



Issue Date June 30, 2011
-----------------------------

Audit Report Number 2011-PH-1012
-------------------------------------

TO: Nadab O. Bynum, Director, Office of Community Planning and Development,  
Philadelphia Regional Office, 3AD  
//signed//

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

SUBJECT: The City of Reading, PA, Generally Complied With Neighborhood  
Stabilization Program 2 Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of Reading, PA's (City) Neighborhood Stabilization Program 2 (Program) as part of our annual audit plan to review activities funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act) because the City received \$5 million in Program funds under the Recovery Act. Our objective was to determine whether the City (1) met Program expenditure deadlines, (2) made Program expenditures that were eligible and adequately supported, (3) properly awarded contracts, (4) met appraisal requirements, and (5) adequately monitored its Program.

### **What We Found**

The City met Program expenditure deadlines, and generally ensured expenditures were eligible and adequately supported and that contracts were properly awarded. Some improvements were needed, however, to ensure that some costs were adequately supported and to ensure that the City fully met property appraisal requirements and adequately monitored its Program.

## **What We Recommend**

We recommend that the Director of HUD's Philadelphia Regional Office of Community Planning and Development require the City to (1) provide documentation showing that \$58,263 paid to four contractors without written contracts or detailed invoices was fair and reasonable or reimburse its Program from non-Federal funds, (2) provide documentation showing it reimbursed its Program \$8,151 from non-Federal funds for ineligible vehicle expenses, (3) ensure all future contracts are in writing and adequately documented, (4) ensure all required clauses are included in future solicitations and contracts, (5) ensure it fully meets Program appraisal requirements, and (6) adequately document its Program monitoring and establish an internal audit function as required.

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 an initial discussion draft audit report to the City on May 16, 2011, and discussed it with the City at an exit conference on May 27, 2011. We provided an updated draft report to the City on June 9, 2011 and received its official written comments on June 16, 2011. The City generally agreed with the report. The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

## TABLE OF CONTENTS

---

Background and Objective	4
Results of Audit	
Finding: The City Generally Complied With Program Requirements	6
Scope and Methodology	10
Internal Controls	12
Appendix	
A. Schedule of Questioned Costs	14
B. Auditee Comments and OIG's Evaluation	15

## BACKGROUND AND OBJECTIVE

---

The Neighborhood Stabilization Program 2 (Program) was established by Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (Recovery Act) to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. The U.S. Department of Housing and Urban Development (HUD) allocated \$2 billion in program funds to assist in the redevelopment of abandoned and foreclosed-upon homes. This funding was allocated competitively to eligible entities<sup>1</sup> that demonstrated the capacity to execute projects, leveraging potential, concentration of investment to achieve neighborhood stabilization, and additional factors as determined by HUD. HUD awarded a combined total of \$1.93 billion in Program grants to 56 grantees nationwide.

The Program is a component of the Community Development Block Grant (CDBG) program, and basic CDBG requirements govern it. However, the notice of funding availability<sup>2</sup> outlines many additional requirements, including but not limited to requirements that recipients of grants (1) expend 50 percent of their Program funds 2 years from the date of the grant agreement (agreement) or by February 11, 2012; (2) expend 100 percent of their Program funds 3 years from the date of the agreement or by February 11, 2013; (3) submit quarterly reports using the Disaster Recovery Grant Reporting System to report quarterly achievements; (4) comply with 24 CFR (Code of Federal Regulations) Part 85 for State and local governments and 24 CFR Part 84 for nonprofit entities regarding procurement practices; and (5) comply with 24 CFR Part 58 for environmental reviews and requests for release of funds.

The City of Reading (City) is a municipal corporation and a body corporate and politic duly existing under the laws of the Commonwealth of Pennsylvania. The City was awarded \$5 million in Program funding on February 11, 2010. Under its agreement with HUD, the City serves as the lead member of a consortium and is responsible for monitoring its consortium members and ensuring compliance with HUD Program requirements. The consortium is comprised of the City, the City of Reading Housing Authority, and Our City Reading, Inc., a Pennsylvania nonprofit corporation.

As shown below, activities focused on (1) the acquisition and rehabilitation of abandoned or foreclosed-upon properties for sale to persons of low and moderate income and rent to persons under 50 percent of median income in a rent-to-own program, (2) home ownership counseling, and (3) project administration.

---

<sup>1</sup> Eligible entities include States, units of general local government, and nonprofit entities or consortia of nonprofit entities, which may submit proposals in partnership with for-profit entities.

<sup>2</sup> Notice of Funding Availability, FR-5321-N-01.

<b>Activity</b>	<b>Responsible entity</b>	<b>Program funds</b>	<b>Projected number of units</b>
Acquisition and renovation of foreclosed-upon, abandoned, and vacant homes and home ownership counseling	City of Reading and Our City Reading, Inc.	\$3,400,000	80
Acquisition and renovation of homes meeting the HUD guidelines for rental renovation for families at 50 percent or below median income and home ownership counseling	City of Reading and City of Reading Housing Authority	1,250,000	20
Project administration	All	350,000	Not applicable
<b>Totals</b>		<b>\$5,000,000</b>	<b>100</b>

As of June 2, 2011, the City had expended \$2.9 million of its award. Our objective was to determine whether the City (1) met Program expenditure deadlines, (2) made Program expenditures that were eligible and adequately supported, (3) properly awarded contracts, (4) met appraisal requirements, and (5) adequately monitored its Program.

## RESULTS OF AUDIT

---

### Finding: The City Generally Complied With Program Requirements

The City met Program expenditure deadlines well ahead of the deadline and generally ensured expenditures were eligible and adequately supported and that contracts were properly awarded. The City needed to make some improvements, however, to ensure that all costs were adequately supported and to ensure that it fully met property appraisal requirements. Improved Program monitoring should help correct these problems.

---

#### **The City Met Program Expenditure Deadlines**

Appendix I.M of the notice of funding availability<sup>3</sup> required the City to expend 50 percent of its Program funds 2 years from the date of the grant agreement or by February 11, 2012. The City had expended \$2.9 million (58 percent) of the funds provided under the grant as of June 2, 2011, well ahead of the 2-year deadline.

#### **Expenditures Were Generally Eligible and Supported**

We reviewed 100 percent of 15 Program expenditures as of December 9, 2010, totaling more than \$1.4 million and found that for the most part they were eligible expenses and supported with adequate documentation showing the acquisition of properties and the work that had been completed. One of the City's consortium members (Our City Reading, Inc.) had acquired 31 properties. All of the 31 properties had either been foreclosed upon or abandoned and were therefore eligible for purchase with Program funds.

Although expenditures were for the most part eligible and supported, the audit did show that Our City Reading, Inc., spent a relatively small amount of Program funds based solely on verbal agreements with four contractors and it failed to execute written contracts or purchase orders with these contractors. Regulations at 2 CFR Part 230, appendix A(A)(2)(g), provide that to be allowable under Federal awards, costs must be adequately documented. The City asserted that these expenditures totaling \$58,263 were fair and reasonable based solely on verbal agreements a project manager made with the contractors. Although Our City Reading, Inc., provided paid invoices, the invoices included only a very

---

<sup>3</sup> Notice of Funding Availability, FR-5321-N-01.

general description of the work that it paid for and did not include an itemized listing or breakdown of labor or material. Since there was no written contract or purchase orders showing the terms and conditions of the services provided, and only vague invoices showing a very general description of the work, these costs are currently classified as unsupported.

The audit also identified that Our City Reading, Inc., purchased a vehicle with Program funds that it used an estimated 25 percent of time on non-Program activities. The City informed us it would reimburse the Program \$8,151 from non-Federal funds for the time it used the vehicle for ineligible purposes.

### **The City Generally Awarded Contracts Properly**

Of the 31 properties acquired, we non-statistically selected and reviewed 56 rehabilitation contract files for 17 properties. Section I.D.2.d of the notice of funding availability for the Program and 24 CFR 84.43 required that procurement transactions be conducted in a manner that provided, to the maximum extent practical, open and free competition. For the most part the City did ensure that its consortium member (Our City Reading, Inc.) followed the appropriate regulations when awarding contracts; and it provided assurance that prices paid were fair and reasonable.

The audit identified that the City did not always ensure that its consortium member included the required contract provisions (i.e., Section 3 clause, Contract Work Hours and Safety Standards Act clause, and Drug-Free Workplace Requirements Act clause) in executed contracts and/or solicitations. During the audit, however, the City was proactive and took immediate action to ensure that the appropriate clauses were included in its contracts.

### **The City Did Not Meet All Appraisal Requirements**

Appraisals did not always meet all of the requirements of the Uniform Relocation Assistance and Real Property Acquisition Act (Uniform Act) and other requirements. Specifically, 49 CFR 24.103, subpart B, sets forth the requirements for real property acquisition appraisals for Federal and federally-assisted programs. The Uniform Standards of Professional Appraisal Practice (USPAP) also set forth requirements for developing and reporting the results of appraisals. The notice of funding availability for the Program required that appraisals be performed for the acquisition of properties that meet the definition of foreclosed upon with values over \$25,000.

We reviewed appraisals that Our City Reading, Inc., performed for 10 properties to determine whether the appraisals met program requirements. The 10 properties all had appraised values over \$25,000, were purchased at a discount price, and met the definition of a foreclosed-upon property. However, the appraisals were not all performed according to all Program requirements. Specifically, the appraiser did not (1) develop a satisfactory scope of work as required by the USPAP and the Uniform Act, (2) follow standard rules 1 and 2 of the USPAP related to the development and reporting of the appraisal results, (3) develop and provide a supported highest and best use of the six income-producing properties, (4) use recognized appraisal techniques in developing the sales comparison approach, (5) support and make consistent adjustments in the sales comparison approach, (6) use sales that met the definition of market value or provide support that real estate-owned sales were market value sales in the sales comparison approach, (7) provide documentation to support excessive adjustments, and (8) provide support for the final value conclusions in the report.

### **The City Plans To Improve Its Program Monitoring**

Section IV.A.3.f. of the notice of funding availability for the Program required the City to have a plan for monitoring program activities and ensuring the performance of its consortium members. The City provided us with dates when informal monitoring meetings took place; however, it did not provide documentation showing what program performance it reviewed. After we brought our concerns to its attention, the City provided an example of a record of discussion which it plans to use at future monitoring meetings. In addition, the City provided documentation showing a Program monitoring review it recently performed.

In addition to a monitoring plan, Section IV.A.3.f. of the notice of funding availability for the Program required the City to have an internal audit function to examine potentially risky areas of program operations and management. As part of its internal audit function, the consortium members were required to submit a worksheet to the City with backup documentation. The City was to evaluate the data and prepare a narrative describing its successes and challenges in meeting the Program requirements. After we raised our concerns about its lack of compliance with this requirement, the City assured us it would now comply with the requirement.

### **Recommendations**

We recommend that the Director of HUD's Philadelphia Regional Office of Community Planning and Development require the City to

- 1A. Provide documentation showing that \$58,263 paid to four contractors without written contracts or detailed invoices was fair and reasonable or reimburse its Program from non-Federal funds.
- 1B. Provide documentation showing it reimbursed its Program \$8,151 from non-Federal funds for its ineligible vehicle expenses.
- 1C. Ensure all future contracts are documented in writing and work performed is adequately itemized and documented on invoices.
- 1D. Ensure all required clauses are included in future solicitations and contracts.
- 1E. Ensure it fully meets appraisal requirements.
- 1F. Adequately document its Program monitoring and establish an internal audit function as required.

## SCOPE AND METHODOLOGY

---

We conducted the audit from December 2010 to April 2011 at the City's office located at 815 Washington Street, Reading, PA, and its consortium member's office (Our City Reading, Inc.) located at 2561 Bernville Road, Reading, PA. The audit covered the period February 2009 through December 2010 but was expanded when necessary to include other periods.

To accomplish our audit objective, we reviewed

- The Recovery Act, the Program notice of funding availability, and related HUD documents.
- The CFR, applicable HUD guidance, and other directives that govern the Program.
- The City's approved Program application, budgets, agreements, consortium member agreements, and other program records.
- Policies and procedures related to the City's and its consortium members' expenditures, disbursements, procurement, and monitoring plans.
- Program appraisal and monitoring requirements.
- Public databases and census tract data to assess whether properties met eligibility criteria.

We conducted interviews with the City, its consortium members, and HUD staff. We reviewed 100 percent of 15 drawdown expenditures as of December 9, 2010, totaling more than \$1.4 million. One of the City's consortium members had acquired 31 properties as of January 2011. Of the 31 properties acquired, we non-statistically selected 17 properties that went through the procurement process and reviewed 56 rehabilitation contract files associated with the 17 properties. We non-statistically selected and reviewed appraisals for 10 of the 31 acquired properties that met the appraised values over \$25,000 and met the Program definition of a foreclosed-upon property. We also performed site visits to these same 10 appraised properties to determine whether eligibility requirements were met.

To achieve our audit objective, we relied in part on computer-processed data. The computer-processed data included the City's expenditure data, HUD's Line of Credit Control System and other computer generated data. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

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

objective(s). 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:

- Policies and procedures that were implemented to reasonably ensure that the City's grant administration, appraisal reviews, monitoring, financial management, and procurement activities were conducted in accordance with the Recovery Act and applicable HUD requirements.

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 City did not always

- Ensure that all of its Program expenditures were eligible and supported.
- Fully comply with all Program regulations and/or its written policies and procedures with respect to monitoring.

## APPENDIXES

---

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

---

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$58,263
1B	\$8,151	

- 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

CITY OF READING , PENNSYLVANIA

---

Daniel Robinson  
Community Development  
City of Reading  
815 Washington Street  
Reading, PA 19601  
610-655-6211

June 16, 2011

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

From: Daniel Robinson, Director, Community Development, Reading, PA

The City very much appreciates the professional manner in which the Office of Inspector General carried out its Audit of the Reading Consortium's NSP2 Grant administration. In particular, the opportunity to discuss various aspects of the Program's administration with the auditors and to exchange earlier drafts of the audit and the City's Interim Responses, as well as for the City to provide additional documentation, appears to have clarified various issues raised earlier in the audit process. As a result, the City generally agrees with the Finding of the Draft Report, that "The City met Program expenditure deadlines, and generally ensured expenditures were eligible and adequately supported and that contracts were properly awarded."

The City believes that all costs incurred have now been adequately supported and pursuant to the Recommendations in the Report, the City will provide the HUD Philadelphia Regional Office of Community Planning and Development with the documentation listed in the Audit Report. The City has also implemented procedures to ensure adequate documentation will be provided for all contracts under the NSP2 Program, that all required clauses will be included in such contracts, and that its Program monitoring and internal audit functions will also be appropriately documented.

The City has indicated in the context of the audit that it has met the requirements for the NSP2 program with respects to property voluntarily acquired for rehabilitation. It will ensure that the appraisal procedures under the program are fully complied with.

The City is providing in this Response its comments to and explanations of several aspects of the Report and in furtherance of its commitment to carry out the program effectively and efficiency. It is confident that with the guidance provided by the auditors,

the City's recent and future documentation of its administration of the NSP2 program will demonstrate that it is fully compliant with applicable federal requirements.

The specific comments and explanations in response to various aspects of the City's oversight of the program follow below. Again, we appreciate the cooperative nature of this audit process and wish to acknowledge the auditors efforts in that regard.

JUNE 16, 2011 RESPONSE OF THE CITY OF READING, PENNSYLVANIA TO THE  
DRAFT AUDIT REPORT PROVIDED ON JUNE 15, 2011, BY THE REGIONAL  
INSPECTOR GENERAL FOR AUDIT, PHILADELPHIA REGION, ON THE READING  
CONSORTIUM'S NEIGHBORHOOD STABILIZATION PROGRAM 2 (NSP2) GRANT  
ADMINISTRATION

The City of Reading, the lead agency on behalf of the Reading Consortium, executed a Neighborhood Stabilization Program 2 (NSP2) grant on February 11, 2010, in the amount of \$5,000,000 from the U.S. Department of Housing and Urban Development (HUD). The first drawdown of funds under the grant, once the funds became available from HUD, occurred on June 4, 2010. While the OIG audit essentially reviewed activities under the grant between February and December 2010, with the delays in access to funding, significant activity in this period and the financial matters examined occurred primarily in the seven months between June and December. The on-site Audit took place between December 2010 and April 2011.

The Consortium partners are proud of the progress they have achieved under the Grant. The Consortium is comprised of the City, the Reading Housing Authority, and Our City Reading (OCR), a Pennsylvania non-profit corporation. The objectives of the program are for acquisition and rehabilitation of abandoned or foreclosed dwelling units in Reading for sale or rental to low and moderate income persons with 25 percent of the funds being used to specifically help persons under 50 percent of median income. The program also includes pre-purchase home-ownership counseling. To date, almost all of the NSP2 program activities have been carried out by OCR.

OCR, a 501(c)(3) non-profit corporation, has a large Board of Directors representing all members of the community, including banks, low-income persons, and representatives of other non-profits. It has been involved in a variety of economic development activities in the City of Reading, particularly in the purchase, rehabilitation, and sale of a very substantial number of single family homes. Much has been accomplished by OCR even prior to the award and execution of the NSP2 program grant. During the roughly 10 years since 2001 in which OCR has been operating, it has used some \$7,000,000 in federal HOME, Asset Control Area (ACA), and other HUD and State funds as well as roughly \$3,000,000 in private funds to fully restore, market, and sell houses to inner-city residents of Reading.

During this period, OCR purchased and rehabilitated some 425 single family homes largely funded by federal programs other than NSP2. As of mid-May 2011, all but 7 of these homes have been sold to low and moderate income families. All persons applying for homes must be first-time homebuyers who have \$500 available for a down payment, have been employed at least one year, and have acceptable credit ratings. Initially, all applicants must undergo homeownership counseling carried out by two Reading organizations: Neighborhood Housing Services and the Berks Community Action Program. Counseling enables qualified families to purchase units. For those without current sufficient resources, the counseling helps them with their budgeting to begin to put aside funds for the necessary down payment.

Cooperating banks then provide the remainder of the purchase financing. OCR's banking partners provide low-interest loans at rates below standard residential housing mortgage rates. OCR's non-profit structure, high volume purchasing of home restoration materials, use of local contractors, and favorable financing agreements it has obtained have made the transition from rental to home ownership very affordable

for inner-city residents. With these savings and federal assistance, these homes sell for less than most residents now pay in rent per month, including taxes and insurance.

The NSP2 program has and will continue to add to the 10-year figures above by further purchasing of and rehabilitating homes for qualified buyers. OCR has been able to purchase 31 houses to date. Of these, it has completed rehabilitation on 11, which are waiting for qualified buyers; another 9 units are just weeks from completion of work. Another 5 are currently in the midst of rehabilitation work, which in most cases requires the internal gutting of the units and improvement or replacement of most systems. The specifications for the other 6 are currently being written up for the necessary rehabilitation work. All rehabilitated homes meet federal, state, and local building code standards, as well as FHA requirements, and include as standard features:

- New kitchens with ceramic tile floors and new cabinets
- New bathrooms with tile floors
- New wall-to-wall carpeting
- New refrigerators, stoves, range hoods, dishwashers, washers and dryers
- Freshly painted inside and out
- New heating and hot water systems
- Hard wired smoke detectors in every bedroom and on every floor
- Mini Blinds or Window Shades
- Upgraded 100-Amp Electrical Service



With respect to sales of the recently completed NSP2 funded units, over 30 families already have been referred to homeowner counseling. In regards to meeting the American Recovery and Reinvestment Act (ARRA) requirements for expenditure of

funds, the Reading Consortium has already expended more than half (58 percent) of the funds provided under the grant, \$2,900,566 as of June 2, 2011, well ahead of the 2-year deadline for doing so by February 11, 2012. Contractors involved with housing rehabilitation, a hard-hit area in the recession, have been put back to work. Given that the units will be sold to qualified buyers as they become available, OCR will be able to use the Program Income realized from these sales to continue to fund further purchases of abandoned units and rehabilitate more dwellings by reusing these repayments while keeping the work force employed.



1602 Mineral Springs Road, Reading, PA, (on the left) for which rehabilitation specifications are being developed prior to obtaining bids and starting renovation work.

**OWN A HOME FOR LESS THAN YOU PAY IN RENT!**

**OWN A MAGNIFICENT FULLY-RESTORED HOME FOR ONLY \$465 TO \$699\* A MONTH WHICH INCLUDES ALL TAXES AND INSURANCE \$500 DOWN AND NO CLOSING COSTS\***

**FEATURED HOMES**



**775 MILMORE STREET**  
**\$475 MONTH**  
 Double House Front, 3 Bedrooms, Natural Gas heat, Energy Efficient  
 includes taxes & insurance



**665 TULPEHOCKEN STREET**  
**\$560 MONTH**  
 Close to Elementary School, Off Street Parking, Fenced in Yard, 5 Bedrooms, 1.5 Bath, Large Kitchen, 2nd Flr. Laundry, Natural Gas heat, Energy Efficient, Central Air Conditioning  
 includes taxes & insurance



**135 ELM STREET**  
**\$690 MONTH**  
 Close to Elementary School, Ricktown Arts District, 5 Bedrooms, 2.5 Bath, 1st flr. Laundry, Natural Gas heat, Energy Efficient, Central Air Conditioning  
 includes taxes & insurance

**Our City Reading OPEN HOUSE**

**Saturday & Sunday April 2 & 3 1 PM to 4 PM**

**All Homes Include:**

- 3 to 6 bedrooms
- Kitchens with ceramic tile floors
- Bathrooms with tile floors
- New double-pane windows
- New roofs • New wall-to-wall carpeting
- Large closets • New refrigerators, new stoves, range hoods, garbage disposals, washers and dryers and dishwashers (in most)
- All newly painted interiors and exteriors
- New heating and hot water systems
- Many with Central Air Conditioning
- 100-AMP service and hard-wired smoke detectors
- Blinds or window shades
- All include Alarm System with 1-year activated service
- All homes meet city code and FHA requirements
- Most meet Energy Star Ratings

**HERE ARE THE MODEL HOME LOCATIONS:**

- 134 WUNDER STREET – 3 BEDROOMS
- 775 MILMORE STREET – 3 BEDROOMS
- 400 PRINTZ STREET – 3 BEDROOMS
- 152 W. GREEN STREET – 3 BEDROOMS\*\*
- 522 S. 9TH STREET – 3 BEDROOMS
- 661 TULPEHOCKEN STREET – 3 BEDROOMS\*\*
- 665 TULPEHOCKEN STREET – 4 BEDROOMS\*\*
- 665 TULPEHOCKEN STREET – 5 BEDROOMS\*\*
- 247 WASHINGTON STREET – 2 BEDROOMS\*\*
- 135 ELM STREET – 5 BEDROOMS
- 1604 MINERAL SPRINGS ROAD – 5 BEDROOMS

\*\* Indicates Central Air Conditioning  
 A Complete list of homes is available at each location or call: 610-898-6138  
 Visit our website at [www.ourcityreading.org](http://www.ourcityreading.org)

**HOMES FEATURE**



**134 WUNDER STREET**  
**\$465 MONTH**  
 includes taxes & insurance



**400 PRINTZ STREET**  
**\$475 MONTH**  
 includes taxes & insurance



**152 W. GREEN STREET**  
**\$475 MONTH**  
 includes taxes & insurance



**522 S. 9TH STREET**  
**\$506 MONTH**  
 includes taxes & insurance



**661 TULPEHOCKEN STREET**  
**\$560 MONTH**  
 includes taxes & insurance



**247 WASHINGTON STREET**  
**\$650 MONTH**  
 includes taxes & insurance



**665 TULPEHOCKEN STREET**  
**\$560 MONTH**  
 includes taxes & insurance



**665 TULPEHOCKEN STREET**  
**\$560 MONTH**  
 Close to Elementary School, Off street parking, Fenced in Yard, 4 Bedrooms, 1 Bath, Central Air Conditioning, Large Kitchen, Open Layout  
 includes taxes & insurance



**1604 MINERAL SPRINGS ROAD**  
**\$795\* MONTH**  
 5 Bedrooms, 2.5 bath, 2nd flr. laundry, Hardwood Floors on First Level, Walk out basement Open Layout, Natural Gas heat, Energy Efficient  
 includes taxes & insurance



**Eligibility Requirements: First time homeowners (some exceptions apply) • One-year employment in Berks County**  
 • Acceptable credit history (subject to FHA approval) • Single-family owner homes (no rentals or tenants allowed)  
 Applications and maps will be available at all model homes during open houses this weekend.  
 \*Based on a 30 year mortgage of approximately 4% interest. Costs are approximated for qualified buyers.

Restoration of up to 100 homes each year is being done by Our City-Reading Revitalization Project, a non-profit organization.



READING EAGLE

## **CITY RESPONSE AND COMMENTS ON THE AUDIT REPORT'S SIX RECOMMENDATIONS:**

**1A.** Documentation will be provided to the Director of HUD's Philadelphia Regional Office of Community Planning and Development demonstrating that the \$58,263 paid to four contractors under cost reimbursement contracts was fair and reasonable. These four subcontractors involved electrical, heating, or plumbing costs on the two houses that OCR used to develop guidance on rehab costs under new City rehab codes and inspector expectations for such work. All of the other contracts for rehabilitation under NSP2 have been competitively awarded.

In order to determine whether the costs incurred were reasonable, OCR constructed an analysis that compared costs on several subsequent property renovations that were performed under competitively awarded contracts where bids were solicited from qualified contractors. The rehab costs experienced in the four cost reimbursement contracts by trade were compared with costs experienced by these trades in competitive bidding on the other comparable houses.

The total costs experienced under the cost reimbursable contracts on one property were well within a reasonable 10 percent cost differential for those that were competitively bid. On the second property, the comparative variation was less than \$1,000 in total costs. These findings lead to the conclusion that the prices for the const reimbursable work were fair and reasonable. Variations by trade were essentially similar on the first house to the competitively bid equivalent properties; on the second, there also was little variation in costs between the work competitively bid and cost reimbursable. This leads to the conclusion that the \$58,323 paid for work under cost reimbursable arrangements were fair and reasonable.



661, 663, and 665 Tulpehocken, Reading PA; two of these fully rehabilitated houses now ready for sale were used to compare construction costs

**1B.** The City is providing with this response the cancelled check for \$8,151 paid by OCR on April 29, 2011, to the City with non-federal funds reflecting 25 percent of the vehicle's cost once a determination based upon 13 weeks of experience on use of the vehicle was documented that showed an estimated 75 percent of time for the vehicle was used on NSP2 program activities.

**1C.** All construction contracts for rehabilitation work following the two initial cost reimbursement contracts noted in 1A, have been based upon competitive bids obtained by requests for proposals from qualified bidders and payment has been based upon itemized invoices.

**1D.** As noted in the Audit Report, once notified earlier contracts had inadvertently omitted several required contract clauses, Section 3, Contract Work Hours and Safety Standards Act, and Drug-Free Workplace Requirements, the City and OCR acted proactively and took immediate action to ensure that such clauses were contained in solicitations and executed contracts.

**1E.** OCR had four properties of the 31 it has obtained by voluntarily purchase where estimated fair market values were determined to have exceeded \$25,000 in estimated value, as determined by "a person the recipient determines is qualified to make the valuation." In this case it was OCR's project manager who has obtained over 450 properties in Reading for renovations. OCR also obtained "limited" low-cost, third party appraisals by a FHA certified appraiser on all the 31 properties it was considering acquiring for the NSP2 program as an additional factor to help it establish the estimated value and for formulating its offer to acquire.

These appraisals were only one factor in the project manager's determination of what the anticipated value and OCR's offering price would be. OCR's offering price for these four properties was discounted roughly 20 percent from the third party appraisal it obtained. In all cases, its offer was accepted by the seller in a voluntary arms-length transaction as the fair market value. In making its acquisition offers, OCR also calculated the discount from the market value that was required under the NSP2 program and applied it in acquiring properties for the program when required. Since these were voluntary purchases, it tried to keep acquisition costs down and in each of these four properties, the project manager's anticipated valuation was used to establish the estimated value and for formulating the offer extended and the acquisition price paid.

The NSP2 program in the NOFA for application for funds specifies in its definitions that:

*Current market appraised value.* The current market valuation means the value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within 60 days prior to an offer made for the property by a recipient, subrecipient, developer, or individual homebuyer; **provided, however, if the anticipated value of the proposed acquisition is estimated**

**at \$25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of - available data and is made by a person the recipient determines is qualified to make the valuation. (Emphasis added)**

This is the approach that OCR took in establishing the estimated value of a property. In HUD's NSP2 Resource Exchange, in response to the Question: *Is an appraisal required for all NSP funded acquisitions of foreclosed upon properties, or is there a minimum purchase price or property value under which the appraisal is not required?* The Answer given is:

HUD has determined that compliance with URA appraisal requirements is unnecessarily burdensome if the anticipated value of the proposed acquisition is estimated at \$25,000 or less and the acquisition is voluntary. If the grantee determines that this is the case, the current market value of the property may be established by a valuation of the property that is based on a review of available data and is made by a person qualified to make the valuation (See page 9 of the Bridge Notice (Federal Register Notice, June 19, 2009) for further details).

The Audit Report states that the 10 appraisals examined were not all performed according to all Program requirements. Only the four appraisals where the estimated value exceeded \$25,000 would appear to have required an appraisal. While the other six property appraisals reviewed by the IG had a third party appraisal of over \$25,000, none of them involved OCR's estimated values that were over \$25,000 as reflected in the voluntary acquisition accepted offers. All were appropriately discounted. While some eight deficiencies in the appraisals reviewed were noted, the City and OCR believe the Consortium's approach used for the third party appraisals was appropriate.

The appraisal reports for the four properties for which the estimated value by OCR was over \$25,000 contained 56 pages of detail on the properties, photos and comparables. The IG consultant's desk-top review of them noted five inconsistencies in those appraisals that the FHA certified appraiser explained were inadvertent typos or omissions that did not affect his final valuations. A detailed explanation of the required appraisals was prepared by the City and OCR and a response was developed by the appraiser. The City will provide these to the Philadelphia HUD office for its review of the issues raised in the Audit Report regarding the appraisals so that any future appraisals will meet NSP2 appraisal requirements.

**1F.** The City has improved its documentation of the program monitoring it has been carrying out. It has conducted over 45 meetings with its consortium partners starting even before execution of the grant in 2010. These have involved substantive monitoring, including on-site visits at target properties and at the offices of Our City-Reading, the City of Reading, and the Reading Housing Authority. The City has adopted the suggested practice of providing sign-in sheets and recording meeting notes for these meetings to improve documentation of them and this practice is being adhered

to. Indicative of that is the documentation used for its March 16, 2011 in-depth review provided to the auditors and included with this Response.

Starting in the earlier stages of the program, property acquisition methods and prices paid have been consistently monitored and documented along with rehabilitation standards used. The consortium collectively makes program decisions and formulates the housing strategy governing the NSP2 program at its frequent monitoring meetings. Worksheets/spreadsheets are submitted at least monthly via OCR's site/construction manager's detailing of all acquisition costs and these are reviewed frequently by the City. The substantial progress achieved by the Consortium is indicative of the effectiveness of its monitoring and collaboration by the Consortium partners.

OCR is an experienced manager of rehabilitation activities in Reading. Its track record of rehabilitation of 425 single family units involving federal funds places it among the top producers of rehabilitated single family housing in the Country. It is fully capable of handling its rehabilitation activities and has done so using various HUD funding sources. Prior HUD monitoring and the 2009 OIG ACA Audit reflect it has been functioning well and OCR clearly is in the low risk category.

Detailed QPR(s) are developed by the Consortium and submitted each quarter by the City within the Disaster Recovery System (DRGR) explaining the break-down of NSP2 expenditures. The City has an internal audit function in place as prescribed in the NSP2 NOFA. The City Auditor as described in Section §1-151 of the City's Administrative Code under "Power and Duties" has financial oversight of the City of Reading's (the grantee) finances and prescribed by law, charter or ordinance.

The fact that 58 percent of the NSP2 funds have been spent and that this effort is already compliant with ARRA deadlines, that 31 units have been acquired and are in various stages of completion, indicates this NSP2 grant is moving forward as planned. It is also clear evidence that the City's oversight function is working and working well.

## OIG Evaluation of Auditee Comments

**Comment 1** Appendix I.A of Notice of Funding Availability, FR-5321-N-01, states that if the anticipated value of the proposed acquisition is estimated at \$25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of available data and is made by a person the grantee determines is qualified to make the valuation. Our City Reading, Inc., (OCR) should have established a value based on a review of data, however, it provided no documentation, support or justification that the anticipated values were less than \$25,000. Information OCR provided during the audit indicated that the asking price for 7 of the 10 properties was greater than \$25,000. Further, despite its position that appraisals were not required due to the anticipated value being less than \$25,000, OCR obtained appraisals from a certified appraiser for all 10 properties and they all indicated the value of the property was greater than \$25,000. We question why OCR would pay for appraisals if they were not needed.