Issue Date June 7, 2008
Audit Report Number 2008-CH-1009

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 Income and Administrative Costs

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 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 income and administrative costs and followed the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of three audit reports on the County's Program.

What We Found

The County did not effectively administer its Program income and administrative costs and failed to follow HUD's requirements. It did not comply with HUD's requirements in its use and reporting of Program income. As a result, the County had nearly $5.2 million of Program income in its HOME investment trust fund local account (local account), did not allocate at least $641,000 of interest earned from Program income in its local account, and underreported at least $2.7 million of Program income in HUD's Integrated Disbursement and Information System (System).

The County did not comply with HUD's requirements in using Program funds for administrative costs. As a result, it used more than $28,000 in Program funds for improper administrative costs and lacked sufficient documentation to support its use of nearly $56,000 in Program funds for eligible Program administrative costs.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the County to commit and disburse Program income, unallocated interest earned from Program income, and reimbursed Program funds before drawing down any additional Program funds from its HOME trust fund treasury account (treasury account), provide support or reimburse its Program from nonfederal funds for the unsupported payments, provide sufficient documentation as to whether it earned interest from Program income before September 2002, and report its additional Program income in HUD's System. We also recommend that the Director restrict the County's ability to drawdown Program funds from its treasury account until the County disburses all Program income, unallocated interest earned from Program income, and reimbursed Program funds as cited in this report.

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 former director of the County's Department, the president of its board of commissioners, and HUD's staff during the audit. We held an exit conference with the County's assistant director on April 21, 2008.

We asked the assistant director of the County's Program to provide comments on our discussion draft audit report by May 20, 2008. The assistant director provided written comments, dated May 20, 2008. The assistant director generally agreed with finding 1 and only partially agreed with finding 2. The complete text of the written comments, except for 136 pages that were not necessary to understand the assistant 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 136 pages of supporting 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 former director of the County's Department resigned as of April 16, 2008. The assistant director of the County's Department was named the acting director until the County hired its new director on May 27, 2008. The County's Program records are located at 69 West Washington Street, Chicago, Illinois.

The following table shows the amount of Program funds the U.S. Department of Housing and Urban Development (HUD) awarded the County for Program years 2003 through 2007.

Program year	Program funds
2003	$6,555,837
2004	6,565,213
2005	6,297,078
2006	5,820,276
2007	5,761,486
Total	**$30,999,890**

Our audit objectives were to determine whether the County effectively administered its Program income and administrative costs and followed HUD's requirements. This is the second of three audit reports on the County's Program.

RESULTS OF AUDIT

Finding 1: Controls over the County's Program Income Were Inadequate

The County did not comply with HUD's requirements in its use and reporting of Program income. It had drawn down more than $48.3 million in Program funds from its HOME trust fund treasury account (treasury account) since October 1999, when it had more than $2 million of Program income in its HOME trust fund local account (local account); did not allocate interest earned from Program income as income; and underreported Program income in HUD's Integrated Disbursement and Information System (System) because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County had nearly $5.2 million of Program income in its local account, did not allocate at least $641,000 of interest earned from Program income as income in its local account, and underreported at least $2.7 million of Program income in HUD's System.

The County Improperly Drew Down Program Funds When It Had Program Income

Contrary to HUD's requirements, the County did not properly use income generated from its Program. Since October 1999, the County had made 788 draw downs from its treasury account totaling more than $48.3 million in Program funds, when it had more than $2 million of Program income in its local account. The following table shows the Program years of October through September; the number of draw downs, including the amount of Program funds, the County made during the Program years; and the County's balance of Program income at the end of each Program year.

Program year	Number of draw downs	Program funds	Program income
1999	98	$6,063,573	$2,826,876
2000	77	4,975,823	2,869,437
2001	100	3,547,846	4,154,553
2002	157	8,148,176	4,519,485
2003	88	3,320,858	4,688,427
2004	79	6,760,054	5,997,551
2005	95	9,290,701	6,673,621
2006	91	3,251,866	5,911,768
2007*	3	2,990,000	5,185,721
Totals	**788**	**$48,348,897**	

* Program year 2007 is from October 2007 through March 2008.

Although the County had reduced the amount of its Program income in its local account by nearly $1.5 million since October 2005, it still had nearly $5.2 million in Program income as of March 2008.

The County Did Not Allocate Interest Earned on Program Income

The County did not allocate $641,537 of interest earned from Program income since September 2002 to its local account. It placed the interest in its general fund to be used for its operations. As of March 2008, the County had not been able to provide sufficient documentation as to whether it earned interest from Program income before September 2002.

The County Did Not Report All Program Income to HUD

The County did not properly record Program income in HUD's System. It did not report in HUD's System any of its $2,089,550 in Program income received before October 1999. In addition, the County did not report at least $641,537 in interest earned from Program income. Therefore, the County had underreported at least $2,731,087 of Program income in HUD's System as of March 2008.

The County Lacked Adequate Procedures and Controls

The weaknesses regarding the County drawing down Program funds from its treasury account when it had Program income in its local account, not allocating interest earned from Program income in its local account, and not recording all Program income in HUD's System occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements.

The Department's former director said that the reason the County had not used all of its Program income in its local account before drawing down Program funds from its treasury account was that the County backed out of some large development projects in which it planned to use the Program income. The County backed out of the development projects because the Department determined that the projects would not meet HUD's requirements. The County decided to use Program funds rather than Program income for its other activities to avoid losing its Program funds as a result of not meeting HUD's 24-month commitment and five-year expenditure deadlines. The former director also said that the County planned to use all of its Program income on five large development projects during Program year 2007.

The County's director of financial reporting in the Office of the Comptroller (Office) said that he was not aware that the Office was required to allocate interest earned from Program income. It was the Department's responsibility to inform the Office that interest earned on Program income should be allocated to the Program. The Department's former director said that he could not explain why the Office was not aware that it was required to allocate interest earned from Program income to the Program. However, as of March 2008, the Office was developing a new procedure for the County's various departments to inform it when earned interest should be allocated to specific funds.

A Department staff member said that the County did not know how to enter Program income from prior Program years into HUD's System. The County planned to contact its consultant, which provides technical support on HUD's System, and/or HUD's Chicago Office of Community Planning and Development for assistance on the matter.

Conclusion

The County did not comply with HUD's requirements in its use and reporting of Program income. As previously mentioned, the County had drawn down more than $48.3 million in Program funds since October 1999, when it had more than $2 million of Program income in its local account; did not allocate at least $641,000 of interest earned from Program income since September 2002 in its local account; and underreported at least $2.7 million of Program income in HUD's System. In addition, HUD and the County lacked assurance on the total amount of Program income available to the County.

Recommendations

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

1A. Commit and disburse its Program income of $5,185,721 for eligible housing activities before drawing down any additional Program funds from its treasury account.

1B. Reimburse its local account $641,537 from nonfederal funds for the interest earned from Program income that the County did not allocate in its local account, and commit and disburse the $641,537 for eligible housing activities before drawing down any additional Program funds from its treasury account.

1C. Provide sufficient documentation as to whether it earned interest from Program income before September 2002. If the County earned interest from Program income, it should reimburse its local account the appropriate amount, and commit and disburse the amount for eligible housing activities before drawing down any additional Program funds from its treasury account.

1D. Report at least an additional $2,731,087 of Program income in HUD's System for the amount of Program income cited in this finding.

1E. Implement adequate procedures and controls to ensure that it uses Program income for eligible housing activities before drawing down Program funds from its treasury account.

1F. Implement adequate procedures and controls to ensure that it accurately reports Program income in HUD's System.

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

1G. Restrict the County's ability to drawdown Program funds from its treasury account until the County commits and disburses all Program income, unallocated interest earned from Program income, and reimbursed Program funds as cited in this report.

Finding 2: The County Needs to Improve Controls over Its Administrative Expenses

The County did not comply with HUD's requirements in using Program funds for administrative costs. It used Program funds for inappropriate administrative expenses and did not have sufficient documentation to support that it used Program funds for eligible Program administrative costs because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County used more than $28,000 in Program funds for improper administrative costs and was unable to sufficiently support its use of nearly $56,000 in Program funds for eligible Program administrative costs.

The County Used More Than $28,000 in Program Funds That Did Not Benefit Its Program

We reviewed all 219 of the County's nonsalary administrative expenses for the period October 2005 through September 2007, which totaled $407,122. The County used $28,325 in Program funds for inappropriate administrative expenses.

The County used $25,000 in Program funds from April through July 2007 to pay a consultant to provide technical support on HUD's System for the County's Program and Community Development Block Grant (Block Grant) and Emergency Shelter Grant programs. However, the consultant said that he only spent 20 percent of his time working on reports for the County's Program. Therefore, the County inappropriately used $20,000 in Program funds to pay administrative costs for its Block Grant and Emergency Shelter Grant programs. On January 31, 2008, and as a result of our audit, the County reimbursed its local account for its Program $25,000 for the technical support for HUD's System.

The County used an additional $12,487 in Program funds from May through September 2007 to pay a publisher for advertisements. However, the advertisements were for the County's public hearings for its Program and Block Grant and Emergency Shelter Grant programs. Therefore, the County inappropriately used $8,325 in Program funds to pay administrative costs for its Block Grant and Emergency Shelter Grant programs.

The County Lacked Documentation to Support Its Use of Nearly $56,000 in Program Funds

The County lacked sufficient documentation to support that it used an additional $55,527 in Program funds from October 2005 through July 2007 for eligible Program administrative costs. The unsupported disbursements were for furniture, office equipment/supplies, publications, printing and publishing, and travel. The following table shows the following for the unsupported disbursements: administrative cost category; period that Program funds were disbursed; and amounts of Program funds disbursed.

Administrative cost category	Period of disbursements	Program funds
Furniture	March 2006	$45,128
Office equipment/supplies	December 2005 through December 2006	6,956
Publications	August 2006 through April 2007	1,923
Printing and Publishing	October 2005 through September 2006	1,431
Travel	July 2007	89
	Total	**$55,527**

The County's Procedures and Controls Had Weaknesses

The weaknesses regarding the County's use of Program funds for inappropriate administrative costs and lacking documentation to support that administrative costs were eligible occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements.

The Department's finance manager said that the Department did not prepare a schedule allocating administrative costs between the Program and the Block Grant and Emergency Shelter Grant programs. The finance manager said that the Department alternated payments for some administrative costs among the three programs because the County could not split its purchase orders among different programs. However, the Department did not allocate these administrative costs systematically among the three programs to ensure that each program received its allocable share of the costs. The finance manager said that the Department and the County's industrial engineers had scheduled a meeting to determine equitable methods to allocate costs among the three programs.

Conclusion

The County did not comply with HUD's requirements in its use of Program funds for administrative costs. As previously mentioned, it used more than $28,000 in

Program funds for improper administrative costs. In addition, HUD and the County lacked assurance that the County used nearly $56,000 in Program funds for eligible Program administrative costs.

Recommendations

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

2A. Commit and disburse the $25,000 in Program funds it reimbursed into its local account for eligible housing activities before drawing down any additional Program funds from its treasury account.

2B. Reimburse its Program $8,325 of Program funds used for Block Grant and Shelter Grant advertisements, and commit and disburse the $8,325 for eligible housing activities before drawing down any additional Program funds from its treasury account.

2C. Provide sufficient supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the $55,527 in Program funds used for unsupported administrative costs cited in this finding, and commit and disburse the applicable amount before drawing down any additional Program funds from its treasury account.

2D. Implement adequate procedures and controls to ensure that Program funds are only used for eligible administrative costs.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws, HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 85 and 92, HUD's Office of Community Planning and Development Notice 97-9, Office of Management and Budget Circular A-87, and "Building HOME: a Program Primer."

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

- HUD's files for the County.

We also interviewed the County's employees and HUD staff.

Finding 2

We selected all 219 of the County's nonsalary administrative expenses for the period October 2005 through September 2007, which totaled $407,122. The nonsalary administrative expenses were selected to determine whether the County effectively administered its Program admistrative costs.

We performed our on-site audit work from August 2007 through April 2008 at the County's office located at 69 West Washington Street, Chicago, Illinois. The audit covered the period October 2005 through June 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 County lacked adequate procedures and controls to ensure compliance with HUD’s requirements regarding the use and reporting of Program income and the use of Program funds for eligible Program administrative expenses (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			$5,185,721
1B			641,537
2A			25,000
2B	$8,325		
2C		$55,527	
Totals	$8,325	$55,527	$5,852,258

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 the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

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 recommendations it will commit and use Program income and Program funds in its local account before drawing down Program funds from its treasury account. Once the County successfully improves its procedures and controls, this will be a recurring benefit.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation **Auditee Comments**

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VIA HAND DELIVERY

May 20, 2008

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. 2008-CH-100X - Phase 2

Dear Mr. Bowen:

The Cook County Department of Planning and Development (CCDPD) acknowledges receipt of the April 16, 2008 Office of Inspector General's (OIG's) Audit Report on Cook County's HOME Investment Partnerships (HOME) Program. Thank you for allowing CCDPD additional time to respond to the report.

CCDPD is committed to creating and expanding the supply of affordable housing for low and very low-income families. We are most appreciative of the more than ninety million dollars ($90,000,000.00) in funds granted to CCDPD for the HOME Program since 1992. The monies have allowed us to meet the dire housing needs of our service communities and provide safe, secure, and affordable housing to those individuals who might not otherwise receive it.

We recognize the importance of adhering to the United States Department of Housing and Urban Development's (HUD's) regulations and share in the OIG's goals of insuring that our financial management system is sound and maintained in such a manner that insures that not only program income and administrative costs are administered properly, but all income to the HOME Program are governed in the most costs effective, efficient manner.

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

Brent Bowen, Assist. Reg. Inspector General for Audit
CCDPD's Audit Response
May 20, 2008

Audit Finding: **Finding 1**
Controls over the County's Program Income Were Inadequate:
A. The County Improperly Drew Down Program Funds When It Had Program Income
Since October 1999, the County had made 788 draw-downs from its treasury account totaling more than $ 48.3 million in Program funds, when it had more than $2 million of Program income in its local account. The following table shows the Program years of October through September, the number of draw downs, including the amount of Program funds, the County made during the Program year; and the County's balance of Program income at the end of the Program year.

OIG's - Chart 1

Program Year	Number of draw downs	Program Funds at beg. of Program year	Program Income bal. at end of program year
1999	98	$6,063,573	$2,826,876
2000	77	4,975,822	2,869,437
2001	100	3,547,846	4,154,553
2002	157	8,148,177	4,519,485
2003	88	3,320,858	4,519,485
2004	79	6,760,054	5,997,551
2005	95	9,290,701	6,673,621
2006	91	3,251,866	5,911,768
2007*	3	2,990,000	5,185,721
Total	788	$48,348,897	

*Program year 2007 is from October 2007 through March 2008.

CCDPD's Response: Finding 1

Comment 1

1A. CCDPD agrees that in some cases from 1999 through 2007, CCDPD did not use program income prior to drawing down entitlement funds. CCDPD disagrees to the general statement that it did not properly use income generated from its Program. In many cases between 1999 and 2007 program income was used prior to drawing down entitlement funds. The transaction analysis report that was created by the OIG's office shows all of the expenditures of program income. (See Exhibit 1A(a)). (It is assumed that the Program years referenced in Finding 1 refer to October 1999 through September 2006. The dates were not specified in the Finding).

Comment 1

Ref to OIG Evaluation | Auditee Comments

During the program year beginning October 1st of the year indicated, program income was drawn down in the following manner:

Comment 2

CCDPD's - Table 1

Program Year	Number of draw downs for program income Reported by the OIG's Office	[1]Amount of the drawdown for program income
1999	1	65,000.00
2000	1	1,000,000.00
2001	0	0
2002	4	1,000,000.00
2003	28	1,563,703.14
2004	43	888,853.31
2005	64	1,141,087.75
2006	154	2,674,905.88
2007*	17	1,780,743.00
Total	**312**	**10,114,293.08**

*Program Income covers the period October 1, 2007 through March 31, 2008

Comment 2

Every expenditure for program income represented a transaction wherein entitlement funds and/or match funds were not used. During the period October 1, 1999 through March 31, 2008, CCDPD expended program income in 312 separate instances for a total of $10,114,293.08.

As mentioned, CCDPD has participated in the HOME Investment Partnerships Program (HOME) since 1992. From 1992 through 1997, HUD utilized the Cash and Management Information System (C/MI) as the primary grant disbursement system. The receipt of program income, at that time, was reported in the year end reports.

When HUD instituted a new grant disbursement method, Integrated Disbursement and Information System (IDIS), many of the jurisdictions, including Cook County, had difficulty navigating the system. According to the February 2000 issue of IDIS Live, "The Activity Funding category had over 500 calls. The majority of the questions focused on selecting the correct funding source and increasing or decreasing funding for activities for Program Income, *a feature not formerly available*." (See Exhibit 1C(a))[2]. Many questions ensued and program income was one of the areas where reporting became confusing. Though CCDPD use of IDIS officially began August 1997, CCDPD did not receive training until March 1998. Even after

[1] Although the amount drawn down occurred during the program year October 1st through September 30th, the specific amount drawn down may have actually been applied to a previous program year's program income. (See Exhibit 1A(a) and Exhibit 1A(b))
[2] *IDIS Live,* February 2000, Issue 36, page 5.

Comment 3

receiving training, many questions remained regarding the use and reporting of program income. IDIS did not have a method that would allow a user to select Program Income as a funding source (Exhibit 1C(b))[3]. Therefore, the Participating Jurisdictions could not report program income into IDIS until right before it was ready to draw down the funds. As a consequence of the system's limitations, CCDPD did not report program income from 1997 through 1998 in IDIS, but has reported program income as required through HUD's annual performance reporting from 1992 through the current reporting period.

Comments 1 and 4

Since the1999 program year, CCDPD has reported program income and disbursed program income in IDIS as follows:

CCDPD's - Table 2 ***(See Exhibit 1A(b))***

IDIS Reporting Program Income	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003
Amt Reported to HUD for Fiscal Yr	$ 807,132.00	$ 1,045,542.21	$ 1,258,355.33	$ 1,392,459.10	$1,697,867.16
Amt. Disbursed For Fiscal Year	(807,132.00)	$(1,045,542.21)	$(1,258,355.33)	$(1,392,459.10)	$(1,697,867.16)
Balance	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

IDIS Reporting Program Income	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
Amt Reported to HUD for Fiscal Yr	$2,197,976.10	$ 1,821,962.25	$ 1,523,051.42	$1,181,814.27
Amt. Disbursed For Fiscal Year	(2,197,976.10)	(1,317,708.16)	$0.00	$0.00
Balance	$ 0.00	$ 504,254.09	$ 1,523,051.42	$ 1,181,814.27

Comments 1, 4, and 5

For fiscal years 1999 through 2004, 100% of program income receipts were expended (See Exhibit 1C(b)). Also, a significant amount of program income was expended in fiscal year 2005. However, no program income was expended in the fiscal years 2006 and 2007, due to several multi-million dollar construction projects that were scheduled to be funded with program income not coming into fruition. Multi-million dollar projects being underwritten with program income contain numerous layers of financing. When one particular financing source, such as tax credits, fails to culminate, the entire project collapses and our intended use of program income does not materialize. The primary reason that a balance remains in the program income account is due to a number of projects failing to close, and the CCDPD October 2007 moratorium on the Single Family Rehabilitation Program. The moratorium was instituted to review the program and ensure federal compliance. If not for the moratorium, the CCDPD would

Comment 6

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[3] *IDIS Live,* January 3, 1997, Issue 3, Page 8.

Ref to OIG Evaluation	Auditee Comments

Brent Bowen, Assist. Reg. Inspector General for Audit
CCDPD's Audit Response
May 20, 2008

Comment 6

have expended program income in excess of one and one half million dollars. The moratorium on the single Family Rehabilitation Program has been lifted and we are using program income to fund the single family rehabilitation program. We will change our procedures to assure that, where applicable, program income will be used before requiring funds from the treasury.

Audit Finding: **Finding 1**
Controls over the County's Program Income Were Inadequate:
B. The County Did Not allocate Interest Earned on Program Income. The County did not allocate $641,537 of interest earned from Program Income since September 2002 in its local account. It placed the interest in its general fund to be used for its operations. As of March 2008, the County had not been able to provide sufficient documentation as to whether it earned interest from Program income before September 2002.

CCDPD's Response: **Finding 1**

Comment 7

1B. CCDPD agrees that from 2002 through 2007 it did not allocate interest earned to the program income account. Again, CCDPD disagrees to the general statement that it did not allocate interest earned on program income.

Comment 8

From 1999 until 2002, there was no interest earned on the bank account where program income was deposited, therefore, no interest was available for allocation to the program income account. The bank account where the funds were deposited is no longer in existence and the Cook County Office of the Comptroller has provided documentation to the OIG's office indicating that the funds were not in an interest bearing account. (See Exhibit 1B(a))

To date, interest earned on program income since 2002 has not been allocated on the program income account. Information regarding Cook County's change of bank accounts from a non interest bearing account to an interest bearing account was not fully known by all units within CCDPD. At this point a credit cannot simply be made because CCDPD has to go through a process where a request is made to the Cook County Bureau of Finance to properly credit the grant account. A recommendation will then be sent to the Cook County Board of Commissioners for approval that the back interest be transferred from Cook County's corporate account and credited to the appropriate grant account. Upon approval by the Board of County Commissioners, the interest earned will then be credited.

Comment 9

Based on CCDPD calculations, the net balance of program income from Program Year 1992 through Program Year 1998 is $1,877,936.91 (See Exhibit 1B(b)).

Ref to OIG Evaluation	**Auditee Comments**

Brent Bowen, Assist. Reg. Inspector General for Audit
CCDPD's Audit Response
May 20, 2008

CCDPD's - Table 3

Comment 9

Program Income Receipts:	Program Year	Receipts	Disbursements	Balance at End of Program Year
	1992	0.00	0.00	0.00
	1993	8,927.11	2,500.00	6,427.11
	1994	52,088.98	0.00	58,516.09
	1995	217,020.76	1,241.43	274,295.42
	1996	514,139.49	966.00	787,468.91
	1997	440,746.00	0.00	$1,228,214.91
	1998	649,722.00	0.00	$ 1,877,936.91

Comment 9

Comment 10

Comment 11

CCDPD received Rental Rehabilitation Program (RRP) receipts of $206,905.55 from 1993 through 2002. Those receipts were not part of calculated program income (See Exhibit 1B(b)), and therefore are not included in the above CCDPD Table 3. Those receipts were properly credited to match funds in accordance with CPD Notice 97-03. CPD Notice 97-03 states in pertinent part "… program income from RRP grants after program closeout (i.e., closeout of all program years grants)" are to be considered as cash matching funds. Based on CCDPD's calculation, the interest earned and due as of March 31, 2008, is $618,809.74. (See Exhibit1C(c)).

Audit Finding: **Finding 1**
Controls over the County's Program Income Were Inadequate:
C. The County Did Not Report All Program Income to HUD
Before October 1999, the County did not report any of its $2,089,550 in Program Income. In addition, the County did not report at least $641,537 in interest earned from Program income. Therefore, the County had underreported at least $2,731,087 of Program Income in HUD's System as of March 2008.

Comment 12

CCDPD's Response: **Finding 1**
1C. CCDPD agrees that it did not report all program income in IDIS. CCDPD disagrees with the general statement that it did not report all program income to HUD. CCDPD did report program income in accordance with HUD's annual performance reporting requirements from 1992 through the current reporting period.

From 1992 through 1997, CCDPD reported all program income through HUD's reporting system, the Annual Performance Report (APR). In 1998 and 1999, CCDPD reported program income to HUD through CAPER. Also in 1997, IDIS was introduced to the Participating Jurisdictions, and in March 1998, after two CCDPD employees received training on IDIS, it remained unclear as to how and when program income should be inputted in IDIS. In its infancy,

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CCDPD's Response: **Finding 1 Cont'd**

IDIS was a system in which not only CCDPD was learning, but a majority of jurisdictions all over the country were experiencing problems. (See Exhibit 1C(a))[4]. There was not a method in IDIS that would allow you to select program income as a funding source for IDIS activities in which to use the program income funds. The jurisdictions were told to enter program income right before making a draw down, however, this method created a reconciliation and accounting dilemma. Also the program income balance would not appear on the other HUD reporting and viewing screens. Incidentally, since 1999, CCDPD has reported a total of $12,926,159.84 to HUD through IDIS. (See Exhibit 1C(b))

Comments 9 and 11

Again, CCDPD has verified that at the beginning of Program Year 1999, there was a balance of $1,877,936.91 in the program income account. Interest earned and due on program income as of March 31, 2008 is $618,809.74. (See Exhibit 1C(c))

Audit Finding: **Finding 1**
Controls over the County's Program Income Were Inadequate:
D. The County Lacked Adequate Procedures and Controls
The weaknesses regarding the County drawing down of Program funds from its treasury account when it had Program income in its local account, not allocating interest earned from Program income in its local account, and not recording all Program income in HUD's System occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements.

CCDPD's Response: **Finding 1**

Comment 13

1D. CCDPD agrees that some controls over program income may have been inadequate, but disagrees, to the general statement, "The County Lacked Adequate Procedures and Controls".

At a minimum, dual Cook County departmental controls existed on program income. The Finance Unit within the Department of Planning and Development initially receives program income and has always kept very detailed records on receipts and disbursement of the program income account, including memorandums, vouchers, copies of the checks received and copies of the checks disbursed. However, program income records are also maintained by the Office of the Comptroller through its transaction analysis account. Once the payments are received by the Department of Planning and Development those payments are sent to the Office of the Comptroller to deposit the funds into Cook County's bank account. Cook County's financial accounting system reflects all county-wide grant activity. CCDPD will:

- Reconcile all internal systems activity with the county-wide general ledger system; and

[4] *IDIS Live,* February 2000, Issue 36, page 5

Ref to OIG Evaluation | **Auditee Comments**

- Send a request to the Cook County Department of Budget and Management Services regarding the need to set up an additional business unit(s) for management of program income and interest earned on program income.

During 2008, the staff in the Department of Planning has had numerous meetings regarding the use and reporting of program income. The staff is continuing to be trained by calling the Technical Assistance Unit of IDIS and/or by employing an IDIS consultant, Allen Consultants. Problems regarding program income and other reporting difficulties are being addressed and conveyed to our Chicago HUD office.

Audit Finding: **Finding 1** **Recommendations**

1A. Disburse its Program Income of $5,185,721 for eligible housing activities before drawing down any additional Program funds from its treasury account.

1B. Reimburse its local account $641,537 from nonfederal funds for the interest earned from Program income that the county did not allocate in its local account, and disburse the $641,537 for eligible housing activities before drawing down any additional Program funds from its treasury account.

1C. Provide sufficient documentation as to whether it earned interest from Program income before September 2002. If the County earned interest from Program income, it should reimburse its local account the appropriate amount and disburse the amount for eligible housing activities before drawing down any additional Program funds from its treasury account.

1D. Report at least an additional $2,731,087 of Program income in HUD's system for the amount of Program income cited in this finding.

1E. Implement adequate procedures and controls to ensure that it uses program income for eligible housing activities before drawing down Program funds from the treasury account.

1F. Implement adequate procedures and controls to ensure that it accurately reports Program income in HUD's System.

CCDPD's Response: Finding 1 **Recommendations**

Comment 6

1A. CCDPD will disburse program income prior to drawing down entitlement funds. CCDPD is preparing to make several recommendations to the County Board of Commissioners which should result in the issuance of binding loan commitments in excess of 16 million

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Brent Bowen, Assist. Reg. Inspector General for Audit
CCDPD's Audit Response
May 20, 2008

CCDPD's Response: Finding 1 **Recommendations Cont'd**

Comment 6

1A. dollars. These commitments of funds should allow CCDPD to commit program income funds of at least 5 million dollars.

1B. The CCDPD will work with the Bureau of Finance, primarily the Comptroller and Budget Director, to identify non federal funding in the amount of the uncredited interest income. Subject to the Board of County Commissioner's approval, the uncredited interest income will be transferred to the grant program income account.

Comment 8

1C. Cook County's Office of the Comptroller has provided, as of May 16, 2008, a letter that indicates that after a diligent search of Cook County's records, nothing was found to indicate that interest on program income was earned previous to September 2002. (See Exhibit 1B(a)).

Comments 9, 11, and 14

1D. CCDPD will report $1,877,936.91 which represents the confirmed balance not previously reported in IDIS, but reported in CAPER. CCDPD will report $618,809.74 of interest earned on program income since 2002, less any eligible bank transaction fees attributable to the program income balance, subject to the Cook County Board of Commissioners approval.

Comments 9 and 11

1E. CCDPD has been in contact with a representative of HUD's technical assistance unit and we are currently reviewing the proper procedures on the manner to input program income for years previous to 1999. Interest earned on program income will be input into IDIS in the amount of interest earned for each year since 2002 for a total of $618,809.74 as of March 31, 2008. CCDPD will work with Cook County Department of Budget and Management to create a separate business unit for program income. The account will be reconciled with the Department of Planning's Program income records no less than on a monthly basis, and discrepancies will be resolved within a thirty day period.

1F. CCDPD will begin using the Oracle J.D. Edwards Enterprise One Financial Management Grant Module System and/or Dennison Associates Web Tool within the next four weeks.

Audit Finding: **Finding 2**
The County Needs to Improve Controls over its Administrative Expenses
A. The County Used Nearly $27,000 in Program Funds That Did Not benefit Its Program
The County used $25,000 in Program funds from April through July 2007 to pay a consultant to provide technical support on HUD's System for the county's Program, Community Development Block Grant (Block Grant), and Emergency Shelter Grant programs.

The County used an additional $6,660 in Program funds in May 2007 to pay a publisher for advertisements in which the voucher stated that the advertisements were for the County's Block Grant program.

Ref to OIG Evaluation	Auditee Comments

CCDPD's Response: **Finding 2**

Comment 15

2A. CCDPD agrees that we used $20,000 for non HOME eligible consulting services. CCDPD disagrees that we used $6,660 for non HOME eligible advertising costs.

CCDPD used $25,000 to pay the cost of a consultant to provide technical assistance to CCDPD for the HOME program. Technical assistance is an eligible cost of the HOME program. The contract between CCDPD and Allen Consultants was made to provide technical assistance to Cook County Department of Planning and Development's grant programs which include the HOME Investment Partnership Program, the Community Development Block Grant (CDBG) and the Emergency Shelter Grant (ESG) Programs.

Technical assistance to the HOME program varies; however, as it turned out, the consultant provided technical assistance to the HOME program approximately twenty percent (20%) of the time. Therefore, CCDPD reimbursed the HOME program $25,000, which will be adjusted to reflect the correct reimbursement amount of $20,000. (See Exhibit 2A(a))

Comment 15

Also, CCDPD paid $6,660 for eligible costs for advertisement of the HOME program pursuant to the "Guidance on Preparing Consolidated Plan" submission which states that Participating Jurisdictions provide advance notice of funding availability under CPD formula grant programs of HOME, CDBG and ESG. The advertisement included a notice of a public hearing regarding the HOME Program. The CDBG and ESG hearings are also held during the same hearing as the HOME hearing. The advertisement includes HOME, CDBG and ESG. Inadvertently, the voucher did not include HOME in its description of services. However, the copies of the legal notices confirm that HOME was included in the advertisement. (See Exhibit 2A(b))

Audit Finding: **Finding 2**

The County Needs to Improve Controls over its Administrative Expenses

B. The County Lacked Documentation to Support Its Use of Nearly $73,000 in Program Funds

Audit Finding: **Finding 2 Cont'd**

The County lacked sufficient documentation to support that it used an additional $72,751 in Program funds from October 2005 through September 2007 for eligible Program administrative costs as follows:

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OIG's - Chart 2

	Administrative Cost category	Dates of disbursements	Program Funds
1	Furniture	March 2006	$45,128
2	Postage	November 2005 through September 2007	9,000
3	Publications	October 2006 through September 2007	6,982
4	Financial Services	October 2005 through July 2007	4,770
5	Office Equip/supplies	January 2006 through March 2007	4,678
6	Miscellaneous charges	October 2005 through September 2006	1,130
7	Travels	March through September 2007	763
8	Central Services	October 2006	300
		Total	$72,751

■■■

Comments 15, 16, 17, 19, and 20

CCDPD's Response: **Finding 2**
2B. CCDPD disagrees that it lacked documentation in support of $72,751 in Program funds from October 2005 through September 2007 for eligible Program administrative costs.

Expense 1

$45,127.56
High Density Mobile Storage System

Comment 16

Although the audit report described the expense as furniture, the expense is actually a high density mobile storage system, an eligible cost of the HOME program. The high density storage unit is used to store HOME files including original notes, mortgages, HOME agreements, security agreements, UCC filings and other loan documents.

After Cook County experienced a tragic fire in 2003 at our current office building at 69 W. Washington Street, Chicago, Illinois, it was decided that we could better organize and secure our loan documents by having a large central filing storage system with the capacity to meet our future lending goals. (See Exhibit 2B(a))

Comment 16

CDBG and ESG files are also contained in the system.

■■■

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Expense 2

$7,000.00
Postage for HOME Metered Mail Machine
$2,000.00
Postage for HOME Metered Mail Machine
Total: $9,000

Comments 17 and 18

On October 6, 2005 and September 11, 2007, CCDPD paid a total of $9,000.00 to the Chicago Postmaster for the purchase of postage for our HOME metered mail machine. Although, we only have one Pitney Bowes machine, we have five bins clearly labeled, HOME, CDBG, ESG, Corporate and Economic Development. Mail for HOME related projects is deposited into a HOME bin. Several times a day, a staff person inputs a HOME code into the machine and HOME related mail charges are accessed under the HOME account.

The voucher to pay the postage machine clearly states that it for the "HOME Investment Partnership Program. (See Exhibit 2B(b) and Exhibit 2B(c))

■■■

Expense 3

$870.00 Simon Publication Seminar
$5,827.22 County Suburban Publisher (Notices)
$284.00 CD Publications (On line subscription)
$6,978.22

Comment 17

Payment to Simon Publication is an eligible HOME related expense. The cost of $870.00 was used to pay for two employees to attend a Low Income Housing Tax Credit Seminar and well as receive the related tax credit textbooks. Tax credit financing is used exclusively in the Department of Planning and Development under the HOME program. (See Exhibit 2B(d))

Comments 15 and 17

CCDPD paid $5,827.33 to County Suburban Publishers to publish our notice of HOME hearings in numerous suburban Cook County newspapers. The hearing notice included not only HOME related programs, but CDBG and ESG as well. (See Exhibit 2B(e))

Comment 19

The payment to CD Publications is an eligible HOME related expense. CCDPD paid $284.00 to CD Publications for a six month online subscription for federal housing updates. The charge was actually expended to Cook County's corporate account; however, a keying mistake resulted in the charge being expended in HOME. Because it is a HOME related expense, we believe the charge should remain in HOME. (See Exhibit 2B(f))

■■■

Ref to OIG Evaluation	Auditee Comments

Expense 4

$400.00 Multi Financial Services (loan servicing)
$1.389.00 West Group Payment Center (subscription)
$400.00 Multi Financial Services (loan servicing)
$250.00 New Hill Services (newsletter)
$669.10 CDW Government Inc. (computer equipment)
$312.20 CDW Government Inc. (computer equipment)
$1.350.00 CDW Government Inc. (licensing software)
$4.770.30

Comment 17

The two payments of $400.00 to Multi Financial Services is an eligible HOME related expense. This expense represents a loan servicing program and tracker loan software used predominantly (over 99%) for HOME loans. (See Exhibit 2B(g))

Comments 18 and 19

The $1,389.00 payment to West Group Payment is an eligible HOME related expense. HUD Development reporter is a one year subscription for updates on HUD, FHA and FNMA. The subscription is electronically submitted as well as sent to our office on CD ROM and in a print magazine. (See Exhibit 2B(h))

Comments 18 and 19

The $250.00 to New Hill Services represent a newsletter on assisted housing and supportive living which are HOME eligible housing activities.(See Exhibit 2B(i))

Comments 18 and 19

The CDW Government Inc. payments of $669.00 and $312.20 represent payment for computer related equipment used in the HOME program. (See Exhibits 2B(j) and 2B(k))

Comments 18 and 19

The CDW Government Inc. payment of $1,350.00 represent LOTUS licensing software program for the HOME staff. (See Exhibit 2B(l))

Expense 5

$516.60 Bren Products Company (office paper)
$53.83 Hinckley Springs (water)
$448.76 Viking Office Products (office supplies)
$2.004.00 Canon 2002 Leasing
$1.655.00 Canon 2002 Leasing
$4.678.19

Comment 20

The expense of $516.60 expense to Bren Products Company is an eligible HOME expense for a supply of office paper for the HOME program. (See Exhibit 2B(m))

Comment 17

The expense of $53.83 to Hinckley Springs represent water for the staff including water provided to visitors meeting with CCDPD staff on HOME related projects. (See Exhibit 2B(n))

Ref to OIG Evaluation	Auditee Comments

Comment 19

The $448.76 expense to Viking Office Products represents office supplies for the HOME staff, an eligible HOME expense. (See Exhibit 2B(o))

Comment 20

The expense of $1,655.00 and $2,004.00 for Canon photo copier leasing represents a charge back from a master lease agreement that the County of Cook entered into with Canon Company. Each business unit is allocated their share of the costs for the copier leasing. HOME is assigned a business unit and, therefore, is periodically assessed its costs for the use of the copier. ((See Exhibit 2B(p) and 2B(q))

■■■

Expense 6

$600.00 Dept. of Central Services (copying of brochures)
$154.00 Dept. of Central Services (paper products)
$71.00 Dept. of Central Services (paper products)
$306.00 Dept. of Central Services (copying of brochures)
$1,131.00

Comments 18 and 20

The Department of Planning and Development orders its paper supplies from the Cook County Department of Central Services. The amounts of $600.00, $154.00, $71.00 and $306.00 represent chargebacks of paper products used in HOME related projects including letterhead paper, plain white paper, envelopes and copying of brochures. Again, these expenses are eligible HOME costs. (See Exhibit 2B(r))

■■■

Expense 7

$199.00 Chicago Radisson Hotel (conference)
$43.06 Payment to HOME employee (reimbursement)
$55.61 Payment to HOME employee (reimbursement)
$89.33 Payment to employee for HOME expense (reimbursement)
$310.31 Payment to HOME employee (reimbursement)
$66.00 Payment to HOME employee (reimbursement)
$793.31

Comment 17

The expense of $199.00 represents registration fee for a HOME employee to attend a business related conference on March 22, 2007. (See Exhibit 2B(s))

Comment 17

The expense of $43.06 and $55.61 represents a reimbursement of mileage costs for a HOME employee to make a HOME site visit. (See Exhibit 2B(s))

Comment 19

The expense of $89.33 represents reimbursement of a Cook County Department of Planning employee to at attend HOME CHDO training. (See Exhibit 2B(s))

Comment 17

The expenses of $310.31 and $66.00 represent reimbursement of two HOME employees for the costs of attending CHDO training in Lansing, Michigan. (See Exhibit 2B(s))

Ref to OIG Evaluation | **Auditee Comments**

Expense 8

$300.00 Central Services (copying service)

Comments 18 and 20

Again, the payment of $300.00 to Central Services represents a chargeback for 1000 copies of HOME related material. (See Exhibit 2B(t))

Audit Finding: Finding 2 Recommendations

2A. Disburse $25,000 in Program funds it reimbursed into its local account for eligible administrative costs before drawing down any additional program funds from its treasury account.

2B. Reimburse its Program $6,660 from nonfederal funds from the Program funds used for Block Grant advertisements, and disburse the $6,660 for eligible administrative costs before drawing down any additional Program funds from its treasury account.

2C. Provide sufficient supporting documentation or reimburse its Program from nonfederal funds, as appropriate, for the $72,751 in Program funds used for unsupported administrative costs cited in this finding and disburse the applicable amount before to drawing down any additional Program funds from its treasury account.

2D. Implement adequate procedures and controls to ensure that Program funds are only used for eligible administrative costs.

CCDPD's Response: Finding 2 Recommendations

2A. CCDPD has reimbursed the HOME program $25,000. However, the $25,000 will be adjusted by $5,000 to reflect the correct HOME allocation of $20,000. (See Exhibit 2A(a))

Comment 15

2B The publication fees expended were an eligible HOME related activity. (See Exhibit 2A(b)) In the future, we will utilize an internal cost allocation plan where cost that involves more than one funding source will be allocated based on a percentage of utilization.

Comments 16, 17, 19, and 20

2C. CCDPD has provided documentation to support the $72,751 in HOME related activities. We are in the process of providing additional training to our staff on the importance of describing the cost activity thoroughly as well as attaching appropriate documentation to all requests for payment. (See Exhs. 2B(a), 2B(b), 2B(c), 2B(d), 2B(e), 2B(f), 2B(g), 2B(h), 2B(i), 2B(j), 2B(k), 2B(l), 2B(m), 2B(n), 2B(o), 2B(p), 2B(q), 2B(r), 2B(s), 2b(t))

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CCDPD's Audit Response
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CCDPD's Response: Finding 2   Recommendations cont'd

Comment 21

2D. The Department of Planning and Development will work closely with Cook County's Industrial Engineers to develop an internal cost allocation plan that will ensure all of our costs are allocated appropriately. CCDPD is continuously training our staff on procedures and policies and seeking input from the staff, HUD and even the OIG's office on methods to improve our efficiency. As a start, CCDPD will take steps to increase supervision and monitoring over use of its administrative costs and meet with the senior staff to ensure HUD's regulations, particularly involving administrative costs, are completely enforced. In the future, CCDPD will take measures to insure that all payment vouchers will clearly identify the appropriate grant program to be charged.

Summary

CCDPD understands and acknowledges the importance of ensuring internal controls are established, properly documented, maintained and adhered to. We recognize that all employees are responsible for compliance with HUD's regulations and we, likewise, understand the specificity relating to the management of the program income account. CCDPD is committed to ensuring that the use and reporting of program income is proper and in order, and we will continue to use our federal funds, whether entitlement monies or program income, for eligible program expenses.

Your assistance is appreciated. If you have any questions, you may contact me at 312-603-1000.

Sincerely,

Deborah J. Fortier, Acting Director
Department of Planning and Development

Cc: Todd H. Stroger, President, Cook County Board of Commissioners
Bruce Washington, Chief, Bureau of Capital, Planning and Facilities Management
Donna L. Dunnings, Chief Financial Officer
Joseph M.Fratto, Comptroller, Office of the Comptroller
Faisal Abbasi, Director of Financial Reporting, Office of the Comptroller

OIG's Evaluation of Auditee Comments

Comment 1 HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.502(c)(3) state that a participating jurisdiction must disburse Program funds, including program income, in its local account before requesting Program funds from its treasury account. Contrary to HUD's requirements, the County did not properly use income generated from its Program. Since October 1999, the County had made 788 draw downs from its treasury account totaling more than $48.3 million in Program funds, when it had more than $2 million of Program income in its local account.

The Program years are for the period October 1999 through March 2008.

Comment 2 The County did not provide documentation to support the amounts in its schedule. We provided the County a schedule, based on its own records, showing that it made 312 disbursements of Program income from its local account from October 1999 through March 2007. The disbursements totaled $9,717,040. In addition, HUD's System shows that the County drew down $9,717,040 in Program income from October 1999 through March 2008.

Comment 3 The County did not contact HUD for assistance regarding how to record in HUD's System the Program income the County received prior to October 1999.

Comment 4 We do not disagree that the County has disbursed all the income generated from its Program from October 1999 through September 2005 and a significant amount of Program income received from October 2005 through September 2006 that it reported in HUD's System. However, note that the County's schedule shows the amount of Program income it received during the Program years that it had reported in HUD's System as disbursed as of May 7, 2008. The schedule did not show the Program year the County actually disbursed its Program income. In addition, also note that the County's schedule did not take into consideration the $2,089,550 in Program income it received prior to October 1999 and the $641,537 of interest earned from Program income since September 2002.

Comment 5 The County disbursed $2,284,905 and $1,780,743 in Program income from its local account in Program years 2006 and 2007, respectively.

Comment 6 The County did not provide any documentation to support that it planned to use or has used Program income for its owner-occupied single-family rehabilitation projects.

Comment 7 The County did not allocate $641,537 in interest earned from Program income since September 2002 to its local account. It placed the interest in its general fund to be used for its operations.

Comment 8 Before September 2002, the County electronically transferred Program funds and income from its non-interest bearing bank account to its other bank accounts prior to disbursement. The County could not provide documentation as to whether its other bank accounts earned interest and how long the Program funds and income remained in the other bank accounts before being disbursed. Therefore, as of March 2008, the County had not been able to provide sufficient documentation as to whether it earned interest from Program income before September 2002.

Comment 9 The County's balance of Program income at the end of Program year 1998 was $2,084,842. The County's Program revenue report, as of October 19, 2007, contained Program income from vanguard rental rehabilitation (vanguard) receipts totaling $264,042 for Program years 1994 through 2001. The County received Program income from vanguard receipts totaling $206,906 for Program years 1994 through 1998. The Program revenue report did not refer to the vanguard receipts as part of the County's HUD funded Rental Rehabilitation Program or include the vanguard receipts under its Program matching funds. Further, the County did not provide documentation to support that the vanguard receipts were from its Rental Rehabilitation Program or that it credited the vanguard receipts to its Program matching funds. In addition, the County reported vanguard receipts of $46,136 and $11,000 in Program years 1999 and 2001, respectively, as Program income in HUD's System.

Comment 10 Section V.A. of HUD's Office of Community Planning and Development Notice 97-03 states that eligible Program matching cash contributions may include Rental Rehabilitation Program income received after closeout of all Rental Rehabilitation Program grants.

Comment 11 The County did not allocate $641,537 of interest earned from Program income since September 2002 to its local account. It did not include the $206,906 of Program income from vanguard receipts for Program years 1994 through 1998 in its calculation of interest earned from Program income since September 2002. Therefore, the County failed to include $22,727 of interest earned from Program income since September 2002, in which it did not allocate to its local account.

Comment 12 We revised the report to state that the County did not report in HUD's System any of its $2,089,550 in Program income received before October 1999.

Comment 13 The County had drawn down more than $48.3 million in Program funds from its treasury account since October 1999, when it had more than $2 million of Program income in its local account; did not allocate interest earned from Program income as income; and underreported Program income in HUD's System because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed.

Comment 14 Bank transaction fees should not be used to reduce the amount of Program income the County reports in HUD's System.

Comment 15 We revised the report to state that the County used $28,325 in Program funds for inappropriate administrative expenses. The County used an additional $12,487 in Program funds from May through September 2007 to pay a publisher for advertisements. However, the advertisements were for the County's public hearings for its Program and Block Grant and Emergency Shelter Grant programs. Therefore, the County inappropriately used $8,325 for the advertisements.

We also amended recommendations 2B and 2C to reflect this revision.

Comment 16 The County did not allocate these administrative costs between its Program and Block Grant and Emergency Shelter Grant programs.

Comment 17 We revised our report to state that the County lacked sufficient documentation to support that it used an additional $55,527 in Program funds from October 2005 through July 2007 for eligible Program administrative costs.

We also amended recommendation 2C to reflect this revision.

Comment 18 We adjusted the table showing the administrative cost category, period that Program funds were disbursed, and amounts of Program funds disbursed for the unsupported disbursements by removing postage administrative costs, removing the financial services and central services administrative cost categories, revising the miscellaneous chargebacks administrative cost category to a printing and publishing administrative cost category, and identifying the administrative costs to more appropriate administrative cost categories.

Comment 19 The County lacked sufficient documentation to support that these administrative costs were for the Program.

Comment 20 The County lacked sufficient documentation to support that only the County's Program benefited from these administrative costs.

Comment 21 The County's planned actions should improve its procedures and controls over its use of Program funds for administrative costs, if fully implemented.

Appendix C

FEDERAL REQUIREMENTS

Finding 1

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.2 define program income as gross income received by a participating jurisdiction directly generated from the use of Program funds or matching contributions. Program income also includes interest earned on program income pending its disposition.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.502(c)(3) state that a participating jurisdiction must disburse Program funds, including program income, in its local account before requesting Program funds from its treasury account.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.503(a)(1) state that a participating jurisdiction must deposit program income into its local account.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.508(a)(5) 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 identifying the source and application of program income, repayments, and recaptured funds.

HUD's Office of Community Planning and Development Notice 97-9, issued September 12, 1997, requires available program income to be determined and recorded in HUD's System in periodic intervals not to exceed 30 days.

Finding 2

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*] 85.20(b)(2) state that allowable costs for state, local, or Indian tribal governments will be determined in accordance with cost principles contained in Office of Management and Budget Circular A-87.

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 sections 85.20 and 85.22 of 24 CFR [*Code of Federal Regulations*] Part 85 are applicable to a participating jurisdiction that is a government entity.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 92.508(a)(5) 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. Section 92.508(a)(6) states the participating jurisdiction must maintain records demonstrating compliance with the applicable uniform administrative requirements required by section 92.505.

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.