Issue Date
January 30, 2009

Audit Report Number
2009-PH-1004

TO: Vance T. Morris, Director, Office of Single Family Asset Management, HUF

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The City of Camden, New Jersey, Did Not Always Administer Its Asset Control Area Program in Compliance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the City of Camden's (City) asset control area (ACA) program following a request from the U.S. Department of Housing and Urban Development's (HUD) Office of Single Family Asset Management for a review of the City's compliance with its ACA agreement with HUD. Our objective was to determine whether the City complied with specific requirements in the ACA agreement pertaining to the resale of properties it acquired from HUD.

What We Found

The City did not comply with the specific provisions in the ACA agreement pertaining to the resale of its acquired ACA properties. It did not (1) ensure that 17 (or 25 percent) of 68 properties it acquired from HUD were rehabilitated and sold within the required timeframe, (2) ensure that all expenses included in net development costs for rehabilitated properties were eligible, and (3) verify homebuyers' eligibility and maintain the appropriate related supporting documentation. As a result, the City was unable to support $441,500 in property discounts from HUD for the 17 outstanding properties. It also included more than $11,600 in ineligible expenses in the net property development costs for four properties, which increased their sales prices and, consequently, the related mortgages by more than $11,700.

What We Recommend

We recommend that the Director, Office of Single Family Asset Management, direct the City to obtain and provide evidence that it has the necessary resources to complete the rehabilitation and sale of the 17 outstanding properties. If the City cannot provide evidence of its ability to rehabilitate the outstanding properties, it should pay HUD $441,500. In addition, we recommend that the City buy down the mortgages for the four properties which had more than $11,600 in ineligible expenses included as part of their net development costs, and that the City verify and document the eligibility of each homebuyer in the future. We further recommend that the Director, Office of Single Family Asset Management, not renew the ACA agreement with the City until it has demonstrated that it is in compliance with the requirements of the agreement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the audit results with the City and HUD officials throughout the audit and at an exit conference on January 15, 2009. The City provided written comments to our draft report on January 20, 2009. The City generally agreed with our finding and recommendations.

The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The City Did Not Comply with Specific ACA Agreement Provisions	5
Scope and Methodology	11
Internal Controls	13
Appendixes	
A. Schedule of Questioned Costs	15
B. Auditee Comments and OIG's Evaluation	16
C. Analysis of Sale Prices, Net Development Costs and Ineligible Costs	19
D. Calculation of Mortgage Buy-Down Amounts and Adjusted Mortgages	20

BACKGROUND AND OBJECTIVE

Section 204 of the National Housing Act (12 U.S.C. (*United States Code*) 1710) directs the U.S. Department of Housing and Urban Development (HUD) to promote the revitalization of neighborhoods through the creation of asset control areas (ACAs) in HUD-approved communities. HUD sells HUD-owned properties to authorized entities located within the ACAs at a discounted price. In turn, the authorized entities must ensure that the properties are rehabilitated and sold to eligible homebuyers, officers, teachers, or qualified military personnel.

HUD entered into an ACA agreement with the City of Camden (City) on November 22, 2005. Under the ACA agreement, the City acquired 68 properties from HUD at a cumulative discount of more than $1.7 million. Discounts on the homes ranged from $25,000 to $35,500 for each property. The City was required to manage the rehabilitation of the properties as necessary and sell them to eligible low- and moderate-income buyers, officers, teachers, or qualified military personnel at prices not to exceed the lesser of fair market value or 115 percent of eligible expenses to rehabilitate the properties. About a month after the City executed its ACA agreement with HUD, it entered into a third-party agreement with Fairview Village II, LLC (Fairview II), dated December 27, 2005. The agreement stated that Fairview II would implement the ACA agreement. On May 25, 2006, an amended City Council ordinance authorized the City to convey the ACA properties to Fairview Village, LLC, or any entity owned by RPM Development, LLC. In accordance with the agreement and the ordinance, the City transferred ownership of 17 properties to Fairview II and 51 to Fairview III. The ACA agreement allows for the City to enter into a contract of sale with other parties for an ACA property before rehabilitation is complete if the contract of sale describes the specific repairs remaining to be made for that property and the repairs are made before resale of the ACA property.

Fairview II and Fairview III share a sole owner/principal, Edward Martoglio. Mr. Martoglio is also an owner/principal of RPM Development, LLC (the developer), and RPM Contracting, LLC (RPM Contracting). In September 2002, the City entered into a redevelopment agreement with the developer to implement the Fairview neighborhood development plan. The developer is responsible for the major affordable housing production activity in the Fairview neighborhood. The City's ACA properties are located in the Fairview neighborhood and are being rehabilitated and sold by the developer. RPM Contracting is the general contractor for the ACA properties. During the ACA application process, the City disclosed to HUD its intent to transfer its acquired ACA properties to the developer for rehabilitation and resale. Although the ACA properties were acquired by the City, the developer provided or paid the properties' acquisition costs of more than $1.4 million. As of November 15, 2008, the developer had rehabilitated 51 properties and sold 50 of them. The New Jersey Housing and Mortgage Finance Agency (Agency) provides the developer with funding and is the developer's primary source of funds for rehabilitating the ACA properties.

Our objective was to determine whether the City complied with specific requirements in the ACA agreement pertaining to the resale of properties it acquired from HUD.

RESULTS OF AUDIT

Finding: The City Did Not Comply with Specific ACA Agreement Provisions

The City did not comply with specific provisions in the ACA agreement. It did not (1) ensure that 17 properties discounted by HUD for $441,500 were rehabilitated and sold within the required timeframe, (2) ensure that all expenses included in net development costs for rehabilitated properties were eligible, and (3) verify homebuyers' eligibility and maintain the appropriate related supporting documentation. These deficiencies occurred because the City did not explore or seek alternate sources of funding for the rehabilitation of its acquired properties and did not effectively implement its quality control plan. As a result, it could not support $441,500 in property discounts from HUD for the 17 outstanding properties. Furthermore these properties were not available for low- and moderate-income homebuyers and did not contribute to the ACA program's intent of improving the housing stock and revitalizing the neighborhood. The City also recorded more than $11,600 in ineligible net development costs, which increased the sales prices and, consequently, the mortgages for four properties by more than $11,700. In addition, since the City did not properly verify homebuyers' eligibility, it could not ensure that homebuyers met the requirements stipulated in the ACA agreement.

Properties Acquired Were Not Rehabilitated within the Required Timeframe

The City did not ensure that properties acquired under the agreement were rehabilitated and sold to homebuyers within the required timeframe. Section 5.4 of the ACA agreement requires that the City convey by deed 100 percent of properties acquired to eligible buyers, officers, teachers, or qualified military personnel within 18 months after the transfer effective date. The City acquired 68 properties from HUD. It then transferred the properties to a developer to be rehabilitated and sold to eligible homebuyers. The developer did not rehabilitate and sell all the properties within 18 months of being transferred. Of the 68 properties, 38 (55 percent) were not conveyed by deed to homebuyers within 18 months after HUD transferred the properties to the City. As of October 20, 2008, the developer had rehabilitated 51 properties and sold 50 of them. We inspected two of the remaining 17 properties that had not been rehabilitated to observe the general condition of the properties prior to renovation work. For verification purposes, we also inspected five of the 51 rehabilitated properties and noted that the renovation work had been completed.

HUD provided a total discount of $441,500 related to the 17 properties that had not been rehabilitated and sold. The developer indicated that it would incur holding costs of $65,018 related to insurance, taxes, utilities, maintenance, security, and other costs for the 17 properties over a one-year period. Because the developer did not rehabilitate the 17 properties within the required timeframe, the properties were not available for low- and moderate-income homebuyers and did not contribute to the ACA program's intent of improving the housing stock and revitalizing the neighborhood. Furthermore, because of the additional holding costs that may be incurred, the net development costs will increase, and may increase home sale prices and mortgages. The City should be required to demonstrate that the developer will be able to complete rehabilitation of the remaining properties and provide a timeline for completion of the needed repairs. If the developer is unable to rehabilitate and sell the remaining 17 properties, the City should pay HUD the amount of the discount for each property, a total of $441,500.

The City Did Not Ensure That All Net Development Costs Were Eligible

The City did not review the developer's net property development costs to ensure that all costs were eligible. At the beginning of our review in April 2008, the City was compiling appropriate documentation on net development costs for its rehabilitated ACA properties based on feedback it had received from HUD. HUD determined from a monitoring review in April 2007 that the City's documentation of net development costs did not reflect a final account of the costs including canceled checks, paid receipts, and invoices. As of the beginning of our review, the City had rehabilitated 37 properties. At that time, it only had complete records of net development costs for one of its rehabilitated ACA properties. We reviewed the available supporting documentation for that property and three others out of five for which the City had provided support as of July 31, 2008. In all four cases reviewed, we found ineligible costs as defined by exhibit 8 of the ACA agreement.[1] The costs should not have been included in the calculation of net development costs. In one case with net development costs totaling $68,602, we identified $2,522 in ineligible costs including payments for office supplies, general overhead, and other miscellaneous items. The documentation provided indicated that the costs were not related to the ACA property. We noted similar ineligible costs totaling $9,125 for the other three properties reviewed, resulting in a total of $11,647 in ineligible costs for the four properties. The breakdown for the four properties is as follows:

[1] Exhibit 8 of the ACA agreement defines the eligible expenses that can be included in calculating net development cost. Costs not listed as eligible are ineligible. Ineligible costs include, but are not limited to, general overhead, developer fees, sales bonuses, and maintenance and management costs related to other properties.

Property address	Net development costs	Ineligible costs
2820 N. Congress Road	$68,602	$2,522
2776 N. Congress Road	$82,685	$4,785
2957 Hartford Road	$71,858	$1,530
3173 Tuckahoe Road	$65,256	$2,810

The accuracy of the calculation of net development costs is important because the resale price of the City's ACA properties cannot exceed the lesser of the fair market value or 115 percent of net development costs to rehabilitate the properties. In all four cases reviewed, the properties' sale prices were based on the net development costs, which were lower than their appraised values. The sale prices and the appraised values for the four properties were as follows:

Property address	Sale price	Appraised value
2820 N. Congress Road	$78,000	$86,000
2776 N. Congress Road	$95,000	$96,500
2957 Hartford Road	$82,000	$90,000
3173 Tuckahoe Road	$75,000	$76,000

Because the net development costs for these four properties included ineligible costs of $11,647, the sale prices of the properties increased and also caused the mortgage amounts for the homebuyers to increase. For example, net development costs for the property at 2820 N. Congress Road totaled $68,602 and the property was sold for $78,000. The percentage of the sale price over net development costs was 113.70 percent.[2] The maximum allowed according to the ACA agreement is 115 percent of net development costs. Based on our review, $2,522 in ineligible expenses were included in the net development costs for this property. If the ineligible costs are eliminated, the sale price is reduced to $75,992.[3] The difference between the initial sale price and the adjusted sale price is $2,008.[4] We reviewed the settlement statement for the homebuyer and it indicates that the homebuyer obtained a mortgage of $77,900. The City should buy down the mortgage by $2,008.[5] For the four properties reviewed, the mortgages increased by $11,733 (see appendixes C and D). The City should buy down the existing mortgages for those homes.

The City Did Not Verify Homebuyers' Eligibility

The City did not verify homebuyers' eligibility, as determined by the developer, and maintain the appropriate related supporting documentation. The ACA agreement defines eligible buyers as individuals with income at or below 115 percent of local area median income adjusted by family size, as defined by HUD

[2] $78,000 (sale price)/$68,602 (net development costs) =113.70 percent
[3] [$68,602 (net development costs) - $2,522 (ineligible costs)] x115percent = $75,992 (adjusted sale price)
[4] $78,000 (sale price) - $75,992 (adjusted sale price) = $2,008 (buy down)
[5] $77,900 (mortgage) - $2,008 (buy-down) = $75,892 (adjusted mortgage amount)

for the fiscal year in which the acquired ACA property is sold. Section 5.2E of the ACA agreement requires the City to maintain sufficient documentation to support income eligibility for homebuyers. Our review of five randomly selected homebuyers indicated that the developer's staff documented that the homebuyers were eligible without sufficient documentation. For example, in one case, the developer's staff and the homebuyer signed an income certification indicating that the information presented on the certification was true and accurate. The homebuyer and a household member reported income from employment and Social Security totaling $57,518. However, there was no documentation in the file to support the source of income related to employment or Social Security earnings. Examples of adequate documentation would include a pay stub and/or third-party employment verification, as well as a statement of Social Security earnings or verification from the Social Security Administration. We found no evidence to indicate that the City verified the eligibility of the homebuyers as determined by the developer. As a result, we had no assurance that the homebuyers met the eligibility requirements stipulated in the ACA agreement.

The City Did Not Explore Alternate Funding Sources and Did Not Effectively Implement Its Quality Control Plan

The deficiencies identified above occurred because the City did not explore alternate sources of funding and did not effectively implement its quality control plan. City staff stated that the 17 outstanding ACA properties had not been rehabilitated because the developer ran out of funds. The Agency was the major source of the developer's funds. According to City staff, the developer would need to wait until 2009 to apply for more funds from the Agency. We found no evidence to indicate that the City had explored or sought alternate sources of funding to rehabilitate the 17 outstanding properties. Although the City transferred its ACA properties to the developer, the City was ultimately responsible for ensuring that the ACA properties were rehabilitated and sold within the required timeframes in accordance with the ACA agreement. The City needs to develop a process for exploring or seeking alternate sources of funding when existing funds for property repairs are exhausted to help prevent or reduce instances in which rehabilitation work cannot be performed on its ACA properties due to funding shortages.

The City also did not effectively implement its quality control plan. The City's quality control plan was accepted by HUD and incorporated into the ACA agreement under exhibit 5. The quality control plan states that one of the goals of the City's monitoring system (pertaining to its ACA program) includes assurance that development costs are correctly calculated. Section 2.2 in exhibit 5 states that the City will review documents submitted by the developer for accuracy and completeness. City staff stated that they reviewed the documentation submitted by the developer but did not document their reviews. Therefore, we found no evidence of reviews or steps/procedures taken by the City to ensure that net development costs or expenses submitted by the developer were eligible and accurately calculated in accordance with the ACA agreement. Also, contrary to its quality control plan, which states that one of the goals of the City's monitoring system (pertaining to its ACA program) includes verifying buyer eligibility, and section 5.2E of the ACA agreement, which states that the City will maintain sufficient documentation to support income eligibility for homebuyers, the City did not verify homebuyers' eligibility, as determined by the developer, and maintain the appropriate related supporting documentation as discussed above. The City needs to effectively implement its quality control plan to ensure that it complies with the requirements of the ACA agreement.

Conclusion

The City did not comply with the specific provisions of the ACA agreement. It did not (1) ensure that properties acquired under the agreement were sold to eligible homebuyers within the required timeframes, (2) ensure that $11,647 in property net development costs for the properties were eligible, and (3) verify homebuyers' eligibility and maintain the appropriate related supporting documentation. The deficiencies identified occurred because the City did not explore or seek alternate sources of funding for the rehabilitation of its ACA properties and did not effectively implement its quality control plan. As a result, it was unable to support $441,500 in property discounts from HUD for 17 unrepaired properties and must buy down the mortgages for four properties which had $11,647 in ineligible expenses included as part of their net development costs. In addition, since the City did not properly verify homebuyers' eligibility, it could not ensure that homebuyers met the requirements stipulated in the ACA agreement. The City should be required to demonstrate that it has the ability to rehabilitate and sell the 17 outstanding properties and provide a timeline for completion of the needed repairs. It should also effectively implement its quality control plan to ensure that it complies with the requirements of the ACA agreement.

Recommendations

We recommend that the Director, Office of Single Family Asset Management, direct the City to

1A. Obtain and provide evidence that the developer has the necessary funds to complete the rehabilitation and sale of the remaining 17 properties. If the developer cannot provide evidence of financial ability to rehabilitate the outstanding properties, the City should pay HUD $441,500 for the discount it received on the properties.

1B. Obtain and provide the developer's timeframes for completing rehabilitation on outstanding properties.

1C. Develop a process for exploring or seeking alternate sources of funding to help prevent or reduce instances in which rehabilitation work cannot be performed on its ACA properties due to fund shortages.

1D. Buy down the mortgages for the four properties for which we identified $11,647 in ineligible costs. Based upon our recalculation, the buy-down amount is a total of $11,733 for the four properties (see appendix D for a list of the four properties).

1E. Obtain documentation on net development costs for all of its rehabilitated ACA properties from the developer and review the costs for eligibility and accuracy in accordance with the ACA agreement. The City should document its review of each ACA property and should buy down the mortgages if it is determined that there were ineligible costs that increased the mortgage amounts to the homebuyers.

1F. Verify and document the eligibility of each homebuyer. If the City is unable to provide satisfactory documentation to support the eligibility of any homebuyers, the City should pay HUD the amount of the sales discounts associated with the homes.

We also recommend that the Director, Office of Single Family Asset Management

1G. Not renew the ACA agreement with the City until it has demonstrated that it is in compliance with the requirements of the agreement.

SCOPE AND METHODOLOGY

We performed our review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

We performed the audit at the City from April through October 2008. The City's office is located at City Hall – Suite 432, Camden, New Jersey. Our audit covered the period November 1, 2005, through March 31, 2008. However, we extended the period as necessary to achieve our objective. During the audit, we assessed the reliability of computer-processed data relevant to our audit by comparing the data to hard-copy information. We found the computer-processed data sufficiently reliable to meet our audit objective.

We discussed operations with staff from the City and key officials from HUD's Philadelphia Real Estate Owned Division office and its headquarters Single Family Asset Management Division.

To determine whether the City complied with the ACA agreement, we obtained and reviewed the following:

- The ACA agreement and documents related to the City's ACA application.
- Correspondence prepared by HUD, the City, the developer, and other related parties.
- Information obtained from public records using data retrieval tools including LexisNexis.
- HUD reviews of the City including e-mails and memorandums.
- Documentation on the ACA properties acquired by the City including but not limited to supporting documentation for net development costs, homebuyer eligibility, and property sales.
- Audited financial statements for the City for the period ending June 30, 2007.
- Financial data on the ACA properties submitted to the City by the developer of its ACA properties.
- Construction loan agreements between the developer of the City's ACA properties and the Agency.
- Organizational chart for the City's Division of Housing Services.
- Ghenene & Associates' Agreed-Upon Review Procedures Report on the City's ACA program, dated June 15, 2007.

We also performed the following:

We reviewed acquisition, sale, and other relevant information pertaining to the City's 68 acquired ACA properties to determine whether the properties were rehabilitated and sold within the timeframe specified by the ACA agreement.

We reviewed files for four of the City's 68 acquired ACA properties to determine whether the net development costs for the properties were based on supported eligible expenses. Our review was limited because during our audit timeframe, the City was compiling appropriate documentation on net development costs for its rehabilitated properties. As of the beginning of our review in April 2008, the City only had complete records of net development costs for one of its rehabilitated ACA properties. The City later provided supporting documentation for two additional properties. We randomly selected another two properties for review from the City's listing of acquired properties. As of July 31, 2008, the City had support for net development costs available for 5 of its 68 ACA properties. We reviewed the supporting documentation for net development costs for four of the five properties. We also reviewed the settlement statements for the four properties to determine the mortgage amounts. The City's developer included $11,647 in ineligible expenses in the net development costs for the four properties. As a result, the related sale prices and, consequently, the mortgages increased by approximately $11,700 (see appendixes C and D).

We randomly selected and reviewed the files pertaining to five properties from the City's listing of acquired ACA properties to determine whether the homebuyers met the eligibility requirements stipulated by the ACA agreement.

We inspected 2 of the City's 17 properties that had not been rehabilitated to observe the general condition of the properties prior to repair work. The properties were selected by staff of the City's developer. For verification purposes, we also randomly selected and inspected 5 of the City's 51 rehabilitated properties from its listing of acquired properties.

INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- 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.

- 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.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The City did not implement controls to ensure that properties acquired under the ACA agreement were sold to eligible homebuyers within the required timeframes, that all net property development costs were eligible, and that all homebuyers were eligible.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		$441,500
1D	$11,733	

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 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

CITY OF CAMDEN
DEPARTMENT OF DEVELOPMENT & PLANNING
Division of Housing Services
Room 218-A, City Hall, 2nd Floor – P.O. Box 95120-5120
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January 20, 2009

Mr. John P. Buck
Regional Inspector General
Office of Inspector General
U.S. Department of HUD
Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3380

RE: ACA AUDIT REPORT

Dear Mr. Buck:

Pursuant to our discussion at the Exit Conference held on Thursday, January 15th to review the content of the IG audit performed on the ACA Program, this letter is intended to acknowledge the findings described therein and reinforce the City's (in collaboration with RPM Development) commitment to achieve their timely and satisfactory resolution.

Toward that end and to summarize the initial actions we propose, please be advised of the following:

Comment 1

Remaining ACA Inventory:
All efforts will be made to identify and pursue a funding source that will provide a mechanism with terms conducive to the completion of the remaining 14 properties. **Note:** As discussed, three (3) of the original properties noted in the audit have been placed under construction which effectively reduces the number (17) described in the report.
Personal Note: As we are all aware, the state of the economy has had a direct impact on our access to capital markets (public or private) as well as their extension of credit to our perspective homebuyers and trust that HUD will acknowledge these conditions and the inherent delay they will create with the eventual success of these efforts.

Net Development Costs:
To ensure an accurate calculation of net development costs allocated toward individual properties, the City will review and certify the financial transactions in accordance with the methodology dictated by the terms established in Exhibit 8 of the ACA Agreement. Since we currently possess spread sheets provided by the Developer on each property, we will continue the process for analyzing the nature and distribution of costs incurred and reconciling our findings to the information recorded in the ACA data base.

Comment 2

Personal Note: Without compromising the intent of this commitment or disputing the analysis of the 4 properties cited in the audit, it may be necessary to clarify how certain costs are categorized within the context of this process.

Income Certification
As agreed, the City will review all documentation obtained by the Developer to calculate annual family income of the client/applicant and certify to its accuracy and completeness. The results of this analysis will be memorialized in a formal certification signed by the reviewing official and maintained within the property file.

A more detailed plan of action will follow based on our receipt of additional information i.e. availability of funding to complete the remaining units, and arriving at a consensus between our respective offices on the processes and practical methods to clear these issues.

Comment 3

To achieve that end, please advise of the format and time line for the submission of this report so we may plan accordingly.

And finally, please extend my gratitude to Mr. Grant for the non-intrusive nature of his audit that created little or no disruption to the operations of this office during the course of his review.

Sincerely,

Stanley Witkowski
Housing Coordinator

SW/rm
c: Edward C. Williams, Assist. Director
Alfred Dansbury, Administrative Analyst
Ed Mortoglio, RPM
Alisha Johnson, RPM
Olivette Simpson, CRA
Osiko Tekpetey, OIG
Forell Grant, OIG
File

OIG Evaluation of Auditee Comments

Comment 1 We are encouraged by the City's plans to identify and pursue a funding source for the rehabilitation of its outstanding ACA properties. The City should provide HUD support or evidence for the three properties that have recently been placed under construction. If the City provides satisfactory supporting documents, the unsupported costs reported in recommendation 1A will be reduced.

Comment 2 The City is on the right track with its plan to review and certify financial transactions in accordance with exhibit 8 of its ACA agreement, and should seek HUD guidance for clarification of issues or requirements when needed.

Comment 3 This is the final report on our audit. Upon receiving correspondence from HUD pertaining to the audit and the related findings, the City should work with HUD to resolve the audit recommendations.

Appendix C

ANALYSIS OF SALE PRICES, NET DEVELOPMENT COSTS AND INELIGIBLE COSTS

Property address	**Appraised value**	**Sale price**	**Net development costs**	**Percentage of sale price over net development costs**	**Ineligible costs**	**OIG Audit adjusted sale price***
2820 N. Congress Road	$86,000	$78,000	$68,602	113.70%	$2,522	$75,992
2776 N. Congress Road	$96,500	$95,000	$82,685	114.89%	$4,785	$89,585
2957 Hartford Road	$90,000	$82,000	$71,858	114.11%	$1,530	$80,877
3173 Tuckahoe Road	$76,000	$75,000	$65,256	114.93%	$2,810	$71,813

***** OIG adjusted sale price = (net development costs – ineligible costs) x 115 percent

Note: According to the ACA agreement rehabilitated properties may be sold at the lesser of fair market value (appraised value) or 115 percent of eligible rehabilitation expenses (net development costs). The OIG Audit adjusted sale price is the maximum allowable sale price for each respective property.

Appendix D

CALCULATION OF MORTGAGE BUY-DOWN AMOUNTS AND ADJUSTED MORTGAGES

Property address	Sale price	OIG Audit adjusted sale price	Difference between sale price and OIG Audit adjusted sale price*	Homebuyer mortgage amount at property settlement date	OIG Audit adjusted mortgage amount**
2820 N. Congress Road	$78,000	$75,992	$2,008	$77,900	$75,892
2776 N. Congress Road	$95,000	$89,585	$5,415	$90,250	$84,835
2957 Hartford Road	$82,000	$80,877	$1,123	$65,600	$64,477
3173 Tuckahoe Road	$75,000	$71,813	$3,187	$71,350	$68,163

***** The difference between the sale price and the OIG Audit adjusted sale price (from appendix C above) represents the mortgage buy-down amount for each respective property based on the ineligible costs identified in appendix C above. The total amount for the four properties is $11,733.

****** The OIG Audit adjusted mortgage amount is the homebuyer mortgage amount at the property settlement date less the difference between the sale price and the OIG Audit adjusted sale price.