Issue Date September 28, 2009
Audit Report Number 2009-AT-0001

TO: Mercedes M. Márquez, Assistant Secretary for Community Planning and Development, D

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FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME funds

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (HOME) as part of our fiscal year 2009 annual audit plan. Our audit objectives were to assess the adequacy of HUD's monitoring and implementation of requirements to recapture HOME funds not committed within two years and spent within five years, assess the adequacy of HUD's monitoring and use of its Integrated Disbursement and Information System (information system), and assess whether it was appropriate for HUD to apply the cumulative technique for assessing deadline compliance and the first-in first-out method for committing and disbursing HOME funds to participating jurisdictions.

What We Found

HUD needs to improve efforts to require participating jurisdictions to cancel more than $62 million in HOME fund balances for open activities that were committed more than five years ago. The prolonged delay or failure to cancel the fund balances caused an overstatement of commitments in HUD's information system which prevented the accurate identification of funds that were subject to recapture by HUD or the United States Treasury. In addition to the excessive fund balances, we question the eligibility of more than $11.6 million disbursed to participating jurisdictions for activities that were more than five years old, showed evidence of stalled performance, and may have warranted their classification as terminated activities.

Participating jurisdictions made more than $20.9 million in incorrect commitment entries to the information system. The inaccuracies undermined the integrity of the information system and reports generated from the system. HUD did not routinely monitor the accuracy of commitments that participating jurisdictions entered into the information system, nor did it require participating jurisdictions to implement adequate internal controls over commitments they entered into the system. HUD missed the opportunity to identify and require correction of the types of deficiencies discussed in this report because it did not routinely monitor this area. The significant inaccuracies bring into question the reliability of commitments that other participating jurisdictions entered into the information system.

HUD used a cumulative technique for assessing deadline compliance and a first-in first-out method for HOME commitments and expenditures that conflicted with statutory requirements that require the identification of HOME commitments and expenditures by the program funding year to which they relate. The statutes make no mention of the cumulative technique and the first-in first-out method as acceptable alternatives. The two HUD practices contributed to the more than $62 million in old activities remaining open as discussed above. HUD would have recaptured the funds due to the missed five-year disbursement requirement were it not for the cumulative technique. The first-in first-out method, as described by HUD, contributed to misclassification of funds in HUD's financial system that are subject to recapture by HUD or by the United States Treasury pursuant to a separate statutory deadline that will be in place starting September 30, 2009.

What We Recommend

We recommend that HUD identify which of the old open activities have been completed or terminated, cancel those balances, recapture shortfalls generated by the cancellations, and require repayments for HOME expenditures on terminated activities. We further recommend that HUD implement procedures to ensure that field offices monitor the accuracy of future commitments that participating jurisdictions enter into HUD's information system, and provide technical assistance to participating jurisdictions regarding what constitutes acceptable documentation for commitments. HUD should also require participating jurisdictions to close out old HOME activities as appropriate, reallocate remaining balances for future HOME projects in a timely manner, and establish and implement adequate internal controls over commitments they enter into the information system. Furthermore, HUD should obtain a formal legal opinion from the Office of General Counsel and revise its regulations to ensure its procedures for assessing compliance with commitment and expenditure requirements are consistent with statutory requirements.

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 provided our discussion draft audit report to HUD on August 11, 2009, and held an exit conference on August 20, 2009. HUD provided written comments on September 15, 2009. HUD disagreed with findings 1 and 3 but agreed with finding 2. Also, HUD generally agreed with our recommendations.

The complete text of HUD's written response, along with our evaluation of that response, can be found in appendix B of this report. We excluded the attachment containing the Federal Register, dated May 28, 1997, which is available on the Government Printing Office website.

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BACKGROUND AND OBJECTIVES

The HOME program is authorized under Title II of the Cranston-Gonzales National Affordable Housing Act as amended. HOME is funded for the purpose of increasing the supply of affordable rental housing; improving substandard housing for existing homeowners; assisting new home buyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance. HOME funding is allocated to eligible state and local governments to strengthen public-private partnerships and to supply decent, safe, and sanitary affordable housing to very low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new construction, and tenant-based rental assistance. Participating jurisdictions are required to reserve a portion of their HOME funds for community housing development organizations. Private nonprofit community-based service organizations receive their certification and designation as community housing development organizations from participating jurisdictions based on criteria specified in HUD's regulations.

HUD makes formula allocations of HOME funds to participating jurisdictions on an annual basis. HUD makes the allocations without regard to the participating jurisdictions' timely commitment and expenditure of prior year HOME allocations. HUD officials stated that the department does not have the statutory authority to deny annual formula allocations to participating jurisdictions that fail to timely commit and spend HOME funds. HUD has a system to monitor participating jurisdictions' compliance with program deadlines for commitments, reservations to community housing development organizations, and expenditures. HUD provided information that showed since inception of the program in 1992 it has recaptured more than $41 million from participating jurisdictions for failure to meet those deadlines. HUD's national production report as of December 31, 2008, shows that since inception of the HOME program, HUD has allocated HOME funds totaling more than $26.5 billion, of which more than $24.1 billion has been committed and more than $21.7 billion has been expended by participating jurisdictions.

Title II of the Cranston-Gonzalez National Affordable Housing Act provides that a participating jurisdiction's right to draw funds from its HOME Investment Trust Fund shall expire if the funds are not placed under binding commitment to affordable housing within 24 months after the last day of the month in which such funds are deposited into the participating jurisdiction's HOME Investment Trust Fund. Regulations for the HOME program have similar language and require that HOME funds be committed by the participating jurisdictions within 24 months, and expended within five years. However, for purposes of determining the amount by which the HOME Investment Trust Fund will be reduced or recaptured, HUD considers the sum of commitments to community housing development organizations, commitments, or expenditures, as applicable, from the fiscal year allocation being examined and from subsequent allocations. This interpretation of the 24-month commitment requirement (referred to by HUD as the "cumulative" technique) is set forth in HUD's regulations, but is not contained in the statute. HUD also used a first-in first-out method to commit and disburse funds to activities in its information system. This means that funds are committed and disbursed from the "oldest" available funds first.

In 1996, HUD established and implemented the information system to accumulate and provide data to monitor, among other requirements, compliance with HOME requirements for committing and expending funds. HUD also uses the information system to generate reports used within and outside HUD, including the public, participating jurisdictions, and the Congress. The information system is the disbursement and reporting system for the HOME and other HUD community development programs. The information system is a real-time mainframe-based computer application that is undergoing reengineering to a Web-based system.

Requirements of the National Defense Authorization Act of 1991 (Public Law 101-510, dated November 5, 1990) state that on September 30 of the fifth fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose. The HOME fiscal year 2002 appropriation was the first time HOME funds had an identified three-year period of availability subject to Public Law 101-510 and its five-year expenditure deadline. Prior to fiscal year 2002, HOME funds were appropriated for an indefinite period and were available until expended. Fiscal year 2002 HOME funds that are not spent by September 30, 2009 (five years after the period of availability ended on September 30, 2004), will be subject to recapture by the United States Treasury. Unexpended HOME funds for grant years 1992 through 2001 are not subject to Public Law 101-510.

The objectives of the audit were to (1) assess the adequacy of HUD's monitoring and implementation of requirements to recapture HOME funds not committed within two years and spent within five years, (2) assess the adequacy of HUD's monitoring and use of its information system, and (3) assess whether it was appropriate for HUD to use the cumulative technique for assessing deadline compliance and the first-in first-out method to commit and disburse HOME funds to participating jurisdictions.

RESULTS OF AUDIT

Finding 1: Fund Balances for Open Activities More Than Five Years Old Were Not Closed Out in a Timely Manner and Could Trigger Recapture by the United States Treasury

HUD needs to improve efforts to require participating jurisdictions to deobligate more than $62 million in HOME fund balances in a timely manner for open activities that were more than five years old. We also question the eligibility of more than $11.6 million disbursed to participating jurisdictions for open activities that were more than five years old and showed evidence of stalled performance that may have warranted their classification as terminated activities. The balances associated with the old activities restricted participating jurisdictions from committing and spending the funds on other eligible HOME activities in a timely manner or for reimbursing the program for ineligible costs. The delay or failure to deobligate amounts when due caused an overstatement of commitments in HUD's information system and contributed to masking or understating shortfalls that were subject to recapture by HUD. These situations occurred because HUD had not adequately enforced efforts to require participating jurisdictions to close out old fund balances in a timely manner and to support whether inactive or slow-moving activities were, in effect, terminated activities. The balances indicated excessive delays by participating jurisdictions in the completion of projects and/or closeout of funded activities. The portion of the fund balances that are associated with old open subgranted activities would make it more difficult for participating jurisdictions and HUD to avoid losing HOME funds subject to recapture by the United States Treasury under provisions of Public Law 101-510 (see finding 3).

The $62 million for open activities and the $11.6 million in questioned costs consisted of:

- $7 million for 77 open activities with no fund draws since the activities were funded;

- $20.4 million for 436 open activities with no fund draws since 2006, plus more than $3.9 million in questioned costs; and

- $34.6 million for 243 open activities with fund draws from 2007 to April 2009, plus more than $7.7 million in questioned costs, but the activities were not completed despite having been funded beyond HUD's five-year regulatory disbursement requirement.

HUD officials acknowledged the problem with closing out open activities and commented that they had efforts underway to address the matter. They said that the headquarters Office of Community Planning and Development had emphasized to field offices the importance of closing out open activities. They further stated that they provided field offices with reports that identified the open activities. Moreover, the closeout of such activities is an element of field office staff's performance standards.

HUD Had Made Progress in Closing Open Activities

We started the audit in November 2008 and initially assessed activities shown in HUD's open activities report as of December 31, 2008. We only assessed open activities that were five years old or older because that period parallels HUD's regulatory requirement that participating jurisdictions spend HOME funds within five years of the date of their HOME agreements. The December report identified more than $83.1 million in open activities funded between 1992 and 2003.

During the audit, we contacted 11 field offices concerning 18 of the open activities with fund balances that totaled more than $19 million. We made the contacts to obtain information and support to explain what action the offices had taken to require participating jurisdictions to close out the activities and to deobligate the fund balances. Based on the responses, we determined that HUD closed some of the old activities shown in the December report during the course of our audit. Therefore, we updated our assessment using HUD's open activities report as of April 30, 2009. The April report showed more than $62 million in open activities compared to the $83.1 million shown in the December 31, 2008, report. The difference indicates that HUD made considerable progress in closing out old open activities after we started the audit in November 2008.

There Were Five-Year-Old Activities with No Funds Disbursed to Participating Jurisdictions

HUD's open activities report as of April 30, 2009, showed more than $7 million for 77 open activities that were more than five years old, for which the participating jurisdictions had not drawn down any funds under their letter of credit. HUD regulations provide that a project, which has been committed in the information system for 12 months without an initial disbursement of funds, may be canceled. The activities were funded between 1993 and 2003 and were at least four years past the 12-month date that should have triggered a system cancellation but did not do so.

Funding year	Number of activities	Funds drawn	Fund balance
1993 to 1999	8	$ 0	$ 1,342,451
2000	3	0	308,470
2001	9	0	193,355
2002	17	0	2,175,006
2003	40	0	3,066,706
Total	77	0	$7,085,988

Based on HUD's December 2008 open activities report, we requested information from five field offices for six activities that totaled more than $3.8 million. Two field offices provided various explanations about two activities funded for $1.2 million, but they did not explain why they had not required the participating jurisdictions to cancel the activities and deobligate the funds. The activities were still open in HUD's information system. One field office (New Orleans) did not respond to our request for an activity funded for $555,560, but we determined that the participating jurisdiction later drew more than $480,000 against the activity. Two field offices responded with information showing that the participating jurisdictions had since deobligated fund balances and/or closed three activities funded for more than $2 million. Our assessment and follow-up showed that HUD had made progress in closing out activities that had no fund draws but that more timely action is needed to require participating jurisdictions to close out all such activities and deobligate the fund balances.

There Were Five-Year-Old Activities with No Fund Draws Since 2006

HUD's open activities report as of April 30, 2009, showed more than $20.4 million for 436 open activities that were more than five years old, for which the participating jurisdictions had not drawn down any funds under their letter of credit since 2006. The activities were funded between 1992 and 2003. HUD regulations state that a HOME-assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible project. The absence of fund draws within the last two years raised questions as to whether the activities had been completed with residual fund balances or whether they represented terminated activities. In either instance, the fund balances should have been deobligated. If the activities were terminated, the amounts drawn represented ineligible HOME expenditures.

Year of last fund draw	Total fund balances for activities funded more than five years ago	Distribution by funding year				
		1992-1999	2000	2001	2002	2003
1997-1999	$1,638,780	$1,637,441	$1,340	-	-	-
2000	219,375	157,157	62,218	-	-	-
2001	1,107,345	177,441	252,918	$676,986	-	-
2002	1,356,460	189,428	532,128	160,474	$474,431	-
2003	1,171,893	2,126	15,489	297,071	500,364	$356,842
2004	4,884,233	232,914	23,250	270,673	635,678	3,721,719
2005	2,804,476	391,099	29,753	19,815	624,328	1,739,480
2006	7,309,430	2,223,189	49,080	853,574	2,193,768	1,989,817
Total	$20,491,992	$5,010,795	$966,176	$2,278,592	$4,428,570	$7,807,859

The fund balances associated with these activities should be deobligated in HUD's information system unless the participating jurisdictions can specifically support that the activities have not been terminated (voluntarily or involuntarily) and are progressing in a timely manner toward producing affordable housing for eligible recipients.

Based on data included in HUD's information system, we question more than $3.9 million that participating jurisdictions drew down for 76 activities (see appendix C) included in the above table. In each case, the activities were more than five years old (some dating back to the 1990s), but the participating jurisdictions had drawn down less than 50 percent of the funded amounts coupled with no fund draws in the last two years. These conditions were not indicative of activities making reasonable progress toward producing affordable housing but were, instead, indicative of stalled or possibly terminated activities. HUD will need to determine whether the activities had been terminated and whether the funds drawn for them were eligible under the HOME program.

As discussed below, even if the above activities are now progressing toward completion, amounts associated with subgranted activities may prevent participating jurisdictions from meeting the eight-year expenditure deadline under Public Law 101-510, applicable to activities funded with appropriations from fiscal year 2002 and later.

Based on HUD's December 2008 open activities report, we requested information from eight field offices on 12 activities with fund balances of more than $15.1 million. Three field offices provided no clear explanations for why they had not required participating jurisdictions to cancel and deobligate HOME funds for six activities with fund balances of more than $7.4 million. One field office (Los Angeles) did not respond to our request for an activity with a fund balance of more than $1.2 million. Five field offices responded with information showing that the participating jurisdictions had since drawn, deobligated, or canceled five activities, which reduced their $6.3 million fund balance to about $1.5 million. The follow-up indicated that HUD had made progress in closing out the old activities in this category. However, more timely action is needed to require participating jurisdictions to close out and deobligate funds for such activities and, when applicable, reimburse the program for expenditures made for terminated activities.

There Were Five-Year-Old Activities with Fund Draws from 2007 to April 2009

HUD's open activities report as of April 30, 2009, showed more than $34.6 million in fund balances for 243 activities that were funded between 1994 and 2003 but which had fund draws from 2007 to April 2009 that should be evaluated to determine why the activities had not been completed. The amount included more than $13 million in fund balances for 32 activities for which the participating jurisdictions had drawn only $7.7 million or 50 percent or less of the HOME funds committed to them. The fund balance included more than $1.2 million for a 1996 Florida new construction activity (number 310), for which the participating jurisdiction had only drawn about 19 percent of the allocated funds, and a $1.2 million fund balance for a 1994 Puerto Rico new construction activity (number 15), for which the participating jurisdiction had only drawn about 45 percent of the allocated funds. HUD regulations state that HOME-assisted projects that are terminated before completion, either voluntarily or otherwise, constitute an ineligible project.

Year of last fund draw	Total fund balances for activities funded more than five years ago	Distribution by funding year				
		1992-1999	2000	2001	2002	2003
2007	$4,541,513	$1,616,152	$20,367	$53,560	$776,556	$2,074,878
2008	21,210,265	541,384	429,898	1,970,363	4,315,435	13,953,185
2009	8,871,729	1,836,813	70,665	1,381,245	2,956,083	2,626,923
Total	$34,623,507	$3,994,349	$520,929	$3,405,168	$8,048,075	$18,654,986

HUD should ensure that participating jurisdictions close and deobligate fund balances for completed activities and disallow any expenditure for activities that are effectively terminated. This requirement includes but is not limited to a failure to produce affordable housing occupied by HOME-eligible recipients in a reasonable period.

For instance, we question more than $7.7 million in disbursements to participating jurisdictions for 32 activities (see appendix C), which appear to have been stalled or possibly terminated. In each case, the activities were more than five years old (some dating back to the 1990s), but the participating jurisdictions had drawn down less than 50 percent of the funded amounts. These conditions were not indicative of activities making reasonable progress toward producing affordable housing but were, instead, indicative of stalled or possibly terminated activities. HUD will need to determine whether the activities had been terminated and were eligible under the HOME program.

Inadequate Action to Close Old Open Activities Increased the Potential for Recapture by the U.S. Treasury

The existence of subgranted fund balances for the above old open activities would make it more difficult for participating jurisdictions and HUD to avoid losing HOME funds to recapture by the United States Treasury under the statutory requirements of Public Law 101-510. For instance, HUD's expiring funds report showed more than $12 million in open subgranted activities in Region IV that are included in the $62 million discussed above. HUD's guidance provides the following concerning this law's application to the HOME program. It states that:

- HOME funds appropriated in fiscal year 2002 will not be available for participating jurisdictions to expend after September 30, 2009. HOME funds remaining in a participating jurisdiction's fiscal year 2002 grant after this date will be recaptured by the United States Treasury. Unexpended HOME funds in grants from 1992 through 2001 are not subject to these rules. However, beginning with the fiscal year 2002 appropriation, each annual HOME grant is subject to the expenditure rule. So, for example, fiscal year 2003 HOME funds will no longer be available to participating jurisdictions after September 30, 2010.

- In order for a participating jurisdiction to be able to draw down all 2002 funds, all prior-year funding must first have been drawn down for those recipients and fund types having fiscal year 2002 funds committed to them. As a result, HUD's guidance states that participating jurisdictions may not even be aware that some of their pre-2002 HOME commitments are "parked" with specific recipients or within certain fund types, thus effectively blocking off their access to the fiscal year 2002 HOME funds.

The capability of 2001 and earlier year HOME funds (particularly funds associated with subgranted activities) to block participating jurisdictions' ability to draw 2002 and later year funds (subject to statutory recapture) underscores the urgency for HUD to close out and cancel fund balances for old open activities.

Conclusion

HUD had made progress in closing out open activities, but it needs further improvements to ensure that field offices require participating jurisdictions to close out old open activities expeditiously to avoid losing HOME funds to recapture by the United States Treasury pursuant to Public Law 101-510 that becomes effective for the HOME program on September 30, 2009. Fund balances that should have been closed out contributed to understating and/or masking what would otherwise have been commitment shortfalls in HUD's deadline compliance status report that were subject to recapture by HUD for redistribution to participating jurisdictions. Also, fund disbursements associated with open activities that were or should have been terminated represented ineligible HOME expenditures. These situations occurred because HUD had not adequately enforced efforts to require participating jurisdictions to close out old fund balances in a timely manner and to support whether inactive or slow-moving activities were, in effect, terminated activities.

Recommendations

We recommend that the Assistant Secretary for Community Planning and Development:

1A. Ensure that field offices require participating jurisdictions to close out in a timely manner $62,201,487 in activities reflected in its open activities report that are more than five years old and cancel the fund balances.

1B. Require participating jurisdictions to reimburse HUD from nonfederal sources any portion of the $11,634,558 for activities listed in appendix C that HUD determines had been terminated, voluntarily or involuntarily. When making this determination, HUD should consider the participating jurisdictions' lack of timely physical completion and/or production of affordable housing occupied by HOME income-eligible individuals.

1C. Recapture any shortfalls generated by the closure and deobligation of fund balances associated with the open activities.

1D. Establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for eligible activities in time to avoid losing them to recapture by the United States Treasury under provisions of Public Law 101-510.

Finding 2: Inadequate HUD Monitoring of and Internal Controls over Commitments Entered into the Information System Resulted in Questionable Data Reliability

HUD did not routinely monitor the accuracy of commitments that participating jurisdictions entered into the information system. HUD also did not require participating jurisdictions to institute basic internal controls over their commitment entries. The audit identified more than $20.9 million in incorrect commitment entries made by seven participating jurisdictions. HUD missed the opportunity to identify and require correction of the types of inaccuracies found during the audit because it did not routinely monitor this area. The inaccuracies undermined the integrity of system data and of reports generated from the information system. For example, the incorrect entries impacted the deadline compliance status report, which HUD uses to determine recapture amounts for participating jurisdictions that miss their 24-month statutory commitment deadline. The significant inaccuracies by such a small number of participating jurisdictions reviewed bring into question the reliability of commitments other participating jurisdictions entered into the information system.

Field Offices Were Not Required to Monitor and Enforce Requirements for Commitment Data Entries

HUD's procedures for conducting risk assessments do not include criteria for field offices to assign risk factors for commitments entered into the information system. Further, HUD had not developed an appropriate checklist for monitoring the accuracy and support for commitments that participating jurisdictions entered into the information system. We examined HUD's 2008 monitoring of 12 participating jurisdictions by four Region IV field offices (Jacksonville and Miami, Florida; Atlanta, Georgia; and Columbia, South Carolina). The four field offices did not monitor whether the participating jurisdictions only made properly supported commitment entries and adjustments to the information system. Two of the field offices examined written agreements (three for Jacksonville and three for Miami) for proper content but not for accuracy of input to the information system. Thus, HUD missed the opportunity to identify and require correction of the types of inaccuracies found during the audit.

We visited five Region IV participating jurisdictions that HUD monitored in 2008 and examined support for commitments and/or commitment adjustments entered into the information system. We focused on entries made during the month of the participating jurisdictions' commitment deadlines and three months before the deadlines. We examined commitments totaling more than $6.9 million and identified more than $2.3 million (33 percent of $6.9 million) in questionable commitments that the participating jurisdictions entered into the information system.

Participating jurisdiction	Commitments and activities examined	Total questionable entries	Types of commitment violations and errors: Past deadline or no agreement	Exceeded agreement amount	Other inadequately supported entries
Polk County, FL	$ 692,499/ 8	$ 691,320	$ 354,482	$ 158,122	$ 178,716 *
Richland County, SC	503,989/ 15	295,210	252,240	3,650	39,320 *
Tampa, FL	2,170,837/ 5	1,213,265			1,213,265 **
Macon, GA	608,372/ 11	106,295		3,528	102,767***
Miami-Dade County, FL	3,000,000/ 3	-	-	-	-
Total	$6,975,697/ 42	$ 2,306,090	$ 606,722	$ 165,300	$1,534,068

*Entries made before the agreements were executed but executed before the commitment deadline date.

** No execution date shown on the agreement.

*** Amount not reconcilable to the written agreement.

HUD headquarters Office of Community Planning and Development staff stated that their limited staff and added responsibilities associated with the economic recovery effort would limit their ability to monitor the accuracy of commitments participating jurisdictions entered into the information system.

HUD Did Not Require Adequate Internal Controls over Commitment Data Entries

HUD did not require participating jurisdictions to establish and implement adequate internal controls over commitments and related adjustments that they entered into the information system. This deficiency was significant considering that HUD, as discussed above, did not monitor participating jurisdictions to determine the accuracy of commitment entries entered into the information system. HUD regulations define commitment to mean that the participating jurisdiction has executed a legally binding agreement with a state recipient, a subrecipient, or a contractor to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance; has executed a written agreement reserving a specific amount of funds to a community housing development organization; or has met the requirement to commit funds to a specific local project. The information system reference manual provides that HOME funds are “committed” to an activity and recorded in the information system when there is a written, legally binding agreement and the activity is set up and funded in the information system.

We identified instances in which participating jurisdictions committed (funded) funds in the system when they had no legally binding agreements, the agreements were not dated, or the agreement amount did not match the commitment amount. Upon learning of our visit, one of the participating jurisdictions adjusted the prior entries made to the information system to reduce inflated commitments to the amounts supported by its executed written agreements. In addition, we noted similar conditions in OIG external audits in which participating jurisdictions entered commitments into the information system that were not supported by written agreements.

For example, the following OIG audits at participating jurisdictions identified more than $18.6 million in commitments that participating jurisdictions recorded in the information system without being supported by properly executed written agreements:

Audit report number	**Report issue date**	**Participating Jurisdiction**	**Inadequately supported commitments**
2009-LA-1004	Nov. 26, 2008	California	$15,000,000
2008-AT-1006	Mar. 7, 2008	Fulton County, GA	2,700,000
2008-AT-1009	June 9, 2008	Augusta, GA	983,000
Total			$18,683,000

The problem with participating jurisdictions incorrectly entering commitments into the information system was significant and was not isolated. The incorrect and unsupported commitment entries underscore the need for HUD to require participating jurisdictions to establish, implement, and enforce internal controls over data entries and adjustments. This problem is significant considering that HUD recaptures commitments that are not made by the program's 24-month statutory deadline based on commitment shortfalls identified in its deadline compliance status report. The report is generated from cumulative commitments that participating jurisdictions have entered into the information system over the life of their respective HOME programs. HUD's inadequate monitoring of and poor internal controls over commitments entered into the information system compromised the accuracy and reliability of commitments that participating jurisdictions entered into the system.

HUD Provided Incorrect Information or Accepted Inadequately Supported Commitment Entries

HUD provides instructions to participating jurisdictions on what constitutes unacceptable and acceptable documentation for commitments. Unacceptable commitment documentation includes approved budgets, signed letters of intent, award letters, and council minutes. Acceptable commitment documentation includes a written agreement or contract between the participating jurisdiction and a state recipient, subrecipient, program recipient, or contractor signed by both parties, dated on or before the deadline date, committing a specific amount of HOME funds to a specific HOME project. Further, signatures of all parties signing the agreement or contract must be dated to show the execution date.

We identified two instances in which HUD field office staff caused or did not require participating jurisdictions to change incorrect commitment entries in the information system. In one case, two different HUD staff members told a participating jurisdiction that it was acceptable to enter commitments into the information system based on the participating jurisdiction's in-house committee approval of projects for funding versus the executed written agreements. Our sample included five instances, which totaled more than $131,000, in which the agreements were executed 49 to 85 days after the committee's approval and were dated after the participating jurisdiction's commitment deadline. In the other case, a HUD field office official stated that it was considered acceptable to allow commitments supported by written agreements in which the parties that signed the agreements did not provide the dates on which they executed the agreement.

These instances indicate a need for HUD to better ensure that its staff understand and enforce HUD's documentation requirements for commitments when conducting monitoring reviews and when providing technical assistance to participating jurisdictions.

Conclusion

This audit and past OIG audits at participating jurisdictions identified more than $20.9 million in incorrect commitment entries, for seven participating jurisdictions, that overstated cumulative commitments in HUD's information system. Such overstatements could mask amounts that would otherwise be identified as shortfalls or understate shortfall amounts subject to recapture that should be reflected in the deadline compliance status reports. The significant inaccuracies by the seven participating jurisdictions bring into question the reliability of commitments that participating jurisdictions entered into the information system. We attribute these conditions to HUD not requiring its staff to monitor the accuracy of commitments entered into the information system and not requiring participating jurisdictions to establish adequate internal controls over their commitment entries.

Recommendations

We recommend that the Assistant Secretary for Community Planning and Development

2A. Establish and implement procedures to monitor the accuracy of commitments that participating jurisdictions enter into the information system. These procedures should include expanding HUD's risk rating system to include risk factors for this review area and development of an appropriate monitoring checklist to ensure consistency and thoroughness of coverage among field offices.

2B. Ensure that its field office staff are aware of and enforce the documentation requirements for entering commitments into the information system and that they provide accurate technical assistance and advice to participating jurisdictions regarding this matter.

2C. Require participating jurisdictions to establish and implement internal controls over commitments that they enter into the information system to help reduce the potential for incorrect and improper entry of commitments into the information system.

2D. Add an electronic certification to the funding activity screen of the information system so that participating jurisdictions will be required to certify that the commitment data entries (activity funding) and/or adjustments comply with requirements for commitments and are supported by required documentation.

Finding 3: HUD's Regulatory Requirements for Assessing Compliance with Commitment and Expenditure Requirements Conflicted with Statutory Requirements

HUD used a cumulative technique to track compliance with HOME commitment and expenditure deadlines and a first-in first-out method to account for commitments and disbursements which we believe conflicted with requirements in the Cranston-Gonzalez National Affordable Housing Act and Public Law 101-510. Both laws require the identification of HOME commitments and/or expenditures by program year. The cumulative technique for tracking deadline compliance and the first-in first-out method to account for commitments and expenditures contributed to more than $62 million in old open activities discussed in finding 1. The first-in first-out method also contributed to the incorrect classification and reporting of HOME expenditures. HUD would have recaptured the $62 million for missing the five-year disbursement requirement were it not for the cumulative and first-in first-out practices. The cumulative technique and the first-in first-out method enabled participating jurisdictions to offset older year commitment and expenditure requirements with commitments and expenditures that actually pertained to more recent years' activities. As a result, HUD allowed the participating jurisdictions more time to complete activities than the five-year expenditure requirement contained in HUD's regulations and additional expenditure deadlines in Public Law 101-510 that will become effective on September 30, 2009.

HUD's Cumulative Technique Conflicted with Statutory Requirements

HUD has used the cumulative technique since at least 1996 when it implemented the information system. Statutory expenditure deadlines link compliance with specific dates associated with HUD's funding of a participating jurisdiction's HOME Investment Trust Fund or to specific HOME year appropriations. We believe that HUD's cumulative technique conflicts with relevant statutory requirements. Specifically,

- Title II of the Cranston-Gonzalez National Affordable Housing Act, provides that a participating jurisdiction's right to draw funds from its HOME Investment Trust Fund shall expire if the funds are not placed under binding commitment to affordable housing within 24 months after the last day of the month in which such funds are deposited into the participating jurisdiction's HOME Investment Trust Fund. HUD shall reduce the line of credit in the participating jurisdiction's HOME

Investment Trust Fund by the expiring amount and reallocate the funds.

- Public Law 101-510, dated November 5, 1990 states that on September 30 of the fifth fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose. This went into effect for the HOME program starting with the fiscal year 2002 appropriation when Congress started HOME funding fixed term (three years) appropriations.

HUD has implemented and continues to use the cumulative technique to track deadline compliance for commitments and expenditures through its deadline compliance status report. We question the regulatory basis for the cumulative technique because our legal assessment indicates a conflict with the statutory requirement for tracking compliance with the 24-month commitment requirement. A representative for HUD's Office of General Counsel stated that the cumulative technique was consistent with the National Affordable Housing Act requirements, but the Office of General Counsel did not issue a formal legal opinion to address the matter. We requested a legal opinion on whether the cumulative technique was consistent with both Title II of the Cranston-Gonzalez National Affordable Housing Act and Public Law 101-510 when it becomes effective for the HOME program. We also requested an opinion regarding the impact Public Law 101-510 will have on HUD's cumulative technique for recapturing commitments in the HOME program. The Office of General Counsel did not provide a written response to our initial and follow-up requests for the opinion.

HUD said it implemented the cumulative technique for assessing compliance with commitment and expenditure requirements because the Office of General Counsel reviewed and approved the regulations. A 1997 notice to participating jurisdictions stated that HUD considers later year commitments because it would be unfair to a participating jurisdiction, for which, because of cancellation of a 1995-funded project, its fiscal year 1995 funds remained uncommitted and subject to recapture when the participating jurisdiction had already committed later years' funds.

The cumulative technique allowed participating jurisdictions to exceed the statutory 24-month commitment deadline and possibly understate HOME funds that may have been subject to recapture. The technique overstated participating jurisdictions' commitments, compared to what the statute requires, as of the deadline dates. The overstatements caused a corresponding understatement of commitment shortfalls that could be subject to recapture based on HUD's deadline compliance status report.

Classification and Reporting of Expenditures

HUD's first-in first-out method resulted in incorrect classification and reporting of HOME expenditures and their related unliquidated obligations. HUD's guidance to participating jurisdictions provides an explanation of the first-in first-out method. It states that HUD's information system uses the method for both committing funds to activities and for recording disbursements made to participating jurisdictions. Under this method, funds are first committed and disbursed from the "oldest" available funds. When a commitment or disbursement request is entered in the information system, the system searches for the "oldest" funds first by grant program, then by source year of funds, recipient of funds, and type of funds. In this way, HOME funds are committed and disbursed to the participating jurisdictions from the oldest grant year to the newest grant year by recipient and fund type.

- <u>Expenditures and the related unliquidated obligations</u>. The first-in first-out method, as described in HUD guidance, prevents the direct association that should exist between fixed-year appropriations, expenditures, and unliquidated obligations (difference between obligated amounts and expenditures). The technique distorts reporting of expenditures against fixed appropriations and could make it erroneously appear that HUD was in compliance with Public Law 101-510's eight-year recapture deadline and thus mask funds that should be recaptured by the United States Treasury. The technique, as described by HUD, could also result in incorrect reporting by HUD to outside parties of HOME program expenditures and unliquidated obligations for fixed appropriations included in its reports to the Congress, the United States Treasury, and the public.

  The first-in first-out method also allowed participating jurisdictions to delay activity completion and avoid or delay recapture under the HUD regulatory requirement to disburse HOME funds within five years. For instance, the $62 million in old open activities (five years old or older) discussed in finding 1 were a result of HUD's first-in first-out technique. If not for that technique, HUD would have been required to recapture the funds based on its regulatory requirement to recapture HOME funds that participating jurisdictions did not disburse within five years of their HOME agreements.

HUD officials stated that they planned to continue using, with some possible modification, the first-in first-out method for commitments and expenditures under both laws. They further commented that they used the first-in first-out method for all community development programs and not just the HOME program.

Conclusion

We believe that HUD's cumulative technique for assessing deadline compliance and its first-in first-out method to account for expenditures conflicted with statutory requirements for commitments and expenditures. The statutes make no mention of HUD's cumulative technique and first-in first-out method as acceptable alternatives and the two practices did not ensure compliance with statutory requirements for the commitment and disbursement of HOME funds. The cumulative technique and the first-in first-out method contributed to more than $62 million in old open activities discussed in finding 1. The first-in first-out method also caused the misclassification of funds otherwise subject to recapture by HUD for not meeting the regulatory expenditure requirements and could mask funds that will be subject to recapture by the United States Treasury, beginning October 1, 2009. This condition occurred because the practices gave participating jurisdictions credit for recent-year commitments and expenditures to offset older year commitment and expenditure requirements.

Recommendations

We recommend that the Assistant Secretary for Community Planning and Development

3A. Obtain a formal legal opinion from the Office of General Counsel on whether HUD's cumulative technique for assessing compliance with commitment deadlines is consistent with and is an allowable alternative to the 24-month commitment requirement stipulated at Title II of the Cranston-Gonzalez National Affordable Housing Act.

3B. Obtain a formal legal opinion from the Office of General Counsel on whether HUD's first-in first-out method for assessing compliance with HOME expenditure requirements is consistent with and is an allowable alternative to the eight-year recapture deadline pursuant to Public Law 101-510.

3C. Revise the regulations to ensure the procedures for assessing compliance with commitment and expenditure requirements are consistent with statutory requirements and discontinue use of the cumulative technique for assessing deadline compliance and the first- in first-out method to account for the commitment and expenditure of HOME funds.

SCOPE AND METHODOLOGY

We performed the review from November 2008 to May 2009 at HUD headquarters in Washington, DC, and at HUD field offices and participating jurisdictions in Atlanta and Macon, Georgia; Columbia, South Carolina; and Jacksonville, Miami, Tampa, and Polk County, Florida. The review generally covered the period January 1, 1992, through April 30, 2009. We adjusted the period when necessary

We did not review and assess general and application controls over computer-processed data for HUD's information system. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included but were not limited to comparison of computer-processed data to supporting commitment documents such as written agreements, contracts, loan agreements, and other supporting documentation. We also conducted on-site reviews at selected HUD field offices and participating jurisdictions to review records and interview HUD staff and program participants. The tests disclosed that participating jurisdictions entered incorrect commitments into the information system. The incorrect entries did not impact our report because we obtained correct information from source documentation for the activities reviewed and determined that incorrect entries by participating jurisdictions had compromised the reliability and integrity of HUD's information system (see finding 2).

To accomplish our objectives, we

- Interviewed officials of the Office of Community Planning and Development, Office of Affordable Housing Programs, and Office of General Counsel at HUD headquarters.

- Requested but did not receive a legal opinion from the HUD Office of General Counsel concerning HUD's first-in first-out technique for assessing commitments and the impact of Public Law 101-510 on the technique.

- Researched HUD handbooks, the *Code of Federal Regulations*, legislative history of the commitment requirement, *Federal Registers*, and other requirements and directives that govern the HOME program.

- Reviewed HUD's procedures and controls used to administer the HOME program.

- Interviewed officials and staff of the HUD Offices of Community Planning and Development in Atlanta, Georgia; Columbia, South Carolina; and Jacksonville and Miami, Florida.

- Reviewed HUD's monitoring reports and files for the HOME program during on-site visits at selected HUD field offices and reviewed prior OIG external audit reports that dealt with HOME commitments.

- Obtained and reviewed HUD information system reports from HUD headquarters and field offices.

- Interviewed officials and staff and reviewed activity records and files of selected participating jurisdictions in Macon, Georgia; Richland County, South Carolina; and Miami, Tampa, and Polk County, Florida.

- Contacted nine HUD field offices by telephone and e-mail and obtained information related to activities open for prolonged periods. The field offices contacted were Puerto Rico; Milwaukee, Wisconsin; Detroit, Michigan; Newark, New Jersey; Houston, Texas; Greensboro, North Carolina; Chicago, Illinois; Miami, Florida; and New York, New York.

- Conducted tests to determine HUD field offices' compliance with HOME program commitment requirements. HUD's open activities report, provided by the headquarters Office of Community Planning and Development, showed more than $83 million[1] in fund balances for open activities at December 31, 2008, that were more than five years old, of which we tested more than $19 million to determine what action HUD had taken to address closing out the activities. The amount tested included all activities (18 activities at 15 participating jurisdictions) that had fund balances equal to or greater than $500,000. The results of the audit only apply to the tested activities and cannot be projected to the universe or total population.

- Conducted tests to determine participating jurisdictions' compliance with the HOME program commitment requirements. We visited 5 of 28 participating jurisdictions monitored by HUD Region IV field offices in 2008. During the site visits we reviewed 42 HOME activities with commitments that totaled more than $6.9 million. We selected the activities considering factors such as large commitments close to the deadline date, significant dollar amounts in HUD's open activities report, funds five years old or older not spent, and participating jurisdictions monitored by HUD in fiscal year 2008. The results of the audit only apply to the tested activities and cannot be projected to the universe or total population.

We conducted the audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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[1] This amount excludes the City of New Orleans' participating jurisdiction that was covered by a HUD waiver, program income, and administration including community housing development organization operating funds.

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 objectives:

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

- Relevance and reliability of data - Policies, procedures, and practices that management has implemented to provide reasonable assurance that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.

- Compliance with laws and regulations - Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

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 items are significant weaknesses:

- Fund balances for open activities more than five years old were not closed out in a timely manner and could trigger recapture by the United States Treasury (see finding 1).

- Inadequate HUD monitoring of and internal controls over commitments entered into the information system resulted in questionable data reliability (see finding 2).

- HUD's regulatory requirement for assessing compliance with commitment and expenditure requirements conflicted with statutory requirements (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		$62,201,487
1B	$11,634,558	

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of 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.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD reviews and cancels the funds in a timely manner, it can reallocate the funds for eligible activities and possibly avoid recapture by the United States Treasury of 2002 and later year funds that participating jurisdictions may be blocked from drawing due to open fund balances for old open subgranted activities.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

SEP 11 2009

MEMORANDUM FOR: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

FROM: Mercedes Márquez, Assistant Secretary, D

SUBJECT: CPD Response to Discussion Draft Audit Report -- Effectiveness of HUD's Controls and Monitoring of HOME Commitments, Expenditures, and Input to its Integrated Disbursement and Information System

This is in response to your memorandum of August 11, 2009, regarding the Office of Inspector General's audit of HUD's controls and monitoring of commitments, expenditures, and inputs to the Integrated Disbursement and Information System (IDIS) for the HOME Investment Partnerships (HOME) Program. The Discussion Draft Audit Report identified three findings and made eleven recommendations concerning those findings. HUD's Office of Community Planning and Development (CPD) disagrees with two of the findings and the associated recommendations made in your report, as well as many of the statements made throughout the audit report. CPD's objections to these statements and findings, as well as its response to the recommendations, are outlined in detail below.

General Comments

Comment 1

On page 5, and throughout the Discussion Draft Audit Report (Report), OIG characterizes CPD's procedures for determining compliance with HOME's commitment, CHDO reservation, and expenditure deadlines as "HUD's first-in first-out technique." As CPD has pointed out on numerous occasions to the auditors, this is not an accurate characterization of the method by which deadline compliance is determined. "First-in first-out" (known as FIFO) is a standard accounting rule used in HUD's Integrated Disbursement and Information System (IDIS) to ensure that the

Comment 2

oldest grant money available is used first. The FIFO rule is employed by all CPD formula grant programs in IDIS. In fact, this method of drawing the oldest money available first is necessary because HOME participating jurisdictions (PJs) cannot specify in IDIS the grant year(s) from which funds are to be committed and drawn.

Comment 1

However, to determine compliance with HOME's commitment, CHDO reservation, and expenditure deadlines, CPD uses the now well-established "cumulative" method in which the total amounts committed, reserved to CHDOs, or expended are compared to the PJ's cumulative commitment, CHDO reservation, and expenditure requirements (see attached - Federal Register

www.hud.gov espanol.hud.gov

Notice FR-62-28926, published on May 28, 1997). For example, to determine compliance with the commitment requirement, the total authorized grant amounts for the year being examined, plus all previous grant years, is compared to the sum of total commitments for all grant years. CPD believes that OIG's confusion between the use of the FIFO method for making actual expenditures, and the "cumulative method" to calculating commitment, reservations and expenditures for the purpose of compliance determinations has led to the erroneous conclusions of Finding 1. Despite CPD's repeated attempts to explain the difference, OIG declined to make any change to the draft report.

Comment 3

The Report states, on page 5 under the heading "Background and Objectives," second paragraph, that "HUD makes formula allocations of HOME funds to participating jurisdictions on an annual basis. HUD makes the allocations without regard to the participating jurisdictions' timely commitment and expenditure of prior year HOME allocations." This statement implies that HUD has the authority to deny funding to PJs that fail to timely commit, reserve or expend HOME funds, but that it declines to exercise that authority by withholding HOME allocation from poor performers. As CPD explained to the auditors on numerous occasions, there is no statutory authority to withhold HOME allocations based upon untimely performance. Further, the statement ignores CPD's established system for tracking HOME deadline compliance and the deobligation of funds when deadlines are not met. In fact, inexplicably, there is no recognition or even a passing reference to the strong internal procedures that CPD has instituted to effectively manage the HOME deadline compliance requirements and ensure that all PJs are treated fairly and equally.

On page 6 of the Report, in the second paragraph, the statement "Prior to fiscal year 2002, HOME funds were appropriated for an indefinite period and were available until expended" fails to recognize HOME's statutory 24-month commitment and regulatory five-year expenditure requirements that have been tracked and enforced since the inception of the HOME program in 1992.

<u>Finding 1</u>: Fund balances for open activities more than five years old were not closed out in a timely manner and could trigger recapture by the United States Treasury

The Report finds that CPD needs to improve efforts to require HOME participating jurisdictions (PJs) to deobligate more than $62 million in HOME fund balances in a timely manner for open activities that were more than five years old. It also questions the eligibility of more than $11.6 million disbursed to PJs for open activities that were more than five years old and showed evidence of stalled performance that may have warranted their classification as terminated activities. According to the report, the balances associated with the old activities prevented PJs from committing and spending the funds on other eligible HOME activities in a timely manner or for reimbursing the program for ineligible costs. The report states that the delay or failure to deobligate amounts when due caused an overstatement of commitments in IDIS and contributed to masking or understating shortfalls that were subject to recapture by HUD and that these situations occurred because CPD had not adequately enforced efforts to require PJs to close out old fund balances in a timely manner and to support whether inactive or slow-moving activities were, in effect, terminated activities. Moreover, the report contends the balances indicated excessive delays by PJs in the completion of projects and/or closeout of funded activities and that the fund balances for these old open activities would make it more difficult for PJs and CPD to avoid losing HOME funds subject to recapture by the United States Treasury under provisions of Public Law 101-510 (see Finding 3).

Recommendations

The report recommends that HUD's Assistant Secretary for Community Planning and Development require CPD to take the following actions.

1A. Ensure that field offices close out in a timely manner $62,201,487 in activities reflected in its open activities report that are more than five years old and deobligate the fund balances.

1B. Require participating jurisdictions to reimburse HUD from nonfederal sources any portion of the $11,634,558 for activities listed in appendix C that HUD determines had been terminated, voluntarily or involuntarily. When making this determination, HUD should consider the participating jurisdictions' lack of timely physical completion and/or production of affordable housing occupied by HOME income-eligible individuals.

1C. Recapture any shortfalls generated by the closure and deobligation of fund balances associated with the open activities.

1D. Establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for eligible activities in time to avoid losing them to recapture by the United States Treasury under provisions of Public Law 101-510.

CPD Response

Comment 4

CPD does not agree with Finding 1.

As CPD has communicated previously, the report conflates two separate, unrelated issues that have resulted in an inaccurate finding. Those two issues are: (1) the existence of many activities that received a commitment of HOME funds that have not been fully drawn down after some time period; and (2) OIG's contention that these open activities are preventing PJs from meeting the expenditure requirements of Public Law 101-510. These issues are addressed separately below.

Open Activities with Balances to Draw

The report accurately portrays the problem of having many open activities that received a commitment of HOME funds several years ago and for which PJs have not yet fully disbursed HOME funds. These commitments for activities that were either slow moving, completed, or terminated resulted in an overstatement of HOME commitments. However, it is not true that "the balances associated with the old activities restricted participating jurisdictions from committing and spending the funds on other eligible HOME activities in a timely manner or for reimbursing the program for ineligible costs." HOME PJs can commit and expend funds on any eligible HOME activities in IDIS based on fund availability without regard to other activities funded in the system.

Comment 4

The Report cited a number of open activities that were more than five years old as the basis for Finding 1. There is no HOME regulatory provision that requires that funds committed to a *specific HOME activity* be disbursed within five years. Rather, the HOME regulations require that grant funds be expended within five years after the last day of the month in which the grant was obligated. Since IDIS applies fund commitments and fund drawdowns on a FIFO basis, it would be impossible for HOME PJs to select or to know from which grant year funds would be drawn in advance of actually drawing the funds. Therefore, OIG's sample failed to take into account that activity funding and drawdowns may occur from multiple grant years over a several-year period of time.

Comment 5

The Report states on page 7 that CPD "provided field offices with reports that identified the open activities and that the closeout of such activities is an element of field office staff's performance standards." CPD has been producing and posting on its public website its monthly open activities report since July 2005. This report identifies every open HOME activity in IDIS by PJ and is available to anyone with Internet access. Since first posting this report, CPD and its PJs have made significant reductions in the number of open activities. In FY 2006, CPD reported its single best year for HOME production, spiking up over the prior year by over 28,000 units. This "increase" was not actually the result of higher production, but rather the impact of CPD's own efforts to induce HOME PJs to complete open activities in IDIS. This increase demonstrates that PJs are using CPD's open activities report for its intended purpose: to identify open activities that are in need of completion or cancellation. The Report states that "HUD made considerable progress in closing out old open activities after we started the audit in November 2008." However, that "considerable progress" was not the result of the OIG audit, but rather of HOME PJs use of tools developed on CPD's initiative to improve program management functions begun years prior to the OIG audit and which CPD has continued to take steps to improve each year. For instance, the annual personnel evaluations (EPPES) for certain CPD field staff has included for some years an element that measures the reduction of the open activities backlog in that field office jurisdiction.

Comment 6

Expenditure Requirements Imposed by Public Law 101-510

The Report states that "the fund balances for these old open activities would make it more difficult for participating jurisdictions and HUD to avoid losing HOME funds subject to recapture by the United States Treasury under provisions of Public Law 101-510 (see Finding 3)" and that "even if the above activities are now progressing toward completion, their old age may prevent participating jurisdictions from meeting the eight-year expenditure deadline under Public Law 101-510, applicable to activities funded with appropriations from fiscal year 2002 and later." This is not an accurate statement since, as previously mentioned, PJs cannot select which funds are used for activity commitment and drawdown, and therefore have little control over the loss of funds to the requirements of Public Law 101-510. In fact, the only way a PJ can avoid losing funds to Public Law 101-510 is to consistently draw down its HOME funds until the funds in the grant year subject to Public Law 101-510 are completely expended.

Comment 7

Public Law 101-510 will result in PJs losing funds that they have: (a) repaid to a specific grant due to an ineligible project or expenditure; or (b) placed in a subfund or subgranted to specific organizations. For the HOME Program, IDIS commits and disburses funds FIFO, but applies FIFO by the fund type and recipient of the funds. Because the grants, subfunds, and subgrants may or may not include activities with fund commitments, CPD created a report that identifies each grant, subfund, and subgrant that has a balance of funds to commit and/or a balance of funds to expend and posted it on its Internet website each week. Since it identifies grants, subfunds, and subgrants in which uncommitted and unexpended funds may be available to commit and expend, this report is of more use to PJs in preventing the loss of HOME funds due to the Public Law 101-510 requirements than the Open Activities Report, which only shows activities set up in IDIS without regard to the grant, subfund, or subgrant or even whether the activity has received a commitment of funds.

Comment 8

Despite our fundamental disagreement with Finding 1 and the OIG's discussion of it, CPD has addressed the recommendations made in the Report as follows:

1A. CPD will draft a "HOME *FACTS*" guidance piece regarding the disposition of open activities funded for more than 12 months with $0 drawn. In addition, CPD will implement a procedure described in the HOME *FACTS* that will allow HOME PJs a specific period of time to cancel or complete any such activities before CPD's system automatically cancels the activities. The HOME *FACTS* will also provide CPD and its PJs guidance on the disposition of open activities funded more than 5 years ago with some amounts expended. Any funds made available from completed or cancelled IDIS activities or from repayment of incomplete or ineligible activities will be considered available to commit and subject to HOME's 24-month commitment requirement.

1B. CPD will work with its field office staff to ascertain the status of the activities listed in appendix C of the Report. CPD will require PJs to repay their HOME Investment Trust Fund Treasury account or local account from nonfederal sources any portion of the $11,634,558 for activities listed in appendix C that CPD determines had been terminated, voluntarily or involuntarily.

1C. As a result of 1A and 1B, CPD will deobligate any funds becoming available to commit which fail to meet the 24-month commitment requirement at the time of the HOME PJs' next commitment deadline.

1D. CPD has implemented an "Expiring Funds Report" which identifies all grants, subfunds, and subgrants with balances that are subject to Public Law 101-510 in the specific year. CPD will continue to post that report to the Internet so that, to the greatest extent possible, funds in those grants, subfunds, and subgrants may be expended and put to productive use by PJs without being recaptured by the U.S. Treasury. In addition, as funds for system related changes become available, CPD will make changes to the FIFO business rules in IDIS to ensure the oldest grant funds are always drawn first without regard to fund type and recipient.

Finding 2: Inadequate HUD Monitoring of and Internal Controls over Commitments Entered into the Information System Resulted in Questionable Data Reliability

The Report finds that CPD did not routinely monitor the accuracy of commitments that HOME PJs entered into IDIS. Further, the Report states, CPD also did not require PJs to institute basic internal controls over their commitment entries. The Report identified more than $20.9 million in incorrect commitment entries made by seven PJs. The Report contends that HUD missed the opportunity to identify and require correction of the types of inaccuracies found during the audit because it did not routinely monitor this area and that the inaccuracies found undermined the integrity of system data and of reports generated from the information system.

Specifically, the Report states that: (1) HUD field offices were not required to monitor and enforce requirements for commitment data entries; (2) HUD did not require adequate internal controls over commitment data entries; and (3) HUD provided incorrect information or accepted inadequately supported commitment entries.

Recommendations

The report recommends that the Assistant Secretary for Community Planning and Development require CPD to take the following actions.

2A. Establish and implement procedures to monitor the accuracy of commitments that participating jurisdictions enter into the information system. These procedures should include expanding CPD's risk rating system to include risk factors for this review area and development of an appropriate monitoring checklist to ensure consistency and thoroughness of coverage among field offices.

2B. Ensure that its field office staff are aware of and enforce the documentation requirements for entering commitments into the information system and that they provide accurate technical assistance and advice to participating jurisdictions regarding this matter.

2C. Require participating jurisdictions to establish and implement internal controls over commitments that they enter into the information system to help reduce the potential for incorrect and improper entry of commitments into the information system.

2D. Add an electronic certification to the funding activity screen of the information system so that participating jurisdictions will be required to certify that the commitment data entries (activity funding) and/or adjustments comply with requirements for commitments and are supported by required documentation.

CPD Response

Comment 9

CPD agrees with Finding 2.

2A. CPD will revise the HOME monitoring chapter in the CPD Monitoring Handbook to require a comparison of the date of execution of the written agreement and the date the corresponding HOME project was funded in IDIS date for all projects monitored. In addition, CPD will require each HOME PJ to submit a written agreement for a specified project for CPD review to determine whether PJs' written agreements meet HOME program requirements, including the commitment requirement.

2B. In March 2008, CPD issued *HOMEfires Vol. 9, No. 2: What constitutes acceptable documentation of commitments that a PJ made before the 24-month commitment deadline for projects or agreements not set up in IDIS?*, which described in detail for CPD staff and HOME PJs acceptable commitment documentation for commitments not entered into IDIS at the time of the PJ's commitment deadline. CPD will resend this *HOMEfires* to each Field Office CPD Director to ensure field office staff are aware of and enforce the documentation requirements for entering commitments into IDIS and that they provide accurate technical assistance and advice to PJs regarding this matter.

2C. CPD will provide additional guidance to HOME PJs to ensure procedures are put in place to limit the commitment of HOME fund in IDIS to only those projects with executed written agreements meeting HOME requirements.

2D. When funds for system related changes become available, CPD will make changes to the activity funding screens in IDIS to require IDIS users to certify that the commitment data entries (activity funding) and/or adjustments comply with requirements for commitments and are supported by required documentation.

<u>Finding 3</u>: HUD's Regulatory Requirements for Assessing Compliance with Commitment and Expenditure Requirements Conflicted with Statutory Requirements

The Report finds CPD's use of an aggregate technique to account for HOME commitments and expenditures conflicted with requirements in the Cranston-Gonzalez National Affordable Housing Act of 1990 and Public Law 101-510. The Report contends that both laws require the identification of HOME commitments and/or expenditures by program year and that the technique, referred to by CPD as "first-in first-out" resulted in incorrect classification and reporting of HOME expenditures and commitments and contributed to more than $62 million in old open activities discussed in Finding 1. Further, the Report states, this enabled PJs to offset older year commitment and expenditure shortfalls with commitments and expenditures that related to more recent years' activities and, as a result, CPD allowed the PJs more time to complete activities than the regulatory five-year expenditure requirement and the additional expenditure deadlines in Public Law 101-510.

Specifically, the Report states that: (1) CPD's first-in first-out technique conflicted with statutory requirements; and (2) classification and reporting of expenditures and commitments were incorrect. Please note that the OIG Report continues to confuse the "FIFO method" that is used for making draws and the "cumulative method" used for determining deadline compliance.

<u>Recommendations</u>

The report recommends that HUD's Assistant Secretary for Community Planning and Development require CPD to take the following actions.

3A. Obtain a formal legal opinion from the Office of General Counsel on whether HUD's first-in first-out technique for commitments is consistent with and is an allowable alternative to the 24-month commitment requirement stipulated at Title II of the Cranston-Gonzalez National Affordable Housing Act. [*sic*]

3B. Obtain a formal legal opinion from the Office of General Counsel on whether HUD's first-in first-out technique for assessing compliance with HOME expenditure requirements is consistent with and is an allowable alternative to the eight-year recapture deadline pursuant to Public Law 101-510. [*sic*]

3C. Revise the regulations to ensure the procedures for assessing compliance with commitment and expenditure requirements are consistent with statutory requirements and discontinue use of the first in first out technique for accounting for commitments and expenditures of HOME funds.

CPD Response

CPD does not agree with Finding 3.

Comment 10

CPD takes exception to the statements made in Finding 3. In its Report, OIG declares in absolute terms that the HOME regulations that permit HUD to determine compliance with HOME deadlines violate the statute. This declaration is made despite the fact that: (1) OIG interviewed program counsel, who informed them that the interpretation of the statute promulgated in the regulations was a reasonable interpretation of the statute; and (2) the OIG position would starkly reject, and substitute its own judgment for, the judgment of HUD's Office of General Counsel, and the OIG reviewers at the time the rule was issued (1997) who would not have permitted the regulations to be cleared and published if they determined that they were inconsistent with the statute.

Despite deep disagreement with Finding 3, CPD has addressed the recommendations made in the Report as follows:

Comment 11

3A. CPD will seek to obtain a formal legal opinion from the Office of General Counsel on whether CPD's cumulative method for determining a HOME PJ's compliance with the statutory 24-month *commitment* requirement is a reasonable interpretation of the statute.

3B. CPD will seek to obtain a formal legal opinion from the Office of General Counsel on whether CPD's cumulative method for determining a HOME PJ's compliance with HOME *expenditure* requirements is a reasonable interpretation of the statute. CPD does not use HOME's regulatory five-year expenditure requirement -- a more stringent requirement -- as an alternative to the eight-year recapture deadline pursuant to Public Law 101-510. The HOME regulatory requirement has been in effect since the inception of the HOME program in 1992, while the requirements of Public Law 101-510 became effective with fiscal year 2002 HOME grants. The two requirements are used for different purposes and are tracked and calculated differently. CPD has no control over the enforcement of the requirements of Public Law 101-510.

Comment 12

3C. Based on the response to recommendations 3A and 3B, a response to this recommendation will not be required. It will not be necessary for CPD to revise the HOME regulations to ensure what has previously been determined to be the case - that procedures for assessing compliance with commitment and expenditure requirements are consistent with statutory requirements.

If you have any questions regarding the CPD response outlined in this memorandum, please do not hesitate to contact me or Cliff Taffet, Director, Office of Affordable Housing Programs at 202-708-2684.

Attachment

OIG Evaluation of Auditee Comments

Comment 1 HUD commented that the report inaccurately characterized first-in first-out as the method by which deadline compliance is determined and that the auditors' confusion on this point led to erroneous conclusions in finding 1.

We were aware that HUD used a cumulative method to determine deadline compliance. We revised the report to clarify reference to first-in first-out as the method HUD employed to commit and draw funds within its information system versus the method HUD used to determine deadline compliance. The report does not mention the first-in first-out or cumulative methods in finding 1

Comment 2 HUD stated that the first-in first-out method is a standard accounting rule used in HUD's information system to ensure that the oldest grant money available are used first. HUD also commented that the first-in first-out method of drawing the oldest money first is necessary because participating jurisdictions cannot specify in the information system the grant year(s) from which funds are to be committed and drawn.

We contend the method, based on HUD's description, distorts the association of expenditure in HUD's financial records against the specific appropriations they relate to and caused inaccurate reporting to users within and outside the department, e.g. Congress. The first-in first-out method for committing funds in the information system complicates the process for participating jurisdictions to reconcile their general ledger to what the information system shows. The regulations at 24 CFR 85.20 provide that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The information system, as commented on by HUD, prevents participating jurisdictions from specifying in the system the grant year(s) [sources of funds] from which funds are to be committed and drawn [uses of funds]. We discuss the accounting implication of this practice in appendix D of the report.

Comment 3 HUD disagreed with the implications of a statement in the background section of the report that HUD makes formula allocations of HOME funds to participating jurisdictions on an annual basis without regards to the participating jurisdictions timely commitment and expenditure of prior year funds for eligible activities. HUD commented that the statement implies that it has the authority to deny funding to participating jurisdictions that fail to timely commit, reserve, or expend HOME funds but that it declines to exercise that authority for poor performers. HUD commented that it has no statutory authority to deny the formula funding to participating jurisdictions for failure to comply with the cited requirements. HUD also commented that the statement ignores CPD's established system for tracking deadline compliance and the deobligation of funds when deadlines are not met.

We revised the background section of the report to recognize HUD's comment that it had no statutory authority to deny the funding and to recognize HUD's enforcement of the compliance deadlines by deobligating funds allocated to noncompliant participating jurisdictions. Contrary to HUD's claim, finding 2 recognized HUD's tracking of compliance with commitment and expenditure deadlines.

Comment 4 HUD did not agree with finding 1. HUD stated that it was not true that "the balances associated with the old activities restricted participating jurisdictions from committing and spending the funds on other eligible HOME activities in a timely manner or for reimbursing the program for ineligible costs." HUD further stated that participating jurisdictions can commit and expend funds on any eligible HOME activities in the information system based on fund availability without regard to other activities funded in the system.

We basically agree, however, we maintain that "fund availability" is the operative phrase and that funds are not available to be committed if they are tied up in old activities that are not making reasonable progress toward completion.

Comment 5 HUD commented that there is no HOME regulatory provision that requires that funds be committed to a specific HOME activity and be disbursed within five years. HUD further commented that the OIG's sample failed to take into account that activity funding and drawdowns may occur from multiple grant years over a several year period of time.

As cited in finding 1, we choose to assess open activities that were five years old or older because that period paralleled HUD's regulatory requirement that participating jurisdictions spend HOME funds within five years of the date of their HOME agreements. We used the five year period to identify the type of open activities we wanted to assess during the audit. Contrary to HUD's position, the sample did take into account that activity funding and drawdowns may occur from multiple grant years over a several year period of time.

Comment 6 HUD took exception to the report comment that "HUD made considerable progress in closing out old open activities after we started the audit in November 2008." HUD commented that the "considerable progress" was not the result of the OIG audit, but rather of HOME participating jurisdictions use of tools developed on CPD's initiative to improve program management functions begun years prior to the OIG audit and which CPD had continued to take steps to improve each year.

The report did not state or imply that the progress HUD made in closing out open activities during the course of the audit was due to the audit. We simply recognized that HUD made progress in closing out open activities while the audit was in progress

Comment 7 HUD disagreed with the report comment that the fund balances for the old open activities would make it more difficult for participating jurisdictions and HUD to avoid losing HOME funds subject to recapture by the United States Treasury under provisions of Public Law 101-510 (see finding 3). HUD also disagreed with the report comment that even if the above activities are now progressing toward completion, their old age may prevent participating jurisdictions from meeting the eight-year expenditure deadline under Public Law 101-510, applicable to activities funded with appropriations from fiscal year 2002 and later.

We considered HUD's position and found no support for their contention that the report comments were inaccurate. However, we did revise the report to clarify that funds tied up in subgrants for 2001 and earlier program years are the fund types most likely to bloc participating jurisdictions access to 2002 and later year funds that are subject to recapture under Public Law 101-510.

Comment 8 HUD disagreed with the finding 1 but its comments reflected positive action to implement each recommendation (1A, 1B, 1C, and 1D) to resolve the issues discussed in the finding.

Comment 9 HUD agreed with finding 2 and agreed to implement the recommendations (2A, 2B, 2C, and 2D).

Comment 10 HUD did not agree with finding 3 and took exception to statements in the finding. HUD commented that we declared in absolute terms that the HOME regulations that permit HUD to determine compliance with HOME deadlines violate the statute. HUD commented that we made the declaration despite the fact that (1) we interviewed program counsel who informed us that the interpretation of the statute promulgated in the regulations was a reasonable interpretation of the statute; and (2) the OIG position would starkly reject and substitute its own judgment for the judgment of HUD's Office of General Counsel, and the OIG reviewers at the time the rule was issued (1997) who would not have permitted the regulations to be cleared and published if they determined that they were inconsistent with the statute.

Notwithstanding any prior review of the regulations by the Office of General Counsel and the OIG, we contend the issues raised by the audit and addressed in the recommendations warrant separate legal opinions from the Office of General Counsel. We agree with HUD's comment that during our interviews with Office of General Counsel staff we were told that the regulations were a reasonable interpretation of the statute. However, the issues in this case warrant separate legal opinions which we requested but, as stated in the finding, the Office of General Counsel did not provide. We believe the formal opinions are needed to support whether HUD's method for assessing commitment and expenditure deadline compliance is consistent with provisions of the statutes. In response to HUD's comment, we revised the report to clarify the presentation concerning the cumulative technique for assessing deadline compliance and the first-in first-out method HUD used to account for commitments and expenditures

Comment 11 HUD disagreed with finding 3 but its comments indicated plans to implement recommendations 3A and 3B.

We clarified the recommendation to address HUD's previous comment on a lack of clarity in the report concerning the cumulative technique for assessing deadline compliance and HUD first-in first-out method.

Comment 12 HUD commented that based on the responses to recommendations 3A and 3B a response to recommendation 3C would not be required.

The recommendation, despite HUD comment, is subject to legal opinions yet to be obtained.

Appendix C

SCHEDULE OF STALLED OR POTENTIALLY TERMINATED ACTIVITIES

Field office	Participating jurisdiction	Grantee number	Activity number	Funding date	Funded amount	Drawn amount	Percentage drawn
Activities with no draw made since 2006							
Anchorage	Anchorage	13226	548	July 20, 2001	$ 767,789	$ 353,882	46.1
Atlanta	Atlanta	37842	1202	Oct. 25, 2002	495,000	235,611	47.6
Atlanta	Macon	13634	1838	May 14, 2002	5,000	1,891	37.8
Birmingham	Birmingham	33048	5769	Oct. 21, 2003	82,000	6,260	7.6
Boston	Providence	6562	1821	Oct. 9, 2003	94,410	23,958	25.4
Boston	Maine	459	5899	Mar. 13, 2003	7,500	3,375	45
Boston	Maine	459	5901	Mar. 17, 2003	7,500	3,375	45
Buffalo	Binghamton	5712	155	Jan. 31, 1997	94,750	15,000	15.8
Buffalo	Buffalo	16473	4326	Nov. 6, 2002	49,000	17,568	35.9
Buffalo	Buffalo	16473	3864	Nov. 14, 2001	35,000	13,078	37.4
Puerto Rico	Puerto Rico	782	6290	Aug. 28, 2003	1,790,000	82,008	4.6
Puerto Rico	Puerto Rico	782	6295	Aug. 28, 2003	1,625,940	518,031	31.9
Puerto Rico	San Juan	47787	242	Apr. 15, 1999	874,000	379,641	43.4
Puerto Rico	San Juan	47787	20	July 1, 1996	622,300	92,709	14.9
Puerto Rico	Carolina	17357	375	May 22, 2003	375,000	11,000	2.9
Puerto Rico	Ponce	45016	664	Aug. 28, 2002	228,000	72,246	31.7
Puerto Rico	Ponce	45016	397	Apr. 6, 1995	140,000	45,040	32.2
Puerto Rico	Puerto Rico	782	5986	Apr. 16, 2003	73,847	28,500	38.6
Puerto Rico	Carolina	17357	292	June 12, 2000	30,000	6,750	22.5
Puerto Rico	Bayamon	13328	1191	Nov. 18, 2003	15,000	1,668	11.1
Puerto Rico	Bayamon	13328	1163	Aug. 21, 2003	14,423	5,769	40
Detroit	Detroit	52258	4287	May 6, 2002	60,000	20,659	34.4
Detroit	Detroit	52258	4282	May 6, 2002	60,000	21,140	35.2
Detroit	Detroit	52258	4283	May 6, 2002	60,000	21,580	36
Detroit	Detroit	52258	4281	May 3, 2002	60,000	29,435	49.1
Detroit	Detroit	52258	4284	May 6, 2002	60,000	29,437	49.1
Detroit	Westland	52768	96	Dec. 4, 1997	4,341	72	1.7
Fort Worth	Fort Worth	56984	3721	Oct. 29, 2002	175,000	26,000	14.9
Fort Worth	Longview	53992	771	June 19, 2001	63,328	16,033	25.3
Fort Worth	Longview	53992	766	June 19, 2001	58,503	8,017	13.7
Fort Worth	Longview	53992	773	June 19, 2001	57,448	16,033	27.9
Greensboro	Surry County Consortium	53193	83	July 10, 2002	33,717	11,589	34.4
Houston	Houston	54859	6400	June 24, 2003	7,696	3,500	45.5
Jackson	Hattiesburg	19788	696	Jan. 17, 2001	16,425	2,675	16.3

Field office	Participating jurisdiction	Grantee number	Activity number	Funding date	Funded amount	Drawn amount	Percentage drawn
Jacksonville	Daytona Beach	47668	425	June 7, 2000	1,345	5	0.4
Jacksonville	Daytona Beach	47668	928	Dec. 11, 2003	1,000	57	5.7
Knoxville	Memphis	51459	1439	Apr. 24, 1997	2,969	700	23.6
Los Angeles	Orange County	28594	1471	Aug. 28, 2003	1,492,012	196,535	13.2
Los Angeles	Ontario	32759	391	Apr. 28, 2003	49,469	14,006	28.3
Los Angeles	Oxnard	44217	664	Mar. 14, 2001	19,575	8,778	44.8
Miami	Miami	15130	1572	Dec. 18, 2003	1,200,000	8,430	0.7
Miami	Miami-Dade County	14790	3181	Aug. 6, 2002	395,605	115,088	29.1
Miami	Pompano Beach	9061	196	Feb. 14, 2002	289,603	65,450	22.6
Miami	Palm Beach County	41123	1369	Aug. 29, 2002	20,000	5,000	25
Miami	Fort Lauderdale	8585	1051	May 1, 2003	5,366	2,031	37.8
Miami	Fort Lauderdale	8585	1086	Oct. 21, 2003	1,600	578	36.1
New Orleans	Lafayette	27081	536	Oct. 25, 2000	266,089	115,704	43.5
New York	Nassau County	28526	1985	Mar. 26, 2002	1,500,000	600,000	40
New York	Nassau County	28526	2278	Aug. 11, 2003	250,000	50,000	20
New York	Nassau County	28526	1992	Mar. 27, 2002	100,000	49,381	49.4
New York	Rockland County	37706	1061	Oct. 17, 2003	75,000	27,859	37.1
New York	Dutchess County Consortium	15708	653	Apr. 8, 2003	14,942	492	3.3
New York	Dutchess County Consortium	15708	664	Apr. 16, 2003	10,212	492	4.8
Newark	Union County Consortium	22287	1406	Aug. 20, 2001	347,800	150,000	43.1
Newark	East Orange	9877	609	Aug. 8, 2001	32,550	7,875	24.2
Newark	East Orange	9877	509	Sept. 22, 2000	1,250	250	20
Oklahoma City	Tulsa	49912	1072	May 27, 1998	77,215	29,215	37.8
Oklahoma City	Tulsa	49912	1073	May 27, 1998	54,900	8,900	16.2
Oklahoma City	Tulsa	49912	301	Mar. 24, 1997	10,350	4,250	41.1
Philadelphia	Philadelphia	41752	6429	Mar. 1, 2001	70,384	24,488	34.8
Philadelphia	Philadelphia	41752	6432	Mar. 1, 2001	65,384	24,369	37.3
Philadelphia	Philadelphia	41752	6430	Mar. 1, 2001	60,384	21,505	35.6
Philadelphia	Philadelphia	41752	6427	Mar. 1, 2001	56,384	23,389	41.5
Philadelphia	Philadelphia	41752	6428	Mar. 1, 2001	56,384	23,416	41.5
Philadelphia	Philadelphia	41752	6431	Mar. 1, 2001	55,384	24,075	43.5
Philadelphia	Harrisburg	22916	1676	Oct. 3, 2002	30,625	15,129	49.4
Philadelphia	Pennsylvania	765	23761	Oct. 17, 2003	30,000	5,000	16.7
Philadelphia	Pennsylvania	765	23760	Oct. 17, 2003	25,000	5,000	20
Pittsburgh	Pittsburgh	3876	3284	Feb. 10, 2003	219,500	46,500	21.2
Richmond	Newport News	58548	740	Apr. 30, 2002	50,000	824	1.6
Richmond	Newport News	58548	726	Apr. 1, 2002	50,000	13,500	27
Richmond	Newport News	58548	744	Apr. 30, 2002	49,899	1,410	2.8
Richmond	Newport News	58548	644	July 9, 2001	25,000	460	1.8
San Francisco	Phoenix	10659	1889	June 21, 2002	445,210	92,218	20.7
San Francisco	Phoenix	10659	1721	Aug. 23, 2001	783	300	38.3
Seattle	Washington	969	2257	Sept. 20, 2000	22,500	129	0.6
Subtotal					**$15,674,589**	**$3,906,317**	

Field office	Participating jurisdiction	Grantee number	Activity number	Funding date	Funded amount	Drawn amount	Percentage drawn
				Activities with draws made from 2007 through 2009			
Baltimore	Baltimore	57885	220	Feb. 4, 1997	39,840	3,453	8.7
Puerto Rico	Guaynabo	29121	15	Apr. 19, 1994	2,260,641	1,020,391	45.1
Chicago	Evanston	17816	431	June 26, 2002	200,000	58,600	29.3
Denver	Pueblo Consortium	41803	2313	Dec. 30, 2003	240,000	93,366	38.9
Fort Worth	Tyler	56882	680	Sept. 24, 2003	133,000	26,418	19.9
Hartford	Bridgeport	1547	1096	June 25, 2003	450,000	103,947	23.1
Hartford	Bridgeport	1547	983	June 6, 2002	288,500	56,937	19.7
Hartford	Bridgeport	1547	857	Mar. 28, 2001	185,000	4,888	2.6
Hartford	Bridgeport	1547	984	June 6, 2002	182,507	49,818	27.3
Hartford	Bridgeport	1547	1073	Aug. 28, 2002	158,077	14,100	8.9
Hartford	Bridgeport	1547	716	July 1, 1999	114,512	46,460	40.6
Houston	Port Arthur	55743	318	July 18, 2000	124,488	17,599	14.1
Houston	Houston	54859	6716	Dec. 30, 2003	31,025	6,035	19.5
Jacksonville	St. Petersburg	42500	310	Nov. 20, 1996	1,560,600	302,734	19.4
Jacksonville	Jacksonville-Duval	17952	2486	Dec. 19, 2002	260,020	76,842	29.6
Jacksonville	Florida	238	3012	Feb. 11, 2002	160,000	20,855	13
Jacksonville	Florida	238	3368	June 27, 2003	36,819	0*	0
Jacksonville	Florida	238	3366	June 26, 2003	21,779	844	3.9
Los Angeles	Orange County	28594	1310	Jan. 3, 2002	624,009	142,640	22.9
Los Angeles	Los Angeles County	21114	927	Sept. 30, 1998	333,120	141,176	42.4
Miami	Fort Lauderdale	8585	1127	Dec. 31, 2003	15,328	6,325	41.3
New Orleans	Jefferson Parish Consortium	25908	1873	June 26, 2003	152,000	23,712	15.6
New Orleans	Jefferson Parish Consortium	25908	1727	July 30, 2002	17,152	1,098	6.4
New York	New York City	5049	1502	Nov. 18, 2003	8,896,224	4,003,301	45
Newark	Jersey City	12121	846	May 14, 2002	800,000	390,268	48.8
Philadelphia	Luzerne County	35309	2973	Jan. 23, 2003	194,614	40,395	20.8
Pittsburgh	Pittsburgh	3876	2902	Feb. 11, 2002	220,250	91,657	41.6
San Francisco	Santa Clara	37315	408	Sept. 5, 2003	427,514	209,692	49
San Francisco	Phoenix	10659	1912	Aug. 8, 2002	194,000	3,262	1.7
San Francisco	Phoenix	10659	2119	Mar. 3, 2003	177,000	1,492	0.8
San Francisco	Phoenix	10659	1844	May 3, 2002	130,000	2,273	1.7
Washington	District Of Columbia	204	295	Nov. 2, 2001	2,500,000	767,664	30.7
Subtotal					$21,128,019	$7,728,241	
Grand totals					$36,802,608	$11,634,558	

*The fund drawn amount was less than $1.

Appendix D

OTHER MATTER FOR CONSIDERATION INVOLVING ACCOUNTING FOR HOME DRAWS

The first-in first-out technique for HOME expenditures may affect the accuracy of HUD's accounting for HOME program activity based on requirements in Office of Management and Budget Circular A-127, Financial Management Systems, and other related standards for federal agency financial management systems and reporting requirements. These requirements include but are not limited to compliance with the U.S. Government Standard General Ledger. HUD officials stated that they used the technique for all community planning and development programs. Thus, the technique could impact HUD's financial statement for all community planning and development programs. However, this review was not an audit of HUD's financial statements, and the determination of the impact of the technique on HUD financial statements was beyond the scope of this audit. HUD should consider this issue for review as it addresses the issues presented in this report.