audit report

Issue Date February 11, 2010	
Audit Report Number 2010-LA-1007	

TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The County of San Bernardino, CA, Had Questionable Capacity To Administer Its Allocation of Neighborhood Stabilization Program Funds

HIGHLIGHTS

What We Audited and Why

We completed a capacity review of the County of San Bernardino's (County) Neighborhood Stabilization Program (Program). We performed the audit because Housing and Economic Recovery Act of 2008 (HERA) reviews are part of the Office of the Inspector General's (OIG) annual audit plan and the Program was identified as high risk. In addition, the County was awarded a significant amount of Program funds and applied for additional funds through the American Recovery and Reinvestment Act of 2009 (ARRA).

Our objective was to determine whether the County had sufficient capacity and the necessary controls to manage and administer Program funds provided by the U.S. Department of Housing and Urban Development (HUD) under HERA and the funds the County applied for under ARRA.

What We Found

The County generally had questionable capacity to administer its allocation of Program funds. It had difficulty in committing and spending its Program funds in a timely manner and had not been on track to meet the required 18-month obligation deadline, having obligated zero dollars toward its Program activities.

The County had (1) sufficient staffing levels; (2) sufficient records to track financial expenditures and procurement activities; and (3) adequate policies and procedures for its financial, information technology, and procurement activities, as well as its four Program activities promoting single-family homeownership. However, it could improve internal controls for its two rental property acquisition and rehabilitation Program activities and Program monitoring by developing separate, specific, and well-documented policies and procedures for those activities.

What We Recommend

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the County to (1) reevaluate its current strategies and consider modifications, including pursuing other, more attainable Program activities, and/or immediately return any Program funds to HUD that are not anticipated to be obligated by the 18-month deadline; (2) obtain technical assistance from the HUD Office of Community Planning and Development; (3) create and maintain policies and procedures specific to the Program acquisition and rehabilitation of rental property activities; and (4) create and maintain policies and procedures specific to Program-monitoring activities.

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 the County a discussion draft report on January 25, 2010, and held an exit conference with County officials on February 1, 2010. The County provided written comments on February 5, 2010, and generally agreed with our findings.

The complete text of the auditee's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

The Neighborhood Stabilization Program (Program) was authorized under Title III of Division B of the Housing and Economic Recovery Act of 2008 (HERA) and provides grants to every State and certain local communities to purchase foreclosed-upon or abandoned homes and rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem declining values in neighboring homes. HERA calls for allocating funds "to states and units of general local government with the greatest need," and in the first phase of the Program, the U.S. Department of Housing and Urban Development (HUD) allocated $3.92 billion in Program funds to assist in the redevelopment of abandoned and foreclosed-upon homes.

HUD provides the County of San Bernardino (County) with more than $7 million in Community Development Block Grant funds, more than $4 million in HOME Investment Partnerships Program (HOME) funds, and more than $325,000 in Emergency Shelter Grant funds annually. HUD executed the County's Program grant agreement on February 27, 2009, for more than $22.7 million.

The County is the largest county in the United States with more than 20,000 square miles of territory. The most populous region in the County is referred to as the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). In a Forbes article published on October 15, 2008 ("Where Recession Will Hit Hardest"), the Riverside-San Bernardino-Ontario MSA was rated the worst area in the country. More than half of the homeowners in the area (62 percent) owed more on their homes than their homes were worth. A total of 20,366 properties went through the foreclosure process in San Bernardino County from July 1, 2007, through September 30, 2008. The median negative equity for these properties was more than $33,000, and rising unemployment rates added to the downward economic spiral.

The County implemented six HUD-approved activities with its Program funds:

1) Program activity one is downpayment assistance. Activity one was designed to provide downpayment assistance to purchaser-occupants of foreclosed-upon homes. The County anticipated 85 units being made available to households with incomes at 51 to 120 percent of the area median income. The County budgeted up to $2.5 million toward this activity.

2) Program activity two is rehabilitation loan assistance. Activity two was designed to provide low-interest rehabilitation loans to purchaser-occupants of foreclosed-upon homes to address deferred maintenance. The County anticipated 54 units being made available to households with incomes at 51 to 120 percent of the area median income. It budgeted up to $1.34 million toward this activity.

3) Program activity three is affordability assistance. Activity three was designed to provide affordability gap soft second mortgages to purchaser-occupants of foreclosed-upon homes. The County anticipated 38 units being made available to households with incomes below 50 percent of the area median income and 224 units being made available

to households with incomes at 51 to 120 percent of the area median income. It budgeted up to $1.5 million for households below 50 percent of the median income and up to $8.95 million for households at 51 to 120 percent of the area median income toward this activity.

4) Program activity four is the County's acquisition, rehabilitation, and resale activity. Activity four was designed to acquire and rehabilitate foreclosed-upon and abandoned homes in heavily impacted neighborhoods and resell them to Program-eligible owner-occupants. The County will partner with various developers to carry out this activity. It anticipated seven units being made available to households with incomes of 51 to 120 percent of the area median income. It budgeted up to $2 million toward this activity.

5) Program activity five is the County's activity to partner with its public housing authority for rental property acquisition and rehabilitation. Activity five was designed to purchase and rehabilitate foreclosed-upon or abandoned rental housing to primarily benefit households at or below 50 percent of area median income. The County anticipated 26 units being made available to households with incomes below 50 percent of the area median income. It budgeted up to almost $3.94 million toward this activity.

6) Program activity six is the County's activity to partner with the County's public housing authority for rental property acquisition and rehabilitation for special needs housing of Mental Health Services Act clients. Activity six was designed to supplement funding from the County's Department of Behavioral Health program to house eligible clients by purchasing and rehabilitating foreclosed-upon or abandoned properties and providing housing opportunities for eligible tenants to rent those properties. The County anticipated one unit being made available to a household with an income below 50 percent of the area median income. It budgeted up to $250,000 toward this activity.

Properties eligible for all six activities must be located within specific target areas or census tracts, which have been defined by the County and approved by HUD as areas with the greatest need. More than $2.27 million in Program funds will be used to administer the various activities.

The County applied for more than $23 million to continue its Program activities under a second round of competitive funding authorized by the American Recovery and Reinvestment Act of 2009 (ARRA). However, HUD announced the ARRA allocations on January 14, 2010, and the County was not awarded additional funding.

Our objective was to determine whether the County had sufficient capacity and the necessary controls to manage and administer Program funds provided by HUD under HERA and the funds the County applied for under ARRA.

RESULTS OF AUDIT

Finding 1: The County Was Not on Track to Meet Its Program Obligation Deadline

Despite sufficient staffing levels and extensive experience with HUD programs, the County had not been able to commit and spend its Program funds in a timely manner and was in danger of not meeting the required 18-month obligation deadline. It had difficulty in using Program funds due to unanticipated external market forces and delays in obtaining properties for Program use. If the County continues at its current rate, there is a risk that significant portions of its allocation of Program funds will not be used for their intended purpose, and the housing problem in the County will not have received the full benefit of the Program.

The County's Obligations Were Not Timely

The County was not on track to meet the Program's timeframe requirements. According to Public Law 110-289, Section 2301(c)(1), any unit of general local government that receives amounts pursuant to this section shall, not later than 18 months after the receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed-upon homes and residential properties. HUD executed the County's Program grant agreement on February 27, 2009. According to the County's most recent quarterly performance report, as of December 31, 2009, 10 months before the 18-month deadline, the County had not obligated any funds for its Program activities and had not assisted any families. The County obligated $1 million (4.4 percent) and expended $282,013 of its total grant amount for its administration of the Program but nothing for the Program activities themselves. If the County continues at its current rate of progress, we anticipate that it will not be able to obligate significant portions of the more than $21.7 million in remaining Program funds.

The County believed that it would meet the 18-month obligation deadline of August 27, 2010, due to recent and planned changes to its Program. It expanded its eligible target areas on December 1, 2009, and County management anticipated the board of directors approving additional upcoming changes in January 2010. Reportedly, these changes included reallocating funds among its Program activities, including moving funds from its downpayment and affordability assistance activities to its rental property acquisition and rehabilitation activity. This change would allow the County to obligate a large portion of its Program funds if it can find a suitable property to acquire. In addition, County management anticipated combining the remaining funding from the separate downpayment and affordability assistance activities to create a joint activity seven. This change would allow buyers to receive the benefits of the two former activities, while applying to only one. However, documentation was not available to detail these anticipated changes during our fieldwork.

Based on the County's obligation rate and the time elapsed, we are concerned that these changes will not provide an adequate solution. While the County was depending on these changes to help it meet its 18-month obligation deadline, we question whether the changes will enable it to obligate all of the remaining Program funding. Despite combining its downpayment assistance and affordability assistance activities into a single activity, the County provided no indication that the activities themselves were substantively changing to make them more successful. In addition, allocating additional money to its rental property acquisition and rehabilitation activity would potentially allow the County to obligate large amounts of funding; however, given that the County had not contracted with any multifamily rental properties more than half way to the obligation deadline, it remained questionable whether the County would be able to obligate the additional funding within Program timeframes.

Market Forces and Other Explanations for Delays

The County's difficulty in spending can be attributed to various unanticipated market forces and other explanations that significantly delayed the use of Program funds.

1. Private investors provided unexpected but aggressive competition. Without the encumbrance of meeting Program documentation requirements and using cash, private investors were able to outbid the County and its developers for targeted foreclosed-upon properties.

2. Banks were holding on to many bank-owned homes instead of putting them on the market, lowering the amount of foreclosed-upon homes available for purchase.

3. The County was not involved with the National Community Stabilization Trust (Trust), which was set up as an intermediary between national lenders and local government to help facilitate the management, rehabilitation, and selling of foreclosed-upon properties to ensure that homeownership and rental housing are available to low- and moderate-income families. The County stated that it hoped to be working with the Trust by early January.

4. The County required home buyers to find the properties for its downpayment, loan assistance, and affordability assistance activities, which had become increasingly difficult with the market forces listed above.

5. Some developer partners indicated that they had been hesitant to buy properties under the acquisition, rehabilitation, and resale activity due to the County's unwillingness to incur subsidy costs or a potential loss if a property was not sold

for the original planned amount. A loss on a property resale results in the developer receiving less than its stated fee or possibly no fee at all.

6. Some developer partners viewed areas that the County had targeted for rehabilitation and resale as less attractive areas in which to acquire homes.

No Outputs to Test

Given the County's lack of progress with Program activities one through six, we were not able to review any completed Program files for activities one through six or determine the adequacy of the County's record keeping for specific Program activities. We were able to review the beginning stages of an applicant's Program file for downpayment and affordability assistance; however, the County cancelled the application before loan approval, so we were not able to review the completed process.

Further, since the County had not funded any properties under the Program, we were not able to conduct site visits to properties funded under the Program or draw conclusions related to such properties.

Conclusion

Despite sufficient staffing levels and extensive experience with HUD programs, the County generally had questionable capacity to administer its allocation of Program funds. It had not been on track to use Program funds in a timely manner due to unanticipated external market forces and delays in obtaining properties for Program use, and it had only recently begun to officially modify its strategies. As a result, Program funds were at risk of not being spent as intended to provide aid to mitigate the foreclosure crisis to the fullest extent possible.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the County to

1A. Reevaluate its strategies and consider modifications, including pursuing other, more attainable Program activities, and/or immediately return any Program funds to HUD that are not anticipated to be obligated by the 18-month deadline.

1B. Obtain technical assistance from the HUD Office of Community Planning and Development.

Finding 2: The County Did Not Develop Sufficient Program Policies and Procedures

Although the County had adequate policies and procedures for its financial, information technology, and procurement activities, as well as its four Program activities promoting single-family homeownership, it did not have separate, specific written/documented policies and procedures for its two rental property acquisition and rehabilitation Program activities or its Program monitoring. Instead, the County relied on its staff's experience with HUD's HOME program, which has similar requirements to the County's Program activities; however, the HOME program does not have policy manuals to instruct staff on the County's internal policies and procedures related to HOME. The County did not believe that specific Program policies and procedures were necessary, generally disregarding its own policy manual. Without thorough, well-documented, Program-specific policies and procedures, the County was operating its Program under a weakened control environment, increasing the risk of waste, fraud, and/or abuse.

Policies and Procedures Were Adequate in Several Key Areas

The County had complete written policies and procedures to support its financial management, information technology, and procurement functions. In addition, the County's procedures for its Program activities to promote homeownership (activities one through four) were sufficient to support those activities. The procedures complied with the major provisions of HERA and addressed the major aspects of each activity, including Program requirements and County, applicant, and lender responsibilities.

Rental Program Activities and Program Monitoring Lacked Policies and Procedures

The County did not have well-documented written policies and procedures for its rental property acquisition and rehabilitation Program activities five and six. In addition, the County's Program-monitoring procedures were inadequate to ensure sufficient monitoring of Program activities. The County's policy manual authorizes it to prepare internal "instruction manuals" identifying policies and procedures specific to individual departmental needs. In this case, the Program only applies to the County's Community Development and Housing department. Therefore, the department should develop an internal manual to address the necessary "desk level instructions" to ensure "an integrated system of communication from the point of policy direction to the points of ultimate execution," as stated in the County's policy manual.

To ensure a sound internal control environment, the County needs written policies that discuss the purposes and objectives of the Program and procedures that establish, in considerable detail, the internal procedures of the various Program activities. The Program policies and procedures manual should be in sufficient detail to support every step and function of the County's various Program activities. The policies and procedures should provide instruction to all personnel directly related to Program activities, such as but not limited to

- Developer approval,
- Application processing,
- Property selection and approval,
- Rehabilitation,
- Appraiser selection,
- Lender selection,
- Income eligibility,
- Reimbursement processing,
- File maintenance,
- Delegation,
- Reporting requirements,
- Monitoring requirements, and
- Ensuring that Program personnel are free from conflicts of interest.

The policies and procedures should also detail all relevant statutes, regulations, policies, procedures, and best practices applicable to all aspects of the Program. The areas addressed should include both internal and external processes.

The County's Reliance on HOME Policies and Procedures Was Not Adequate

The County stated that it was completing its rental property acquisition and rehabilitation Program activities five and six in the same manner as HUD's HOME program; however, the County did not have written internal HOME policies and procedures for handling HOME loans within the Community Development and Housing department. County management confirmed that there were no manuals detailing the department's HOME project development or occupancy/rental practices that it planned to use for the Program. According to relevant County staff working on Program projects, the County was sufficiently satisfied with the staff's knowledge of HOME requirements to also apply those procedures to the County's Program activities. Although some of the HOME processes are similar, they do not specifically address the Program and its specific requirements and regulations. In addition, the County's approach downplayed the importance of documented controls as an integral part of the control environment.

Monitoring Policies and Procedures Were Not Adequate

The County's Program monitoring procedures were not adequate to ensure sufficient monitoring of Program activities. Although the intended monitoring strategy for its downpayment, rehabilitation loan, and affordability assistance Program activities seemed sufficient to ensure that owner-occupancy requirements would continue to be met, the reported procedures were not documented. Without a documented internal monitoring policy, the intended monitoring strategy may change or otherwise not be implemented by the time monitoring is performed. In addition, although the written Program guidelines for the acquisition and resale Program activity included two clauses on monitoring through rehabilitation inspections, they were not adequate to ensure proper monitoring of the Program activity. Further, no monitoring procedures existed for the County's rental property acquisition Program activities.

Conclusion

Despite having adequate policies and procedures for its financial, information technology, and procurement activities, as well as its homeownership Program activities, the County generally had questionable capacity to administer its allocation of Program funds. It did not have well-documented written policies and procedures for its rental property acquisition Program activities or its Program monitoring because it did not believe specific Program policies and procedures were necessary. By creating and maintaining policies and procedures specific to its activities and monitoring, the County would strengthen its control environment, reducing the risk of waste, fraud, and/or abuse. This measure would improve the County's ability to administer its Program funding.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the County to

2A. Create and maintain policies and procedures specific to its rental property acquisition Program activities.

2B. Create and maintain policies and procedures specific to Program-monitoring activities.

SCOPE AND METHODOLOGY

We performed our on-site audit work at the County, located in San Bernardino, CA, between September and December 2009. Our audit generally covered the period February through December 2009. We expanded our scope as necessary.

To accomplish our audit objective, we reviewed

- HERA.
- ARRA.
- The Federal Register (FR), Volume 73, No. 194, dated October 6, 2008 (73 FR 58330).
- The Neighborhood Stabilization Program Bridge Notice, dated June 19, 2009.
- HUD regulations at 24 CFR (Code of Federal Regulations) Parts 85, 91, 92, and 570.
- The County's substantial amendment to its 2008-2009 annual action plan to include proposed Program activities.
- The County's Program grant agreement, executed February 27, 2009.
- The County's organizational charts.
- HUD risk analysis for the County's Community Development Block Grant, HOME, and Emergency Shelter Grant programs.
- HUD monitoring reports.
- HUD's Disaster Recovery Grant Reporting system and Line of Credit Control System financial data.
- The County's single audit report for the year ending June 30, 2008.
- The County's internal policies and procedures that support Program activities as well as the County's financial management, information technology, procurement, and monitoring policies and procedures.
- Participation agreements with contracted developers.
- The County's procurement process and developer selections.

- The County's expenditure report and supporting documentation for a nonstatistical[1] sample of $57,851 of $282,013 in Program administrative expenses as of June 30, 2009. We generally found that each expense was eligible, properly authorized, and supported by documentation.

- The County's application for the competitive second round of Program funds.

In addition, we interviewed County staff and developers responsible for Program execution. Given the County's lack of progress with all Program activities, we were not able to review Program files or determine the adequacy of the County's record keeping for specific Program activities. Further, since the County had not funded any properties under the Program, we were not able to conduct site visits to properties funded under the Program or draw conclusions related to such properties.

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

[1] Our sample was based on Program expenditures covering areas such as newspaper advertising expenses, consultant services, and computer services. We selected expenditures that were higher in dollar value.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations - Implementation of policies and procedures to ensure that Program activities meet established objectives and operations are effective and efficient.

- Compliance with applicable laws and regulations - Implementation of policies and procedures to ensure that Program activities comply with applicable laws and regulations.

- Safeguarding of assets and resources - Implementation of policies and procedures to ensure that Program activities ensure the safeguarding of the Program's resources.

We assessed the relevant controls identified above.

A significant weakness exists if internal 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:

- The County lacked controls to ensure that funds were spent in a timely manner (finding 1).

- The County lacked policies and procedures to ensure a sound internal control environment (finding 2).

APPENDIXES

Appendix A

AUDITEE COMMENTS

DEPARTMENT OF COMMUNITY DEVELOPMENT AND HOUSING

COUNTY OF SAN BERNARDINO

290 North D Street, Sixth Floor • San Bernardino, CA 92415-0040 • (909) 388-0800
Fax (909) 388-0858

Mitch Slagerman, Director

February 5, 2010

Ms. Joan Hobbs
Regional Inspector General for Audit
U.S. Dept. of Housing and Urban Development
Office of Inspector General
611 W. 6th Street, Suite 1160
Los Angeles, CA 90017-3101

Re: OIG Audit of San Bernardino County's Neighborhood Stabilization Program

Dear Ms. Hobbs:

In response to your letter dated January 25, 2010, we offer the following comments to the findings in the recent audit report relating to the Neighborhood Stabilization Program. These steps are detailed below.

Finding No. 1 – The County's Obligations Were Not Timely

Although there were no funds obligated at the time of the audit, the County was in the process of re-tooling the program and has taken several steps in order to increase the likelihood of meeting required obligations and expenditures as set forth by HUD.

1. On December 1, 2009, the County amended its Substantial Amendment to the 2008-09 Annual Action Plan to revise the determination of Eligible Targeted Communities. This allowed the expansion of the eligible areas from 47% to almost 77% of the County. www.sbcounty.gov/eda/cdh/NSP/Docs/20100115_cdh_nsp_substantial_amendment.pdf
2. In consultation with HUD, it was suggested that the County consider reallocating funds to emphasize activity in multi-family acquisition. On January 12, 2010, the County approved a second amendment to its Substantial Amendment to the 2008-09 Annual Action Plan.
   www.sbcounty.gov/eda/cdh/community_dev/content/2008ConPlanFinal/20090421_cdh_toc_welcome.pdf This amendment reallocated funds between existing activities and created two new activities A brief summary is below:
   a. Created new NSP-7 Homebuyer Assistance by combining the guidelines from NSP-1 Down Payment Assistance and NSP-3 Affordability Assistance and by eliminating NSP-1 and NSP-3 Program funding. One combined program will encourage an easier and more efficient utilization of the funds. Additionally, the County has launched the "Make the Move" advertising campaign to further encourage use of this Homebuyer Assistance program

www.makethemovesb.org. Initial funding to be $2,000,000. Two loans are expected to fund in February.

b. Reduced funding for NSP-2 Rehabilitation from $1,340,000 to $250,000 due to lack of interest in this program.
c. Increased funding for NSP-4 ARR from $2,000,000 to $5,000,000. These funds will be more easily utilized when the County gives ARR developer partners access to purchase foreclosed properties through the National Community Stabilization Trust (NCST), prior to properties being listed on the open market. The County went "live" with NCST on January 13, 2010. Developer partners are currently reviewing four properties for possible acquisition.
d. Increased NSP-5 Rental Property from $3,939,547 to $10,732,369 in order to address the existing needs of the multi-family market. It is expected that each property will expend $4,000,000 - $5,000,000 each, allowing for funding of at least two properties. The County is currently working the Housing Authority of San Bernardino County to finance the purchase of two multi-family properties in Barstow. The Housing Authority has a Letter of Intent in place. This transaction should expend at least $7.5 million and is expected to close by the end of March 2010.
e. Eliminated funding for NSP-6 Special Needs because of low demand for the funding.
f. Created new NSP-8 ARR Bulk for use in purchasing four or more foreclosed single-family homes in one transaction for resale to qualified buyers. Initial funding to be $2,500,000.

County NSP Activity Funding Levels		
Activity	Initial Funding	Revised Funding
NSP-1 Down payment Assistance (up to $15,000)	$2,500,000	$0
NSP-2 Rehabilitation	$1,340,000	$250,000
NSP-3 Affordability Assistance (up to $40,000)	$10,452,822	$0
NSP-4 Acquisition and Rehabilitation	$2,000,000	$5,000,000
NSP-5 Rental Property	$3,939,547	$10,732,369
NSP-6 Special Needs	$250,000	$0
NSP-7 Homebuyer Assistance (New Program)* (up to $55,000)	$0	$2,000,000
NSP-8 ARR Bulk (New Program)	$0	$2,500,000
TOTALS **	$20,482,369	$20,482,369
* This program combines the guidelines of NSP-1 and NSP-3 into a single program. **This amount does not include the ten percent (10%) administrative cost.		

3. On January 6 and 7, 2010 the County received technical assistance from Training and Development Associates (TDA) and Community Development Services.

Ms. Joan Hobbs
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Finding No. 2 – The County Did Not Develop Sufficient Program Policies and Procedures

The County is in the process of creating policies and procedures specific to its rental property acquisition and monitoring activities. Sample documents have been provided by HUD LA to aid in the development. Policies and procedures will be completed and in place no later than March 19, 2010.

If you have any questions, please contact me at (909) 388-0808.

Sincerely,

Mitch Slagerman

Mitch Slagerman
Director

MS:LJC
Enclosures
cc:

Appendix B

CRITERIA

Public Law 110-289, Section 2301(c)(1)
In general -- Any State or unit of general local government that receives amounts pursuant to this section shall, not later than 18 months after the receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed homes and residential properties.

Federal Register, Volume 73, No. 194, dated October 6, 2008, Section I(B)2, "Formula: Reallocation"
If any jurisdiction, State, insular, or local area fails to meet the requirement to use its grant within 18 months of receipt of the amounts, as required, HUD, on the first business day after that deadline, will simultaneously notify the grantee and restrict the amount of unused funds in the grantee's line of credit. HUD will allow the grantee 30 days to submit information to HUD regarding any additional "use" of funds not already recorded in the Disaster Recovery Grant Reporting system. Then HUD will proceed to recapture the unused funds. HUD will reallocate these unused funds in accordance with 42 U.S.C. [United States Code] 5306(c)(4).

Federal Register, Volume 73, No. 194, dated October 6, 2008, Section II(A), "Definitions for Purposes of the CDBG [Community Development Block Grant] Neighborhood Stabilization Program"
Use for the purposes of section 2301(c)(1): Funds are used when they are obligated by a State, unit of general local government, or any subrecipient thereof, for a specific NSP [Program] activity; for example, for acquisition of a specific property. Funds are obligated for an activity when orders are placed, contracts are awarded, services are received, and similar transactions have occurred that require payment by the State, unit of general local government, or subrecipient during the same or a future period. Note that funds are not obligated for an activity when subawards (e.g., grants to subrecipients or to units of local government) are made.

Federal Register, Volume 73, No. 194, dated October 6, 2008, Section II(M), "Timeliness of Use and Expenditure of NSP Funds"
One of the most critical NSP provisions is the HERA requirement at section 2301(c)(1) that any grantee receiving a grant: "...shall, not later than 18 months after the receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed homes and residential properties." HUD has defined the term "use" in this notice to include obligation of funds.

1. Timely use of NSP funds. At the end of the statutory 18-month use period, which begins when the NSP grantee receives its funds from HUD, the State or unit of general local government NSP grantee's accounting records and Disaster Recovery Grant Reporting information must reflect outlays (expenditures) and unliquidated obligations for approved activities that, in the aggregate, are at least equal to the NSP allocation.

2. Timely expenditure of NSP funds. The timely distribution or expenditure requirements of sections 24 CFR 570.494 and 570.902 are waived to the extent necessary to allow the following alternative requirement: All NSP grantees must expend on eligible NSP

activities an amount equal to or greater than the initial allocation of NSP funds within four years of receipt of those funds or HUD will recapture and reallocate the amount of funds not expended.

24 CFR 85.20(b). The financial management systems of other grantees and subgrantees must meet the following standards:

1. Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

2. Accounting records. 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.

3. Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

County of San Bernardino Policy Manual, Preface
The Policy Manual is issued to provide a single source of authoritative reference to the policies for managing the internal operations of the County Government. The assignment of this manual to your office carries with it the responsibility for compliance with the policies contained within.

County of San Bernardino Policy Manual, No. 04-01, "Standard Practice Manual"
The successful operation of any large-scale organization is largely dependent upon a balanced relationship between centralization of policy direction and administration, and decentralization of authority and responsibility for policy implementation. The effective functioning of this relationship is, in turn, dependent upon the existence of an integrated system of communication from the point of policy direction to the points of ultimate execution.

The nature and complexity for the County's operations require a system of Standard Practice Manuals that will ensure that the policies established by the Board of Supervisors, for the internal management of the County's operations, and the duties and responsibilities of the various County departments and agencies, are properly documented, coordinated, and translated into systems, procedures, and detailed instructions for execution at the appropriate organizational levels.

Departmental Instruction Manuals' purpose is to satisfy only peculiar departmental needs or where very detailed desk level instructions are necessary to implement Standard Practice Instructions.

Government Auditing Standards, chapter 7.15(c), states that internal control includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

Documenting and evaluating internal control (including policies and procedures) at the entity level is a solid starting point in building a strong internal control environment. When weaknesses are identified, an entity can refer to its documented control procedures and properly analyze and implement changes, if necessary. Additionally, well-documented controls provide assurance and contribute to minimizing risk. Internal control can be broken down into four objectives:

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

To reach those objectives, internal control can be broken down into the following parts:

- Control environment - Sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk assessment - The identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.
- Information and communication - Systems or processes that support the identification, capture, and exchange of information in a form and timeframe that enable people to carry out their responsibilities.
- Control activities - The policies and procedures that help ensure that management directives are carried out.
- Monitoring - Processes used to assess the quality of internal control performance over time.