through March 2007 for an average of \$6,892 per activity. The City completes approximately 38 (85 activities divided by 27 months times 12 months) activities per year.

We estimated that the City will annually use at least \$34,308 (38 activities times \$6,892 times 13.1 percent) in Initiative funds for activities that do not qualify as income eligible. This estimate is presented solely to demonstrate the annual amount of Initiative funds that could be put to better use on eligible activities if the City implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work from February through August 2007 at the City's office located at 805 Central Avenue, Cincinnati, Ohio. The audit covered the period January 2005 through January 2007 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 City lacked adequate procedures and controls to ensure compliance with HUD's regulations regarding the use of Program and Initiative funds for eligible projects and 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	\$225,085		
1B		\$1,106,774	
1C			\$100,147
2A	<u>41,000</u>		
2B		<u>266,382</u>	
2C			<u>34,308</u>
Totals	<u>\$266,085</u>	<u>\$1,373,156</u>	<u>\$134,455</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of 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 City implements our recommendations it will cease using Program and Initiative funds for improper projects and activities. Once the City 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



City of Cincinnati

Department of Community Development and Planning

September 20, 2007

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Mr. Brent Bowen, Assistant Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Michael L. Cervay
Director

Dear Mr. Bowen:

This letter serves as the City of Cincinnati's response to your letter dated September 7, 2007 related to the phase 1 discussion draft of HUD's Office of Inspector General for Audit. Our City Manager has highlighted numerous times that Community Development and Economic Development is the leading engines driving our City's commitment to our residents. Therefore, be assured, the City is committed to effectively administering federal programs in compliance with HUD and all federal agency guidelines. My thanks to you and your staff for allowing us this opportunity to resolve outstanding issues related to HUD HOME programs operating in Cincinnati.

I will address each finding, specific issue and recommendation in the order in which they were presented in your letter. HUD information is in italics. The City response to each point is encapsulated and placed in bold text:

HUD Finding 1: Controls of the City's Program Projects Were Inadequate
The City did not comply with HUD's regulations in providing housing rehabilitation assistance for projects. It provided assistance for ineligible projects and did not have documentation to support that projects were eligible because it lacked adequate procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, it inappropriately provided more than \$225,000 in Program funds to assist three projects that either did not qualify as affordable housing or in which the household was not income eligible and was unable to support its use of more than \$1.2 million in Program funds. Based on our sample, we estimate that over the next year, the City will use more than \$100,000 in Program funds for improper projects.

Recommendations to HUD's Columbus Office of Community Planning and Development:
1A. Reimburse its Program \$225,085 (\$155,090 to assist the two projects that did not qualify as affordable housing plus \$69,995 used to assist the one project in which the household was not income eligible) from nonfederal funds for the improper use of Program funds cited in this finding.

Equal Opportunity Employer

Ref to OIG Evaluation

Auditee Comments

City of Cincinnati Response to Letter from
HUD's Office of Inspector General for Audit
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City Response:

Our current subrecipient administering the HOME program is the Home Ownership Center of Greater Cincinnati (HOC). This agency is a regional member to NeighborWorks America, a national non-profit experienced with HUD programs. This statement is being made only to clarify the City's past indirect contact with client files.

Comment 1

Your letter indicated that Activities #2031 and #1928 exceeded the affordability limit at the time of assistance. In 2005 the affordability limit was \$179,901. In 2006 the limit increased to \$228,000. This represents a 27% increase in a single year. In 2007 the limit increased to \$252,700. This represents an 11% increase. It is the City's contention that the affordability limit in 2005 was possibly too low and that it was adjusted in 2006 to reflect the correct limits. This could explain the 27% increase in a single year.

Comment 2

According to the Hamilton County Auditor's records for Activity #1928, the total value of the property in 2005 was \$169,000, which is below the limit of \$179,901. The Auditor's value for 2006, after completion of the repairs is \$208,500, which is still below the affordability limit for 2006. A copy of the Auditor's Value History is included with this letter as Attachment #1. The homeowners are income eligible to receive assistance.

Comments 1
and 3

According to the Hamilton County Auditor's records for Activity #2031, the total value of the property in 2005 was \$188,800. A copy of the Auditor's Value History is included with this letter as Attachment #2. This is nearly identical to the appraised value of \$189,000. If the affordability limit in 2005 were too low, this project would have met qualification if only a 5.1% increase were realized. The appraisal was completed July 12, 2005 with the work not completed until July 21, 2006. In 2006, the affordability was \$208,500, and the house would have met affordability requirements. This household consists of a person of very modest means who without this assistance would have continued to live in substandard conditions, or have been forced to sell her home of 10 years and move to an area of less expensive housing. The homeowner has been able to maintain the home in an area that has received substantial City and private investment in the past several years.

Comment 4

The City is requesting consideration of a waiver due to the increases in affordability limits which now puts the property in compliance (per the reasons stated above). e. The assistance was clearly a benefit to the family in need and NOT a misuse of funds.

Your letter states that for IDIS #1783, the household income exceeded the required income guidelines. For 2003, the City determined the homeowner's income was \$28,939.71 based on a Year-to-Date analysis from pay stubs provided by the owner (\$25,600.51 / 23 pays x 26 pays = \$28939.71). Because this project started in December 2003 and went into 2004, the City looked at income verification for both years. In 2004, the owner's income was on the border of eligibility based on a Year-to-Date analysis. The analysis determined the anticipated income for 2004 to be between \$34,404.21 (\$23,818.30 / 17 pays x 26 pays) and \$36,427.99 (\$23,818.30 / 18 pays x 26 pays). The City of Cincinnati will be working with the HOC to get a copy of Third Party Verification from the employer for 2003 and 2004. The HOC will be required to get an Income Certification from the homeowner that certifies that all sources of household income were disclosed for 2003 and 2004. Tax records for 2003 and 2004 will also be sought to confirm the owner's eligibility under the program for both years.

Ref to OIG Evaluation

Auditee Comments

Comment 4

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It is the City's belief that based on the information available at the time of project commencement the household met the required income guidelines.

1B. Provide supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the \$1,210,532 in Program funds used for the 16 projects cited in this finding for which the City lacked sufficient income documentation to demonstrate that households were income eligible and/or pre-rehabilitation appraisals for the after-rehabilitation value of the houses to show that the projects qualified as affordable housing.

Comment 5

City Response:

Your letter indicated that 3 activities, #1775, #1782 and #1906, lacked a Pre-rehabilitation appraisal that provided the after-rehabilitation value of the houses to show that the projects qualified as affordable housing. The files did contain appraisals prepared by Thomas M. Connelly that indicated that the appraisals were prepared for an "As is" value. These appraisals indicate on page 1 of 2 that "The subject will be in "Above Average" condition upon completion of repairs." On page 2 of 2, the box by "As is" has been checked. This box has been checked in error on these appraisals as attested to by a letter from the appraiser. This letter is included and marked as Attachment #3.

The City requests that this be accepted as proof that a pre-rehabilitation appraisal was performed for these 3 activities and was used to demonstrate the projects qualified as affordable housing.

Your letter further cites 15 activities that lacked sufficient income documentation to determine income eligibility of the households. Some earlier files that were possibly not in compliance with HUD HOME regulations may have resulted from the lack of training on these issues. Training on Income Eligibility Determination was conducted for 14 City staff on December 2005 and for 14 subrecipients, including HOC in January 2006.

Our current subrecipient for the HOME program is the Home Ownership Center (HOC). This agency is a regional member to NeighborWorks America, a national non-profit experienced with HUD programs. The City, through HOC, is working diligently to resolve these issues and to put systems in place for the future.

The City conducted a 2nd review of files from HOC August 27 & 28, 2007 in an effort to collect files related to the HUD Audit issues. In a letter dated September 10, 2007 (Attachment #4), the City also notified HOC that, "For all properties above whereby: a) income eligibility was not determined, b) insufficient files have been maintained or, c) assistance exceeded the federal limits, the City will seek repayment from HOC of all federal HOME funds related to each incident."

The City staff analysis of the files follows:

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IDIS # 1774

The City determined the homeowner's income for 2003 to be \$32,194.68 (\$30,956.42 / 25 pays x 26 pays) based on a Year-to-Date analysis from pay stubs provided by the owner. This project started in December of 2003 and went into 2004, therefore City looked at income verification for both years. The analysis for 2004 determined the household income to be \$46,628.55 (\$12,553.84 / 7 pays x 26 pays). The City of Cincinnati will be working with the HOC to get a copy of Third Party Verification from the employer for 2003 and 2004. Information in the file alluded to the possibility of income from a childcare business owned by one of the household members. However, there was not sufficient information in the file to make a determination on the income potentially received from this business. The HOC will be required to get an Income Certification and Asset Certification from the homeowner that will certify all sources of household income were disclosed for 2003 and 2004. The City will also seek tax records for 2003 and 2004 to confirm the owner's eligibility under the program for both years. The household consisted of 4 persons. The total annual income was less than 80% AMI or the amount of \$51,450 allowed under the HOME program for a household of 4 in 2004 and 2005. **The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.**

IDIS # 1775

The owner's annual income for 2003 was determined to be \$26,867.93 (\$18,040.23 Phoenix / 8.25 months x 12 months + \$470.70 Hyatt / 9 months x 12 months). In 2004, the income increased to \$31,040.97 (\$12,318.50 Phoenix / 6.5 months x 12 months + \$2,247.68 Hyatt / 3.25 months x 12 months). The file also includes W-2 information that supported information on the pay stubs. The HOC will be required to get an Income Certification and Asset Certification from the homeowner that will certify all sources of household income were disclosed for 2003 and 2004. The City will also seek tax records for 2003 and 2004 to confirm the owner's eligibility under the program for both years. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2003 and 2004. **The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.**

IDIS # 1776

City monitoring staff determined the homeowner's annual income for 2004 was \$11,664. The income verification was supported by Social Security Beneficiary documents provided by the homeowner for the calendar year starting on January 2, 2004. The City of Cincinnati will be working with the HOC to get a copy of Third Party Verification from the Social Security Administration for 2004. The HOC will also be required to get an Income Certification from the homeowner that certifies all sources of household income were disclosed for 2004. Tax records for 2004 will also be sought to confirm the owner's eligibility under the program. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2004. **The City believes that this household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.**

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IDIS # 1785

The owner is self-employed and the City determined the HOC did not collect sufficient income verification on this homeowner for 2003 and 2004. Partial tax forms were provided for 2001, 2002, and 2003. However, it was not possible to conclusively determine annual income from this information. The City intends to provide technical assistance to the HOC regarding what procedures to follow regarding self-employment verification and required documentation that should be maintained in project files. Based on the limited information and lack of supporting documentation, the City was able to estimate annual income of \$28,800. The HOC will be required to get an Income Certification and Asset Certification from the homeowner that will certify all sources of household income were disclosed for 2003 and 2004. The City will also seek tax records for 2003 and 2004 to confirm the owner's eligibility under the program for both years. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2003 and 2004.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 1786

The owner's income for 2003 was determined to be \$24,797.34 and was based on an average of pay stubs from: 10/24, 10/31, 11/14, 11/21, and 11/28 (\$474.77 + \$530.44 + \$443.07 + \$459.28 + \$476.80 / 5 x 52). In 2004, the projected annual income was \$26,775.65 and determined by using Year-to-Date analysis (\$18,536.99 / 36 pays x 52 pays). The YTD was taken from the check dated 9/17/04. 9 separate pay stubs were provided to document ongoing income with the most recent being used to do the YTD analysis. The HOC will be required to get an Income Certification and Asset Certification from the homeowner that will certify all sources of household income were disclosed for 2003 and 2004. The City will also seek tax records for 2003 and 2004 to confirm the owner's eligibility under the program for both years. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2003 and 2004.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 1886

Based on a preliminary review, the City has determined the owner's annual household income to be \$30,372 (\$12,684 pension + \$17,688). There was insufficient documentation on Social Security and Pension benefits in the file. Therefore, the City will be requesting Third Party verification on both sources of income. The HOC will be required to get an Income Certification, Asset Certification, and Zero Income Certification from the homeowner that will certify all sources of household income were disclosed for 2004. The City will also seek tax records for 2004 to confirm the owner's eligibility under the program. The household consisted of 2 persons. The total annual income was less than 80% AMI or the amount of \$41,150 allowed under the HOME program for a household of 2 in 2004.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

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IDIS # 1905

HOC made a documented attempt to get Third Party verification on the homeowner's employment income. It appears the employer returned a partially completed verification form. However, the owner provided 2 pay stubs for 2004 and 2 pay stubs for 2005. Household income for 2004 was determined to be \$20,273.69 based on Year-to-Date analysis plus value of assets (\$2,759.97 / 8.25 months x 12 months + \$11,877.70 / 9 months x 12 months + 21,112.81 x 2%). Anticipated income for 2005 totaled \$15,875.40 (\$451.26 pension x 12 + \$735.54 / 3.25 months x 12 months + \$3,838.14 / 3.5 months x 12 months). The HOC will be required to get an Income Certification and Asset Certification from the homeowner that will certify all sources of household income were disclosed for 2003 and 2004. The City will also seek tax records for 2003 and 2004 to confirm the owner's eligibility under the program for both years. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2004 and \$36,100 in 2005.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 1907

The homeowner's annual income for 2005 was \$16,286.40. The income verification was supported by Social Security Beneficiary documents provided by the homeowner for the calendar year starting on January 12, 2005. Because this project appears to have started in 2004, the City will be working with the HOC to get a copy of Third Party Verification from the Social Security Administration for 2004 and 2005. The HOC will be required to get an Income Certification from the homeowner that certifies all sources of household income were disclosed for 2004 and 2005. Tax records for 2004 and 2005 will also be sought to confirm the owner's eligibility under the program. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,000 allowed under the HOME program for a household of 1 in 2004 and \$36,100 in 2005.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 1928

The owner's income was verified through Third Party documentation on 11/16/04. The annual income totaled \$41,200 for 2004. In 2005, the owner provided a copy of direct deposits provided from the employer. The direct deposits were dated 4/1/05, 4/15/05, 4/29/05, and 5/13/05. The direct deposit statement did not include a year-to-date number. Therefore, the largest bi-weekly pay amount was multiplied by 26 weeks to come up with an annual projected income of \$45,254.04. The HOC will be required to get an Income Certification, Asset Certification, and Zero Income Certification from the homeowners that will certify all sources of household income were disclosed for 2004 and 2005. The City will also seek tax records for 2004 and 2005 to confirm the owner's eligibility under the program for both years. The household consisted of 4 persons. The total annual income was less than 80% AMI or the amount of \$51,450 allowed under the HOME program for a household of 4 in 2004 and 51,600 allowed in 2005.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

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IDIS # 2031

The owner's annual income from Social Security is \$8,808. In addition to SSI, the homeowner has additional investments in a retirement account that has a calculated annual value of \$2311.52. The combined total of income and assets equaled \$11,119.52 for 2005. The City of Cincinnati will be working with the HOC to get a copy of Third Party Verification from the Social Security Administration for 2005. The HOC will be required to get an Income Certification from the homeowner that certifies all sources of household income were disclosed for 2005. Tax records for 2005 will also be sought to confirm the owner's eligibility under the program. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,100 allowed under the HOME program for a household of 1 in 2005.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 2032

The City calculated annual income to be \$31,968.83 for 2005 (\$21,312.55 / 16 bi-monthly pays x 24 pays) and was based on the most recent pay stub dated 8/31/05. The owner provided a total of 4 pay stubs that provided consistent information regarding the employee's income. The HOC will be required to get an Income Certification, Asset Certification, and Zero Income Certification from the homeowner that will certify all sources of household income were disclosed for 2005. The City will also seek tax records for 2005 to confirm the owner's eligibility under the program. The household consisted of 2 persons. The total annual income was less than 80% AMI or the amount of \$41,300 allowed under the HOME program for a household of 2 in 2005.

The City believes that the household met income qualification but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 2033

The City calculated annual income to be \$26,342.97 for 2005 (\$17,224.25 / 17 bi-weekly pays x 26 pays) and was based on the most recent pay stub dated 8/26/05. The owner provided a total of 4 pay stubs that provided consistent information regarding the employee's income. The HOC will be required to get an Income Certification, Asset Certification, and Zero Income Certification from the homeowner that will certify all sources of household income were disclosed for 2005. The City will also seek tax records for 2005 to confirm the owner's eligibility under the program. The household consisted of 4 persons. The total annual income was less than 80% AMI or the amount of \$51,600 allowed under the HOME program for a household of 4 in 2005.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 2034

The homeowner's annual income for 2005 was \$57,390.93. Multiple pay stubs and some Third Party documentation supported the income verification for 2005. The HOC will be required to get an Income Certification from the homeowner that certifies all sources of household income were disclosed for 2005. Tax records for 2005 will also be sought to confirm the owner's eligibility under the program. The household consisted of 10 people. The total annual income was less than 80% AMI or the amount of \$68,100 allowed under the HOME program for a household of 8 in 2005.

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The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

IDIS # 2140

City monitoring staff determined the homeowner's annual income for 2005 was \$13,646.40. The income verification was supported by Social Security Beneficiary documents provided by the homeowner for the calendar year starting on January 3, 2005. In 2006, the annual Social Security benefits increased to \$14,202. The City of Cincinnati will be working with the HOC to get a copy of Third Party Verification from the Social Security Administration for 2005 and 2006. The HOC will be required to get an Income Certification from the homeowner that certifies all sources of household income were disclosed for 2005 and 2006. Tax records for 2005 and 2006 will also be sought to confirm the owner's eligibility under the program. The household consisted of 1 person. The total annual income was less than 80% AMI or the amount of \$36,100 allowed under the HOME program for a household of 1 in 2005 and \$36,200 allowed in 2006.

The City believes that the household met income qualifications but will further verify all income and the household financial information with the assistance of the HOC.

The City will work with HOC to write every program recipient impacted requesting tax returns to verify income. However, should all required documents not be located by HOC or a program recipient by October 8, 2007, HOC will be held financially accountable by the City for repayment to the program following HUD regulations 24CFR84.60, 24CFR84.62, 24CFR84.71, 24CFR84.73, and 24CFR84.87 as appropriate to the situation. The City's Law Department has already been contacted to provide leadership on this process. The City will request assistance from the State HUD office to work with us to mitigate damages using the appropriate federal regulations.

1C. Implement adequate procedures and controls to ensure that housing rehabilitation assistance is only provided to appropriate projects to prevent \$100,147 in Program funds from being used over the next 12 months contrary to HUD's regulations.

City's Response:

The City will institute the following processes upon review and comment by HUD and City Departments (as applicable):

□ Reassign staff to HOME program.

The Deputy Director of Community Development and Planning has over 15 years of experience in the granting of funds and monitoring various federal programs. The Housing Division Manager has more than 25 years of experience. Additionally, two Housing Division staff trained in monitoring and HOME from within the Department of Community Development and Planning have recently been re-assigned monitoring and procedural responsibilities related to HOME and the current HOC relationship. These individuals and the Housing Division Manager, will create the reporting, monitoring and filing processes under HUD regulations.

□ Maintain a trained staff contingent.

Some transitions of staff HOME program oversight have been made to increase continual oversight of HUD funds. The Department of Community Development and Planning is currently

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reviewing staff role descriptions, staff competency levels, and training needs for staff paid with HUD funds.

In October, staff from this department will be divided into teams with half attending the Ohio Conference of Community Development, Inc.'s (OCCD) training entitled, "Determining Income and Allowances: Basics of Income Eligibility for the HOME Program," that will be held October 16-18, 2007 and the other half will be attending the "All the Right Moves" training on HUD relocation procedures. These training procedures will be incorporated into the City's Department of Community Development's internal processes as applicable.

□ Maintain a Copy of HOME Files and Records in-house.

In the past, all Project files were maintained in the office of HOC in an effort to reduce paper duplication and the City went to HOC to review files. Effective October 1, 2007, the City will require HOC to forward individual files to our office prior to an awarding of Program funds to a Project. On a case-by-case basis, our staff will review HOC's file to ensure all documents meet HUD standards. Our staff will provide HOC with an approval form before the individual project funding process proceeds. This new process will assist in catching potential problems before they arise while also providing a back-up file maintenance system.

□ Evaluate the best use of HUD resources pertaining to the HOME program.

The City entered into an agreement with HOC more than 10 years ago due to its national affiliation, local experience and previous audits without findings. A review of the relationship with this agency is currently underway with a determination of our future approach to be made within 60 days of the date of this letter. Options the City will assess are bringing processes in-house or issuing another Request for Proposals. Should the City determine it is not feasible to re-negotiate a contract with HOC, we will communicate to HOC and follow all federal regulations pertinent to close procedures.

□ Amend Funding Agreement with HOC for HOME implementation when legally possible.

Should the subrecipient relationship be extended in the next fiscal year, this new Funding Agreement will encompass City-required due diligence as well as HUD standards found in 24CFR84.21, 24CFR84.41, 24CFR84.47, 24CFR84.50, 24CFR84.52, 24CFR84.53, and 24CFR84.85. Within 60 days, a final draft of a newly-proposed Funding Agreement will be forwarded the State HUD office for review and comment prior to use.

□ Institute "HOME Monitoring Tracking Sheet."

All City staff will use this document (Attachment #5) during quarterly monitoring visits to the subrecipient. Along with specific Project-related information, this form provides the following: 1) Project numbers; 2) the date of the visit; 3) funding year reviewed; 4) # of files reviewed; and, 5) the staff person who monitored. This document, when coupled with the required filing processes, monthly reports and monitoring protocol, increases accountability for all Projects.

□ Develop a new procedural manual.

Using HUD website documents AND HUD staff input, the City will develop a draft manual outlining Project data collection forms, filing systems, reporting documents, and monitoring processes that comply with various HUD regulations. The 1st draft of this manual will be finalized within 90 days from the date of this letter. Should a subrecipient be contracted, the entity will be

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formally trained on all processes and will be given clear direction about the City's expectations for maintaining past and future records as part of a Funding Agreement.

□ Conduct quarterly monitoring visits and file reviews.

Additionally, City staff will use this manual in conducting quarterly monitoring visits and file reviews that will begin in 2008 and will be held on or before April 1st, July 1st, October 1st, and January 1st of a calendar year. The City will be held accountable for performance (and/or will hold the subrecipient liable for noncompliance). If a subrecipient is identified as "not in compliance," the liability will begin with a withholding of future payments until information can be accessed.

□ Increase checks and balances.

Within 60-90 days, a new monthly report and quarterly monitoring instrument and process will be created for incorporation into our systems and used throughout the funding and implementation of Projects. The City will forward plans regarding our new compliance processes to the State HUD office within 45 days of this letter for review and comment prior to use. Once reviewed by the State HUD office, newly designated staff and Department of Community Development and Planning leadership will communicate expectations of compliance to HOC in writing with a scheduled, formal face-to-face meeting within 15 days from the date of review.

Finding 2: Controls Over the City's Initiative Activities Were Inadequate

The City did not comply with HUD's regulations in providing downpayments, closing costs, homebuyer counseling, and home inspections for Initiative activities. It provided assistance for ineligible activities and did not have documentation to support that activities were eligible because it lacked adequate procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, it inappropriately provided \$41,000 in Initiative funds to assist five activities in which the households were not income eligible and was unable to support its use of more than \$266,000 in Initiative funds. Based on our statistical sample, we estimate that over the next year, the City will use more than \$34,000 in Initiative funds for activities in which the households are not income eligible.

Recommendations to HUD's Columbus Office of Community Planning and Development:

2A. Reimburse its Initiative \$41,000 from nonfederal funds for the five activities cited in this finding in which the households were not income eligible.

City's Response:

The ADDI program is administered internally through the Department of Community Development and Planning.

For each of the IDIS Activity Numbers identified in the draft report, the City of Cincinnati subsequently reviewed each project file. The following reflects the City's findings:

IDIS # 1934

The applicant's file contained a signed verification dated 2/4/05 from the applicant regarding sources of income, pay stubs for January, 2005 and the last pay stub for December 2004 as

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well as the 2004 W-2 Wage and Tax Statement from the applicant's employer. To determine the anticipated income for the next 12 months, projections were made from the applicant's current circumstances. Comparing this anticipated income to the 2005 income limits for a 2-person household (\$41,300) the applicant appears to be \$398 over income. Based on the information in the file, the City does not believe there was sufficient documentation to accurately project anticipated income. In this case the applicant is also very close to the income threshold. **To clear this finding the City will be working to obtain additional documentation from the applicant and third party verification from the employer.**

IDIS # 2065

Income verification consists of 6 pay stubs from the applicant's employer. The pay stubs are from the period beginning December 7, 2005 and ending February 8, 2006. The applicant's base rate is \$12.04 providing an annual base salary of \$25,043.20. However, as indicated in the calculations contained in the file, during every pay period reviewed there was overtime ranging from approx 8 hrs to 25 hrs. Unfortunately there was no additional inquiry into whether this overtime would continue for the next 12 months. For example it could have been seasonal or as a result of a temporary change in the staffing level of the office. Since the file contains the last pay check from 2005 (i.e., 12/21/05) the applicant's total gross annual salary, including overtime (approx 240 hrs for the year, was \$29,493.54 which indicates that a straight line projection for overtime from the pay stubs submitted is not accurate. Adding the \$6,900 social security income for the minor child to the year-end total of \$29,493.54 provides an annual total of \$36,393.54, which is below the eligibility threshold.

The City believes the applicant met income requirements but will obtain additional information to confirm.

IDIS # 2068

Income verification consists of 7 pay stubs from the applicant's employer. The pay stubs are from the period beginning October 25, 2005 and ending January 17, 2006. The applicant's hourly base rate differs slightly for various shifts (i.e., \$17.50 - \$19.25). The overtime rate also varies according to the shift worked (e.g., \$28.08 - \$28.39 per hour). During the period reviewed, the applicant worked 124 hours of overtime or an average of 17 hours per pay period. Merely averaging the 7 pay stubs, the applicant appears to be over-income. However, there are two items documented in the file that may indicate otherwise: 1) The employer indicated that the applicant's hourly rate was adjusted to \$17.50 per hour (which the final pay stub supported) and that the applicant was no longer guaranteed any overtime; and 2) The applicant's 2005 Tax Return showed total wages at \$31,424 which is hard to reconcile with the pay stubs submitted. In order to determine the anticipated income, additional questions should have been asked of the employer.

The City believes the applicant met income requirements but will obtain additional information to confirm.

IDIS # 2113

Income verification consists of 6 pay stubs from the employer of Household Member # 1. The pay stubs are from the period beginning April 12, 2006 and ending June 21, 2006. It appears that Household Member # 1's gross bi-weekly salary is \$712.58. Documentation for Household Member # 2 consists of pay stubs from the employer showing a fairly consistent schedule of overtime. Household member # 2 also works at a second job approximately 8 hrs per pay

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period (pay periods are bi-weekly). Total gross earnings from job # 2 are estimated at \$1,872 however it may be slightly lower since, as of the mid-year point, Household Member # 2 had only worked 82 hrs. Also, a pay stub from 12/21/05 (i.e., year end) showed a total of 180.5 hours worked. Actual income from assets appeared negligible. The applicant did not report any income for the minor children (i.e., social security, child support, etc). Based on an analysis of the income reported and the extensive supporting documentation, the applicants appear eligible. There are two issues regarding the child support issue – 1) The applicant did not report the child support (perhaps because it was significantly in arrears and not actually being paid); and 2) The City verifies all sources of income that the applicant discloses and does not routinely conduct third party verifications for all "possible" sources of income. **Based on the information available, the City believes that the applicants are income eligible.**

IDIS # 2144

Income verification consists of 7 pay stubs from the applicant's employer. The pay stubs are from the period beginning March 5, 2006 and ending July 8, 2006. However, one of the pay stubs is for the period June 12 - Jun 25, 2005. The applicant indicated that their annual income was \$46,269 that may have been based on actual earned income. The anticipated annual income is projected to be \$47,377.46 (\$1,822.20 x 26) and appears to be \$827.46 above the eligibility threshold. Since there appears to be a discrepancy and the income is so close to the threshold, a letter from the School Board confirming the anticipated income for the next year might have been helpful.

To clear this finding the City will be working to secure additional documentation including a third party verification from the employer and tax records.

2B. Provide supporting documentation or reimburse its Initiative from nonfederal funds the \$266,382 used for the 38 activities cited in this finding in which the City did not conduct inspections to determine whether the houses met all applicable state and local housing quality standards and code requirements and/or could not provide adequate environmental review documentation, a lead-based paint disclosure form, and/or documentation supporting that an individual was a first-time homebuyer.

City's Response:

This recommendation encompasses 4 separate areas that will be addressed separately.

Comment 8

State and/or Local Code Inspection

Prior to July 10, 2007, inspections on the properties were conducted by a contract architectural firm based on Housing Quality Standards. The inspections conducted were very thorough and included many items not necessarily considered during an inspection by a City Building Inspector who would be looking for compliance with the City Building Code. According to a memo dated September 19, 2007 from William Langevin, Director of Buildings and Inspections, the inspections standards used by the contract architect appear to meet the provisions of the City Building Code standards. A copy of this memo is included with this as Attachment #6. Since July 10, 2007, all inspections are being conducted by City Housing Inspectors.

Ref to OIG Evaluation

Auditee Comments

Comment 8

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The City feels that this will comply with HUD's regulations at 24 CFR [Code of Federal Regulations] 92.251(a)(2) and asks that it be accepted to clear this finding.

Comment 9

Environmental Review

A new Environmental Review Record for the American Dream Downpayment Initiative Program, (ADDI) was conducted on August 30, 2007. Subsequently, case-by-case Environmental Reviews were performed on the 38 activities reviewed. Copies of the programmatic and the case-by-case reviews are included with this letter as Attachment #7. This attachment includes 117 pages.

Case-by-case reviews are being conducted on all prior ADDI activities. All new activities will have case-by-case reviews performed prior to funding release.

The City feels that this will comply with HUD's regulations at 24 CFR [Code of Federal Regulations] 92.352 and requests acceptance by HUD to clear this finding.

Comment 10

Lead Based Paint Disclosure

The table headed "Unsupported American Dream Downpayment Initiative Activities", included with this letter as Attachment #8, listed 15 activities that were missing Lead Based Paint Disclosures. The files for activities #1942, #1952, #1955, #1961, #2085, and #2135 contained sales contracts that indicated that the household received the Lead Based Paint Disclosures. Copies of the sales contracts for these activities are included with this letter as Attachment #9. This attachment includes 27 pages.

The household for activity #2060 has received the Lead Based Paint Disclosure as indicated by the disclosure in the file. A copy of the disclosure is included with this letter as Attachment #10.

This evidence should be sufficient to comply with 24 CFR 35.92 for these 7 activities and the City requests acceptance by HUD to remove them from this finding. The City will work to obtain sufficient records for the remaining activities to satisfy the rest of the finding. It is our plan to close out this issue within 30 days.

Comment 11

First Time Homebuyer

The First Time Homebuyer certification form for activity #1934 was not in the file. The household has provided the information and has verified that they are a First-Time Homebuyer. This is included with this letter as Attachment #11.

This documentation should be sufficient to comply with 24 CFR 92.2 for this activity and the City asks that it accepted and remove it from this finding.

2C. Implement adequate procedures and controls to ensure that Initiative funds are only used for eligible activities to prevent \$34,308 in Initiative funds from being used over the next 12 months contrary to HUD's regulations.

Comment 12

City's Response:

The City will institute the following processes upon review and comment by HUD and City Departments (as applicable):

Ref to OIG Evaluation

Auditee Comments

Comment 12

<p>City of Cincinnati Response to Letter from HUD's Office of Inspector General for Audit Dated 9/20/07, 15 pages</p> <p style="text-align: right;">14 of 15</p> <p><input type="checkbox"/> <u>Develop Third Party Verification Form (Over-time).</u> Through this newly created document, the City will have the ability to contact employers to gauge overtime payments to applicants to the ADDI program as a means of verifying income. The document (Attachment #12) will be incorporated immediately into the signature packet and files of all ADDI applicants.</p> <p><input type="checkbox"/> <u>Develop a Third Party Verification Form (Child Support).</u> The Hamilton County Child Support Office (Attachments #13, 4 pages) has already approved the verification process to verify Child Support payments to applicants of the ADDI program. The document will be incorporated immediately into the signature packet and files of all ADDI participants.</p> <p><input type="checkbox"/> <u>Offer joint training opportunities on HUD Regulations.</u> Within 30 days from the date of this letter, designated City Housing staff (and other City department staff as applicable) will be jointly trained on the following HUD regulations related to the compliance of eligible costs and Project expenditures: 24CFR92.203, 24CFR92.250, 24CFR92.254, 24CFR84.27, 24CFR84.45, 25CFR5.609, and 25CFR5.611 and other regulations required by HUD.</p> <p><input type="checkbox"/> <u>City-certified inspections.</u> All properties being considered for purchase assistance through this program will be inspected by a City housing inspector. The inspector must certify that the building meets the City of Cincinnati Building Code prior to fund commitment.</p> <p><input type="checkbox"/> <u>Environmental Reviews.</u> All properties being considered for purchase assistance through this program will be subject to a case-by-case environmental review prior to a funding commitment.</p> <p><input type="checkbox"/> <u>ADDI File Checklist.</u> The file checklist for the ADDI Program has been revised to include all items that are required to process the down payment assistance. This will prevent an activity from being funded without all the necessary documents and procedures being followed. A copy of the checklist is included with this letter as Attachment #14.</p> <p><input type="checkbox"/> <u>Increase HUD-specific and other professional development training for staff.</u> During the next fiscal year and beyond, Community Development's staff developmental opportunities will be prioritized and tracked to ensure individuals are trained on HUD guidelines. HUD resources will primarily be targeted for HUD-specific training such as the upcoming Income Determination, CDBG, and other opportunities offered by HUD. Furthermore, Community Development staff will continue to benefit from related training offered by the City's Human Resources Department to increase leadership capacity and other skills building. The City will continue to send staff to joint training opportunities for various City departments such as the recent "HUD IDIS" (September 13, 2007), "Davis Bacon/Prevailing Wage Determination" (September 14, 2007), and "All the Right Moves (October 16-18)." Externally, the City will enhance its relationship with County HUD programs and with other HUD-funded entities in the state and region in an effort to increase best practices. Other measures include regularly</p>
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Ref to OIG Evaluation

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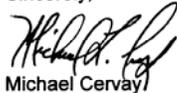
accessing the HUD website for resource information and training opportunities, increased communication with City Community Development Officer and HUD state office. Increased intra-city coordination and communication related to processes of accountability.

□ Increase checks and balances related to HUD programs.

Within 60 days, a new quarterly internal file review process will be created for incorporation into our systems and used throughout the funding and implementation of Projects. The City will forward plans regarding our new compliance processes to the State HUD office within 45 days of this letter for review and comment prior to use. Once review and comment has been completed by the State HUD office, newly designated staff and Department of Community Development and Planning leadership will communicate expectations of compliance to all staff impacted by the program.

In closing, it is my hope that HUD will determine that the City of Cincinnati made appropriate use of its HUD funds and has recognized our intent to increase our understanding and enhance operations relative to use of future funds. It is also my hope that our plans indicate to HUD that the City is willing to improve upon its current systems and relationships relative to federal programs. Given the benchmarks outlined throughout the narrative above for which we will be held accountable, the City will exhibit increased adequacy and capacity in its procedures and internal controls in future efforts. The City looks forward to continuing to partner with HUD, in order to achieve our common goals of providing appropriate assistance to eligible participants and to increase homeownership in the City of Cincinnati.

Sincerely,



Michael Cervay
Director

cc: Mark Mallory, Mayor, City of Cincinnati
Milton R. Dohoney, Jr., City Manager, City of Cincinnati
J. Rita McNeil, City Solicitor, City of Cincinnati
Lea Carroll, Director, Office of Budget, City of Cincinnati
Joe Gray, Director, Finance, City of Cincinnati
Dwen Chester, Deputy Director, Community Development and Planning
Herman Bowling, Housing Division Manager, Community Development and Planning
Oren Henry, Community Development Officer, City of Cincinnati
Jorgelle Lawson, Director, Office of Community Development and Planning, HUD Columbus
Richard Hendershot, Program Manager, Office of Community Development and Planning, HUD Columbus
Larry Goodwin, Program Officer, Office of Community Development and Planning, HUD Columbus

OIG's Evaluation of Auditee Comments

- Comment 1** HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.254(a)(2)(iii) allow the City to determine, with HUD approval, the 95 percent median area purchase price for single-family housing in the jurisdiction. However, the City did not request an increase to the affordability limit and used the single-family mortgage limits under section 203(b) of the National Housing Act.
- Comment 2** The City did not provide sufficient income documentation to demonstrate that the household for project number 1928 was income eligible.
- Comment 3** We do not have the authority to waive HUD's regulations.
- Comment 4** The City awarded Program funds for project number 1783 in December 2003. However, the City did not begin providing assistance to the single person household until September 2004. HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.203(d)(2) state that a household's annual income must be reexamined at the time of assistance if more than six months have elapsed since the household was qualified as income eligible. The project file contained earnings statements for three pay periods from July 11, through August 22, 2004. The earnings statements showed an average income of \$1,459 every two weeks. The household's annual income totaled \$37,934 (\$1,459 times 26). The limit for a low-income single person household was \$36,000. Therefore, the household income exceeded the required income guideline by \$1,934 (5.4 percent).
- Comment 5** The appraisals for project numbers 1782 and 1906 state that the appraised values recognize the projects' conditions after repairs. Therefore, we revised the report to state that the City lacked documentation for 15 of the 18 projects selected for review to support that it used more than \$1.1 million in Program funds for appropriate projects. We also amended recommendation 1B to reflect this revision. The appraisal for project number 1775 states that the appraisal was made as is and did not state that the appraised value recognizes the project's condition after repairs. Further, the letter from the appraiser was not on official letterhead and did not contain contact information for us to follow-up with the appraiser regarding the appraisals.
- Comment 6** The City's updated policies and procedures should improve its procedures and controls over its projects, if fully implemented.
- Comment 7** The project file for the household, activity number 2113, a four person household, contained earnings statements that showed an average income of more than \$1,944 every two weeks. Further, documentation from the County's Department of Job and Family Services showed that the household received more than \$170 in child support payments every two weeks. Therefore, the household's annual income totaled \$54,973. The limit for a four-person low-income household was

\$51,700. Therefore, the household income exceeded the required income guideline by \$3,273 (6.3 percent).

Comment 8 The City did not provide sufficient documentation to show that its inspections ensured that the activities met all applicable state and local housing quality standards and code requirements.

Comment 9 The City inappropriately cited 25 CFR [*Code of Federal Regulations*] 58.35(b)(5)(c) rather than 24 CFR [*Code of Federal Regulations*] 58.35(b)(5) in its environmental review record for the Initiative. The case by case environmental reviews for each activity inappropriately stated that the activities were exempt from National Environmental Policy Act procedures rather than that the activities were categorically excluded from National Environmental Policy Act procedures. In addition, the case by case environmental reviews did not cover all elements contained in 24 CFR [*Code of Federal Regulations*] 58.6, such as coastal barrier requirements and runway clear zones.

Comment 10 The City provided a sufficient lead-based paint disclosure form for activity number 2060. Therefore, we reduced the number of activities in which the City could not provide a lead-based paint disclosure form to 14 activities. The sales contracts the City provided for six activities did not contain all four elements required by HUD's regulations at 24 [*Code of Federal Regulations*] 35.92(a).

Comment 11 We removed from the report that the City could not provide adequate documentation supporting that a homebuyer for one activity was a first-time homebuyer. We also amended recommendation 2B to reflect this revision.

Comment 12 The City's updated policies and procedures should improve its procedures and controls over its activities, if fully implemented.

Appendix C

HUD'S REGULATIONS

Finding 1

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.203(a)(2) state that a participating jurisdiction must determine households' annual income by examining source documentation evidencing households' annual income. Section 92.203(d)(1) states that a participating jurisdiction must calculate a household's annual income by projecting the prevailing rate of the household's income at the time the participating jurisdiction determines the household to be income eligible. Annual income shall include income from all household members. Section 92.203(d)(2) states that a participating jurisdiction must reexamine a household's annual income at the time Program assistance is provided if more than six months has elapsed since the participating jurisdiction determined that the household qualified as income eligible.

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*] 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its Program, ensuring that Program funds are used in accordance with all Program requirements and written agreements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the participating jurisdiction of this responsibility.

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 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).

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.355 state that housing assisted with Program funds is subject to 24 CFR [*Code of Federal Regulations*] Part 35.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 35.92(a) state that each contract to sell target housing shall include an attachment containing the following elements: (1) a lead warning statement, (2) a statement by the seller regarding the presence of lead-based paint and/or lead-based paint hazards, (3) a list of any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards, and (4) a statement by the purchaser affirming receipt of lead-based paint and/or lead-based paint hazard information.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 58.35(b) state HUD has determined that activities to assist homebuyers in the purchase of existing dwelling units or dwelling units under construction, including closing costs and downpayment assistance, are categorically excluded activities that would not alter any conditions that would require a review or compliance determination regarding environmental impact. However, the recipient remains responsible for carrying out any applicable requirements in 24 CFR [*Code of Federal Regulations*] 58.6.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 58.6 state that the responsible entity remains responsible for addressing the requirements of its environmental review record and meeting the requirements, as applicable, regardless of whether the activity is exempt or categorically excluded.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.2 define a first-time homebuyer as an individual and his or her spouse who have not owned a home during the three year period prior to the purchase of a home with Initiative funds and a low-income family as a family whose annual income does not exceed 80 percent of the median income for the area as determined by HUD.

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*] 92.352(b)(1) state that no funds may be committed to an activity or project before the completion of the environmental review and related certification, except as authorized by 24 CFR [*Code of Federal Regulations*] Part 58.

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 it 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 at 24 CFR [*Code of Federal Regulations*] 92.251.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.602(a)(1) state that Initiative funds may only be used for downpayment assistance toward the purchase of single-family housing by low-income families who are first-time homebuyers.

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.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.614(a)(2) state that the environmental review requirements contained in 24 CFR [*Code of Federal Regulations*] 92.352 apply to Initiative activities.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.614(a)(4) state that the lead-based paint prevention and abatement requirements contained in 24 CFR [*Code of Federal Regulations*] 92.355 apply to Initiative activities.