Issue Date	February 13, 2009
Audit Report Number	2009-CH-1004

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

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

SUBJECT: Cook County, Illinois, Failed to Adequately Manage Its HOME Investment Partnerships Program

HIGHLIGHTS

What We Audited and Why

We audited Cook County's (County) HOME Investment Partnerships Program (Program). The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the County based upon our analysis of risk factors relating to Program grantees in Region V's jurisdiction. Our audit objectives were to determine whether the County effectively administered its Program, appropriately provided match contributions (contributions) for its Program, disbursed Program funds and/or income for new construction multifamily housing projects (multifamily projects) and non-administrative activities, and followed the U.S Department of Housing and Urban Development's (HUD) requirements. This is the third of three audit reports on the County's Program.

What We Found

The County did not adequately manage its Program. It inappropriately used Program funds and income and American Dream Downpayment Initiative (Initiative) funds, incorrectly reported Program contributions and the amounts of Program contributions it was required to provide in its consolidated annual performance and evaluation reports (consolidated reports) to HUD, and lacked documentation to support its use of Program and Initiative funds.

The County incorrectly reported Program contributions and the amounts of Program contributions it was required to provide in its consolidated reports to HUD. Therefore, it inappropriately reported nearly $5.6 million in Program contributions available for future fiscal years.

The County also inappropriately disbursed Program funds drawn down from its HOME trust fund treasury account (treasury account) and Program income from its HOME trust fund local account (local account) for multifamily projects and disbursed Program funds drawn down from its treasury account for non-administrative activities. As a result, HUD lost more than $59,000 in interest on nearly $7.2 million in Program funds that the County did not use for eligible Program costs within 15 days of being drawn down from its treasury account and the County lost more than $6,000 in interest on more than $1.4 million in Program income that it did not immediately use for eligible Program costs.

We informed the director of the County's Department of Planning and Development (Department) and the Director of HUD's Chicago Office of Community Planning and Development of minor deficiencies through a memorandum, dated February 12, 2009.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Community Planning and Development require the County to implement a detailed comprehensive written action plan to improve its procedures and controls to ensure that it operates its Program in accordance with HUD's and its own requirements, reimburse HUD more than $59,000 and its local account more than $6,000 from nonfederal funds, and implement adequate procedures and controls to address the findings cited in this audit report.

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

Auditee's Response

We provided our discussion draft audit report to the director of the County's Department, the president of its board of commissioners, and HUD's staff during the audit. We held an exit conference with the County's director on January 23, 2009.

We asked the County's director to provide comments on our discussion draft audit report by February 6, 2009. The director provided written comments, dated February 6, 2009. The director agreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this audit report.

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BACKGROUND AND OBJECTIVES

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

The County. Organized under the laws of the State of Illinois, Cook County (County) is governed by a 17-member board of commissioners (board), including a board president, elected to four-year terms. The board designated the County's Department of Planning and Development (Department) as the lead agency to administer the County's Program. The overall mission of the Department is to work with municipalities, nonprofit organizations, businesses, developers, and other organizations to revitalize communities and promote economic opportunity in the County. The former director of the County's Department had resigned as of April 16, 2008. The former assistant director of the County's Department was named the acting director until the County hired its new director on May 27, 2008. The County's Program records are located at 69 West Washington Street, Chicago, Illinois.

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

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

Our audit objectives were to determine whether the County effectively administered its Program, appropriately committed Program funds, provided match contributions (contributions) for its Program, disbursed Program funds and/or income for new construction multifamily housing projects (multifamily projects) and non-administrative activities, and followed HUD's requirements. This is the third of three audit reports on the County's Program. The first audit report (report # 2007-CH-1015, issued on September 26, 2007) included two findings. The second audit report (report # 2008-CH-1009, issued on June 7, 2008) included two findings.

RESULTS OF AUDIT

Finding 1: The County Did Not Operate Its Program in Accordance with HUD's and Its Own Requirements

As identified in this audit report and the two audit reports we previously issued regarding the County's Program, the County did not adequately manage its Program. It inappropriately used Program funds and income and Initiative funds, incorrectly reported Program match contributions (contributions) and the amounts of Program contributions it was required to provide in its consolidated annual performance and evaluation reports (consolidated reports) to HUD, and lacked documentation to support its use of Program and Initiative funds because its management did not implement adequate procedures and controls to ensure that its Program was operated according to HUD's and its own requirements. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively and for eligible activities.

Controls over the County's Program Income Were Inadequate

The County did not comply with HUD's requirements in its use and reporting of Program income. It had drawn down more than $48.3 million in Program funds from its HOME trust fund treasury account (treasury account) since October 1999, when it had more than $2 million of Program income in its HOME trust fund local account (local account); did not allocate interest earned from Program income as income; and underreported Program income in HUD's Integrated Disbursement and Information System (System) because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County had nearly $5.2 million of Program income in its local account, did not allocate at least $641,000 of interest earned from Program income as income in its local account, and underreported at least $2.7 million of Program income in HUD's System (see finding 1 in audit report #2008-CH-1009).

Controls over the County's Program Contributions Were Inadequate

The County did not comply with HUD's requirements in determining and reporting contributions for its Program. It incorrectly reported Program contributions and the amounts of Program contributions it was required to provide in its consolidated reports to HUD because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County inappropriately reported nearly $5.6 million in Program contributions available for future fiscal years (see finding 2 of this audit report).

Controls over the County's Single-Family Projects Were Inadequate

The County did not comply with HUD's regulations and its manual of administrative procedures for residential rehabilitation (manual) and policies and procedures for lead-based paint in housing programs (policies and procedures) in providing housing rehabilitation assistance for owner-occupied single-family rehabilitation projects (single-family projects). It provided assistance for improper single-family projects and paid excessive project delivery costs and lacked documentation to support that single-family projects and payments for project delivery costs were appropriate because it lacked adequate procedures and controls to ensure that HUD's regulations and its manual and policies and procedures were appropriately followed. As a result, it inappropriately provided more than $100,000 in Program funds to assist two single-family projects that did not qualify as affordable housing, used $15,000 in Program funds for excessive project delivery costs for two single-family projects, and was unable to support its use of nearly $670,000 in Program funds (see finding 1 in audit report #2007-CH-1015).

Controls over the County's Initiative Activities Were Inadequate

The County lacked documentation to support that it followed HUD's regulations when it provided Initiative funds to assist homebuyers with downpayments and closing costs for Initiative activities. The weaknesses occurred because the County lacked adequate procedures and controls to ensure that it used Initiative funds for eligible activities and maintained adequate documentation. As a result, HUD and the County lacked assurance that more than $158,000 in Initiative funds was used efficiently and effectively and in accordance with HUD's regulations (see finding 2 in audit report # 2007-CH-1015).

The County Needs to Improve Controls over Its Administrative Expenses

The County did not comply with HUD's requirements in using Program funds for its administrative expenses. It used Program funds for inappropriate administrative expenses and did not have sufficient documentation to support that it used Program funds for eligible Program administrative costs because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County used more than $28,000 in Program funds for improper administrative expenses and was unable to sufficiently support its use of nearly $56,000 in Program funds for eligible Program administrative costs (see finding 2 in audit report# 2008-CH-1009).

Controls over the County's Disbursement of Program Funds and Income for Multifamily Projects Were Inadequate

The County did not comply with HUD's regulations in its disbursement of Program funds drawn down from its treasury account and Program income from its local account for new construction multifamily housing projects (multifamily projects). It inappropriately disbursed Program funds and income into escrow accounts for multifamily projects because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. As a result, HUD lost more than $59,000 in interest on the nearly $7.2 million in Program funds that the County did not use for eligible Program costs within 15 days of being drawn down from its treasury account, and the County lost more than $6,000 in interest on the more than $1.4 million in Program income that it did not immediately use for eligible Program costs (see finding 3 of this audit report).

The County Needs to Improve Controls over the Timeliness of Its Disbursement of Program Funds for Non-administrative Activities

The County did not always comply with HUD's regulations in its disbursement of Program funds that it drew down from its treasury account for non-administrative activities. It failed to disburse Program funds drawn down from its treasury account within 15 days because it lacked procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively (see finding 4 of this audit report).

Conclusion

The previously mentioned deficiencies occurred because the County lacked adequate procedures and controls to ensure that it properly managed the day-to-day operations of its Program and appropriately followed HUD's and its own requirements. The County did not ensure that it fully implemented HUD's and its own requirements. The deficiencies in the County's Program were significant and demonstrated a lack of effective Program management. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively and for eligible activities.

Recommendation

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

1A. Implement a detailed comprehensive written action plan (plan) to improve its procedures and controls to ensure that it operates its Program in accordance with HUD's and its own requirements. The plan should include the submission of quarterly reports to HUD's Chicago Office of Community Planning and Development detailing the County's progress in improving its procedures and controls regarding its Program in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in this finding. If the County is unable to implement the plan, HUD should take appropriate action, such as requiring the County to contract out the management of the day-to-day operations of its Program until it can implement adequate procedures and controls to ensure that it operates its program in accordance with HUD's and its own requirements.

Finding 2: Controls over the County's Program Contributions Were Inadequate

The County did not comply with HUD's requirements (see appendix C of this audit report) in determining and reporting contributions for its Program. It incorrectly reported Program contributions and the amounts of Program contributions it was required to provide in its consolidated reports to HUD because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County inappropriately reported nearly $5.6 million in Program contributions available for future fiscal years.

The County Overreported Nearly $5.6 Million in Program Contributions

The County overreported contributions for its Program. It drew down more than $39.8 million in Program funds from its treasury account for fiscal years 2000 through 2007. It was required to provide contributions for at least 25 percent of the Program funds it drew down from its treasury account during the period. Therefore, it was required to provide nearly $10 million in Program contributions for the period. The County reported in its consolidated reports to HUD more than $22.2 million in Program contributions during the period, for an excess in contributions totaling nearly $12.3 million. The following table shows the amounts of contributions the County was required to provide, contributions it reported in its consolidated reports to HUD, and excessive contributions for fiscal years 2000 through 2007.

Fiscal year	Program contributions		
	Required	Reported	Excessive
2000	$1,405,551	$1,246,136	**($159,415)**
2001	1,137,413	1,319,280	**181,867**
2002	628,777	1,011,000	**382,223**
2003	1,877,173	1,647,990	**(229,183)**
2004	769,124	2,100,000	**1,330,876**
2005	1,396,624	6,081,000	**4,684,376**
2006	2,104,959	7,896,000	**5,791,041**
2007	642,094	937,000	**294,906**
Totals	**$9,961,715**	**$22,238,406**	**$12,276,691**

In addition, the County had nearly $348,000 in excessive Program contributions carried over from fiscal year 1999. Therefore, its excessive contributions at the end of fiscal year 2007 totaled more than $12.6 million ($12,276,691 plus $347,546). HUD's regulations allow a participating jurisdiction to carry over and apply excess contributions to meet the participating jurisdiction's required contributions for future fiscal years. However, it failed to ensure that it determined and reported its contributions in accordance with HUD's requirements. The more than $22.2 million in contributions that the County reported in its consolidated reports to HUD for fiscal years 2000 through 2007 was the amount of contributions the County budgeted rather than the actual amount of contributions it made for its Program. It only made nearly $16.7 million in contributions for the period. Therefore, it overreported nearly $5.6 million in Program contributions that it carried over and could apply to meet its required contributions for future fiscal years. The following table shows the amounts of contributions that the County reported in its consolidated reports to HUD, eligible contributions that it actually made, and excessive contributions reported for fiscal years 2000 through 2007.

Fiscal year	*Program contributions*		
	Reported	*Actual*	*Excessive*
2000	$1,246,136	$248,934	**$997,202**
2001	1,319,280	2,013,387	**(694,107)**
2002	1,011,000	86,327	**924,673**
2003	1,647,990	664,106	**983,884**
2004	2,100,000	2,886,979	**(786,979)**
2005	6,081,000	721,446	**5,359,554**
2006	7,896,000	8,636,248	**(740,248)**
2007	937,000	1,423,430	**(486,430)**
Totals	**$22,238,406**	**$16,680,857**	**$5,557,549**

As a result of our audit, the County removed the nearly $5.6 million in Program contributions it overreported from its consolidated report to HUD for fiscal year 2008.

The County Incorrectly Reported the Amount of Contributions It Was Required to Provide

The County also incorrectly reported in its consolidated reports to HUD the amounts of Program contributions it was required to provide for fiscal years 2000 through 2007. The following table shows the amounts of contributions it reported that it was required to provide in its consolidated reports to HUD and the amounts that it was actually required to provide for fiscal years 2000 through 2007.

Fiscal year	Required Program contributions		
	Reported	Actual	Difference
2000	$1,409,988	$1,405,551	**$4,437**
2001	1,127,549	1,137,413	**(9,864)**
2002	816,085	628,777	**187,308**
2003	1,677,995	1,877,173	**(199,178)**
2004	785,263	769,124	**16,139**
2005	769,124	1,396,624	**(627,500)**
2006	1,396,624	2,104,959	**(708,335)**
2007	2,104,959	642,094	**1,462,865**
Totals	**$10,087,587**	**$9,961,715**	**$125,872**

The County overreported the total amount of Program contributions it was required to provide for fiscal year 2000 through 2007 by nearly $130,000. However, it could not provide the amounts of Program contributions it reported in its consolidated reports to HUD that it was required to provide prior to fiscal year 2000. Therefore, the cumulative difference between the amounts of contributions the County reported that it was required to provide in its consolidated reports to HUD and the amounts that it was actually required to provide through fiscal year 2007 could not be determined.

In addition, the County did not maintain a contribution log as required by HUD's regulations. On July 30, 2008, and as a result of our audit, the County prepared a contribution log for fiscal years 1998 through 2007.

The County Lacked Adequate Procedures and Controls

The weaknesses regarding the County's contributions for its Program occurred because the County lacked adequate procedures and controls to ensure that it accurately determined and reported Program contributions in its consolidated report to HUD. The County could not provide a reason why it inappropriately reported Program contributions and required Program contributions in its consolidated reports to HUD since the Department's former finance director, who managed its Program contributions, no longer worked for the County.

Conclusion

The County did not comply with HUD's requirements in determining and reporting contributions for its Program. As previously mentioned, the County inappropriately reported nearly $5.6 million in Program contributions available for future fiscal years. If not corrected, the County could draw down more than $22 million in Program funds from its treasury account in future fiscal years without making its required contributions.

Recommendations

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

2A. Provide the amounts of Program contributions it reported in its consolidated reports to HUD that it was required to provide prior to fiscal year 2000, calculate the cumulative difference between the amounts of contributions it reported that it was required to provide in its consolidated reports to HUD and the amounts that it was actually required to provide through fiscal year 2007, and adjust the amount of required Program contributions in its consolidated reports to HUD as appropriate. If the County cannot provide the amounts of Program contributions it reported in its consolidated reports to HUD that it was required to provide prior to fiscal year 2000, it should not adjust the amount of required Program contributions in its consolidated reports to HUD for the $125,872 in Program contributions it inappropriately reported it was required to provide for fiscal years 2000 through 2007.

2B. Implement adequate procedures and controls to ensure that it accurately reports Program contributions in its consolidated reports to HUD.

Finding 3: Controls over the County's Disbursement of Program Funds and Income for Multifamily Projects Were Inadequate

The County did not comply with HUD's regulations (see appendix C of this audit report) in its disbursement of Program funds drawn down from its treasury account and Program income from its local account for multifamily projects. It inappropriately disbursed Program funds and income into escrow accounts for multifamily projects because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. As a result, HUD lost more than $59,000 in interest on the nearly $7.2 million in Program funds that the County did not use for eligible Program costs within 15 days of being drawn down from its treasury account, and the County lost more than $6,000 in interest on the more than $1.4 million in Program income that it did not immediately use for eligible Program costs.

The County Inappropriately Disbursed Nearly $7.2 Million in Program Funds into Escrow Accounts

We reviewed nearly $15.3 million in Program funds that the County drew down for eight multifamily projects for the period June 2005 through December 2007. The County inappropriately disbursed nearly $7.2 million (46.9 percent) of the Program funds into escrow accounts for four of the multifamily projects. HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Contrary to HUD's regulations, the Program funds were not used for eligible Program costs for 17 to 176 days after the County drew down the Program funds from its treasury account. Therefore, HUD lost more than $59,000 in interest on the nearly $7.2 million in Program funds that the County disbursed into the escrow accounts and was not used for eligible Program costs within 15 days of being drawn down from its treasury account. The following table shows the voucher number, the draw-down date, the disbursement date, the use date, the amount of Program funds, and the amount of interest HUD lost for the Program funds that the County improperly disbursed into the escrow accounts.

Voucher number	*Date of Draw-down*	*Date of disbursement*	*Date of use*	*Program funds*	*Lost interest*
1303365	Aug. 4, 2006	Aug. 24, 2006	Aug. 30, 2006	$738,122	**$1,109**
1326038	Oct. 3, 2006	Oct. 16, 2006	Oct. 20, 2006	$1,579,109	**429**
1326038	Oct. 3, 2006	Oct. 16, 2006	Nov. 13, 2006	370,891	**1,282**
1346657	Nov. 30, 2006	Dec. 7, 2006	Dec. 21, 2006	855,542	**657**
1346657	Nov. 30, 2006	Dec. 7, 2006	Jan. 26, 2007	475,451	**2,662**
1346657	Nov. 30, 2006	Dec. 7, 2006	Mar. 21, 2007	169,007	**2,159**
1488154	Dec. 27, 2007	Dec. 27, 2007	Apr. 21, 2008	414,447	**4,855**
1488154	Dec. 27, 2007	Dec. 27, 2007	May 20, 2008	777,304	**11,835**
1488154	Dec. 27, 2007	Dec. 27, 2007	June 20, 2008	1,788,249	**34,217**
		Totals		**$7,168,122**	**$59,205**

We were conservative in our determination of the amount of interest HUD lost. We based our calculation on the 10-year United States Treasury rate using simple interest on the Program funds from after the 15th day on which the Program funds were drawn down to the date on which the Program funds were used for eligible Program expenses by the County.

The County Incorrectly Disbursed More Than $1.4 Million in Program Income into an Escrow Account

We also reviewed more than $1.6 million in Program income that the County disbursed for multifamily project number 3185 in December 2007. The County inappropriately disbursed more than $1.4 million (87.6 percent) of the Program income into an escrow account for the multifamily project. Contrary to HUD's regulations, the Program income was not used for eligible Program costs for 50 to 116 days after the County disbursed the Program income from its local account. Therefore, the County lost more than $6,000 in interest on the more than $1.4 million in Program income that it disbursed into the escrow account and was not immediately used for eligible Program costs. The following table shows the voucher number, the disbursement date, the use date, the amount of Program income, and the amount of interest the County lost on the Program income that it improperly disbursed into the escrow account.

Voucher number	Date of disbursement	Date of use	Program income	Lost interest
1488154	Dec. 27, 2007	Feb. 15, 2008	$417,392	**$1,282**
1488154	Dec. 27, 2007	Mar. 28, 2008	656,053	**3,285**
1488154	Dec. 27, 2007	Apr. 21, 2008	337,604	**1,772**
	Totals		**$1,411,049**	**$6,339**

The County's Procedures and Controls Had Weaknesses

The weaknesses regarding the County's inappropriate disbursements of Program funds and income into escrow accounts for multifamily projects occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations.

A planner for the Department said that the County's consultant, who completed a wellness review of the County's Program in November 2007, advised that it was permissible to disburse Program funds and income into escrow accounts for multifamily projects. However, the planner could not provide documentation to support her statement. The planner also said that the funds were required at closing by the title companies managing the escrow accounts and that the funds were provided so that the multifamily projects would not incur additional costs through bridge loans.

Conclusion

The County did not comply with HUD's regulations when it disbursed Program funds and income into escrow accounts for multifamily projects. As a result, HUD lost more than $59,000 in interest on the nearly $7.2 million in Program funds that the County did not use for eligible Program costs within 15 days of being drawn down from its treasury account, and the County lost more than $6,000 in interest on the more than $1.4 million in Program income that it did not use immediately for eligible Program costs.

Recommendations

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

3A. Reimburse HUD $59,205 from nonfederal funds for the interest HUD lost on the Program funds that the County disbursed into the escrow accounts and were not used for eligible Program costs within 15 days of being drawn down from its treasury account.

3B. Reimburse its local account $6,339 from nonfederal funds for the interest it lost on the Program income that it disbursed into the escrow account and was not immediately used for eligible Program costs.

3C. Implement adequate procedures and controls to ensure that it appropriately disburses Program funds and income for eligible Program costs.

Finding 4: The County Needs to Improve Controls over the Timeliness of Its Disbursement of Program Funds for Non-administrative Activities

The County did not always comply with HUD's regulations (see appendix C of this audit report) in its disbursement of Program funds that it drew down from its treasury account for non-administrative activities. It failed to disburse Program funds drawn down from its treasury account within 15 days because it lacked procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively.

The County Did Not Disburse $1.8 Million in Program Funds in a Timely Manner

We reviewed all 55 of the County's non-administrative activity draw-downs from its treasury account for the period October 2005 through March 2008. The draw-downs totaled nearly $14.1 million in Program funds. HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Contrary to HUD's regulations, the County failed to disburse eight of the draw-downs totaling more than $1.8 million (12.8 percent) in Program funds within 15 days. Further, it did not return any of the Program funds to its treasury account. The following table shows the voucher number, the draw-down date, the disbursement date, and the Program funds for the draw-downs that were not disbursed within 15 days

Voucher number	Date of draw-down	Date of disbursement	Program funds
1214298	Dec. 2, 2005	Dec. 21, 2005	**$34,309**
1225763	Jan. 4, 2006	Feb. 2, 2006	**45,163**
1235094	Feb. 3, 2006	Apr. 12, 2006	**125**
1258833	Apr. 4, 2006	June 1, 2006	**318,953**
1303365	Aug. 4, 2006	Aug. 24, 2006	**738,122**
1303372	Aug. 4, 2006	Aug. 31, 2006	**52,073**
1306466	Aug. 11, 2006	Aug. 31, 2006	**75,550**
1315342	Sept. 6, 2006	Oct. 5, 2006	**541,250**
Total			**$1,805,545**

The County also did not return to HUD the interest earned on the Program funds after the 15th day.

The County's Procedures and Controls Had Weaknesses

The weaknesses regarding the County's lack of timeliness in disbursing Program funds occurred because the County lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. The County could not provide a reason why it did not disburse Program funds drawn down from its treasury account within 15 days since the Department's former finance director, who managed its disbursement of Program funds, no longer worked for the County.

Conclusion

The County did not comply with HUD's regulations when it did not disburse Program funds drawn down from its treasury account within 15 days. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively.

Recommendation

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

4A. Implement adequate procedures and controls to ensure that it disburses Program funds for eligible costs within 15 days of drawing down the Program funds from its treasury account.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws, HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 91 and 92, HUD's Office of Community Planning and Development Notices 07-06 and 97-03, and HUD's "Building HOME: A Program Primer."

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

- HUD's files for the County.

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

Finding 2

We reviewed all of the more than $22.2 million in Program contributions that the County reported in its consolidated reports to HUD for fiscal years 2000 through 2007. The Program contributions were selected to determine whether the County effectively administered its Program, appropriately provided contributions for its Program, and followed HUD's requirements.

Finding 3

We reviewed all of the nearly $15.3 million in Program funds that the County drew down for eight multifamily projects for the period June 2005 through December 2007 and all of the more than $1.6 million in Program income that the County disbursed for multifamily project number 3185 in December 2007. The draw-downs were selected to determine whether the County effectively administered its Program, appropriately disbursed Program funds and income for multifamily projects, and followed HUD's requirements.

Finding 4

We reviewed all 55 of the County's non-administrative activity draw-downs from its treasury account for the period October 2005 through March 2008, which totaled nearly $14.1 million in Program funds. The draw-downs were selected to determine whether the County effectively administered its Program, appropriately disbursed Program funds for non-administrative activities, and followed HUD's requirements.

We performed our on-site audit work from April through December 2008 at the County's office located at 69 West Washington Street, Chicago, Illinois. The audit covered the period October 2006 through March 2008 and was expanded as determined necessary.

We performed our 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.

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. 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.

- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The County lacked adequate procedures and controls to ensure that it complied with HUD’s and/or its own requirements in regard to managing the day-to-day operations of its Program, determining and reporting contributions for its Program, disbursing Program funds drawn down from its treasury account and Program income from its local account for multifamily projects, and disbursing Program funds drawn down from its treasury account for non-administrative activities (see findings 1, 2, 3, and 4).

Separate Communication of Minor Deficiencies

We informed the director of the County’s Department and the Director of HUD’s Chicago Office of Community Planning and Development of minor deficiencies through a memorandum, dated February 12, 2009.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
3A	$59,205
3B	6,339
Totals	$65,544

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

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

BUREAU OF CAPITAL, PLANNING &
FACILITIES MANAGEMENT

MAURICE S. JONES, DIRECTOR
DEPARTMENT OF PLANNING & DEVELOPMENT
69 W. Washington, Suite 2900
Chicago, Illinois 60602-3171
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February 6, 2009

United States Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson, Suite 2646
Chicago, IL 60604-3507

Attn: Brent G. Bowen
Assistant Regional Inspector General for Audit

RE: Office of Inspector General's Draft Audit
HOME Investment Partnerships Program
Audit Report No. 2009-CH100X- Phase III

Dear Mr. Bowen:

The Cook County Department of Planning and Development (CCDPD) acknowledges receipt of the January 14, 2009 HUD's Office of Inspector General's (OIG) draft audit report on Cook County's HOME Investment Partnerships (HOME) Program and the January 30, 2009 revision to Finding 2. Thank you for allowing CCDPD additional time to respond to the report.

We recognize the importance of adhering to the United States Department of Housing and Urban Developments's (HUD's) regulations and share in the OIG's goals of insuring that we effectively administer the program, appropriately provide matching contributions, and disburse program funds according to HUD's requirements.

As such, we offer the following comments to the report:

Audit Finding 1: ***The County Did Not Operate Its Program in accordance with HUD"s and Its Own Requirements***

As identified in this audit report and the two audit reports we previously issued regarding the County's Program, the County did not adequately manage its Program. It inappropriately used Program funds and income and Initiative funds, incorrectly reported Program match contributions (contributions) and the amounts of Program contributions it was required to provide in its consolidated annual performance and evaluation reports (consolidated reports) to HUD, and lacked documentation to support its use of Program and Initiative funds because its management did not implement adequate procedures and controls to ensure that its Program was operated according to HUD's and its own requirements. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively and for eligible activities.

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Ref to OIG Evaluation | **Auditee Comments**

AUDIT RECOMMENDATION FOR FINDING 1:

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

1A. Implement a detailed comprehensive written action plan (plan) to improve its procedures and controls to ensure that it operates its Program in accordance with HUD's and its own requirements. The plan should include the submission of quarterly reports to HUD's Chicago Office of Community Planning and Development detailing the County's progress in improving its procedures and controls regarding its Program in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in this finding. If the County is unable to implement the plan, HUD should take appropriate action, such as requiring the County to contract out the management of the day-to-day operations of its Program until it can implement adequate procedures and controls to ensure that it operates its program in accordance with HUD's and its own requirements.

CCDPD's Comments for Finding 1:

Comment 1

Cook County Department of Planning and Development (CCDPD) agrees that there were deficiencies in the management of the Program. Previously, there was a lack of procedures and controls in accordance with Generally Accepted Accounting Principles (GAAP). Additionally, CCDPD failed to comply with HUD regulations. The County has taken initial steps to correct these deficiencies:

- A new Director has been appointed.
- A new Assistant Director has been appointed.
- A new Business Manager has been appointed.

Under this new management team, CCDPD is restructuring the HOME Program to implement new procedures and establish better controls over all areas of the Program. CCDPD has implemented the following:

- Segregated its Program Matching funds and Program Income funds into a separate business unit for better financial controls and reporting.
- The majority of the HOME Program staff has attended training for:
  - Certified HOME Program Specialist-Administration
  - Affordable Housing Finance
  - Compliance and Mixed Finance for HOME and CDBG
- CCDPD has implemented a new procedure to expend program income funds prior to drawing down funds from the treasury.

CCDPD is currently implementing the following:

- Re-evaluating staff responsibilities to ensure appropriate utilization of personnel.
- Cross training current staff to ensure all aspects of program requirements are understood.
- Hiring additional financial and program staff to ensure all programmatic issues are addressed.
- Writing new procedures and creating new reporting mechanisms.
- HOME staff will be attending a Rental Housing Compliance training early February 2009.

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Ref to OIG Evaluation	Auditee Comments

Comment 1

CCDPD will provide a quarterly update to HUD's Chicago Office of Community Planning and Development on the progress of restructuring the HOME Program which will include drafting new procedures and establishing better controls.

Audit Finding 2: ***Controls over the County's Program Contributions Were Inadequate***

The County did not comply with HUD's requirements (see appendix C of this audit report) in determining and reporting contributions for its Program. It incorrectly reported Program contributions and the amounts of Program contributions it was required to provide in its consolidated reports to HUD because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the County inappropriately reported nearly $5.8 million in Program contributions available for future fiscal years and excessive Program contributions.

AUDIT RECOMMENDATION FOR FINDING 2:

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

2A. Remove $5,557,549 in Program contributions from its consolidated reports to HUD for the contributions that it incorrectly reported.

2B. Provide the amounts of Program contributions it reported in its consolidated reports to HUD that it was required to provide prior to fiscal year 2000, calculate the cumulative difference between the amounts of contributions it reported that it was required to provide in its consolidated reports to HUD and the amounts that it was actually required to provide through fiscal year 2007, and adjust the amount of required Program contributions in its consolidated reports to HUD as appropriate. If the County cannot provide the amounts of Program contributions it reported in its consolidated reports to HUD that it was required to provide prior to fiscal year 2000, it should not adjust the amount of required Program contributions in its consolidated reports to HUD for the nearly $130,000 in Program contributions it inappropriately reported it was required to provide for fiscal years 2000 through 2007.

2C. Implement adequate procedures and controls to ensure that it accurately reports Program contributions in its consolidated reports to HUD.

CCDPD's Comments for Finding 2:

CCDPD agrees it failed to accurately report its Program contribution for the HOME program. CCDPD also agrees that it inaccurately reported Program contributions in its Consolidated Annual Evaluation and Performance Reports (CAPERs) to HUD.

CCDPD accepts that it reported the Program contributions on a Program Year basis instead of the required Federal Fiscal Year basis. CCDPD also agrees that it erred in its reporting of Program

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Ref to OIG Evaluation | **Auditee Comments**

contributions for the matching cash contributions made available from Cook County Corporate funds. CCDPD reported the amount budgeted on the entire program as opposed to actual expenditures on a project by project basis, as required by HUD regulations.

Comment 2
Comment 1

CCDPD removed $5,557,548 in program contributions from the current CAPER. CCDPD is attempting to compile documentation necessary to reconcile the consolidated reports prior to Fiscal Year 2000. Under the new management team, CCDPD is restructuring the HOME Program to implement new procedures and establish better controls over all areas of the Program, as previously stated in its response to Finding 1. The new procedures, once implemented, should ensure that CCDPD accurately reports its Program contributions in its Consolidated reports to HUD and maintains a contribution log as required by HUD's regulations.

Audit Finding 3: ***Controls over the County's Disbursement of Program Funds and Income for Multifamily Projects Were Inadequate***

The County did not comply with HUD's regulations (see appendix C of this audit report) in its disbursement of Program funds drawn down from its treasury account and Program income from its local account for multifamily projects. It inappropriately disbursed Program funds and income into escrow accounts for multifamily projects because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations. As a result, HUD lost more than $59,000 in interest on the nearly $7.2 million in Program funds that the County did not use for eligible Program costs within 15 days of being drawn down from its treasury account, and the County lost more than $6,000 in interest on the more than $1.4 million in Program income that it did not immediately use for eligible Program costs.

AUDIT RECOMMENDATION FOR FINDING 3:

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

3A. Reimburse HUD $59,205 from nonfederal funds for the interest HUD lost on the Program funds the County disbursed into the escrow accounts and were not used for eligible Program costs within 15 days of being drawn down from its treasury account.

3B. Reimburse its local account $6,339 from nonfederal funds for the interest it lost on the Program Income that it disbursed into the escrow account and was not immediately used for eligible Program costs.

CCDPD's Comments for Finding 3:

Comment 1

CCDPD agrees that the Department did not comply with HUD's regulations on disbursing Program funds and use of escrow accounts for multifamily projects. The current Director of CCDPD has abolished the practice of using escrow accounts for holding funds beyond the required fifteen day disbursement period for multifamily projects.

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Ref to OIG Evaluation **Auditee Comments**

Comment 1

Under the new management team, CCDPD is restructuring the HOME Program to implement new procedures and establish better controls over all areas of the Program, as previously stated in its response to Finding 1. The new procedures, once implemented, should ensure that CCDPD accurately draws down from its treasury account in accordance with HUD's regulations. CCDPD, in conjunction with the Cook County Comptroller's Office has established a separate business unit with accounts for Program Income, Program Contributions and Interest.

CCDPD, along with the Chief Financial Officer and the County Comptroller, will work with the Director of the HUD's Chicago Office of Community Planning and Development to reimburse HUD $59,205 from nonfederal funds for the interest HUD lost on the program and reimburse the HOME Program local account $6,339 from nonfederal funds for the interest it lost on the Program Income.

Audit Finding 4: ***The County Needs to Improve Controls over the Timeliness of Its Disbursement of Program Funds for Non-administrative Activities***

The County did not always comply with HUD's regulations (see appendix C of this audit report) in its disbursement of Program funds that it drew down from its treasury account for non-administrative activities. It failed to disburse Program funds drawn down from its treasury account within 15 days because it lacked procedures and controls to ensure that HUD's regulations were appropriately followed. As a result, HUD and the County lacked assurance that Program funds were used efficiently and effectively.

AUDIT RECOMMENDATION FOR FINDING 4:

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

4A. Implement adequate procedures and controls to ensure that it disburses Program funds for eligible costs within 15 days of drawing down the Program funds from its treasury account.

CCDPD's Comments for Finding 4:

Comment 1

CCDPD agrees that the Department did not comply with HUD regulations when it did not disburse Program funds drawn down from its treasury account within 15 days. The new Business Manager of CCDPD is currently working with the Director of Financial Reporting of the County Comptroller's Office on procedures to ensure program funds are disbursed for eligible costs within 15 days of drawing down program funds from the treasury account as required by HUD regulations.

The Business Manager from CCDPD will batch the documentation for payment for the HOME Program and deliver the batch directly to the Director of Financial Reporting of the County Comptroller's Office. The Director of Financial Reporting will review, sign-off and ensure payment is made within the fifteen days. Funds will be drawn down from the treasury account upon authorization by CCDPD's Business Manager after notification from the Director of Financial Reporting that the checks have been issued.

Ref to OIG Evaluation	Auditee Comments

Comment 1

Summary

CCDPD understands and acknowledges the importance of ensuring internal controls are established, properly documented, maintained and adhered to. CCDPD recognizes that all employees are responsible for compliance with HUD's regulations and CCDPD, likewise, understands the specificity relating to the management of the program income. CCDPD is committed to ensuring the effective administration of the HOME program and continued use of the federal funds to provide safe, secure and affordable housing for the residents of Cook County.

Your assistance and cooperation is appreciated. If you have any questions, you may contact my Business Manager, Sheila L. Jackson, at 312-603-1036.

Sincerely,

Maurice S. Jones

Maurice S. Jones, Director
Department of Planning and Development

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

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OIG's Evaluation of Auditee Comments

Comment 1 The County's commitment to updating its policies and procedures should improve its procedures and controls over its management of its Program if fully implemented.

Comment 2 We revised the audit report to state that as a result of our audit, the County removed the nearly $5.6 million in Program contributions it overreported from its consolidated report to HUD for fiscal year 2008. We also removed the recommendation for the County to remove the nearly $5.6 million in Program contributions from its consolidated reports to HUD for the contributions that it incorrectly reported.

Appendix C

FEDERAL REQUIREMENTS

Finding 1

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its Program, ensuring that Program funds are used in accordance with all Program requirements and written agreements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the participating jurisdiction of this responsibility.

HUD's regulations at 24 CFR 92.550(a) state that HUD will review the performance of each participating jurisdiction in carrying out its responsibilities under 24 CFR Part 92 whenever determined necessary by HUD, but at least annually. HUD may also consider relevant information pertaining to a participating jurisdiction's performance gained from other sources.

HUD's regulations at 24 CFR 92.551(c) state that corrective or remedial actions for a participating jurisdiction's performance deficiency or a failure to meet a provision of 24 CFR Part 92 will be designed to prevent its continuation; mitigate, to the extent possible, its adverse effects or consequences; and prevent its recurrence. Section 92.551(c)(1) states that HUD may instruct the participating jurisdiction to submit and comply with proposals for action to correct, mitigate, and prevent a performance deficiency to include the following:

- Preparing and following a schedule of actions for carrying out the affected activities, consisting of schedules, timetables, and milestones necessary to implement the affected activities;
- Establishing and following a management plan that assigns responsibilities for carrying out remedial actions;
- Canceling or revising activities likely to be affected by the performance deficiency before expending Program funds for the activities;
- Reprogramming Program funds that have not yet been expended for affected activities to other eligible activities;
- Reimbursing its local account in any amount not used in accordance with the requirements of 24 CFR Part 92;
- Suspending the disbursement of Program funds for affected activities; and
- Making matching contributions as draws are made from its treasury account.

HUD's regulations at 24 CFR 92.551(c)(2) state that HUD may also change the method of payment to a participating jurisdiction from an advance to a reimbursement basis and take other remedies that may be legally available.

Finding 2

Title II of the Act, as amended, section 220(a), and HUD's regulations at 24 CFR 92.218(a) state that each participating jurisdiction must make contributions to housing that qualifies as affordable housing under the Program during a fiscal year. The contributions must total not less than 25 percent of the Program funds drawn from the participating jurisdiction's treasury account during a fiscal year.

HUD's regulations at 24 CFR 92.221(b) state that Program contributions made during a fiscal year that exceed the amount of contributions a participating jurisdiction is required to make for that fiscal year may be carried over and applied to the participating jurisdiction's required contributions for future fiscal years.

HUD's regulations at 24 CFR 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR Part 92. The participating jurisdiction must maintain records demonstrating compliance with the Program contribution requirements of 24 CFR 92.218 through 24 CFR 92.222, including a running log and project records documenting the type and amount of contributions by project.

Section XI of HUD's Office of Community Planning and Development Notice 97-03 states that to ensure compliance with statutory Program contribution requirements, a participating jurisdiction must establish a system that tracks its required contributions as Program funds are expended and contributions are made. A participating jurisdiction is required to maintain a running contribution log that demonstrates compliance with the contribution requirements. The contribution log must identify the type and amount of each contribution and should serve as the basis for reporting the participating jurisdiction's contributions as part of its consolidated report.

Finding 3

HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Any interest earned on the Program funds within the 15-day period may be retained by the participating jurisdiction as Program funds. Any Program funds that are drawn down and not expended for eligible costs within 15 days must be returned to HUD for deposit in the participating jurisdiction's treasury account. Interest earned on Program funds after the 15 days belongs to the United States and must be remitted to HUD at least quarterly, except that a participating jurisdiction may retain interest up to $100 per year for administrative expenses.

HUD's regulations at 24 CFR 92.503(a) state that Program income must be used in accordance with 24 CFR Part 92.

Finding 4

HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Any interest earned on the Program funds within the 15-day period may be retained by the participating jurisdiction as Program funds. Any Program funds that are drawn down and not expended for eligible costs within 15 days must be returned to HUD for deposit in the participating jurisdiction's treasury account. Interest earned on Program funds after the 15 days belongs to the United States and must be remitted to HUD at least quarterly, except that a participating jurisdiction may retain interest up to $100 per year for administrative expenses.