



Issue Date	June 9, 2009
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Audit Report Number	2009-FW-1009
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TO: Katie S. Worsham
Director, Community Planning and Development Office, 6AD
Gerald R. Kirkland

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Tarrant County Generally Administered Its Home Investment Partnerships Program Grants in Accordance with Requirements, Fort Worth, Texas

HIGHLIGHTS

What We Audited and Why

We selected the Tarrant County Community Development Division (Tarrant County) HOME Investment Partnerships Program (HOME) and Neighborhood Stabilization Program (NSP) for review because the U. S. Department of Housing and Urban Development's (HUD) management expressed concerns about Tarrant County's HOME program. The objectives were to determine Tarrant County's (1) compliance with HOME regulatory requirements, (2) eligibility of HOME activities and administrative costs, (3) oversight and performance of subrecipients and community housing development organizations (CHDO), and the NSP plan's feasibility.

What We Found

Tarrant County generally administered its HOME grants in accordance with applicable program requirements. However, a Tarrant County CHDO, Development Corporation of Tarrant County (Corporation), lacked capacity. Also, Tarrant County did not monitor its CHDOs in 2008 and expended \$2,041 in HOME funds on ineligible and unsupported costs.

What We Recommend

We recommend that the Director, Community Planning and Development, Fort Worth Office (1) deny awarding additional grants to the Corporation for single-family purchase and rehabilitation activities until it demonstrates capacity to properly administer the activities, (2) reiterate to Tarrant County its responsibilities regarding monitoring all of its subrecipients, and (3) require Tarrant County to reimburse its HOME program \$2,041 from nonfederal funds for ineligible and unsupported HOME funds expended.

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

Auditee's Response

We provided a draft on May 14, 2009, and held an exit conference on May 26, 2009. Tarrant County provided written comments on June 2, 2009. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: Tarrant County Generally Administered Its HOME Grants in Accordance with Requirements	5
Scope and Methodology	8
Internal Controls	9
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	10
B. Auditee Comments and OIG's Evaluation	11

BACKGROUND AND OBJECTIVES

Designated by Tarrant County Commissioners Court, Tarrant County Community Development Division (Tarrant County) as lead agency is responsible for overseeing the HOME Investment Partnerships Program (HOME) grants. The mission of Tarrant County is to provide decent housing and a suitable living environment and expand economic opportunities for low- and moderate-income persons residing in the urban county. Tarrant County provides services to the unincorporated area of Tarrant County and 29 cities within the county. It does not provide services to the cities of Fort Worth, Arlington, or Grand Prairie, which receive separate funds allocations from HUD.

For fiscal years 2007 and 2008, Tarrant County received more than \$2.4 million in HOME funds. On March 20, 2009, pursuant to the Housing and Economic Recovery Act of 2008, the U. S. Department of Housing and Urban Development (HUD) awarded Tarrant County a Neighborhood Stabilization Program (NSP) grant totaling more than \$3.2 million. At the time of our review, Tarrant County had only performed preaward activities on this grant. We performed only cursory work on the NSP grant.

Our objectives were to determine Tarrant County's (1) compliance with HOME regulatory requirements, (2) eligibility of HOME activities and administrative costs, (3) oversight and performance of subrecipients and community housing development organizations (CHDO), and (4) the NSP plan's feasibility.

RESULTS OF AUDIT

Finding: Tarrant County Generally Administered Its HOME Grants in Accordance with Requirements

Tarrant County generally administered its HOME grants in accordance with applicable program requirements. However, a Tarrant County CHDO lacked capacity. Also, Tarrant County did not monitor its CHDOs in 2008 and expended \$2,041 in HOME funds on ineligible costs. This condition occurred because Tarrant County did not adequately monitor the CHDO or ensure that it developed capacity. As a result, Tarrant County cannot ensure the effectiveness of its CHDO or the CHDO run single family purchase and rehabilitation program and \$2,041 was not available for eligible activities.

The Corporation Lacked Capacity

Development Corporation of Tarrant County (Corporation), a Tarrant County CHDO, lacked capacity to administer its single-family HOME activities. It contracted services with an individual to perform all of the work in carrying out its activities of purchasing and rehabilitating housing for resale, including designing and implementing a single-family purchase and rehabilitation program for the Corporation. Further, the contract required the individual to oversee the single-family properties until their sale. The Corporation only participated in the signing of the sales contract. It only had one employee who worked part time. HUD required the Corporation to have capacity for carrying out activities assisted with HOME funds.¹ Nothing in the individual's contract required him to build capacity at the Corporation, and the Corporation did not have capacity.

During the audit, the Corporation's contractor accepted a position with Tarrant County. Thus, the Corporation lost the contractor's expertise and its capacity to run its single-family purchase and rehabilitation activity. We recommend that Tarrant County not award any additional grants to the Corporation for single-family purchase and rehabilitation activities.

Tarrant County Did Not Monitor CHDOs in 2008

Tarrant County did not conduct monitoring of its CHDOs during 2008. HUD regulations required Tarrant County to review the performance of CHDOs

¹ CPD (Community Planning and Development) Notice 97-11.

annually² and document and maintain evidence of these reviews.³ Tarrant County conducted a monitoring review of the Corporation the day before we performed a site review in 2009.

Further, Tarrant County did not monitor its other CHDO. According to Tarrant County's HOME coordinator, it was not necessary to monitor this CHDO because the project was in the construction phase and there were no files to monitor. However, HUD regulations⁴ state that Tarrant County was responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds were used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arose. Additionally, the performance of each contractor and subrecipient must be reviewed at least annually. Tarrant County's HOME coordinator stated that he would schedule a monitoring visit soon. HUD should reiterate to Tarrant County its responsibilities regarding monitoring all of its subrecipients.

Tarrant County Paid Ineligible and Unsupported Expenses

Tarrant County used \$2,041 in HOME funds for questionable costs, \$1,947 for ineligible expenses, and \$94 for unsupported costs. These expenses included payments for training that did not occur, payment for a license that was not renewed, an incorrect invoice used to allocate a payment, payment for closing costs that exceeded the amount on the HUD-1 settlement statement, late fees, unsupported parking fees, and a cancelled check.

The Corporation has reimbursed the HOME grant \$425 for the amounts that exceeded the HUD-1 and offset \$468 ineligible expenses and \$94 unsupported expenses. Also, Tarrant County corrected the \$24 that was misallocated to the HOME grant. Further, Tarrant County reimbursed \$1,030 to its HOME grant.

Tarrant County Only Recently Approved Its NSP Grant

HUD approved Tarrant County's NSP agreement on March 20, 2009, and Tarrant County's Commissioner's Court approved it on March 31, 2009. Thus, only minimal activities had occurred at the time of our review. Tarrant County posted its plan on the Internet but had not awarded any contracts and had only charged \$416 to the grant. Based on our cursory review, Tarrant County's plan appeared feasible. Given that we only found minimal problems with the HOME program

² 24 CFR (*Code of Federal Regulations*) 92.504.

³ 24 CFR 92.508 6 iii.

⁴ 24 CFR 92.504.

and that HUD's Office of Community Planning and Development closely monitors Tarrant County, no additional work was performed on NSP.

Recommendations

We recommend that the Director of the Fort Worth Office of Community Planning and Development instruct Tarrant County to

- 1A. Deny awarding additional grants to the Corporation for single-family purchase and rehabilitation activities until it demonstrates that it has the capacity to properly administer the activities.
- 1B. Reiterate to Tarrant County its responsibilities regarding monitoring all subrecipients.
- 1C. Reimburse its HOME program \$1,947 from nonfederal funds for ineligible HOME funds expended. Tarrant County reimbursed \$1,054 of this amount and the Corporation reimbursed \$425 to the HOME grant.
- 1D. Support or reimburse its HOME program \$94 from nonfederal funds for unsupported HOME funds expended.

SCOPE AND METHODOLOGY

To accomplish the objectives, we

- Reviewed Tarrant County Commissioner Court minutes.
- Interviewed HUD and Tarrant County employees, a CHDO contractor, and HOME recipients to gain an understanding of Tarrant County's HOME program.
- Tested one payment draw for each of the following areas for a total of \$1,356,076 out of a total in \$3,271,768 HOME grant funds: Tarrant County administration, CHDO operating, CHDO purchase and rehabilitation of single-family housing, HOME rehabilitation, and HOME down payment assistance.
- Performed a cursory review of the NSP agreement.
- Conducted on-site visits of HOME rehabilitations⁵ and houses purchased by the Corporation.

We conducted the survey at Tarrant County's office located at 1509-B South University, Fort Worth, Texas, and the Corporation's office in Fort Worth, Texas.

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

⁵ This includes the only on-going preaward HOME rehabilitation and one of 13 completed HOME rehabilitations.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures regarding its HOME program,
- Policies and procedures regarding the monitoring of CHDOs, and
- Policies and procedures regarding payment for goods and services.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- Controls over the monitoring, including determining capacity, of CHDOs were ineffective.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1C	<u>\$1,947</u>	
1D		<u>\$94</u>
Totals	<u>\$1,947</u>	<u>\$94</u>

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

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



TARRANT COUNTY COMMISSIONERS COURT

ADMINISTRATOR'S OFFICE
COMMUNITY DEVELOPMENT DIVISION
Patricia Ward, Director

May 29, 2009

Mr. Gerald R. Kirkland
Regional Inspector General for Audit
Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102
Attn: Mr. William Nixon, Asst. Reg. IG

RE: Tarrant County Generally Administered its HOME Investment Partnerships
Program Grants in Accordance with Requirements, Fort Worth, TX

Dear Mr. Kirkland:

Tarrant County is in receipt of your correspondence dated May 14, 2009 outlining the results of the OIG audit of the Tarrant County HOME and NSP programs. The audit found that Tarrant County generally administered its HOME Investment Partnerships Program grants in accordance with prescribed requirements. The draft audit report did however contain three findings. Tarrant County has addressed each finding.

Please find detailed below the corrective actions already undertaken by the County to address each finding and/or questioned cost.

OIG Finding No. 1:

Development Corporation of Tarrant County (Corporation), a Tarrant County CHDO, lacked capacity to administer its single-family HOME activities.

Tarrant County Comment - Finding No. 1:

Tarrant County has continued to work with the Staff and Board of Directors of the Development Corporation of Tarrant County (DCTC) to create and fully build organizational capacity. Tarrant County staff has met with Corporation Staff and Board Members monthly as part the regular Board of Directors meeting and independently periodically over the past year to discuss staff and operational capacity. As a result of these discussions, the President/CEO of the Corporation submitted a letter of resignation after the March 18, 2009 Board of Directors' Meeting. The President agreed to remain in

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Comment 1

Mr. Gerald R. Kirkland
Tarrant County OIG Audit Response
May 29, 2009
Page 2 of 3

place until a replacement has been named. The current president has over 30 years of experience as a chief executive officer for large scale quasi-governmental organizations.

At the May 20th Board of Directors meeting, the Corporation formed a search committee to replace the current President/CEO. Tarrant County Staff has met with the Board Chair and the Chair of the search committee to ensure selected candidates have adequate experience and are qualified to lead the organization into the future. It is anticipated that a new President/CEO will be selected within the next month. Tarrant County will closely monitor the selection process of the CEO as well as all programmatic activity of the Corporation as part of an increased level of compliance monitoring.

Finding No. 2:

Tarrant County did not conduct monitoring of its CHDOs, during 2008.

Tarrant County Comment - Finding No. 2:

Tarrant County did routinely monitor the activities of all CHDOs during 2008; however a written monitoring report was not maintained in the file for FY2008. Please note that monitoring reports for FY2006/07 were completed and documented in the files in a timely manner. A written monitoring report was placed in the file on March 27, 2009. Tarrant County Community Development Division will maintain a written monitoring schedule for the HOME program in the future as part of the monitoring policy and procedures manual. Please see attached (Attachment "A") a Monitoring Calendar for the next HOME program year. Tarrant County staff will be monitoring its CHDOs and Sub-Recipients at least annually and will maintain all monitoring reports and responses in the Tarrant County Community Development Division offices.

The Community Development and Housing Director will review and sign all monitoring reports to ensure the timely completion of all annual monitoring reports for the HOME program.

The Development Corporation of Tarrant County purchased foreclosed houses beginning in July 2008. Prior to the purchase of these homes, DCTC's HOME activity was minimal. Tarrant County HOME Program Staff inspected each home and conducted an environmental review for each property prior to its acquisition. Closing documents were reviewed by Tarrant County Staff for compliance and homes were re-inspected upon completion of any rehabilitation.

OIG Finding No. 3:

Tarrant County used \$2,101 in HOME funds for questionable costs, \$2,007 for ineligible expenses, and \$94 for unsupported costs.

Comment 2

Mr. Gerald R. Kirkland
Tarrant County OIG Audit Response
May 29, 2009
Page 3 of 3

Comment 2

Tarrant County Comment - Finding No. 3:

The Audit questioned \$2,101 in HOME expenditures. Tarrant County agrees with the OIG questionable costs of \$2,061.19 and has previously made appropriate general ledger and U.S. Treasury Account adjustments (\$1,049 in administrative costs, \$425 in CHDO property closing costs reconciliation, and \$586.74 in CHDO operational costs). Please find attached documentation (Attachment "B") supporting the actions taken by Tarrant County to clear this finding.

Should you have any questions and/or comments regarding this response, please contact me at 817-850-7946.

Sincerely,

Patricia Ward
Director

C: Honorable B. Glen Whitley
Mr. G. K. Maenius, Administrator
Ms. Renee Tidwell, County Auditor

Attachments

- A. Monitoring Schedule
- B. Questionable Costs Supporting Document
 - Administrative Costs
 - CHDO Acquisition Reconciliation
 - CHDO Operational

OIG Evaluation of Auditee Comments

- Comment 1** While Tarrant County's response stated it will continue to work with the Corporation and the Corporation will take action to find a new president, Tarrant County needs to ensure that the CHDOs it uses have capacity and meet HUD requirements.
- Comment 2** We commend Tarrant County for addressing all the findings during the audit. We adjusted the findings as appropriate to reflect actions taken.