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TO: Frances Bush, Director, Office of Community Planning and Development, Washington, DC, Field Office, 3GD

John P. Buck

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

SUBJECT: The District of Columbia, Washington, DC, Did Not Administer Its HOME Program in Accordance With Federal Requirements

HIGHLIGHTS

What We Audited and Why

We audited the District of Columbia's (grantee) administration of its HOME Investment Partnerships program (HOME) at the request of the U.S. Department of Housing and Urban Development's (HUD) Office of Affordable Housing. This is our second and final of two reports issued in relation to the grantee's administration of its HOME program. The objective addressed in this report was to determine whether the grantee's Department of Housing and Community Development properly administered its HOME program by providing home ownership and rehabilitation assistance in accordance with Federal requirements, ensuring that its Community Housing Development Organizations (CHDO) were eligible and complied with HOME program requirements, and implementing sufficient controls over the receipt and expenditure of HOME funds.

What We Found

The grantee did not administer its HOME program in accordance with Federal requirements. It (1) obligated more than $2.5 million in HOME funds for an activity/project that was significantly delayed and not completed, (2) did not properly manage funds that it drew for downpayment assistance and financing of home repairs, (3) committed and disbursed CHDO operating funds for an ineligible CHDO, and (4) did not properly account for program administrative funds. These deficiencies occurred because the grantee did not have and/or implement sufficient procedures to ensure that it complied with program requirements. As a result, it charged more than $1.6 million in ineligible costs to its HOME program and could not support approximately $6.5 million in costs charged to the program. The grantee also accumulated more than $1.5 million in funds that it could have used to improve its administration of its HOME program and/or fund additional eligible HOME projects.

What We Recommend

We recommend that the Director of HUD's Washington, DC, Office of Community Planning and Development require the grantee to recover more than $1.6 million that it spent on ineligible expenses and provide support for approximately $6.5 million in expenses or repay that amount to the HOME program. In addition, the grantee should use approximately $1.6 million in accumulated funds to improve its administration of the program and/or fund additional eligible HOME projects. Lastly, we recommend that the grantee create and implement procedures to ensure that HOME funds are disbursed and used in compliance with applicable requirements.

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

Auditee's Response

We discussed the report with the grantee during the audit and at an exit conference on November 29, 2010. The grantee provided written comments to our draft report on December 10, 2010. The grantee generally concurred with our findings and stated that improvements would be implemented to address the management challenges noted in our report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The HOME Investment Partnerships program (HOME) was created under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR (Code of Federal Regulations) Part 92. The HOME program provides formula grants to States and localities that communities use- often in partnership with local nonprofit groups- to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income people. HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Participating jurisdictions may choose among a broad range of eligible activities, using HOME funds to (1) provide home purchase or rehabilitation financing assistance to eligible homeowners and new home buyers; (2) build or rehabilitate housing for rent or ownership; or (3) for "other reasonable and necessary expenses related to the development of non-luxury housing," including site acquisition or improvement, demolition of dilapidated housing to make way for a HOME-assisted development, and payment of relocation expenses.

As a participating jurisdiction, the District of Columbia (grantee) administers its HOME program through its Department of Housing and Community Development. The grantee received the following HOME grants from the U.S. Department of Housing and Urban Development (HUD) over a 4-year period:

Consolidated annual action plan year	HOME funds received
2007	$8,664,762
2008	8,731,505
2009	8,452,914
2010	9,322,221
Total	**$35,171,402**

The grantee spends its HOME funds on the following major programs/activities:

- Affordable housing/real estate development
- Home Purchase Assistance program
- Single Family Residential Rehabilitation program
- Community housing development organizations (CHDO)

In addition, 10 percent of HOME funds are authorized for the grantee's administrative costs.

Our objective was to determine whether the grantee properly administered its HOME program by providing home ownership and rehabilitation assistance in accordance with Federal requirements, ensuring that its CHDOs were eligible and complied with HOME program requirements, and implementing sufficient controls over the receipt and expenditure of HOME funds.

RESULTS OF AUDIT

Finding 1: The Grantee Obligated More Than $2.5 Million in HOME Funds for an Activity That Was Significantly Delayed and Not Completed

The grantee did not ensure that funds provided to a subrecipient for a HOME activity/project were expended in a timely manner. The grantee obligated $2.5 million for the activity in 2001 but approved several modifications/extensions, which allowed the subrecipient to delay completion of the activity for more than 8 years. The grantee drew more than $767,600 for the activity from 2001 to 2008. In 2009, the grantee transferred most of the remaining funds to another HOME activity due to the project delays. However, it failed to determine or ensure that the new activity was eligible for HOME funds. The deficiencies occurred mainly because the grantee overlooked key HUD guidance and did not establish or implement sufficient policies or procedures to ensure that it complied with program requirements. As a result, it made more than $10,400 in ineligible disbursements and could not support more than $2.4 million in HOME funds disbursed.

The Grantee Allowed Significant Delays Without Assessing the Feasibility of the Project

The grantee entered into an agreement with Safe Haven Outreach Ministries, Inc. (subrecipient), to acquire and/or rehabilitate affordable rental housing properties at two sites in the southeast area of the District of Columbia in August 2001. The initial grant period was from August 2001 through August 2003. The grantee obligated $2.5 million in HOME funding for the activity in 2001; however, the subrecipient did not start construction in relation to the activity (project). Between August 2003 and February 2008, the grantee executed three modifications to the agreement, which allowed the subrecipient to delay completion of the project to August 2009. The agreement modifications indicated that the grantee allowed the extensions because the subrecipient stated that it faced various issues, including challenges with raising funding needed from additional sources, changing the initially planned project sites from two to one, reconfiguring the mix of initially proposed units, and issues with zoning as well as the building permit and competitive bidding (for general contractor) processes.

In conjunction with the approval of the modification that allowed the initial 2-year extension from August 2003 to August 2005, a grantee official expressed the following in a memorandum, “While I do not endorse extensions over a one-year period, I have agreed to the 2-year extension you propose in the hopes that I will not have to approve a third extension, which should raise some serious questions about this project." Nevertheless, the grantee approved two more 2-year extensions, which extended the timeframe to complete the project to August 2009. As of August 2009, 8 years after the initial agreement was executed, the subrecipient had not completed the project.

The grantee failed to properly assess the feasibility of the project and did not demonstrate a sense of urgency in relation to the completion of the project, leading to significant delays in completing affordable housing and program funds' being tied up for more than 8 years. The grantee should have considered reprogramming the HOME funds obligated for the project to other feasible HOME-eligible projects.

The Grantee Overlooked HUD Requirements

The grantee overlooked HUD policy (HOMEfires Volume 3, Number 5), which states that a grantee must have immediate plans to produce housing when it commits funds to a project and that construction or rehabilitation must be reasonably expected to start within 12 months. According to HUD policy, failure to begin construction within 12 months due to unforeseen circumstances does not automatically necessitate the cancellation of the project or render it ineligible. Grantees with projects experiencing significant delays must document causes for the delays and assess the likelihood of the project's going forward. A grantee should consider cancelling a construction project nearing the end of the 12-month period if it does not appear that construction is likely within a reasonable period thereafter and should keep HUD informed of its concerns.

As stated above, the grantee failed to assess the feasibility of the project, leading to significant delays in completing affordable housing and program funds' being tied up for more than 8 years. The grantee did not have policies or procedures for addressing project delays and, thereby, ensuring compliance with HUD requirements. Also, the grantee did not have documentation indicating that it had informed HUD of the significant project delays. The grantee needs to develop and implement policies and procedures that outline a process for dealing with project delays.

Project Acquisition Funds Were Not All Eligible or Supported

The grantee disbursed more than $767,600 for property acquisition and other related activities. Documentation supporting the funds drawn disclosed that the grantee charged approximately $10,400 in ineligible costs, which consisted of a duplicate cost of $6,000 and about $4,400 for a property at a site that was eliminated from the grant agreement in conjunction with the August 2003 modification. The grantee also could not support approximately $368,260 of the amount disbursed. It could not provide contractor invoices and/or cancelled checks to show that the expenses were valid.

The grantee stated that it would obtain documentation for the unsupported costs from the applicable vendors. However, it disagreed that the funds related to the property at the eliminated site were ineligible. It stated that the costs were included in costs for the original architectural designs and assessments for the initially planned project and that those designs and assessments were then used to determine that the elimination of one site would result in a project that would better meet the housing mission of the subrecipient. Therefore, the architectural designs and assessments were legitimate predevelopment expenses that helped to determine that it would be better to develop affordable housing at only one of the two initially planned sites. We disagreed with the grantee's assessment because the two sites in question were 3 miles apart. In addition, one invoice, totaling $3,800, was for the cleaning of trash and rug removal for properties at both sites.

If the grantee does not complete the initially planned project, it must repay the entire disbursement of approximately $767,000 to HUD. The grantee stated that it would repay HUD the amount by December 31, 2010. However, HUD must ensure that the grantee repays the funds.

The Grantee Lacked Adequate Support for Funds Recommitted to a New Project

During our audit, the grantee drew about $1.7 million of the obligated HOME funds for the subrecipient's project and transferred it to a new HOME activity. However, it failed to determine or ensure that the new activity was eligible for HOME funds. The grantee drew the funds to provide acquisition financing for the purchase of 18 affordable cooperative home ownership units. The grantee accepted an income certification from the cooperative development's consultant, stating that the income from the cooperative members was true and accurate. The certification indicated that income was unknown for two cooperative members. The grantee failed to verify the cooperative members' income by obtaining and examining source documents evidencing annual income as required by 24 CFR 92.203(a)(1)(i).

Also, the tenant income schedule indicated that 9 of the 18 units were occupied as shown below.

Number of cases	Bedroom size	Number in household
5	1	4
4	1	3

According to 24 CFR 92.251(a)(2), properties assisted with HOME funds must meet all applicable local housing quality standards and code requirements, and if there are no such standards or code requirements, the housing must meet the housing quality standards in 24 CFR 982.401. District of Columbia Municipal Regulations, title 14, part 402.3, states that each room used for sleeping by two or more occupants shall be a habitable room containing at least 50 square feet of habitable room area for each occupant. Also, 24 CFR 982.401(d)(2)(ii) requires dwelling units to have at least one bedroom or living/sleeping room for each two persons.

The grantee did not verify income for all of the cooperative members and did not ensure that the cooperative units complied with HOME property standards. Consequently, approximately $1.7 million in HOME funds that it recommitted to provide acquisition financing for the purchase of the cooperative units was unsupported.

The Grantee Needs To Reprogram $30,100 in HOME Funds

Of the $2.5 million in HOME funds that the grantee obligated in 2001 for the subrecipient’s project, about $30,100 remained after it drew approximately $767,600 for the acquisition costs associated with the original project and transferred approximately $1.7 million to the new HOME activity. The grantee should reprogram the remaining funds for other eligible HOME activities.

Conclusion

Contrary to HUD requirements, the grantee did not ensure completion of its subrecipient’s project in a reasonably timely manner. The grantee tied up $2.5 million obligated for the project for more than 8 years; however, the subrecipient did not complete the project. The grantee tried to correct the situation by transferring at least $1.7 million to a new HOME activity. However, it failed to determine whether that activity met HOME requirements. These deficiencies occurred mainly because the grantee overlooked key HUD guidance and did not establish or implement sufficient policies or procedures to ensure that it complied with program requirements. As a result, it made more than $10,400 in ineligible disbursements and could not support more than $2.4 million in HOME funds disbursed.

Recommendations

We recommend that the Director of the Washington, DC, Office of Community Planning and Development require the grantee to

1A. Repay the HOME program from non-Federal funds $10,404 for the HOME funds disbursed for ineligible costs.

1B. Provide supporting documents for $368,260 spent on the acquisition of the initially planned project or reimburse the HOME program that amount from non-Federal funds.

1C. Complete the initially planned project or reimburse the HOME program from non-Federal funds $389,000[1] for funds disbursed toward project acquisition costs.

1D. Provide documentation to show that the new project meets HOME requirements or reimburse the HOME program from non-Federal funds $1,702,205 for funds disbursed for the acquisition of the project.

1E. Establish and implement policies and procedures to assess the feasibility of pending or delayed projects to ensure that HOME funds are used in a reasonably timely manner to meet the intent of the HOME program.

1F. Establish and implement policies and procedures to ensure that applicable grantee staff is properly trained and fully aware of HUD requirements to ensure that the intent of the HOME program is met.

1G. Deobligate $30,131 in funds associated with the $2.5 million initially obligated in 2001 and reprogram the funds for other eligible HOME activities, thereby putting the funds to better use.

[1] $767,664 less ineligible costs of $10,404 and unsupported costs of $368,260

Finding 2: The Grantee Did Not Properly Manage Funds for Downpayment Assistance and Financing of Home Repairs

The grantee did not properly manage funds that it drew and/or provided for downpayment assistance and financing of home repairs. Contrary to HUD requirements, it provided HOME funds for the purchase or rehabilitation of properties with property values that exceeded allowable limits. It also used Community Development Block Grant (CDBG) funds to provide supplementary downpayment assistance that exceeded allowable amounts. In addition, the grantee improperly held HOME funds in excess of 15 days of being drawn and could not support some of its disbursements for rehabilitation costs without required documentation. Because it failed to properly manage assistance that it provided for home purchases or rehabilitation, the grantee made ineligible HOME and CDBG draws or payments of approximately $1.3 million and could not support about $42,000 in HOME payments.

The Grantee Provided $699,538 in Ineligible Assistance Through Its Single Family Residential Rehabilitation Program

Contrary to HUD requirements, the grantee provided HOME funds for properties with after-rehabilitation values that exceeded the maximum allowable limits. The grantee provided the funds through its Single Family Residential Rehabilitation program which provides financing to existing homeowners for home repairs.

According to regulations at 24 CFR 92.254(a)(2) and (b)(1), neither the purchase price for housing nor the estimated value of a property after rehabilitation may exceed 95 percent of the median purchase price for the area as described in paragraph 92.254(a)(2)(iii). Based on paragraph 92.254(a)(2)(iii), the grantee could have either used the single-family mortgage limits under Section 203(b) of the National Housing Act or 95 percent of the median price of single-family homes in an area as the price limit when awarding HOME funds for downpayment assistance. The Economic Stimulus Act of 2008 (Public Law 110-185) provided temporary increased Section 203(b) limits; however, in March 2008, HUD issued guidance via HOMEfires Volume 9, Number 3, indicating that using the higher limits would constitute a violation of the HOME statute. HUD provided its own limits, as shown below, for our audit period.

	Maximum purchase price or after-rehabilitation value		
Period	**1 unit**	**2 unit**	**3 unit**
2006 to 5/1/2008	$362,790	$464,449	$561,411
2008 (effective 5/2/2008)	427,500	547,292	661,549

Data from HUD's Integrated Disbursement and Information System (IDIS) indicated that the grantee provided approximately $699,500 in HOME funds through its Single Family Residential Rehabilitation program for 13 ineligible properties or activities as shown in the table below.

IDIS activity number (identifier)	After-rehabilitation value from IDIS	After-rehabilitation value from file documentation	HOME funds drawn
929	$809,592	$603,980	$155,592
891	579,888	418,870	98,046
892	425,000	385,060	97,151
977[2]	512,570	759,500	75,000
758	440,000	431,570	69,485
982	463,539	404,520	63,539
890	501,534	392,430	62,613
984	515,610	515,610	20,698
979	575,043	442,020	15,043
901	447,666	432,810	14,856
883	400,000	364,030	9,515
894	553,640	505,030	9,350
761	360,000	364,030	8,650
Total			**$699,538**

Activities 977, 984, and 979 in the table above were subject to the property limits effective May 2, 2008, and the rest of the activities were subject to the limits before that date. None of the properties was eligible for HOME funds because the after-rehabilitation values exceeded the limits established by HUD. Also, we noted some other issues in relation to four of the draws. The draws for activities 761 and 883 were for the same rehabilitation costs at the same property. Therefore, although the draws were for slightly different amounts, the grantee apparently made a duplicate draw. Also, for activity 890, the grantee received a payoff of the HOME funds but erroneously credited the funds to the CDBG program. In addition, the grantee did not perform a final inspection for the rehabilitation work performed for activity 982 to ensure that the property complied with standards required by regulations at 24 CFR 92.251.

The data we obtained also indicated that there were discrepancies between the after-rehabilitation values in IDIS and the after-rehabilitation values in the project files as shown in the table above. We requested but did not receive an explanation from the grantee for the discrepancies. The grantee must ensure that it enters accurate financial data into IDIS as HUD relies on the information in the system for reports to Congress and grantee monitoring.

[2] The property for this IDIS activity number had three units.

Because it did not comply with HUD requirements, the grantee improperly awarded more than $699,500 in program funds for ineligible properties. The grantee must repay these funds to the HOME program.

The Grantee Provided $324,733 in Ineligible Funds Through Its Home Purchase Assistance Program

Based on information from IDIS, we determined that the grantee provided HOME funds for the purchase of nine properties with prices that exceeded the maximum allowable limits. As shown above, in March 2008, HUD provided maximum limits for the purchase price or after-rehabilitation values of properties eligible for HOME funds.

Contrary to HUD requirements, the grantee provided about $324,700 in HOME funds through its Home Purchase Assistance Program for nine ineligible properties or activities as shown in the table below.

IDIS activity number (identifier)	Purchase price	HOME funds drawn
741	$377,000	$ 75,540
909	420,000	40,097
823	370,184	35,000
824	419,684	35,000
841	398,000	34,975
822	396,140	30,550
574	560,000	28,748
852	382,000	24,973
777	422,733	19,850
Total		**$324,733**

Based on HUD's established maximum purchase prices or after-rehabilitation values, the properties above were not eligible for HOME funds.

CDBG Funds Were Used for $159,840 in Ineligible Payments

For six of the nine HOME activities above, the grantee used CDBG funds to provide supplementary home purchase assistance that exceeded the allowable amounts. According to HUD guidance in Office of Community Planning and

Development (CPD) Notice 07-08, CDBG funds may be used for direct home ownership assistance to facilitate and expand home ownership for low- and moderate-income households and may be used to pay any or all of the reasonable closing costs associated with the home purchase on behalf of the home buyer. CDBG funds may also be used to pay up to 50 percent of the downpayment required by the lender for the purchase on behalf of the home buyer. The grantee's policy for its Home Purchase Assistance program did not address the 50 percent limit on downpayments. The grantee's policy was to provide the lesser of 4 percent of the purchase price or $7,000 for closing costs and up to $70,000 in downpayment assistance based on household income by household size.

Based on the HUD requirements, the grantee provided approximately $159,800 in excess CDBG assistance for the six properties (see appendix C). For each property, we calculated the maximum CDBG assistance by allowing the maximum of $7,000 in closing costs plus half of the downpayment and closing costs required from the home buyer.

The grantee stated that the home buyers needed the CDBG assistance provided to be able to afford the properties and that it had reduced its limits to a maximum of $4,000 for closing costs and $40,000 for downpayment assistance. Nevertheless, for the six properties identified, the grantee paid more than $159,800 in ineligible CDBG assistance because it overlooked HUD requirements.

The Grantee Needs To Implement Subsidy-Layering Guidelines

For activity 909 from the table above, the grantee gave more HOME assistance than was necessary to provide affordable housing. In this case, the home buyer did not make a downpayment, and apart from approximately $40,000 in HOME assistance provided, the home buyer also received a $250,000 home ownership credit funded through HUD's Section 5(h) home ownership program. In addition, the home purchase was funded with seller financing of about $76,700 from the District of Columbia Housing Authority (Authority). The Authority received about $93,000 in cash from the property sale.

According to subsidy-layering requirements at 24 CFR 92.250(b), the grantee was required to evaluate the project in accordance with its established guidelines for subsidy layering to ensure that the HOME funds provided in combination with other governmental assistance were not more than necessary to provide affordable housing. Also, the grantee certified each year, as part of its consolidated annual plan submission that it would evaluate projects in accordance with its subsidy layering guidelines and would not invest any more HOME funds in combination with other Federal assistance than necessary to provide affordable housing. The grantee would or should not have committed HOME funding for the activity if it had performed an adequate review of subsidy layering. The grantee was drafting subsidy-layering guidelines during the audit. It needs to establish and implement subsidy-layering guidelines to ensure that it does not award more HOME funds than necessary to provide affordable housing.

The Grantee Held HOME Funds in Excess of 15 Days of Being Drawn

The grantee held HOME draws in excess of the allowed timeframe for 18 properties that were rehabilitated under its Single Family Residential Rehabilitation program. Regulations at 24 CFR 92.502(c)(2) require that funds drawn from the United States Treasury account be expended on eligible costs within 15 days. Interest earned beyond 15 days of a disbursement belongs to the United States and must be promptly remitted. Funds not expended for eligible costs within 15 days of a disbursement must be returned to HUD for deposit into the grantee's United States Treasury account of the HOME Investment Trust Fund.

For 18 properties, the grantee drew but did not disburse about $507,800 for eligible costs within 15 days of draws as required (see appendix D). About $254,500 of the total draw had not been expended. Approximately $183,200 of that amount was associated with 10 properties that were included in the 13 ineligible Single Family Residential Rehabilitation program activities discussed above. The remaining $71,300 was associated with eight eligible activities; however, the funds must be returned to HUD since they were not expended within 15 days of being drawn. The grantee must also remit interest related to the total draw of about $507,800 that was not expended within 15 days.

The Grantee Could Not Support About $42,000 in Rehabilitation Costs

The grantee could not support $42,295 in program funds that it provided through its Single Family Residential Rehabilitation program for the rehabilitation of five properties/units (see appendix E). The missing documentation included cancelled checks and/or paid invoices for expenses, adequate justification for temporary relocation expenses, and evidence that it secured HOME funds for the minimum affordability period.

According to regulations at 24 CFR 92.508(a)(3)(ii), the grantee should have maintained supporting documentation for each project in accordance with 24 CFR 85.20(b)(6), which requires that accounting records be supported by source documentation such as cancelled checks and paid bills, etc. Also, 24 CFR

92.254(a)(5)(ii)(A) requires recapture provisions to ensure that HOME assistance to home buyers will be recouped if the housing does not remain the principal residence of the buyer(s) for the minimum required period or period of affordability. The grantee violated these requirements by not maintaining adequate documentation for the program funds it spent. Also, based on regulations at 24 CFR 92.251(a)(2), one of the five units was potentially overcrowded because the file documentation indicated a family size of eight in a three-bedroom property.

The Grantee Was Unaware of or Overlooked Requirements

The grantee was not aware of the limits on maximum purchase price or after-rehabilitation values provided by HUD via its HOMEfires policy issuances. Therefore, it improperly capped the allowable sales price or postrehabilitation value at the single-family mortgage limits under the Section 203(b) program. The grantee's limits as of March 17, 2008, were as follows:

Maximum purchase price or after-rehabilitation value		
1 unit	**2 unit**	**3 unit**
$729,750	$934,200	$1,129,250

The grantee's limits significantly exceeded the HUD limits (shown in section above on $699,538 in ineligible assistance provided through the grantee's Single-Family Residential Rehabilitation program).

In certain instances, the grantee overlooked HUD requirements. For example, it did not expend funds drawn within the required timeframe and did not maintain sufficient documentation to support its expenditures.

Conclusion

The grantee provided HOME funds for the purchase or rehabilitation of ineligible properties. It also used CDBG funds to provide supplementary home purchase assistance that exceeded allowable amounts. In addition, the grantee improperly held program funds in excess of 15 days of being drawn and could not support some of its disbursements for rehabilitation costs. These deficiencies occurred mainly because the grantee was unaware of or overlooked HUD requirements. Because it failed to properly manage its program funds, the grantee made ineligible HOME and CDBG draws and/or payments of approximately $1.3 million and could not support approximately $42,000 in HOME funds.

Recommendations

We recommend that the Director of the Washington, DC, Office of Community Planning and Development require the grantee to

2A. Repay the HOME program $1,024,271 from non-Federal funds for assistance paid in cases in which the value of property exceeded the allowed limits.

2B. Repay the CDBG program $159,840 from non-Federal funds for assistance paid in cases in which the amount provided exceeded 50 percent of the downpayment required.

2C. Repay the HOME program $71,325 from non-Federal funds for funds drawn but not expended on eligible costs within 15 days.

2D. Determine the interest on $507,854 in HOME draws held in excess of 15 days and remit that amount to HUD.

2E. Provide adequate supporting documents to substantiate the eligibility of $42,295 spent on rehabilitation costs or repay that amount from non-Federal funds.

2F. Establish and implement policies and procedures to ensure that HOME funds drawn for purchase and rehabilitation assistance are disbursed in accordance with applicable requirements related to property value limits, subsidy layering, timeframes for expending funds drawn, and associated return of funds and/or interest when appropriate.

2G. Establish and implement procedures to ensure that CDBG funds provided for downpayment assistance do not exceed HUD limits.

Finding 3: The Grantee Obligated and Disbursed Funds for an Ineligible CHDO

The grantee set up HOME program activities for an organization, Mi Casa, Inc. (Mi Casa), as a CHDO although it did not meet HUD's CHDO eligibility requirements. The grantee reserved and committed HOME funds, totaling more than $708,500, for Mi Casa. This violation occurred because the grantee's former staff approved Mi Casa as a CHDO in error and the grantee lacked controls to ensure its compliance with the applicable requirements. As a result, the grantee made ineligible draws of more than $429,300 for Mi Casa, leaving a balance of about $279,200 that should not have been reserved for Mi Casa for CHDO activities.

CHDO Did Not Meet Eligibility Requirements

Mi Casa did not meet the definitions of a CHDO provided at 24 CFR 92.2. According to the regulations, a CHDO must have among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons as evidenced in its charter, articles of incorporation, resolutions, or by-laws. In addition, it must maintain accountability to low-income community residents by (1) maintaining at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations and (2) providing a formal process for low-income program beneficiaries for advising the organization in its decisions regarding the design, siting, development, and management of affordable housing. HUD CPD Notice 97-11, Attachment A, section III, paragraphs A and B mirror these requirements. Also, according to the notice, a CHDO's governing documents must reflect the one-third low-income board requirement.

Mi Casa had a board resolution which indicated that its purpose was to provide decent, affordable housing to low- and moderate-income persons. However, it did not have the one-third low-income board requirement in any of its governing documents and did not provide adequate documentation to show that it maintained at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations.

The Grantee Certified an Ineligible CHDO

The grantee improperly certified Mi Casa as a CHDO in July 2004, although it did not meet the eligibility requirements. Before certifying Mi Casa, the grantee's special assistant requested that it provide documents to show that at least one-third of its elected representatives were residents of low-income neighborhoods. The documents submitted by Mi Casa showed that only two, or 28 percent, of its seven board members certified that their home address was in a low- income neighborhood. One of the two was the executive director whose listed address was the same as Mi Casa's. Nevertheless, the grantee certified Mi Casa as a CHDO.

The grantee's special assistant left in 2006, and the grantee gave the responsibility of certifying CHDOs to its Office of Program Monitoring (OPM). In January 2007, an OPM coordinator recertified Mi Casa as a CHDO. Our review of Mi Casa's board member directories for 2005, 2006, and 2007 indicated that Mi Casa did not have the board member certifications necessary to show that at least one-third of its elected representatives were residents of low-income neighborhoods. Therefore, the grantee improperly recertified Mi Casa as a CHDO.

The Grantee Reserved/ Committed and Disbursed Funds for an Ineligible CHDO

Between 2004 and 2008, the grantee reserved and committed more than $708,500 in HOME funds for Mi Casa and disbursed more than $429, 300 of the amount committed as shown in the table below.

Fiscal year	CHDO fund type	Reserved and committed	Disbursed	Remaining
2004	Operating	$154,926	$154,926	
2005	Operating	167,396	167,396	
2006	Operating	168,169	107,033	$ 61,136
2007	Reserved	165,390		165,390
2008	Operating	52,719		52,719
Totals		**$708,600**	**$429,355**	**$279,245**

The disbursements were made in relation to three operating grants that the grantee set up for Mi Casa between July and September 2008. The grantee set up the first two grants on July 18, 2008, and the third grant on September 9, 2008. However, the grantee had not entered into an agreement with Mi Casa for housing to be developed, sponsored, or owned by Mi Casa as required by 24 CFR 92.300(e). Therefore, Mi Casa was not eligible for CHDO operating funds. The grantee acknowledged that Mi Casa should not have been certified as a CHDO. It stated that the funds were provided to Mi Casa in anticipation of the organization's being approved for a HOME-eligible project but that Mi Casa never qualified for such a project. It also stated that it had established sufficient controls to ensure that CHDO operating funds would not be disbursed unless the CHDO had been approved for a HOME-eligible project. However, in this case, Mi Casa did not qualify as a CHDO. Therefore, the grantee must also establish and implement procedures to ensure that it certifies CHDOs in accordance with HUD requirements.

The Grantee Lacked Controls

The grantee did not have sufficient controls in place to ensure that it certified CHDOs properly. Based on discussions with grantee staff, we determined that the grantee lacked adequate controls because it did not (1) have employee position descriptions for staff responsible for monitoring and certifying CHDOs, (2) provide training for employees responsible for certifying CHDOs, and (3) establish and implement policies and procedures related to the awarding of CHDO operating grants. Also, our review of a compliance checklist for the third operating grant to Mi Casa disclosed that grantee staff certified in 2008 that the organization met the CHDO qualification requirements discussed above. There were no documents available to support this assertion. In addition, the grantee conducted a monitoring review of Mi Casa in October 2008 and reported no deficiencies or findings. Therefore, the grantee needs to establish the controls described above to ensure that it certifies CHDOs in accordance with HUD requirements.

Conclusion

The grantee reserved, committed, and disbursed HOME program funds for Mi Casa, an ineligible CHDO, because it had failed to establish and implement sufficient controls to ensure that it certified CHDOs in accordance with HUD requirements. As a result, it reserved and made more than $429,300 in ineligible disbursements and improperly reserved about $279,200 in program funds. The grantee must repay the HOME program for the ineligible disbursements, reprogram the improperly reserved funds to eligible HOME activities, and implement adequate controls to ensure that it only certifies eligible CHDOs for participation in the HOME program.

Recommendations

We recommend that the Director of the Washington, DC, Office of Community Planning and Development require the grantee to

3A. Repay the HOME program $429,355 from non-Federal funds for the HOME funds disbursed to an ineligible CHDO.

3B. Deobligate $279,245 in available funds associated with the ineligible CHDO and reprogram the funds for other eligible HOME activities, thereby putting the funds to better use.

3C. Establish and/or implement controls such as employee position descriptions, relevant employee training, and policies and procedures regarding the proper certification and management of CHDOs.

Finding 4: The Grantee Did Not Properly Account for Program Administrative Funds Drawn

The grantee did not account for administrative funds that it drew for its HOME program as required. It could not provide required supporting documentation, such as approved cost allocation plans and timesheets, to support its administrative costs. These problems occurred because the grantee lacked key controls needed to ensure its compliance with program requirements for record keeping. Consequently, it could not support more than $3.9 million in funds that it drew to administer its HOME program. The grantee also accumulated more than $1.5 million in administrative funds that could have been used to improve the administration of its program and fund additional eligible HOME projects.

The Grantee Did Not Follow Record-Keeping Requirements

The grantee failed to maintain the necessary records to support more than $3.9 million in funds that it drew for the administration of its HOME program. More than $2.8 million of the funds was allocated to various categories of administration. The remaining $1.1 million was allocated to a subrecipient (Greater Washington Urban League) for the administration of the grantee's Home Purchase Assistance program.

Regulations at 24 CFR 92.508 require grantees to maintain sufficient records to show their compliance with record-keeping requirements for the HOME program. Paragraph 92.508(a)(3)(ii) provides that grantees must maintain records on the source and application of funds for each project in accordance with 24 CFR 85.20, which states that grantees must follow applicable Office of Management and Budget (OMB) cost principles in determining the reasonableness, allowability, and allocability of costs (paragraph (b)(5)). Paragraph (b)(6) further states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. In addition, regulations at 24 CFR 92.207(e) provide that indirect costs may be charged to the HOME program under a cost allocation plan prepared in accordance with OMB requirements as applicable.

Based on OMB requirements, grantees are required to obtain certified and approved cost allocation plans from the Federal Government.[3] Each grantee must submit a cost allocation plan to the Federal Government for each year in which it claims central service costs under Federal awards.[4] OMB provides that the Federal agency with the largest dollar value of awards with an organization will

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[3] OMB Circular A-87, attachment A, section H
[4] OMB Circular A-87, attachment C, section D, paragraph 1

serve as the cognizant agency for the negotiation and approval of the indirect cost rates and other rates such as fringe benefit and computer charge-out rates.[5] OMB also provides that personnel activity reports or equivalent documentation must be maintained to support the salaries or wages for employees working on multiple activities or cost objectives.[6]

As discussed below, the grantee did not comply with the requirements above and, therefore, could not support more than $3.9 million in program funds.

The Grantee Could Not Support $2.8 Million Used for Various Administrative Categories

Contrary to HUD requirements, the grantee lacked appropriate supporting documents for $2.8 million in funds that it allocated to various categories of administration for the HOME program.

The grantee could not specify how much it charged to indirect costs. However, records from IDIS indicated that it charged about $55,800 to general administration/overhead. The grantee also could not provide supporting documents for two sample administrative draws selected totaling about $1.1 million. We asked the grantee to provide related supporting documents, such as payrolls and time and attendance records, for the two sample draws. The grantee stated that the employee (agency fiscal officer) responsible for analyzing the supporting documents for the draws in question was no longer with the organization and that attempting to get the related timesheets could prove cumbersome and time consuming and might not produce the required support. Based on the lack of documentation for the two sample draws and the grantee's response to our request for the supporting documentation, we classified the entire $2.8 million as unsupported. The grantee must provide supporting documents for these draws as required or repay the amount drawn to the HOME program.

The Grantee Could Not Support $1.1 Million Allocated to a Subrecipient

The grantee used HOME funds to pay the Greater Washington Urban League (subrecipient) to administer its Home Purchase Assistance program. The grantee drew HOME funds in November 2008 and September 2009, totaling about $1.1 million, for the subrecipient. Neither the grantee nor its subrecipient maintained

[5] OMB Circular A-122, attachment A, section E, paragraph 2a
[6] OMB Circular A-87, attachment B, paragraphs 8h(4) and (5)

adequate supporting documents for the funds drawn. As stated above, HUD requirements provide that OMB cost principles must be followed and that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

We reviewed 12 files associated with the $1.1 million in HOME funds drawn and determined that the documentation was not sufficient to show that the funds were spent on administrative and planning costs for the HOME program. For example, the subrecipient's employees charged time on their timesheets for the Home Purchase Assistance program using a generic job category code "HPAP." However, the grantee's consolidated annual action plan, as well as the grant agreement executed by the subrecipient, stated that the Home Purchase Assistance program was funded with HOME, CDBG, and local funds. The subrecipient provided the following information regarding Home Purchase Assistance program activities and the related funding for the period October 2007 through September 2008.

Funding source	Number of loans	Amount
Repay	344	$13,630,427
CDBG	217	7,153,448
HOME	160	6,296,175
Totals	**721**	**$27,080,050**

According to the subrecipient, the "repay" category represented loans funded with local funds. Based on the information above, about 50 percent of the Home Purchase Assistance program activity was funded with local funds, and only 23 percent was funded with HOME funds. Also, the subrecipient charged other items to the Home Purchase Assistance program including costs for housing counseling and indirect costs. Therefore, the employee timesheets should have included a breakdown of activities by the different funding sources as required by OMB. Neither the grantee nor the subrecipient could provide a breakdown of the time charged by the subrecipient's employees to the Home Purchase Assistance program. Because the grantee failed to maintain records as required, we could not determine the validity of approximately $1.1 million in costs charged to the HOME program.

The Grantee Did Not Have an Approved Cost Allocation Plan

The grantee did not have approved cost allocation plans for each year during the audit period as required by OMB. The grantee prepared cost allocation plans for fiscal years 2007, 2008, and 2009. HUD did not review the 2007 and 2008 plans because the grantee did not provide the distribution of salaries or wages supported by personal activity reports or equivalent documentation when HUD monitored the grantee in 2008. The grantee's cost allocation plan for fiscal year 2009 is currently under review by HUD.

The Grantee Lacked an Effective Process for Tracking Payroll Costs

The grantee did not have a mechanism for determining payroll costs charged to various funding sources as required by OMB guidance, which states that personnel activity reports or equivalent documentation must be maintained to support the salaries or wages for employees working on multiple activities or cost objectives. Grantee staff could not tell us whether (1) any employees charged 100 percent of their time to the HOME program, (2) employees charged time to indirect costs on their timesheets, and (3) any employees were not required to fill in timesheets.

We tested whether the grantee maintained the appropriate records by requesting time sheets for two employees that worked on an activity under its Single-Family Residential Rehabilitation program that was funded with both HOME and local funds. The time sheets provided only indicated hours worked and did not allocate the hours to funding sources. The grantee stated that employee hours were allocated in its in-house PeopleSoft Human Resources/Payroll System; however, it did not provide related evidence or supporting documents. One of the time sheets reviewed indicated that the employee was a motor vehicle operator. This information was consistent with the grantee's employee listing. We requested the employee's personnel file because it did not make sense for a motor vehicle operator to be tasked with processing a single-family residential rehabilitation case. The grantee could not provide the employee's personnel file. Because the grantee failed to implement a process for maintaining adequate time records for its employees that worked on activities with multiple funding sources, it lacked the necessary controls to ensure that payroll costs were properly allocated to the appropriate funding sources.

Subrecipient Monitoring Was Not Adequate

The grantee did not perform adequate or effective monitoring of its subrecipients in accordance with HUD requirements and its own monitoring policy as stated in its annual action plans for fiscal years 2008 through 2010. Based on regulations at 24 CFR 92.504(a), the grantee is responsible for managing the day-to-day operations of its HOME program, ensuring that program funds are used in accordance with all requirements, and taking appropriate action when performance problems arise. The use of subrecipients or contractors does not relieve the grantee of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually. Paragraph (d)(1) states that during the period of affordability, the grantee must perform onsite inspections of HOME-assisted rental housing to determine compliance with the property standards of 24 CFR 92.251 and verify the information submitted by the owners in accordance with the requirements of 24 CFR 92.252 no less than every 3 years for projects containing 1 to 4 units, every 2 years for projects containing 5 to 25 units, and every year for projects containing 26 or more units.

In its annual action plans for fiscal years 2008 through 2010, the grantee stated that components of its project monitoring included monitoring for compliance with HUD program rules and administrative requirements and financial monitoring to ensure compliance with all Federal regulations governing financial operations.

In the case of the Greater Washington Urban League, the grantee did not perform effective monitoring of the subrecipient. The grantee performed six monitoring reviews of the subrecipient during fiscal years 2007 through 2009 but failed to identify or determine the problems with the subrecipient's record keeping and recommend corrective action. During one of the reviews, the grantee noted that the subrecipient maintained appropriate time distribution records for employees working on Federal and non-Federal activities. Based on our review of the monitoring report, it appeared that the grantee accepted and documented the subrecipient's responses to interview questions from a financial records checklist. Also, the grantee noted in its 2008 monitoring that the subrecipient had not submitted cost allocation plans since fiscal year 2005; however, there was no evidence to show that it took any action to address the issue. The grantee did not receive a cost allocation plan for fiscal year 2008 from the subrecipient until February 2008.

The grantee also did not comply with the requirements for annual monitoring of subrecipients and onsite inspections for HOME-assisted rental housing. The grantee's stated monitoring activities for fiscal years 2007 (beginning October 1, 2006) through 2010 were as follows:

Active CHDOs		
Fiscal year	**Number**	**Monitoring reviews performed**
2007	15	11
2008	15	6
2009	15	1
2010	11	4

Completed projects under affordability requirements		
Fiscal year	**Number**	**Monitoring reviews performed**
2007	No data provided by grantee	
2008	22	14
2009	22	11
2010	22	0

The information provided indicated that the grantee did not monitor all of its active CHDOs at least annually between fiscal years 2007 and 2010. For the completed projects under affordability requirements, 13 of the 22 projects had more than 25 HOME units each. Therefore, the grantee, at a minimum, should have performed onsite inspections annually for the 13 projects based on HUD requirements.

The grantee did not provide evidence of any type of monitoring in fiscal year 2007. For fiscal year 2008, the grantee monitored 14 projects but only performed desk reviews and no onsite inspections for the projects. For fiscal year 2009, the grantee reviewed 11 projects but only provided support for onsite inspections of 9 projects.

We asked the grantee why it did not perform monitoring as required. The grantee stated only that it was not done. Therefore, the grantee appeared to have overlooked HUD requirements.

The Grantee Must Implement Needed Communication

The grantee needs to implement an effective communication process between its staff and staff assigned to its office from the DC Office of the Chief Financial Officer (OCFO). During the audit period, seven OCFO staff members were assigned to the grantee’s office. These staff members reported to an agency fiscal officer (AFO). According to the grantee, the AFO was responsible for analyzing supporting documents for the fund draws questioned. A review of the AFO position description indicated that the incumbent was also responsible for maintaining regular contacts with program managers and advising and assisting management officials by supplying financial management data. However, the grantee failed to ensure an effective communication process between its staff and the AFO as evidenced by its failure or inability to provide the required documentation for the fund draws questioned. As stated above, the grantee indicated that the AFO responsible for analyzing the documentation was no longer with the organization and that it likely would not be able to provide the support requested.

We noted that there was frequent turnover associated with the AFO position during the audit period and that there had been five AFOs since October 2006. Two of the five AFOs were acting in that position as shown in the table below.

AFO/acting AFO	Period
AFO	October 2006 to middle of 2007
Acting AFO	Middle of 2007 to May 2009
AFO	May 2009 to December 2009
Acting AFO	December 2009 to August 2010
AFO	August 2010 to present

While the high turnover associated with the critical AFO position may have contributed to the grantee's documentation problems, the grantee is ultimately responsible for ensuring that sufficient documentation exists to show its compliance with record-keeping requirements for the HOME program. Therefore, it must implement a formal communication process with OCFO staff assigned to its office to ensure that documentation for its fund draws is maintained in accordance with program requirements.

HUD Monitoring Disclosed Deficiencies

HUD monitoring disclosed issues with the grantee's administration of its HOME program. In its 2005 monitoring report, HUD noted that the grantee did not have an approved cost allocation plan and that its personnel did not maintain time sheets that showed the hours spent on programs administered. HUD also noted that the grantee did not review the performance of program participants at least annually in accordance with 24 CFR 92.504(a). In its 2008 monitoring review, HUD noted the same issue regarding the personnel time sheets. HUD also noted various issues relating to the grantee's overall administration of its HOME program, including its failure to comply with certain program requirements and take sufficient action to address program performance deficiencies.

Single Audit Reports Disclosed Deficiencies

The fiscal year 2007 single audit of the grantee disclosed that it did not have an approved cost allocation plan and did not perform the annual onsite inspections required by regulations at 24 CFR 92.504(d). The cost allocation plan finding remained an issue in the fiscal year 2008 single audit. The 2008 audit stated that most grantee employees did not use the enhancements of the PeopleSoft Human Resources/Payroll System, designed to allow employees to charge hours directly to specific grant programs or other locally funded projects requiring specific allocation of costs.

The Grantee Had Begun To Take Corrective Action

During the audit, the grantee began to take action to address some of the issues identified. It developed a time sheet to track employee hours by fund type and project starting in October 2009. It also submitted its fiscal year 2009 cost allocation plan to HUD, and HUD stated in a letter, dated September 30, 2010, that the plan was under review.

The Grantee Can Improve Program Oversight With Its Administrative Funds

The grantee reserved and disbursed administrative funds between fiscal years 2007 and 2009 as shown below.

Fiscal year	Amount reserved	Total disbursed	Available to disburse
2007	$1,238,417	$1,121,656	$ 116,761
2008	840,850	414,683	426,167
2009	932,222	0	932,222
Total			**$1,475,150**

As the table above shows, the grantee had almost $1.5 million in undisbursed funds available for its administration of the HOME program. The funds represented about 1½ years' worth of unspent administrative funds. Also, the grantee's annual action plan for fiscal year 2010 indicated that it added an additional $100,000 in program income to HOME administrative funds. The undisbursed administrative funds could be used to strengthen the grantee's administration of the HOME program. Part of the strengthening should include the grantee's (1) performing annual monitoring of all the subrecipients and applicable HOME projects (see above), (2) setting up a system to adequately account for HOME administrative funds, and (3) improving communication with the AFO or appropriate OCFO staff. Any excess funds could be used to fund other eligible HOME projects. Therefore, any funds the grantee does not use to strengthen the administration of the HOME program should be reprogrammed for the use of HOME-eligible projects. This measure would help the grantee ensure that the HOME program's main goal of providing affordable housing for low-income households is accomplished more efficiently.

Conclusion

The grantee could not support more than $3.9 million in funds that it drew for the administration of its HOME program. It failed to maintain adequate documentation to support its administrative costs mainly because it lacked key controls needed to ensure its compliance with record-keeping requirements for the HOME program. The grantee also accumulated more than $1.5 million in administrative funds that it could have used to improve the administration of its HOME program and fund additional eligible HOME projects. Doing so would have enabled the grantee to better meet the main HOME program goal of providing affordable housing for low-income households.

Recommendations

We recommend that the Director of the Washington, DC, Office of Community Planning and Development require the grantee to

4A. Provide adequate documentation to support the $3,977,925 or repay that amount from non-Federal funds to the HOME program.

4B. Obtain approved cost allocation plans from HUD to use as a basis for charging indirect costs to the HOME program.

4C. Approve Greater Washington Urban League’s cost allocation plans as required by OMB so that the subrecipient has a proper basis for charging indirect costs to the HOME program.

4D. Require its subreceipent, Greater Washington Urban League, to implement a system for maintaining time records that track employee time charges to the HOME program as required by OMB.

4E. Implement an effective communication process with the appropriate OCFO staff to ensure compliance with record-keeping requirements for the HOME program.

4F. Identify at least annually its universe of HOME program recipients and applicable projects to be reviewed and monitor this universe including required onsite visits.

4G. Establish a procedure, on an annual basis, on which to base future funds obligated for administrative costs on actual administrative expenses. This procedure will ensure that any amount in excess of actual expenditures is recommitted for use on eligible HOME projects.

4H. Recommit any portion of the $1,575,150[7] not used by the grantee to improve its administration of the HOME program for use on eligible HOME projects.

[7] The grantee added $100,000 in program to the $1,475,150, bringing the total available to $1,575,150.

SCOPE AND METHODOLOGY

We performed the onsite fieldwork for the second audit of the grantee between November 2009 and June 2010 at the office of the grantee located at 1800 Martin Luther King, Jr. Avenue, SE, Washington, DC. The audit covered the period October 1, 2006, through April 30, 2009, but was expanded when necessary.

To accomplish our audit objective, we

- Reviewed applicable Federal regulations.

- Reviewed grantee documents including but not limited to its 5-year consolidated plan, consolidated annual action plans, consolidated annual performance evaluation reports, single audit reports of Federal awards programs, organization charts, employee listing, CHDO monitoring reports, cost allocation plans, and grant agreements with subreceipents.

- Analyzed IDIS for relevant data tables and preformatted reports.

- Reviewed applicable HOME program reports from HUD's Web site.

- Communicated with officials and employees of the appropriate HUD CPD divisions as well as officials and employees of grantee subreceipents.

- Reviewed HUD's monitoring reports on the grantee.

- Reviewed Home Purchase Assistance program case files, Single Family Residential Rehabilitation program case files, CHDO files, settlement statements, invoices, checks, timesheets, and other documents to ensure that HOME funds were expended for eligible activities.

- We evaluated the entire universe of home activities (847) at the beginning of the audit and made selections for review based on risk indicators including high property values and draw amounts. We reviewed grantee files and other related documents for the selections made as discussed in the audit findings.

In certain instances, we found that data in IDIS did not reconcile with related file documentation. Therefore, in those instances, we relied on information from supporting documents in program case files and not the data in IDIS.

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

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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 operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

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

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The grantee did not ensure that program funds were expended within the required timeframe (findings 1 and 2).

- The grantee did not ensure that program funds were only spent on eligible activities (findings 1, 2, and 3).

- The grantee did not implement adequate policies and/or procedures to ensure compliance with record-keeping requirements (findings 2 and 4).

- The grantee did not comply with requirements for subrecipient monitoring (finding 4).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$ 10,404		
1B		$ 368,260	
1C		389,000	
1D		1,702,205	
1G			$ 30,131
2A	1,024,271		
2B	159,840		
2C	71,325		
2E		42,295	
3A	429,355		
3B			279,245
4A		3,977,925	
4H			1,575,150
Totals	**$1,695,195**	**$6,479,685**	**$1,884,526**

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the grantee implements our recommendations, it will use (1) $30,131 obligated in 2001for eligible HOME activities, (2) $279,245 in reprogrammed funds to support additional eligible HOME activities, and (3) $1,575,150 in excess administrative funds to improve monitoring of the HOME program and recommit any unused portion for eligible HOME projects.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Housing and Community Development

Office of the Director

DEC 10 2010

Mr. John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Subject: The District of Columbia, Washington, DC, Did Not Administer Its HOME Program in Accordance With Federal Requirements

Dear Mr. Buck:

The Department of Housing and Community Development (DHCD) is in receipt of your letter/Audit Report dated November 12, 2010. The Audit Report was regarding the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) review of the HOME program. The objective addressed in the report was to determine whether DHCD's properly administered its HOME program by providing home ownership and rehabilitation assistance in accordance with Federal requirements, ensuring that DHCD's Community Housing Development Organizations (CHDO) were eligible and complied with HOME program requirements, and implementing sufficient controls over the receipt and expenditure of HOME funds.

The review resulted in four (4) findings which are detailed below along with DHCD's response.

Finding 1: The Grantee obligated more than $2.5 Million in HOME funds for an activity that was significantly delayed and not completed.

DHCD Response: DHCD concurs with this finding. DHCD cancelled this project on October 4, 2010 when a last attempt to fund the completion of this project using local District funds encountered yet more uncontrolled delays on the part of Safe Haven Outreach Ministries. DHCD will be repaying the entire amount of $767,600 to the HOME Line of Credit using non-federal funds.

1a) The Grantee Allowed Significant Delays without Assessing the Feasibility of the Project.

DHCD Response: DHCD attempted to see this project through to completion in the last eight (8) years because it was an important and needed transitional housing project that would have

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provided 48 rental units for homeless people. The project had many delays caused by circumstances beyond Safe Haven's direct control. The major delays were caused by the consolidation of the 48 units on the High Street SE site that was acquired for the project. The amount of time needed for the zoning approval on the High Street property required that solicitation bids be required for selecting the general contractor. In addition, additional time was needed because architects were changed due to the original architects not performing to the Department's satisfaction.

1b) The Grantee Overlooked HUD Requirements.

DHCD Response: DHCD acknowledges that we did not keep HUD informed of all these delays as they occurred. DHCD further acknowledges that the agency did not specifically follow HUD policy guidelines on assessing the project's continuing feasibility as the many delays kept occurring on the life of the project. However, DHCD felt the fundamental feasibility of the project continued to exist despite the fact that the project was being delayed because of all the reasons described above.

1c) Project Acquisition Funds Were Not All Eligible or Supported.

Comment 1
Comment 2

DHCD Response: Regarding the specifics of the $767,600 disbursed, DHCD acknowledges a duplicate payment of $6,000 on a portion of the property acquisition cost that was ruled ineligible. However, DHCD stands by all other funds disbursed for this project as eligible costs and have contractor invoices for the expenses. **(Enclosure # 1)** This project was always conceived by Safe Haven Outreach Ministries and accepted for funding by DHCD as a 48 unit affordable rental unit project for the short term and mid-term transitional housing for individuals recovering from substance abuse problems.

The project originally was to be housed and occupy buildings on 4000 D Street, NE and High Street, SE. The 4000 D Street site was to have had 12 units and the High Street site to have 36 units with little reconfiguring of the mostly two bedroom original units with more bedrooms.

The architectural designs and assessments done in the original grant agreement while 4000 D Street was still in the project were essential to making the determination that the 48 units in the project could be provided at High Street alone and better meet the housing mission of Safe Haven. For that reason, the architectural and other engineering assessments related to making this determination should not be eliminated because the total number of units in this project has not changed from the original 48 units. These architectural /engineering assessments were legitimate pre-development expenses that helped determine that the planned 48 units could be better provided at the High Street site. As such, they were and are legitimate scope of work items in the project.

1d) The Grantee Lacked Adequate Support for Funds Recommitted to a New Project.

DHCD Response: 3121 Mt. Pleasant Street, NW Income Verification per 24.CFR.92.203(a)(1)(i)

Comment 3

DHCD maintains that it has adequate support documentation to verify the incomes of the households residing at 3121 Mt. Pleasant Street, NW. Please note that during the underwriting process for the HOME acquisition loan made by DHCD to the 3121 Mt. Pleasant Street Tenant Association, incomes for the residents of the property were verified to ensure that they fall within the HOME Investment Partnership Program Income Limits. The enclosed chart **(Enclosure 10)** (with the back-up income verification sheets) compares the household income for each household residing in the property with the 2009 HOME Investment Partnership Program Income Limits for Washington, DC (note that the 2009 income limits are being used in this instance since the $1.7 million HOME-funded acquisition loan closed in November 2009).

Comment 3

As evidenced by the chart entitled "3121 Mt. Pleasant Street, NW HOME Investment Partnerships Program Income Eligibility Review", DHCD compared each household income to the 2009 HOME program income guidelines. Per this comparison, 2 units are vacant, 12 units have households with incomes between 0-50% of the AMI, 3 units have households with incomes between 51-60% of the AMI and 1 unit has a household with income between 61-80% of the AMI – demonstrating that all households within 3121 Mt. Pleasant Street, NW fall within the HOME Investment Partnerships Program income guidelines.

Comment 3

Please note that DHCD is in the process of finalizing a detailed, on-site review of the unit sizes for each HOME-assisted unit within 3121 Mt. Pleasant Street, NW to demonstrate that the property meets the applicable local housing standards and code requirements per 24 CFR 92.251(a) (20 and the District of Columbia Municipal Regulation ("DCMR") Title 14 Section 400, which governs the general requirements for the housing code of the District of Columbia. Our review will entail a summary of the unit sizes for each unit in the property and a comparison of the unit sizes to the guidelines stated in DCMR Title 14 Section 400 – and we expect to have this analysis prepared and submitted by December 31, 2010.

Comment 4

DHCD's Development Finance Division will work with the Office of Program Monitoring to finalize administrative instructions by March 31, 2011 that memorialize policies and procedures regarding the following:

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- Assessment of the feasibility of delayed HOME-funded projects, to ensure that HOME funds allocated to the Department are used in a timely manner in conjunction with the intent of the HOME program; and

- Guidelines regarding HOME Investment Partnership Program training for DHCD staff, so they fully understand the HOME program requirements and make sure that these requirements are met for each HOME-assisted project.

Comment 4

1e) The Grantee Needs to Reprogram $30,100 in HOME Funds

DHCD Response: The deobligation of the $30,100 in HOME funds will occur by December 31, 2010. The deobligated funds will be use for other eligible HOME activities.

Finding 2: The Grantee Did Not Properly Manage Funds for Down payment Assistance and Financing of Home Repairs

2a) The Grantee Provided $699,538 in Ineligible Assistance Through Its Single Family Residential Rehabilitation Program

Comment 4

DHCD Response: DHCD concurs with your finding that the agency provided $699,538 in ineligible assistance through its Single Family Residential Rehabilitation Program. DHCD will repay its HOME line of credit with non-federal funds.

2b) The Grantee Provided $324,733 in Ineligible Funds Through Its Home Purchase Assistance Program

Comment 5

DHCD Response: DHCD concurs with your finding that the department provided $324,733 in ineligible funds through its Home Purchase Assistance Program (HPAP). However, housing prices in the District of Columbia region escalated so rapidly that areas and properties that would have been eligible in the prior year were no longer eligible for HOME funding. DHCD has since notified the subgrantee and will continue to keep a close watch on the HOME allowed sales prices for the Washington Region so that this will not happen again. DHCD is requesting a waiver of this finding and will ensure complete compliance with HUD HOME requirements pertaining to the maximum sales price of HOME funded units.

Comment 1

In the meantime, DHCD will conduct a market analysis to determine the 95% median area purchase price of single family homes in the District of Columbia using the guidelines outlined in 24 CFR 92.254(a)(iii). DHCD is confident that the results of this analysis will show that the value of the homes that were acquired in the HPAP and rehabbed in our single family program are within the HOME program limit. DHCD anticipates that the results of the analysis will be completed by December 31, 2010.

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Comment 6

Comment 4

Comment 4
Comment 1

Comment 1

Comment 4

2c) CDBG Funds Were Used for $159,840 in Ineligible Payments

DHCD Response: DHCD reviewed the statutory language regarding Home Purchase Activities and the CDBG funds that was provided; the CDBG funds were used as financial assistance to finance the remaining acquisition cost for the purchase of a property for a CDBG eligible homebuyer. The CDBG assistance bridged the gap in the transaction between the first trust financing and the purchase price. The eligible activity for assistance is outlined in Section 5305 of the statue. **(Enclosure #11)** This describes the CDBG funding use for the HPAP as (B) "to finance the acquisition by low-and moderate income homebuyers of housing that is occupied by the homebuyer". DHCD also utilized CDBG funds for (E) "pay reasonable closing costs associated with the purchase of a home by low-or moderate income homebuyers". The two activities stated are the CDBG funding activities used with HPAP purchases.

2d) The Grantee Needs to Implement Subsidy-Layering Guidelines

DHCD Response: DHCD will establish and implement Administrative Instructions (AI) relative to subsidy-layering guidelines; these guidelines will be the vehicle to ensure that DHCD will not award more HOME fund than needed to provide affordable housing. The Administrative Instructions will be prepared by March 31, 2011.

2e) The Grantee Held HOME Funds in Excess of 15 Days of Being Drawn

DHCD Response: DHCD concurs with your finding and in the future the Department will expend drawn down funds on eligible activities within the required 15 day required period. In addition, DHCD will conduct an analysis to determine the amount of interest earned on $507,800 which was not expended within the required 15 day period and remit that interest amount to HUD.

2f) The Grantee Could Not Support About $42,000 in Rehabilitation Costs

DHCD Response: DHCD is in the process of locating the missing documentation to support the $42,295 in program funds relative to the Single Family Residential Program. This process should be accomplished by January 31, 2011.

2g) Establish and Implement Policies and Procedures

DHCD Response: DHCD will prepare Administrative Instructions to ensure that HOME funds drawn for purchase and rehabilitation assistance are disbursed in accordance with established requirements. Also, AI's will be established to ensure that CDBG funds provided for down payment assistance do not exceed HUD limits. The AI's should be completed by March 31, 2010.

Finding 3: The Grantee Obligated and Disbursed Funds For An Ineligible Comprehensive Housing Development Organization (CHDO)

3a) CHDO Did Not Meet Eligibility Requirements

Comment 7

DHCD Response: Mi Casa meets the definition of a CHDO. Included in Mi Casa's CHDO file was a resolution dated June 30, 2004 signed by Holly Lennihan, Secretary and Paul Bradshaw, President of Mi Casa. **(Enclosure 2)** – Resolution Mission Statement. The resolution states, "the purpose of the Corporation is the provision of quality affordable housing to low-income and moderate-income persons." Mi Casa has satisfied the HUD regulations at 92.2(7) that a CHDO must have "among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons, as evidenced in its charter, articles of incorporation, resolutions or by-laws."

Comment 7

HUD regulations at 24 CFR 92.2 (8) do not specify that a CHDO must have the one-third low-income board requirement in any of its governing documents. This recommendation is referenced in HUD CPD Notice 97-11 Attachment "A" which is a checklist that describes CHDO eligibility criteria and necessary supporting documentation that is "recommended" for use by participating jurisdictions to certify or recertify CHDOs." Nonetheless, attached please find Mi Casa's resolution amending the by-laws to include the on-third low income board requirement. **(Enclosure 3)** – Resolution Low-Income Board.

Comment 7

Mi Casa maintains at least a one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents or elected representatives of low-income neighborhood organizations. In 2004, Mi Casa had seven (7) board members. Three (3) of the board members resided in the low-income neighborhoods as defined by the DC Enterprise Zones (EZ), also known as the DC Zone. In 1997, the EZ was established by the federal government and designated by law to provide special incentives to stimulate economic growth and encourage job development within the District. DC census tracts with ten (10) percent or higher poverty rates comprise the EZ. Mi Casa board members, Tamara King, who resides in census tract 33.02 and Fernando Lemos and John Cohn, who both reside in census tract 39 live in EZs. **(Enclosure 5) - T. King, F. Lemos and J. Cohn Board Member Certifications.** Census tracts 33.2 and 39 are in EZs. **(Enclosure 4)** - DC Enterprise Zone map. Neither HUD regulations at 92.2 (8) nor HUD CPD Notice 97-11 specify how a participating jurisdiction defines low-income neighborhood. In this instance, DHCD has utilized the DC Enterprise Zones to identify low-income neighborhoods/census tracts for Mi Casa.

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Comment 7

3b) The Grantee Certified an Ineligible CHDO

DHCD Response: Mi Casa was correctly certified as a CHDO in 2004. Mi Casa's board member certifications show that at least one-third of its governing board's membership consists of residents of low-income neighborhoods, as defined by DC Enterprise Zones. **(Enclosure 4) - DC Enterprise Zone map.** Mi Casa's low-income board member composition did not change for 2005, 2006 and 2007.

Comment 7

3c) The Grantee Reserved/Committed and Disbursed Funds for an Ineligible CHDO

DHCD Response: DHCD concurs that $429,355 in HOME funds disbursed to Mi Casa for CHDO operating funds in 2004, 2005 and 2006 are disallowed costs. Mi Casa did not enter into a written agreement with DHCD for a CHDO reservation project within 24 months of the CHDO operating grant award. However, as indicated in DHCD Response 3A and 3B, Mi Casa is an eligible CHDO.

Comment 4

3d) The Grantee Lacked Controls

DHCD Response: DHCD has put controls in place to ensure that CHDOs are certified in accordance with HUD requirements. DHCD has revised its CHDO Certification and Recertification application process. Enclosed is a copy of the CHDO Certification Application which DHCD uses to certify CHDOs. **(Enclosure 6)** – DHCD CHDO Certification Application.

Finding 4: The Grantee Did Not Properly Account for Program Administrative Funds Drawn

4a-c) The Grantee Did Not Follow Record-Keeping Requirements
The Grantee Could Not Support $2.8Million Used for Various Administrative Categories
The Grantee Could Not Support $1.1 Million Allocated to a Subrecipient

Comment 1

DHCD Response: The Office of the Agency Fiscal Officer (AFO) has contacted all stakeholders in possession of the detailed source documents that support the summary reports actually used for the draws, including DHCD Office of Administrative Services and the Residential Community Services Division to request daily sign in sheets, bi-

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weekly time sheets that are the basis for the monthly time allocation summary reports used to support the $3.9 million questioned cost.

Comment 1

DHCD will need additional time to obtain, review, and package the records for submission to the HUD Office of the Inspector General (OIG) as these documents are currently in the agency Archives warehouse. Please note that the agency's current office facility does not provide space for storage of certain agency documents beyond the current fiscal year. All such documentation is maintained in the agency archive warehouse.

4d) The Grantee Did Not Have an Approved Cost Allocation Plan

Comment 4

Comment 1

DHCD Response: DHCD prepared cost allocation plans for fiscal years 2007, 2008, and 2009; however has only received provisional approval on the FY2009 cost allocation plan from HUD. The Agency is in the process of preparing its FY2010 cost allocation plan for approval by HUD.

Comment 1

4e) The Grantee Lacked an Effective Process for Tracking Payroll Costs

DHCD Response: The grantee did not have a mechanism for determining payroll costs charged to various funding sources as required by Office of Management and Budget (OMB) guidance, which states that personnel activity reports or equivalent documentation must be maintained to support the salaries or wages for employees working on multiple activities or cost objectives.

The District agencies utilize PeopleSoft Human Resources / Payroll System, an automated time and attendance and payroll system. DHCD staff sign in on "Daily Sign-in Sheets" within each division/project management area and prepare the bi-weekly time sheet that is used as the basis for the automated time & attendance and payroll. DHCD use the above as the basis for preparing allocation time reports that are submitted to the Office of the Chief Financial Officer (OCFO) for executing the specific draws.

The DHCD AFO has requested detailed employee payroll report "485 reports" from the District's PeopleSoft Payroll System for 2007 thru 2009 and we are in the process of running and formatting the raw reports reflecting the 26 pay periods for each year. In addition, we have requested the Office of Administrative Services to pull the daily sign in logs and bi-weekly time sheets from the department archives warehouse to support personnel services claims from HUD.

Lastly, it should be noted that district agencies including DHCD do not maintain nor house employee personnel files on site. The DC Department of Human Resources

(DCHR) is the authorized agency for such issues and any requests related to specific employees and personnel records should be requested directly from the DCHR.

4f) Subrecipient Monitoring Was Not Adequate

Comment 8

DHCD Response: DHCD complied with the on-site inspection requirements for HOME- assisted rental units. DHCD monitors the HOME Rental projects on a calendar year due to the multi layering of Low Income Housing Tax Credits in the projects. On-site inspections during a project's affordability period are based on the total number of units in a project, not the HOME-assisted units. Properties with 26 or more units are to be inspected annually. Based on the HOME Rental Portfolio, there are only eleven HOME properties with 26 or more units that would require DHCD to conduce on-site inspections annually. **(Enclosure 7)** - HOME Rental Portfolio. DHCD staff has either monitored or scheduled for monitoring 20 HOME assisted properties in calendar year 2010. **(Enclosure 8)** - 2010 HOME Monitoring Schedule.

Comment 9

In 2009, although scheduled to perform on-site inspections for eleven properties, DHCD performed on-site inspections for ten. Due to an owner emergency, the inspection was rescheduled for 2010. The monitoring reports for the remaining three properties are provided. **(Enclosure 9)** - HOME Monitoring Reports.

4g) The Grantee Must Implement Needed Communication

DHCD Response: The grantee needs to implement an effective communication process between its staff and staff assigned to its office from the DC Office of the Chief Financial Officer (OCFO). We noted that there was frequent turnover associated with the AFO position during the audit period and that there had been five AFOs since October 2006. Two of the five AFOs were acting in that position while the high turnover associated with the critical AFO position may have contributed to the grantee's documentation problems; the grantee is ultimately responsible for ensuring that sufficient documentation exists to show its compliance with record-keeping requirements for the HOME program. Therefore, it must implement a formal communication process with OCFO staff assigned to its office to ensure that documentation for its fund draws is maintained in accordance with program requirements.

Comment 4

DHCD in August 2010 appointed a permanent AFO, who since her arrival has implemented joint policies, procedures, and processes to effectively address communication between OCFO staff and the program staff. For example there are regular periodic joint status meetings (weekly, monthly, quarterly, closing, etc.) and to discuss financial issues as it relates to specific program activities and to review status reports to be able to address and resolve issues early and proactively moving forward.

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4h) Single Audit Reports Disclosed Deficiencies

DHCD Response: Fiscal year 2007 single audit of the grantee disclosed that it did not have an approved cost allocation plan and did not perform the annual onsite inspections required by regulations at 24 CFR 92.504(d).

During the audit, the grantee began to take action to address some of the issues identified. It developed a time sheet to track employee hours by fund type and project starting in October 2009. It also submitted its fiscal year 2009 cost allocation plan to HUD, and HUD stated in a letter, dated September 30, 2010, that the plan was under review.

It should be noted that the FY 2007 Single Audit Report deficiencies were fully addressed in the FY 2009 Audit report.

If any additional information is needed, please contact Kenneth Taylor at (202) 442-7236.

Sincerely,

Leila Finucane Edmonds
Director

Cc: Osiko Tekpetey
Richard Pontes
Frances Bush
Donna Clarke
Michelle Christopher
Christopher Earley
Charles Lindsey
Andree Chan-Mann
Kenneth Taylor

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OIG Evaluation of Auditee Comments

Comment 1 The grantee's response included 11 enclosures containing additional documentation to support its position on the audit findings. Due to volume, these documents were not included in the report. The documentation provided was not sufficient to change our conclusions. In certain instances, the grantee stated it was working on obtaining additional documentation. The grantee must provide the information along with any other additional documentation it locates or prepares to HUD for assessment during the audit resolution process.

Comment 2 The grantee contends that all funds disbursed were eligible with the exception of $6,000. However, due to its failure to complete the project it has agreed to repay the total disbursement of $767,600 which we considered ineligible, making its argument on the component funds moot.

Comment 3 The additional documentation provided by the grantee is not sufficient to change our conclusions. For example the documentation indicates overcrowding in several units; and, for one unit, the tenant's income verification form was not signed. In one case, the tenant's income exceeded the allowable limit for the unit size. Further, the grantee is in the process of finalizing additional documentation. Therefore, we maintain that it lacked adequate support for funds it recommitted to the new project.

Comment 4 We are encouraged by the procedures/steps that the grantee has stated it has planned or in progress to address the audit findings and recommendations.

Comment 5 Our audit conclusions and related recommendations are supported by work performed in accordance with generally accepted government auditing standards, as well as our operations policy. The grantee did not award the program funds in accordance with related requirements; therefore, we maintain our position, and cannot waive the audit finding. The grantee must work with HUD to appropriately resolve the issue.

Comment 6 The grantee asserts that it provided funds through its Home Purchase Assistance program for the acquisition of the properties as well as the related closing costs, and seeks to make a distinction between providing assistance for acquisition and providing assistance for reasonable closing costs. However, its program policies state that the amount of financial assistance provided to eligible households will be based on the sum of downpayment and closing cost assistance. Accordingly, we evaluated the funds it provided based on the requirements related to downpayments and closing costs, and found that it provided about $159,800 in excess assistance for the properties in question. Also, feedback from the Entitlement Communities Division in HUD's Office of Community Planning and Development indicated that the CDBG assistance provided appeared excessive.

Comment 7 Based on the documentation provided by the grantee, we have updated the report to show that Mi Casa's resolution reflects that its purpose is to provide decent, affordable housing to low- and moderate-income persons.

The purpose of CPD Notices pertaining to the HOME program is to explain how HOME program regulations should be interpreted and applied. The checklist in the CPD Notice 97-11, Attachment A is a tool for grantees to determine the documents they must receive from a nonprofit before it may be certified or recertified as a CHDO. Therefore, we maintain that the CHDO was improperly certified. Also, HUD's Office of Affordable Housing disagrees with the grantee's position.

The grantee provided an undated amended board resolution for Mi Casa after the audit. The amended resolution states that Mi Casa will amend its by-laws to reflect the one-third low-income board requirement. The grantee must ensure that Mi Casa amends its by-laws to reflect the requirement. The other additional documentation provided is not sufficient to prove that the CHDO maintained at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations.

Comment 8 The grantee stated that it was only required to perform onsite inspections for 11 projects; however, the additional documentation it provided shows that it was required to perform inspections for 12 projects. The grantee's position is based on an updated project listing. However, for the period of our review, the grantee had 13 projects that should have been reviewed annually. Therefore we maintain that it did not monitor all of its active CHDOs at least annually between fiscal years 2007 and 2010.

Comment 9 We have updated the report to show that the grantee provided support for onsite inspections of nine projects instead of the seven originally reported.

Appendix C

SCHEDULE OF EXCESSIVE CDBG ASSISTANCE

IDIS activity number	Housing Purchase Assistance program assistance	HOME funds	CDBG funds	Closing cost limit	Downpayment	Funds required at closing	Maximum assistance according to OIG	Excessive CDBG assistance
841	$76,950	$34,975	$41,975	$7,000	$ 500	$ 1	$ 7,250	$ 34,725
823	77,000	35,000	42,000	7,000	2,500	45	8,272	33,727
824	77,000	35,000	42,000	7,000	4,030	2,500	10,265	31,735
822	68,100	30,550	37,550	7,000	11,880	4	12,942	24,608
852	56,945	24,973	31,973	7,000	5,000	6,566	12,783	19,190
777	46,700	19,850	26,850	7,000	4,000	3,990	10,995	15,855
Total excessive CDBG assistance								**$159,840**

Appendix D

ANALYSIS OF HOME FUNDS HELD BEYOND 15 DAYS OF BEING DRAWN

				Balance of draws not expended for rehabilitation costs		
Number	**IDIS activity number**	**Date of draw**	**Total drawn**	**Eligible activity**	**Ineligible activity**	**Amount expended after 15 days of being drawn**
1	665	4/12/2007	$136,814	$ 1,770		
2	666	4/12/2007 and 5/3/2007	62,096	3,731		
3	889	7/22/2008	140,056	52,790		
4	890	7/22/2008	62,613		$ 2,798	$ 54,439
5	891	7/22/2008	98,046		18,416	
6	892	7/22/2008	97,151		4,204	84,848
7	894	7/22/2008	9,350		50	
8	901	7/22/2008	14,856		100	
9	902	7/22/2008	8,162	8,162		
10	932	7/22/2008	10,288	3,170		
11	929	7/22/2008	155,592		97,865	44,361
12	896	7/24/2008	6,864	624		
13	976	10/21/2008	21,230	205		21,025
14	977	10/21/2008	75,000		9,000	
15	979	10/21/2008	15,043		15,043	
16	982	10/21/2008	63,539		15,102	
17	984	10/21/2008	20,698		20,698	
18	987	10/21/2008	49,453	873		48,580
Totals				**$71,325**	**$183,276**	**$253,253**
Balance of draws not expended for rehabilitation costs				**$254,601**		
Amount of draws not expended within 15 days						**$507,854**

Appendix E

SCHEDULE OF UNSUPPORTED REHABILITATION COSTS

IDIS activity number	Unsupported amount	Required support/documentation
976	$15,949	Cancelled checks supporting rehabilitation costs.
889	13,500	Justification for relocation costs.
932	7,118	Documentation to show that HOME funds will be recaptured if the housing does not continue to be the principal residence of the family for the duration of the period of affordability as required by 24 CFR 92.254(a)(5)(ii)(A).
987	3,000	Support (e.g., invoice) for relocation costs.
665	2,728	Support (e.g., invoices) for $1,022 and $933 included in the unsupported amount and a cancelled check for the $1,022 cost. The grantee must also provide justification for $773 in storage costs.
Total	$42,295	