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TO: Keith E. Hernandez, Director of Community Planning and Development, 5FD

//signed//

FROM: Kelly Anderson, Acting Regional Inspector General for Audit, Region V, 5AGA

SUBJECT: The State of Michigan Lacked Adequate Controls Over Its Neighborhood Stabilization Program Regarding Awards, Obligations, Subgrantees' Administrative Expenses and Procurement, and Reporting Accomplishments

HIGHLIGHTS

What We Audited and Why

We audited the State of Michigan's (State) Neighborhood Stabilization Program (Program) administered by the Michigan State Housing Development Authority (Authority). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the State based upon our designation of the Program as high risk and a citizen's complaint to our office. Our objectives were to determine whether the State (1) complied with Federal requirements in its award, obligation, and use of Program funds under the Housing and Economic Recovery Act of 2008 (Act); (2) ensured that a subgrantee complied with the U.S. Department of Housing and Urban Development's (HUD) regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act; and (3) complied with Federal requirements in its reporting of Program accomplishments under the Act and the American Recovery and Reinvestment Act of 2009 (Recovery Act).

What We Found

The State did not comply with Federal requirements in its award, obligation, and use of Program funds under the Act, ensure that a subgrantee complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act; and comply with Federal requirements in its

reporting of Program accomplishments under the Act and Recovery Act. It (1) lacked sufficient documentation to support its award of Program funds under the Act for a project, (2) reported Program obligations under the Act in HUD's Disaster Recovery Grant Reporting (Reporting) system that did not qualify as obligations, (3) inappropriately disbursed Program funds under the Act for Program obligations that did not qualify as obligations, (4) did not maintain sufficient documentation to support the use of Program funds under the Act for administrative expenses, (5) did not ensure that a subgrantee complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act, (6) did not comply with Federal requirements by posting the State's quarterly performance reports for the Program under the Act for the first through third quarters of 2010 on its official Web site more than 30 days after the end of each quarter, and (7) did not maintain sufficient documentation to support the number of jobs it reported as created or retained from the use of Program funds under the Recovery Act for the first and second quarters of 2010.

As a result, (1) HUD lacked assurance that the Authority awarded $1 million in Program funds under the Act for eligible project costs, (2) the Authority inappropriately reported Program obligations of more than $719,000 under the Act in HUD's Reporting system and disbursed Program funds for more than $531,000 in Program obligations that did not qualify as obligations, (3) HUD lacked assurance that the Authority used nearly $87,000 in Program funds under the Act for eligible Program administrative costs, (4) HUD and the Authority lack assurance that nearly $68,000 in Program funds under the Act was used efficiently and effectively, (5) the public did not have timely access to the State's quarterly performance reports for the Program under the Act, and (6) HUD and the public lacked assurance that the Authority accurately reported the number of jobs that the use of Program funds under the Recovery Act created or retained.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Community Planning and Development require the State to (1) provide sufficient documentation to support that the fair market value of the properties was $1 million and that the Authority's award of $1 million in Program funds under the Act for the purchase of the properties was reasonable or cancel the Authority's award and award the $1 million in Program funds to an eligible project(s), (2) reimburse HUD from non-Federal funds for the more than $531,000 in Program funds under the Act inappropriately disbursed for Program obligations that did not qualify as obligations, (3) deobligate in HUD's Reporting system the more than $719,000 in Program funds under the Act that did not qualify as Program obligations, (4) provide sufficient supporting documentation or reimburse its Program from non-Federal funds, as appropriate, for the nearly $87,000 in Program funds under the Act used for unsupported administrative costs, (5)

perform a formal cost or price analysis to determine whether the nearly $68,000 in Program funds under the Act was reasonable for the architectural services provided for a subgrantee's rehabilitation projects, (6) and implement adequate procedures and controls to address the findings cited in this audit report.

We also recommend that the Director of HUD's Detroit Office of Community Planning and Development recapture the more than $188,000 in Program funds under the Act, which the Authority obligated that did not qualify as Program obligations but the Authority did not disburse, and reallocate the funds in accordance with 42 U.S.C. (United States Code) 5306(c)(4).

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

Auditee's Response

We provided our discussion draft audit report and/or supporting schedules to the executive director of the Authority, the chairman of the Authority's board, and/or HUD's staff during the audit.

We asked the Authority's executive director to provide comments to our discussion draft audit report by April 29, 2011. The executive director provided written comments, dated April 29, 2011. The executive director did not agree with the findings.

The complete text of the written comments, except for 17 addresses included in the comments and 289 pages of documentation that were not necessary to understand the executive director's comments, along with our evaluation of that response, can be found in appendix B of this audit report. We provided the Director of HUD's Detroit Office of Community Planning and Development with a complete copy of the Authority's written comments plus the 289 pages of documentation.

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BACKGROUND AND OBJECTIVES

The Program. Authorized under section 2301 of Title III of the Housing and Economic Recovery Act of 2008 (Act), as amended, Congress appropriated $4 billion for the Neighborhood Stabilization Program (Program) to provide grants to every State and certain local communities to purchase foreclosed-upon or abandoned homes and rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline in value of neighboring homes. The Act states that amounts appropriated, revenues generated, or amounts otherwise made available to States and units of general local government under section 2301 shall be treated as though such funds were Community Development Block Grant (Block Grant) funds under Title I of the Housing and Community Development Act of 1974. The U.S. Department of Housing and Urban Development (HUD) allocated more than $3.9 billion in Program funds to more than 300 grantees.

Congress amended the Program and increased its funding as part of the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act provided HUD an additional $2 billion in Program funds to competitively award to States, local governments, nonprofit organizations, or consortia of nonprofit organizations, which could submit proposals in partnership with for-profit organizations. The Recovery Act also states that HUD's Secretary may use up to 10 percent of the funds for capacity building of and support for local communities receiving Program funding under the Act or the Recovery Act. Further, up to 1 percent of the funds shall be available to HUD for staffing, training, providing technical assistance, technology, monitoring, travel, enforcement, research, and evaluation activities. In January 2010, HUD awarded 56 organizations more than $1.9 billion in funds through a competitive process.

The State. The Michigan State Housing Development Authority (Authority) administers the State of Michigan's (State) Program. The Authority was created by the Michigan Legislature in 1966 under the laws of the State. It is governed by an eight-member board consisting of the State's treasurer, the director of the State's Department of Human Services, and the director of the State's Department of Transportation. The board includes five other members appointed to 4-year terms by the State's governor and confirmed by the State Senate. The Authority's mission is to provide financial and technical assistance through public and private partnerships to create and preserve decent and affordable housing for low- and moderate-income residents and to engage in community economic development activities to revitalize urban and rural communities. The Authority's records are located at 735 East Michigan Avenue, Lansing, MI, and 3028 West Grand Boulevard, Detroit, MI.

HUD allocated nearly $98.7 million in Program funds under the Act to the State based upon the funding formula developed by HUD pursuant to the Act. On March 19, 2009, HUD entered into a grant agreement with the Authority for the full amount allocated. The Authority reported in HUD's Disaster Recovery Grants Reporting (Reporting) system the following obligations for the nearly $98.7 million in Program funds:

- Nearly $41.9 million to its Rental Development and Homeless Initiatives Division for the purchase and rehabilitation of abandoned or foreclosed-upon homes or residential

properties to sell, rent, or redevelop the homes or properties and the redevelopment of demolished or vacant properties;

- More than $29.8 million to its Office of Community Development for establishing financing mechanisms for the purchase and redevelopment of foreclosed-upon homes and residential properties; the purchase and rehabilitation of abandoned or foreclosed-upon homes or residential properties to sell, rent, or redevelop the homes or properties; establishing land banks for foreclosed-upon homes or residential properties; the demolition of blighted structures; redevelopment of demolished or vacant properties; and subgrantees' planning and administrative costs;

- Nearly $12.6 million to the Michigan Land Bank for the demolition of blighted structures, redevelopment of demolished or vacant properties, and planning and administrative costs;

- Nearly $6.1 million to its Urban Revitalization Division for the demolition of blighted structures;

- Nearly $1.8 million to its Homeownership Division for the purchase and rehabilitation of abandoned or foreclosed-upon homes or residential properties to sell, rent, or redevelop the homes or properties; and

- More than $6.5 million for planning and administration costs.

Further, as part of a consortium, the State submitted an application to HUD, dated July 13, 2009, which totaled $290 million in additional Program funds under the Recovery Act. On January 14, 2010, HUD awarded nearly $224 million in Program funds to the consortium. The Authority will serve as the lead agency to administer the Program.

The citizen's complaint to our office alleged that the housing rehabilitation work that the City of St. Clair Shores, a subgrantee, included in its Program-funded rehabilitation projects under the Act was unnecessary and excessive. The citizen's complaint was not substantiated. However, we did find that the Authority did not ensure that the City complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act (see finding 4 of this audit report).

Our objectives were to determine whether the State (1) complied with Federal requirements in its award, obligation, and use of Program funds under the Act; (2) ensured that a subgrantee complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act; and (3) complied with Federal requirements in its reporting of Program accomplishments under the Act and Recovery Act.

RESULTS OF AUDIT

Finding 1: The Authority Lacked Adequate Controls Over Its Award of Program Funds Under the Act for a Project

The Authority lacked sufficient documentation to support that it followed Federal requirements in its award of $1 million in Program funds under the Act for a project. The weakness occurred because the Authority lacked adequate procedures and controls to ensure that it maintained adequate documentation to support that it awarded Program funds for a project in accordance with Federal requirements. As a result, HUD lacked assurance that the Authority awarded $1 million in Program funds for eligible project costs.

The Authority Lacked Sufficient Documentation To Support That Its Award of $1 Million in Program Funds Was Reasonable

The Authority budgeted $42 million in Program funds under the Act for 10 projects that were administered by its Rental Development and Homeless Initiatives Division. We reviewed all 10 of the projects.

Contrary to Federal requirements, the Authority lacked sufficient documentation to support that its award of $1 million in Program funds to University Cultural Center Association (Association) for the purchase of 4216 and 4240 Cass Avenue, Detroit, MI (Cass Avenue properties) was reasonable. The Authority could not provide documentation to support that the fair market value of the Cass Avenue properties was $1 million.

HUD's regulations at 24 CFR 570.606(e) state that the acquisition of real property for an assisted activity is subject to subpart B of 49 CFR Part 24, which begins at 49 CFR 24.101. Appendix A to 49 CFR Part 24 states that for program and projects receiving Federal financial assistance described in 49 CFR 24.101(b)(2), an agency is to inform the owner(s) in writing of the agency's estimate of the fair market value for the property to be acquired. While section 24.101(b)(2) does not require an appraisal for these transactions, an agency must have some reasonable basis for its determination of the fair market value. Further, attachment A, section A.2., of Office of Management and Budget (OMB) Circular A-122 requires all costs to be reasonable and adequately documented. Section A.3. states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining the reasonableness of a

given cost, consideration shall be given to whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization; its members, employees, and clients; the public at large; and the Federal Government.

On September 30, 2004, Auburn Lofts, LLC, entered into a line of credit loan with Standard Federal Bank for nearly $1.6 million to purchase 4240 Cass Avenue and redevelop the Cass Avenue properties; Detroit Investment Fund, LP, loaned Auburn Lofts, LLC, $565,000 as gap financing for the project; and Auburn Lofts, LLC, which already owned 4216 Cass Avenue, purchased 4240 Cass Avenue for $600,000. The intercreditor agreement between Standard Federal Bank, Detroit Investment Fund, LP, and Auburn Lofts, LLC, allowed Detroit Investment Fund, LP, to acquire Standard Federal Bank's interest in the Cass Avenue properties. On August 31, 2007, Detroit Investment Fund, LP, paid LaSalle Bank[1] $334,116 to acquire LaSalle Bank's interest in the Cass Avenue properties. On March 27, 2008, Detroit Investment Fund, LP, purchased the Cass Avenue properties for more than $677,000 through a sheriff's sale. On December 22, 2009, Detroit Investment Fund, LP, filed a quit claim deed for the Cass Avenue properties, granting its wholly owned subsidiary, Auburn REO, LLC, full rights to the Cass Avenue properties for $1 and other good and valuable consideration.

On September 15, 2010, the Association notified Auburn REO, LLC, that it estimated the fair market value of the Cass Avenue properties at $1 million, and the Authority awarded the Association $1 million in Program funds for a repayable loan to be used to finance the acquisition of the Cass Avenue properties for the redevelopment of a mixed-use apartment building with 58 units for rent. Section 1 of the general terms of the Authority's award to the Association stated that the Authority expected the Association to enter into a development agreement with The Auburn, LLC, or another development entity acceptable to the Authority and transfer the Cass Avenue properties to the entity for a price to be approved by the Authority. Further, the Association entered into a purchase option agreement with Auburn REO, LLC, effective September 16, 2010, to purchase the Cass Avenue properties for $1 million. The Authority provided documentation to support that Detroit Investment Fund, LP, used nearly $1.2 million to acquire and maintain the Cass Avenue properties from August 2007 through November 2010. The expenses included acquisition costs, taxes, fees, and insurance payments. However, the Authority could not provide documentation to support that the Association had a reasonable basis for its estimate that the fair market value of the Cass Avenue properties was $1 million. The total cost incurred by Detroit Investment Fund, LP, for the Cass Avenue properties over the 3-year period does not support that the fair market value of the Cass Avenue properties was $1 million or that the sales price of the Cass Avenue properties was reasonable. The Association's president said that the Authority's estimate of the fair market value of the Cass Avenue properties was based on the fair market value of comparable

[1] Standard Federal Bank was renamed LaSalle Bank on September 12, 2005.

properties near the Cass Avenue properties, not Detroit Investment Fund, LP's cost in acquiring and maintaining the Cass Avenue properties. The president provided summaries for three comparable properties for 4240 Cass Avenue. The summaries stated that the properties were sold in 2007. However, the summaries were not prepared by a third party and did not include documentation to support the information contained within. Further, using the sales price of properties that sold more than 2½ years before the Association notified Auburn REO, LLC that it estimated the fair market value of the Cass Avenue properties at $1 million does not provide a reasonable basis for the Authority's determination of the fair market value of the Cass Avenue properties.

The Authority Lacked Adequate Procedures and Controls

The weakness regarding the lack of sufficient documentation to support its award of $1 million in Program funds under the Act occurred because the Authority lacked adequate procedures and controls to ensure that it awarded Program funds in accordance with Federal requirements.

The manager of the Authority's Development Operations and Policy Division said that the Authority quickly reviewed and approved the project to meet the required 18-month obligation deadline for Program funds. It verified that the minimum amount of documentation was provided in order to properly obligate the Program funds. It provided documentation to support that Detroit Investment Fund, LP, used more than $1.2 million to acquire and maintain the Cass Avenue properties. Therefore, the Authority's position was that the award of $1 million in Program funds to the Association for the acquisition of the Cass Avenue properties was reasonable. The Authority planned to disburse the $1 million in Program funds to the Association to reimburse Detroit Investment Fund, LP, for its cost. However, as a result of the audit, it will not disburse the funds to the Association until it makes a final determination on the eligibility of Detroit Investment Fund, LP's costs.

Conclusion

The Authority lacked adequate procedures and controls to ensure that it maintained sufficient documentation to support that it awarded Program funds under the Act in accordance with Federal requirements. As a result, HUD lacked assurance that the Authority awarded $1 million in Program funds for eligible project costs.

Recommendations

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

1A. Perform a reasonable analysis to determine the fair market value of the Cass Avenue properties. If the State does not perform a reasonable analysis, it should award the $1 million in Program funds under the Act to an eligible project(s). If the State performs a reasonable analysis and determines that the fair market value of the Cass Avenue properties is less than $1 million, it should award the amount of the $1 million in Program funds in excess of the fair market value of the Cass Avenue properties to an eligible project(s).

1B. Implement adequate procedures and controls to ensure that it maintains sufficient documentation to support that the Authority's awards of Program funds under the Act are for eligible project costs.

Finding 2: The Authority Lacked Adequate Controls Over Program Obligations Under the Act

The Authority did not comply with Federal requirements in its obligation of Program funds under the Act. It reported Program obligations in HUD's Reporting system that did not qualify as obligations and inappropriately disbursed Program funds for Program obligations that did not qualify as obligations. These weaknesses occurred because the Authority lacked adequate procedures and controls to ensure that Program funds were obligated in accordance with Federal requirements. As a result, it inappropriately reported Program obligations of more than $719,000 in HUD's Reporting system and disbursed Program funds for more than $531,000 in Program obligations that did not qualify as obligations.

The Authority Inappropriately Reported to HUD Program Obligations of More Than $719,000

As of September 19, 2010, the Authority had obligated all of the nearly $98.7 million in Program funds under the Act HUD awarded the State. The Authority reported in HUD's Reporting system that it had obligated nearly $27.9 million in Program funds to 41 of its Office of Community Development's subgrantees. We reviewed nearly $9.1 million of the reported Program obligations for 10 of the subgrantees.

Contrary to the Act and Federal requirements, the Authority reported in HUD's Reporting system $719,499 in Program obligations for the Cities of Saginaw ($704,787) and Port Huron ($14,712), subgrantees, that did not qualify as obligations. Further, the Authority inappropriately disbursed Program funds for $531,130 of the City of Saginaw's Program obligations that did not qualify as obligations.

Section 2301(c)(1) of Title III of the Act states that a State must use Program funds to purchase and redevelop abandoned and foreclosed-upon homes and residential properties not later than 18 months after receipt of the Program funds. According to the Federal Register, dated October 6, 2008, each grantee must obligate its Program funds within 18 months of HUD signing the Program grant agreement with the grantee. Program funds are used when a State, unit of general local government, or any subrecipient thereof obligates the Program funds for a specific Program activity. Program funds are obligated when orders are placed, contracts are awarded, services are rendered, and similar transactions have occurred that require payment by the State, unit of general local government, or subrecipient. In addition, HUD's Program policy alert, volume 3, dated April 2010, states that Program funds are not obligated for an activity when subawards or grants to subrecipients or units of general local government are made. For

property owned by a grantee or subrecipient, Program funds may be reported as obligated when a construction contract is awarded with respect to a specific property or other action is taken with respect to a specific property that is legally binding on the grantee/subrecipient. As previously stated, on March 19, 2009, HUD entered into a grant agreement with the Authority for nearly $98.7 million in Program funds.

The Authority entered into a subgrant agreement, effective March 17, 2009, with the City of Saginaw for $957,000 in Program funds. The Authority also amended the subgrant agreement, effective April 20, 2010, increasing the award to $1.6 million in Program funds. It reported in HUD's Reporting system that the City had obligated $1,440,000 in Program funds for projects as of September 19, 2011. The Authority provided documentation to support $735,213 of the City's Program obligations. It also provided a rehabilitation agreement, dated April 5, 2010, between the City and Saginaw Habitat for Humanity for $300,000 in Program funds to rehabilitate up to four buildings as designated by the City. However, the rehabilitation agreement did not include specific property addresses. On September 21, 2010, the City amended the rehabilitation agreement with Saginaw Habitat for Humanity to revise the amount of Program funds to $795,000 to obligate the remainder of the Program funds the Authority awarded the City and include specific property addresses for the properties the City had gained site control of and wanted Saginaw Habitat for Humanity to rehabilitate. However, the amendment was not executed until 2 days after the required 18-month obligation deadline for Program funds. Therefore, the Authority reported Program obligations of $704,787 ($1,440,000 less $735,213) for the City that did not qualify as obligations. Further, the Authority inappropriately disbursed $531,130 in Program funds to the City on January 31, 2011, for work performed under the City's rehabilitation agreement with Saginaw Habitat for Humanity. The remaining $173,657 ($704,787 less $531,130) in Program funds that the Authority obligated for the City that did not qualify as Program obligations had not been disbursed as of March 7, 2011.

The Authority entered into a subgrant agreement, effective March 17, 2009, with the City of Port Huron for $500,000 in Program funds. The Authority also had amended the subgrant agreement three times as of June 18, 2010, increasing the award to $1.25 million in Program funds. It reported in HUD's Reporting system that the City had obligated $1,125,000 in Program funds for projects as of September 19, 2011. The Authority provided documentation to support $1,110,288 of the City's Program obligations. It also provided a residential rehabilitation contract totaling $83,500 for a property that the City purchased on July 6, 2010. However, the administrator of the City's Program did not enter into the residential rehabilitation contract with the contractor until October 5, 2010, which was more than 10 days after the required 18-month obligation deadline for Program funds. Therefore, the Authority reported Program obligations of $14,712 ($1,125,000 less $1,110,288) for the City that did not qualify as obligations.

The Authority Lacked Adequate Procedures and Controls

The weaknesses regarding the reporting of Program obligations under the Act that did not qualify as obligations occurred because the Authority lacked adequate procedures and controls to ensure that Program funds were obligated in accordance with Federal requirements.

The planner of the Authority's Program Policy and Market Research Division said that since the City of Saginaw's council approved the amendment between the City and Saginaw Habitat for Humanity before the required 18-month obligation deadline for Program funds, the City complied with the Federal requirements regarding the obligation of Program funds.

The Block Grant and Program compliance specialist of the Authority's Office of Community Development said that the City of Port Huron had used more than $14,712 in Program income on additional projects before the required 18-month obligation deadline for Program funds. The planner also said the Authority will provide documentation to support this as part of its response to this audit report.

Conclusion

The Authority lacked adequate procedures and controls to ensure that Program funds under the Act were obligated in accordance with Federal requirements. As a result, it inappropriately reported Program obligations of more than $719,000 in HUD's Reporting system and disbursed Program funds for more than $531,000 in Program obligations that did not qualify as obligations.

Recommendations

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

2A. Reimburse HUD from non-Federal funds for the $531,130 in Program funds under the Act inappropriately disbursed to the City of Saginaw for Program obligations that did not qualify as obligations.

2B. Deobligate in HUD's Reporting system the $719,499 in Program funds under the Act obligated for the Cities of Saginaw and Port Huron that did not qualify as Program obligations.

2C. Implement adequate procedures and controls to ensure that Program funds under the Act are obligated in HUD's Reporting system in accordance with Federal requirements.

We recommend that the Director of HUD's Detroit Office of Community Planning and Development

2D. Recapture the $188,369 in undisbursed Program funds under the Act that the Authority obligated for the Cities of Saginaw ($173,657) and Port Huron ($14,712) that did not qualify as Program obligations.

2E. Reallocate the $719,499 in Program funds obligated under the Act that did not qualify as Program obligations in accordance with 42 U.S.C. 5306(c)(4).

Finding 3: The Authority's Controls Over Subgrantees' Program Administrative Expenses Under the Act Had Weaknesses

The Authority did not comply with Federal requirements for maintaining sufficient documentation to support the use of Program funds under the Act for administrative expenses. These weaknesses occurred because the Authority lacked adequate procedures and controls to ensure that sufficient documentation was maintained to support administrative costs and that Federal requirements were followed. As a result, HUD lacked assurance that the Authority used nearly $87,000 in Program funds for eligible Program administrative costs.

The Authority Lacked Documentation To Support Nearly $87,000 in Administrative Expenses

We reviewed more than $1.5 million of the State's more than $1.7 million in Program funds under the Act used for administrative expenses for the period July 2009 through August 2010.

Contrary to Federal requirements, the Authority lacked sufficient documentation to support that two of its subgrantees, Habitat for Humanity of Michigan and the City of Benton Harbor, used $86,514 in Program funds from May through August 2010 for eligible administrative costs.

HUD's regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant and subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. HUD's regulations at 24 CFR 570.506(h) require grantees to maintain evidence to support how Block Grant funds are expended. Attachment A, paragraph C.1., of OMB Circular A-87 requires all costs to be necessary, reasonable, and adequately documented.

Habitat for Humanity of Michigan's unsupported disbursements included $82,314 for salaries and benefits, supplies, equipment, rent, and operating expenses. The Authority could not provide the amount of Program funds disbursed for each administrative cost category. The City of Benton Harbor's unsupported disbursements included salaries ($3,400) and supplies ($800).

The Authority Lacked Adequate Procedures and Controls

The weaknesses regarding the lack of documentation to support that administrative costs were eligible occurred because the Authority lacked adequate procedures and controls to ensure that sufficient documentation was maintained to support subgrantees' administrative costs and Federal requirements were followed.

The Authority's Office of Community Development's Program procedures manual states that subgrantees must itemize and maintain documentation to support administrative expenses. The planner of the Authority's Program Policy and Market Research Division said that the Authority's main focus was ensuring that its subgrantees awarded Program funds under the Act for eligible activities and properly obligated Program funds. The interim director of the Authority's Office of Community Development said that the Authority's subgrantees did not follow Federal requirements for maintaining sufficient documentation to support administrative expenses. However, the Authority would have reviewed its subgrantees' administrative costs when it monitored the subgrantees. The Planner said that the Authority had hundreds of subgrantees and administered many other types of funds in addition to the Program. If the Authority required all of its subgrantees to submit source documentation for administrative expenses, the Authority's staff would have been overwhelmed by the amount of documentation it had to review.

Conclusion

The Authority lacked adequate procedures and controls to ensure that sufficient documentation was maintained to support subgrantees' administrative costs and Federal requirements were followed. As a result, it was unable to support that its use of nearly $87,000 in Program funds under the Act was for eligible administrative costs.

Recommendations

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

3A. Provide sufficient supporting documentation or reimburse its Program from non-Federal funds, as appropriate, for the $86,514 in Program funds under the Act used for unsupported administrative costs.

3B. Implement adequate procedures and controls to ensure that sufficient documentation is maintained and Program funds under the Act are only used for eligible administrative costs.

Finding 4: The Authority's Controls Over Subgrantee Program Procurement Under the Act Had Weaknesses

The Authority did not ensure that the City of St. Clair Shores complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act. The City did not select one of the most qualified competitors, negotiate fair and reasonable compensation for the services, or perform a cost or price analysis in connection with the procurement and inappropriately used a percentage of construction cost method of contracting. These weaknesses occurred because the Authority lacked adequate procedures and controls to ensure that the City complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects. As a result, HUD and the Authority lacked assurance that nearly $68,000 in Program funds was used efficiently and effectively.

The Authority Did Not Ensure That a Subgrantee Procured Architectural Services in Accordance With HUD's Regulations

We reviewed the nine rehabilitation projects that the City of St. Clair Shores had started as of August 2010. The Authority did not ensure that the City complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects under the Act.

HUD's regulations at 24 CFR 85.36(d)(3)(iv) state that for procurement by competitive proposals, awards will be made to the responsible firm with the proposal that is most advantageous to the program, with price and other factors considered. Section 85.36(d)(3)(v) states that grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, when price is not used as a selection factor, can only be used in procurement of architectural/engineering professional services. Section 85.36(f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. Section 85.36(f)(4) states that the cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used.

On December 21, 2009, the City of St. Clair Shores published a request for proposals soliciting qualifications and prices, based on a percentage of the construction costs, from architects or architecture firms to assist the City in renovating and rehabilitating foreclosed-upon properties. The City received 25 proposals, which it reviewed using a 45-point checklist. Although the proposals included architectural fees based on a percentage of the construction costs, the City did not consider price in its evaluation of the proposals. The City selected the 7 most qualified firms since it anticipated rehabilitating 12 to 15 homes with Program funds and assumed that each firm would be able to design at least 2 homes. It submitted the seven firms to its council for approval. The council only selected six of the seven firms as approved vendors for the Program-funded rehabilitation projects. The six firms' fees ranged from 6 through 12 percent of the construction cost. The council did not select the remaining firm because its fees were 15 percent of the construction costs. The City ranked the six firms based on their fees and then assigned the rehabilitation projects to each firm, starting with the firm with the lowest fee. Contrary to HUD's regulations, the City did not select one of the most qualified competitors, negotiate fair and reasonable compensation for the services, or perform a cost or price analysis in connection with the procurement and inappropriately used a percentage of construction cost method of contracting. The City used $67,546 in Program funds for the architectural services for eight of the nine rehabilitation projects from March through November 2010.

The State Lacked Adequate Procedures and Controls

The weaknesses regarding the City of St. Clair Shores' procurement of architectural services occurred because the Authority lacked adequate procedures and controls to ensure that the City complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects under the Act.

The City of St. Clair Shores' planner stated that the City relied on its procurement process to find the most competitive proposals for architectural services and used different architecture firms to create as many jobs as possible using Program funds. The City did not perform a cost or price analysis before the procurement of the architectural services or negotiate compensation with the firms because it relied on industry standards for the services to determine the range of acceptable compensation and believed that the architectural fees of the selected firms fell within the industry standard for the services.

The planner of the Authority's Program Policy and Market Research Division said that the Authority's main focus was ensuring that its subgrantees awarded Program funds for eligible activities and properly obligated Program funds. Further, the Authority assumed that its subgrantees were familiar with cross-

cutting Federal requirements applicable to Program funds since the subgrantees had administered other HUD funding for years. This assumption was an error in judgment, and the Authority had implemented procurement training programs for its subgrantees.

Conclusion

The Authority lacked adequate procedures and controls to ensure that the City of St. Clair Shores complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects under the Act. As a result, HUD and the Authority lacked assurance that nearly $68,000 in Program funds was used efficiently and effectively.

Recommendations

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

4A. Perform a formal cost or price analysis to determine whether the $67,546 in Program funds under the Act was reasonable for the architectural services provided for the City of St. Clair Shores' rehabilitation projects. If the State does not perform a formal cost or price analysis, it should reimburse its Program from non-Federal funds for the nearly $68,000 in Program funds used for the architectural services and not use Program funds to pay for additional architectural services. If the State performs a formal analysis and determines that a reasonable cost for the architectural services was less than the nearly $68,000, it should reimburse its Program from non-Federal funds for the excessive amount of Program funds used for architectural services and limit its use of Program funds to pay for additional architectural services to that which is reasonable.

4B. Implement adequate procedures and controls to ensure that the procurement of architectural services by subgrantees for the Program under the Act complies with HUD's regulations.

Finding 5: The Authority Lacked Adequate Controls Over Posting Quarterly Performance Reports for the Program Under the Act

The Authority did not comply with Federal requirements by posting the State's quarterly performance reports for the Program under the Act for the first through third quarters of 2010 on its official Web site more than 30 days after the end of each quarter. This weakness occurred because the Authority lacked adequate procedures and controls to ensure that it reported accomplishments for the Program under the Act in a timely manner and in accordance with Federal requirements. As a result, the public did not have timely access to the State's quarterly performance reports.

The Authority Did Not Post the State's Quarterly Performance Reports in a Timely Manner

We reviewed the Authority's posting of the State's quarterly performance reports for the Program under the Act for 2009 and 2010 on its official Web site.

The Federal Register, dated October 6, 2008, states that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter. Reports must be submitted using HUD's Web-based system and, at the time of submission, be posted prominently on the grantee's official Web site. The Authority posted the State's quarterly performance report for the fourth quarter of 2010 on its official Web site on February 1, 2011. However, it did not post the State's quarterly performance reports for the Program under the Act for the first through third quarters of 2010 on its official Web site for more than 30 days after the end of each quarter. The following table shows the quarter for the quarterly performance reports, the date by which the Authority was required to post the quarterly performance reports, the date the Authority posted the quarterly performance reports, and the number of days late the Authority posted the quarterly performance reports.

Quarterly performance report	*Required posting date*	*Date posted*	*Days late*
First quarter of 2010	Apr. 30, 2010	Aug. 13, 2010	105
Second quarter of 2010	July 30, 2010	Sept. 28, 2010	60
Third quarter of 2010	Oct. 30, 2010	Dec. 7, 2010	38

Further, the Authority could not provide documentation to support the dates it posted the State's quarterly performance reports for the Program under the Act for periods before January 1, 2010, to its official Web site.

The State Lacked Adequate Procedures and Controls

The weakness regarding the Authority not posting the State's quarterly performance reports for the Program under the Act to its Web site in a timely manner occurred because the Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments under the Act in a timely manner and in accordance with Federal requirements.

The planner of the Authority's Program Policy and Market Research Division said that it was standard procedure to only post quarterly performance reports for HUD programs after HUD had reviewed and approved the reports. The Authority was under the impression that it should continue to follow this standard procedure. It agreed that it did not comply with the requirements in the Federal Register and had implemented a new process through which the reports are simultaneously submitted to HUD and posted to its Web site.

Conclusion

The Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments under the Act in a timely manner and in accordance with Federal requirements. As a result, the public did not have timely access to the State's quarterly performance reports for the Program under the Act.

Recommendations

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

5A. Implement adequate procedures and controls to ensure that the Authority posts the State's quarterly performance reports for the Program under the Act no later than 30 days following the end of each quarter.

Finding 6: The Authority Lacked Adequate Controls Over Reporting Jobs Created or Retained From the Use of Program Funds Under the Recovery Act

The Authority did not comply with Federal requirements by not maintaining sufficient documentation to support the number of jobs it reported as created or retained from the use of Program funds under the Recovery Act for the first and second quarters of 2010. This weakness occurred because the Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments under the Recovery Act accurately and in accordance with Federal requirements. As a result, HUD and the public lacked assurance that the Authority accurately reported the number of jobs that the use of Program funds under the Recovery Act created or retained.

The Authority Lacked Documentation To Support the Number of Jobs It Reported as Created or Retained

We reviewed the State's jobs created or retained data that the Authority reported on federalreporting.gov for the Program under the Recovery Act for the first and second quarters of 2010.

Section 1512(c) of Title XV of the Recovery Act requires each recipient that receives Program funds under the Recovery Act from a Federal agency to submit, no later than 10 days after the end of each calendar quarter, a report to that Federal agency that contains a detailed list of all the projects or activities for which Recovery Act funds were expended or obligated, including an estimate of the number of jobs created and retained by the project or activity. OMB Memorandum M-10-08, dated December 18, 2009, states that recipients will now report job estimates on a quarterly basis rather than a cumulative basis.

The Authority reported in federalreporting.gov that the use of Program funds under the Recovery Act created or retained 0 and 12.27 jobs in the first and second quarters of 2010, respectively. However, the Authority lacked sufficient documentation to support the number of jobs it reported as created or retained. It did not request its consortium members to provide the number of jobs created and retained for the quarterly performance report for the first quarter of 2010 and requested its consortium members to provide the cumulative number of jobs created and retained for the first and second quarters of 2010 for the quarterly performance report for the second quarter of 2010. Further, (1) the consortium members did not provide detailed records to be able to determine in which quarter the jobs were created or retained, (2) the Authority verbally clarified discrepancies with its consortium members without maintaining documentation to

support the changes that it made to the number of jobs the consortium members provided as created or retained, and (3) the Authority did not provide documentation to support its calculation of the number of jobs created or retained within the Authority for the second quarter of 2010.

The State Lacked Adequate Procedures and Controls

The weaknesses regarding the Authority's lack of documentation to support the number of jobs that the Authority reported were created or retained through the use of Program funds under the Recovery Act occurred because the Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments under the Recovery Act accurately and in accordance with Federal requirements.

The department analyst of the Authority's Office of Community Development's Operations and Technical Assistance Division stated that the Authority did not request its consortium members to provide the number of jobs created and retained for the quarterly performance report for the Program under the Recovery Act for the first quarter of 2010. The Authority requested its consortium members to provide the cumulative number of jobs created and retained for the first and second quarters of 2010 for the quarterly performance report for the Program under the Recovery Act for the second quarter of 2010 since most of the funding agreements for the Program under the Recovery Act were not signed until the middle of February and the Authority and its consortium members were not prepared to document jobs before April of 2010. The planner of the Authority's Program Policy and Market Research Division said that the Authority made a mistake when it requested its consortium members to provide the cumulative number of jobs created and retained for the first and second quarters of 2010 for the quarterly performance report for the Program under the Recovery Act for the second quarter of 2010.

Conclusion

The Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments for the Program under the Recovery Act accurately and in accordance with Federal requirements. As a result, HUD and the public lacked assurance that the Authority accurately reported the number of jobs that the use of Program funds under the Recovery Act created or retained.

Recommendations

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

6A. Implement adequate procedures and controls to ensure that sufficient documentation is maintained to support the number of jobs that the Authority reports as created or retained in the State's quarterly performance reports for the Program under the Recovery Act.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; the Federal Register, dated October 6, 2008, June 19, 2009, and April 9, 2010; HUD's regulations at 24 CFR Parts 85 and 570; the U.S. Department of Transportation's regulations at 49 CFR Part 24; OMB Circulars A-87 and A-122; OMB Memorandums M-10-08, M-10-17, and M-10-34; HUD's grant agreements with the Authority for the Program under the Act and Recovery Act; HUD's Detroit Office of Community Planning and Development's monitoring report for the State's Block Grant and HOME Investment Partnerships programs from 2008 through 2009; HUD's Program policy alert, volume 3, dated April 2010; and the Program's explanation of property types under each eligible use.

- The State's 2008 action plan substantial amendment for the Program under the Act; consolidated plans for 2005 and 2010; annual reports for 2008 and 2009; annual performance reports for 2007 and 2008; and Program data from HUD's Reporting system, Recovery.gov, and the Authority's Web site.

- The Authority's audited financial statements, annual reports, accounting records, policies and procedures, contracts and agreements, Program applications, Program obligations, project and procurement files, staffing plans and allocations, job descriptions, organizational chart, and budget.

- Subgrantees' accounting records, contracts and agreements, project and procurement files, and budgets.

We interviewed the Authority's employees; subgrantees' and Detroit Investment Fund, LP's, personnel; and HUD's staff.

We also conducted visits of the Authority's project sites for the Program under the Act.

As previously stated, on March 19, 2009, HUD entered into a grant agreement with the State's Authority for nearly $98.7 million in Program funds under the Act.

Finding 1

We reviewed all 10 of the Authority's Rental Development and Homeless Initiatives Division's projects for which the Authority budgeted $42 million in Program funds under the Act to determine whether the State awarded Program funds for eligible projects.

Finding 2

We randomly selected for review all of the obligations the Authority had reported in HUD's Reporting system as of September 19, 2010, for 10 of its Office of Community Development's 41 subgrantees to determine whether the Authority obligated Program funds under the Act in

accordance with HUD's requirements. The reported obligations totaled nearly $9.1 million in Program funds.

Finding 3

We reviewed all of the Authority's Program administrative expenses under the Act and randomly selected for review all of the Program administrative expenses for 8 of the Authority's Office of Community Development's 16 subgrantees for the period June 2009 through August 2010 to determine whether the State used Program funds for eligible administrative costs. The administrative expenses totaled more than $1.5 million in Program funds.

Finding 4

We reviewed all nine of the rehabilitation projects that the City of St. Clair Shores started as of August 2010, to determine whether the City used Program funds under the Act for eligible Program costs and followed HUD's regulations when procuring architectural services. The Authority provided more than $1 million in Program funds for the nine rehabilitation projects from March 2009 through February 2011.

Finding 5

We reviewed the Authority's posting of the State's quarterly performance reports for the Program under the Act for 2009 and 2010 on its official Web site to determine whether the Authority posted the State's quarterly performance reports for the Program under the Act on its official Web site in accordance with Federal requirements.

Finding 6

We reviewed the State's jobs created or retained data for the Program under the Recovery Act that the Authority reported on federalreporting.gov from the first and second quarters of 2010 to determine whether the State accurately reported its jobs created or retained accomplishments for the Program under the Recovery Act to HUD.

In addition, we relied in part on data maintained in HUD's Reporting system and the Authority's online project administration link system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

We performed our onsite audit work from August through December 2010 at the Authority's office located at 735 East Michigan Avenue, Lansing, MI. The audit covered the period July 2008 through July 2010 and was expanded as determined necessary.

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

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about 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 objectives:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

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

- Compliance with 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 and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws or regulations on a timely basis.

Significant Deficiency

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

- The Authority lacked adequate procedures and controls to ensure that (1) it awarded and obligated Program funds under the Act in accordance with Federal requirements, (2) sufficient documentation was maintained to support subgrantees' administrative costs for the Program under the Act and Federal requirements were followed, (3) a subgrantee complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects under the Act, and (4) it reported Program accomplishments under the Act and Recovery Act in a timely manner, accurately, and/or in accordance with Federal requirements.

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/
2A	$531,130		
2D			$188,369
3A		$86,514	
4A		67,546	
Totals	$531,130	$154,060	$188,369

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

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, HUD will recapture Program funds under the Act and reallocate the funds in accordance with 42 U.S.C. 5306(c)(4).

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

STATE OF MICHIGAN
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

RICK SNYDER
GOVERNOR

GARY HEIDEL
EXECUTIVE DIRECTOR

April 27, 2011

Kelly Anderson
Acting Regional Inspector General for Audit, Region V
HUD Office of Inspector General

Brent G. Bowen
Assistant Regional Inspector General for Audit, Region V
HUD Office of Inspector General

Thomas O. McManigal
Auditor, Region V
HUD Office of Inspector General

DELIVERED VIA E-MAIL ONLY

Re: Michigan State Housing Development Authority Response to HUD's Office of Inspector General Draft Audit Report of the Michigan State Housing Development Authority's Neighborhood Stabilization Program

Dear Sirs and Madam:

The Office of the Inspector General recently conducted and completed an audit of the State of Michigan's Neighborhood Stabilization Program (NSP) administered by the Michigan State Housing Development Authority (MSHDA) covering the period July 2008 through July 2010.

MSHDA has a long history of administering a variety of U.S. Department of Housing & Urban Development (HUD) programs. During the past four decades, MSHDA has established a strong track record with respect to its capacity to administer federal grant and programmatic awards. As we all are aware, the Neighborhood Stabilization Program was created by Congress as an emergency response to address the catastrophic impacts of the financial crisis impacting countless seniors and families in large cities and small towns across the nation. As an emergency response program, the NSP was launched with very tight programmatic timeframes and very little program guidance. As you already know, HUD and its grantees were tasked with the monumental project of developing the program guidance concurrent with the program implementation. Although our partners at HUD have made tremendous efforts and strides in providing appropriate guidance and regulatory "fixes", as the program continues to be rolled-out and as program actions are taken, NSP at its core is still best describes as a work in progress.

Comment 1

MSHDA implemented the NSP within this environment of immediate need and scant regulatory guidance. We believe that we have fully met both the spirit and the letter of the law, regulation and guidance with regard to the launch, roll-out and implementation of the program. MSHDA continuously responds to HUD updates and clarifications by immediately updating processes and protocols as we move forward with the NSP implementation to assure to the extent possible that the program funds are spent appropriately and with full transparency to the taxpayer and pubic.

735 EAST MICHIGAN AVENUE • P.O. BOX 30044 • LANSING. MICHIGAN 48909
michigan.gov/mshda • 517.373.8370 • FAX 517.335.4797 • TTY 800.382.4568

Equal Housing Opportunity

Ref to OIG Evaluation **Auditee Comments**

Kelly Anderson, Brent G. Bowen, Thomas O. McManigal
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April 27, 2011

As I am sure you are already aware, MSHDA administers much of its NSP through subrecipients, including local units of government. Many of the OIG draft findings were related to our local units of government subrecipients who also have significant experience in administering direct awards of federal block grant and other programs. While our due diligence process specifically reviewed recent HUD program monitoring and OIG audits of these subrecipients to ensure adequate capacity was in place, it is important to recognize that extraordinary fiscal pressures on local governments, when combined with the aforementioned short timeframes and changing programmatic guidance, exacerbated the pressures and demands being place on local capacity to implement the program. All in all given both our significant experience and history of administering programs like NSP, and our knowledge of our local governmental partners' capabilities and experience with dealing with similar programs, we believe our subrecipients met a pressure filled challenge and performed admirably in providing a much needed resource to their local communities.

Comment 2

Comment 1

We also would note that the scope and timing of the OIG audit process relative to the NSP is somewhat premature. NSP is a new and active program and, as such, can not be reviewed as a completed program might be reviewed. In many cases, as noted in our comments, the OIG prejudges the actual procedures and protocols MSHDA has in place to assure compliance with federal requirements before those procedures and protocols have had a chance to be completed and been able to ensure the quality results that both we and HUD seek to achieve and often achieve through the implementation of this and other similar programs.

In conclusion, we have provided our complete written response and comments to the Draft Audit Report in the attached document. We thank you for your time and counsel throughout this audit process and the professionalism of your staff. We look forward to concluding the audit process with you at your earliest convenience.

Sincerely,

/signed/
Gary Heidel
Executive Director
Michigan State Housing Development Authority

Ref to OIG Evaluation	Auditee Comments
	MSHDA RESPONSES TO HUD OIG AUDIT REPORT Finding #1: The Authority lacked adequate controls over its award of Program funds under the Act for a project. The HUD OIG Audit Report finds that MSHDA lacked procedures and controls to ensure that it maintained sufficient documentation to support that it awarded Program funds under the Act in accordance with Federal requirements.
Comment 3	The Authority disagrees with Audit Finding #1. The Authority has adequate procedures in place to fulfill its requirements under NSP, OMB Circular A-87 and the Uniform Relocation Act.
Comment 3	Finding #1 is related to the obligation of funds to a project known as "The Auburn," located at 4216/4240 Cass Avenue, Detroit, Michigan. The Finding can be distilled to OIG's assertion that there is not a basis to conclude that the sales price of $1 million is "reasonable." However, the OIG's conclusions prejudge the end result of an intentionally and explicitly incomplete underwriting process. As detailed in the Authority's obligation agreement with the University Cultural Center Association, the commitment of NSP funds was specifically conditioned upon both successful completion of the Authority's underwriting process and final approval of the award of program funds. The obligation agreement also outlines in specificity many other federal regulatory issues that would need to be addressed as part of that review. In keeping with its obligations under NSP, the Authority is in the process of reviewing not only the proposed purchase price of the property but all of the projected sources and uses as represented in the project proforma and regulatory obligations required by the obligation agreement and program related to the project.
Comment 3	The Authority agrees that it is responsible for determining the reasonableness of costs and the amount of funding provided to the project under NSP. However, OIG asserts that such a cost reasonableness determination must be made <u>prior to</u> the obligation of Neighborhood Stabilization Program funds. The Authority believes that conclusion is both premature and inconsistent with HUD guidance, OMB principles and long-standing public program underwriting practice.
Comment 3	The finding is premature because the Authority believes it can only make a final determination of funding level and appropriateness when all project costs are known. Not only must the acquisition cost be determined to be reasonable (since acquisition is the specific activity to which the NSP funds were awarded), but all costs within the development budget must be determined reasonable and necessary so that a final determination of the NSP assistance amount can be made. Long standing public underwriting practice requires a full review of all project costs to determine the "gap" to be filled by public funding. $1 Million could be a reasonable cost for the property, but $1 Million may or may not be the "reasonable and necessary" amount of NSP assistance. Absent a full underwriting of the project and all known costs, the Authority risks providing more federal funding than would be necessary to complete the project, even if the line item is determined to be reasonable.
Comment 3	The finding is inconsistent with HUD NSP guidance, which does not dictate that a full underwriting review be completed prior to obligating funds. To the contrary, various

Ref to OIG Evaluation	Auditee Comments
Comment 3	Questions and Answers in the online NSP Resource Exchange specifically note that an obligation can be made once: (a) a specific site has been identified and site control obtained; (b) a detailed scope of work and cost estimate based upon actual inspection of the site has been prepared; and (c) if the cost estimate is included within the written agreement with the developer. In other places, the Resource Exchange specifically notes that due diligence reviews such as the Part 58 Environmental Review process may be completed after funds are initially obligated.
Comment 3	As previously reported to OIG, the Auburn project relies on a multi-tiered financing structure that includes state Brownfield redevelopment tax credits, federal New Market Tax Credits, conventional bank financing, and philanthropic investment, all in addition to the NSP investment. Several elements of the overall financing are still being determined. Pending the finalization of these other elements, the Authority accepted information on the seller's cost basis as the basis for an obligation, but will not rely on that alone in its final underwriting.
Comment 3	In sum, the Authority believes that Finding #1 is inconsistent with NSP requirements and is premature. The Authority has adequate procedures in place to ensure that its obligations to HUD are properly carried out, and will ensure that project costs funded by NSP will be reasonable before commitments are finalized and funds are advanced.

Ref to OIG Evaluation **Auditee Comments**

Comments 4 and 5

Finding # 2: The Authority lacked adequate controls over Program obligations under the Act.

The HUD OIG Audit Report finds that MSHDA reported in HUD's reporting system $719,499 in Program obligations for the Cities of Saginaw ($704,787) and Port Huron ($14,712), subgrantees, that did not qualify as obligations. Further MSHDA inappropriately disbursed Program funds for $531,130 of the City of Saginaw's Program obligations that did not qualify as obligations.

City of Saginaw

The Authority disagrees with Finding #2 regarding the City of Saginaw. We are not disputing that a technical issue may have occurred based on the signature date on the amended development agreement between the City of Saginaw and Saginaw Habitat for Humanity. However, we believe that MSHDA and the City of Saginaw substantially complied with HUD requirements in this regard. Based on the circumstances we believe that the City of Saginaw's actions stand up to a reasonable interpretation of the program obligation requirement. Therefore we strongly believe that it would be unreasonable for our office to issue a disallowance of costs due to the issue raised by OIG based on all of the information examined and the totality of the circumstances as outlined below.

The City set up the following street addresses on OPAL, MSHDA's on-line grant management system:

Address	Setup Date	Original Setup Amt	Original Cost Est.	Revised NSP Setup Amt	Balance to Draw	Leveraged Funds	Current Project Cost Amt Set Up
[redacted]	9/30/09	25000	112128	45103	45103	78290	123393
[redacted]	7/29/10	94130	122890	2002	2002	102128	104130
[redacted]	7/30/10	90870	74787.7	3502	3502	92498	96000
[redacted]	7/30/10	103000	84963.4	126593	41593	2407	129000
[redacted]	9/30/09	25000	110236	116251	14726	35489	151740
[redacted]	7/29/10	43130	94401.3	4132	4132	134998	139130
[redacted]	7/29/10	86630	83,635	86631	3631	9999	96630
[redacted]	9/30/09	25000	112307	130915	88286	0	130915
[redacted]	9/30/09	25000	84894.7	126461	35485	6	126467
		517760	880243	641590	238460	455815	1097405

Four addresses, [redacted], [redacted], [redacted] and [redacted] were originally set up on OPAL on 9/30/09 for $25,000 each and then modified to reflect rehabilitation costs totaling **$418,730.** This amount exceeded the first rehabilitation agreement between the City and Saginaw Habitat for Humanity, executed on April 5, 2010 for four properties for $300,000. Five addresses, [redacted], [redacted], [redacted], [redacted], and [redacted], part of the subsequent amendment, were entered on OPAL prior to the obligations deadline and were originally set up for **$417,760**.

Based on cost estimates developed prior to the obligations deadline for the addresses listed within the development agreement (not including [redacted]) the total

Ref to OIG Evaluation	Auditee Comments

amount was **$880,243.30**, which reflects **$795,000** in NSP funding with the remaining amount funded from leveraged funds. It should be noted that MSHDA's NSP funding is still in active status. Consequently, actions have occurred after the obligations deadline. On the amended agreement, [redacted] was indicated as an NSP1 project location with a cost estimate of $77,960.04 prepared on 9/08/10. This address has subsequently been moved to NSP2.

Comments 4 and 5

The four addresses, [redacted], [redacted], [redacted] and [redacted] originally set up on OPAL on 9/30/09 were the four addresses that the City and Saginaw Habitat for Humanity entered into an agreement for on 5/05/10. The City implemented procedures to modify the agreement and acted in good faith to properly execute an amended agreement prior to the obligation deadline (see attached council minutes). However, the Executive Director of the Saginaw Habitat for Humanity was out of the country from 9/08/10-9/17/10 and did not return to work until after the 9/19/10 deadline (see attached memo). He executed the agreement upon his return and the amended agreement was dated 9/21/10.

Comment 4 and 5

Based on the council approval taking place prior to the deadline and the inability of the city to secure a signature until after the deadline due to the extended absence of the Habitat executive director, we acknowledge a technical issue as to whether or not a signature was obtained prior to the deadline. However, we believe the City acted in good faith to meet the obligation deadline and that adequate information was provided to justify MSHDA allowing the city to move forward. We base this justification on the following:

1. Street addresses were identified and entered on OPAL system prior to deadline;
2. NSP dollars were targeted towards these street addresses through a city council approved partnership between the City and Habitat;
3. Formal rehabilitation cost estimates were prepared by Terry Collier and Chad Lyons prior to the obligation deadline for each property;
4. Circumstances beyond the City's control resulted in a delay of formal obligation of the amended agreement by 12:00 midnight on Monday, September 20, 2010. Please note that HUD Guidance indicates if the last day for completing a specific action falls on a Saturday, Sunday, or legal holiday, the last day for completing that act is the next regular work day.

City of Port Huron

Comment 4 and 6

The Authority disagrees with Finding #2 regarding the City of Port Huron. We have attached documentation verifying that an earnest money check was issued on 9/01/10 in the amount of $500 for the purchase of [redacted] by the St. Clair County Non-Profit Housing Corporation. The purchase agreement had been prepared by Dianna Maxwell of Joann Wine and Associates for the purchase of [redacted] by St. Clair County Non-Profit Housing. There was a counter offer and subsequent negotiation took place on 9/22/10 resulting in the final offer being accepted on 9/27/10. Based on the documentation provided, a purchase agreement obligating the St. Clair Non Profit's program income was underway prior to the deadline. The purchase agreement identified that program income would be utilized in an amount of $35,000 which exceeds the $14,712 that the OIG is indicating as unobligated prior to the 9/19/10 deadline.

Ref to OIG Evaluation	Auditee Comments
	Finding #3: The Authority's controls over subgrantees' Program administrative expenses under the Act had weaknesses. The HUD OIG Audit Report finds that MSHDA lacked sufficient documentation to support that two of its subgrantees, Habitat for Humanity of Michigan and the City of Benton Harbor, used $86,514 in program funds from May through August 2010 for eligible administrative costs.
Comment 7	The Authority disagrees with Finding #3. The Authority has adequate procedures in place to fulfill its requirements under NSP that sufficient documentation is maintained to support subgrantees' administrative costs and to ensure federal requirements are followed. As explained to the OIG auditors, MSHDA requires certain (but not all) source documentation be submitted to MSHDA with a subgrantees' Financial Status Report/Payment Request (FSR). Documentation submitted with an FSR is sufficient in nature to determine the basic reasonableness and eligibility of the requested payment. MSHDA requires that **all** source documentation be kept in the subgrantees file for review by MSHDA through and during monitoring visits. Source documentation is reviewed by MSHDA staff during monitoring visits to determine completeness and accuracy. The OIG's conclusions prejudge the end result of MSHDA's standardized monitoring process.
Comment 8 **Comment 7**	Given the number of grantees that MSHDA has under supervision with respect to the various HUD programs under administration, it would be unreasonable and inefficient to look at all source documentation for every disbursement request, as the OIG seems to recommend. The approach to source documentation described above is a standard practice for state and county HUD grantees. It mimics the system used by HUD to disburse funding to its grantees through DRGR and IDIS with follow up on-site monitoring visits.
Comment 7	The OIG's review of support documentation was basically a truncated review of what MSHDA staff review during on-site monitoring. Because the OIG's audit occurred so early in the Program implementation, its review occurred prior to any formal monitoring review by MSHDA. MSHDA acknowledges Habitat for Humanity and the City of Benton Harbor made errors in its documentation of administrative costs, however, these errors would have been discovered during a MSHDA monitoring and, MSHDA believes, upon full review of overall source documentation of incurred administrative costs, that the subgrantees have adequate documentation to support the questioned disbursements as reasonable reimbursement for actual costs incurred.
	<u>Habitat for Humanity of Michigan</u> MSHDA reviewed the administrative expenses that consisted of salaries, rent, and computer equipment rental/server costs associated with the percentage of time that each staff person has allocated towards NSP1 for the Habitat for Humanity of Michigan within the timeframe of 7/01/09 – 11/18/10.
Comment 9	MSHDA's review of the Providence Invoices (computer equipment/server charges), Rent Invoices, and Employee Payroll Reports found all costs to be necessary, reasonable, and adequately documented. There are four persons within the Habitat for Humanity of Michigan's office that are responsible for NSP1 activities. A table has been provided breaking down salaries, rent, and computer equipment/server charges prorated by the

Ref to OIG Evaluation **Auditee Comments**

Comment 9

percentage associated with the administrative plan provided by Habitat for Humanity of Michigan (see Table A).

Comment 9

The amount of staff time, rent, and computer related charges being billed and reported seems reasonable and justifiable based on each persons role and responsibilities of coordinating and managing the compliance, obligations and progress of the 10 Habitat affiliates who have received a total of $1,888,000 in NSP1 funds through the Habitat for Humanity of Michigan's office.

Comment 10

MSHDA acknowledges that the current reporting periods of the Financial Status Report (FSR) do not accurately reflect the actual timeframe within which the administrative costs were incurred. We believe that this is an oversight on the part of the Habitat for Humanity of Michigan's office due to their lack of understanding regarding the amount of administrative funding they could request per FSR. Below is a table identifying what the actual FSR identified as the current report periods and what the FSR should have actually identified as the report periods:

FSR #	FSR Reported Period:	Actual Report Period:	Check Date:
4	3/13/10 – 4/22/10	7/1/09 – 10/22/09	5/4/10
6	6/1/10 – 6/30/10	10/23/09 – 6/2/10	7/8/10
8	8/11/10 – 8/31/10	6/3/10 – 8/3/10	9/13/10
9	9/1/10 – 9/27/10	8/4/10 – 11/18/10	10/11/10

Comments 9 and 10

Based on review of the actual data versus reported data, the only issue that arises is the fact that Habitat requested dollars and received a check for FSR #9 on 10/11/10 but did not actually incur all of the administrative costs until 11/18/10. Technically, Habitat for Humanity of Michigan's office should have requested an advance for all dollars expended between 9/27/10 and 11/18/10 and then reported the dollars as expended on the next FSR. MSHDA allows grantees to draw up to 20% as an advance and the amount is well within that limit.

Comments 9 and 10

Therefore, despite the fact that the FSR reporting periods identified were inaccurate, based on the information provided above and the supporting documentation that has been attached to this response, we believe that all of the Habitat for Humanity of Michigan's NSP1 administrative dollars were requested and/or disbursed appropriately. In the normal course of the Program this discrepancy between the actual supporting documentation and the NSP1 FSR reported expenditures would have been found at the point of an on-site monitoring review. The on-site monitoring report would result in a comment being placed within the grant outlining the data reporting errors and corrective actions but indicating that the errors themselves do not actually impact the Habitat of Michigan's accessibility, availability, and entitlement to these administrative dollars.

City of Benton Harbor

MSHDA reviewed documentation from the City of Benton Harbor outlining the roles and responsibilities of three staff persons (Al Miranda, Regina Sistrunk, and Nicole Brown) who were administering the NSP1 program on behalf of the city. Careful review of the payroll reports indicated the following:

Ref to OIG Evaluation	Auditee Comments
Comment 11	In total Al Miranda was paid $1,080.73 for NSP1. Between 5/28/10 and 6/3/10: he worked 14 hours on NSP1 at $17.43 per hour = $244.10 Between 6/4/10 and 6/10/10: he worked 19.5 hours on NSP1 at $17.43 per hour = $305.02 Between 6/11/10 and 6/17/10: he worked 17.5 hours on NSP1 at $17.43 per hour = $339.88 Between 6/18/10 and 6/24/10: he worked 11 hours on NSP1 at $17.43 per hour = $191.73
Comment 11	In total Nicol Brown was paid $1,516.74 Between 9/03/10 and 9/16/10: she worked 34 hours on NSP1 at $29.74 per hour = $1,011.16 Between 9/17/10 and 9/30/10: she worked 17 hours on NSP1 at $29.74 per hour = $505.58
Comment 11	Between 5/28/10 – 7/20/10: Regina Sistrunk reported no actual hours by date that we could apply to MSHDA administration at $19.49 per hour however she did indicate some of the tasks she was responsible for based on the bi-weekly administration report she completed. We believe that a minimum of 10% of her time was spent on NSP1 within this timeframe as she serves as the main point of contact and the city's administrator for NSP1. Therefore, we believe that the following calculation should have been used: $19.49 x 37.5 = $730.87 x .10 - $73.08/day x 38 workdays = $2,777.32 **Total Administrative Costs identified for staff time = $5,374.79 through 9/30/10.**
Comment 12	MSHDA carefully reviewed the supplies ordered and, after getting verbal clarification from Regina Sistrunk, believe the costs are reasonable and necessary. There were three staff persons assigned to NSP1 as identified above and each one has their own black and white printer and share a color printer. Upon review of www.nextag.com price histories for each ink cartridge it appears that all costs incurred were reasonable. Regarding the issue of whether the ink cartridges were necessary, MSHDA fully recognizes that NSP1 is paper intensive and that ink cartridges are not an optional item and are vital to the operation of any grant program. Therefore, of the supplies listed on the order form, we approved the payment for the ink cartridges totaling $408.90.
Comment 12	The other items identified on the Staples™ order form also appear to also be reasonable and necessary based on the city's staff need for calculators to complete required proformas/feasibility analysis, and the following items to ensure accurate file creation and maintenance: binders, report covers, dividers, file folders, writing pads, and ink pens. Therefore, of the non-ink cartridge supplies listed on the order form, we approved the remainder of the invoiced amount totaling $390.55. **Total Supplies = $799.45**

Ref to OIG Evaluation	Auditee Comments
Comments 7 and 11	In summary, upon review of all of the submitted documentation, the city did not request as much administrative expense reimbursement as they were actually entitled to based on program activity. The city's lack of a formal structured administrative tracking system is demonstrated primarily by each person using their own method to account for their NSP1 hours instead of establishing a system used by all three. Fortunately two out of the three staff persons accounted for their time both by activity and hours as required by MSHDA, however, the third person did not. We believe that this may be a result of the enormous time pressures imposed upon this staff person and their inability to dedicate time and attention to this task based on it being out prioritized by other pressing matters. We strongly contend that all grant administrators of NSP1 are working very hard to ensure that their projects are compliant and completed within the timeframes allowed. A total of $4,200 was requested and drawn down via FSR #2 for all administrative expenses through July 20, 2010. No additional administrative funds were requested for the time period ending September 30, 2010 even though additional staff time was tracked and provided to us as part of our review. We believe that the city's administrative billing was reasonable and that no issue of unreasonableness can be determined. At a monitoring review, MSHDA staff would have recommended corrective action to ensure that all administrative time is tracked by activity and hours spent on a per person basis and that adequate documentation was maintained to justify all administrative requests, analyzed the requests to date, determined reasonable and necessary expenses had been charged, and required the city to take corrective action measures. Due to the timing of the OIG audit, this issue was found prior to a monitoring visit. Since being notified of this issue, the city has structured its administrative tracking system and is moving forward with implementation of its NSP1 projects.

Ref to OIG Evaluation	Auditee Comments
	Finding #4: The Authority's controls over Subgrantee Program procurement under the Act had weaknesses. The HUD OIG Audit Report finds MSHDA did not ensure that the City of St. Clair Shores complied with HUD regulations for competitive proposals when procuring architectural services for its Program funded rehabilitation projects under the Act.
Comment 13 **Comment 14** **Comments 13 and 14**	The Authority acknowledges that the City did not fully follow appropriate procurement procedures but believes the City was substantially compliant with the intent of the procurement regulations. MSHDA staff reviewed the procedures used by the City of St. Clair Shores and determined that the process utilized may not technically meet the four methods (small purchase, competitive sealed bid, competitive proposal, non-competitive/sole source) that are typically used for procuring contracts and/or services by HUD grantees. However, it appears the city opted to blend an RFQ (architectural engineering services without price) process and a competitive bid process (including price). The procurement was structured in a method that enabled the city to obtain proposals from multiple entities and evaluate the proposals from a qualifications standpoint that also included pricing as one of their 45 point selection checklist items. The city received 25 proposals in response to the RFQ/RFP which is a significantly higher response rate than what we typically see. The City used a structured review process and selected 7 firms that had varied fee schedules. Their selection process gave the city council final approval authorization and the council rejected one of the firms with the highest percent rate of 15%. We believe that the city staff and council were trying to ensure that good stewardship of grant funds was being exhibited. We believe that the statement, "contrary to HUD's regulations, the City did not select one of the most qualified competitors" is inaccurate. The City had the option to select just one entity but instead elected to implement a shared responsibility model and selected six architects. HUD regulations do not require that only the lowest responsible bidder be selected.
Comment 15 **Comments 13 and 14**	We contend, based upon a review of the information provided, that reasonable fees were being charged by all six of the firms; that all firms met qualification thresholds and therefore they were all equally responsible bidders; price was considered as a factor within the review process; and that all processes and procedures surrounding the procurement of the architects' was acceptable despite the fact that it did not fit into one of the four procurement methods but instead was a hybrid; incorporating the positive features of both the competitive bid and RFQ/RFP processes.
Comment 15	MSHDA has prepared a cost analysis outlining a typical MSHDA underwritten professional service contract for architectural fees in 2010: Billings for services will be based on an hourly rate not to exceed: $125 per hour for Principal, Senior Partner $100 per hour for Project Manager, Associates $70 per hour for Professional Personnel $60 per hour for Arch/Eng/Draftsmen/CAD Technicians $355/4 = $88.75 average hourly rate
Comment 15	We have reviewed all six executed architectural contracts (see attached). Based on our analysis, we believe that the costs being charged by all six architects were actually all within a + one (1%) percent margin when evaluated based on an average project cost range between $50,001 - $75,000.

Ref to OIG Evaluation	Auditee Comments
	The City awarded a total of nine properties. Three architects (Krieger Associates Interiors, LLC, KI – Quinlan Associates, and George J. Hartman Architects, P.C.) received one project each; the remaining six projects were awarded as follows:
Comment 15	Based on the service agreement, Sauriol Bohde Wagner Architects & Associates Inc. was awarded the following projects: [redacted] and [redacted]. According to the bid information they were technically the lowest responsible bidder if all bids are evaluated looking at an average project cost range between $50,001 - $75,000.
Comment 15	Based on the service agreement, Stucky Vitale Architects was awarded the following projects: [redacted] and [redacted]. According to the bid information they were technically the second lowest responsible bidder if all bids are evaluated looking at an average project cost range between $50,001 - $75,000.
Comment 15	Based on the service agreement, Hamilton Anderson Associates was awarded the following projects: [redacted] and [redacted]. According to the bid information they were technically the third lowest responsible bidder if all bids are evaluated looking at an average project cost range between $50,001 - $75,000.
	In summary, MSHDA's response to the OIG's conclusion that the Authority lacked adequate procedures and controls to ensure that the City of St. Clair Shores complied with HUD's regulations for competitive proposals when procuring architectural services for its Program funded rehabilitation projects under the Act is as follows:
	a) Typically architectural services are procured through an RFP/RFQ process not a competitive proposal process therefore if we had been consulted prior to the bid letting we would have advised the city that they were going above and beyond what was necessary to meet HUD procurement regulations and recommended that they modify their process;
Comment 15	b) Upon careful evaluation of the bid documents it appears that there is a consistent and reasonable payment structure being used for all six architects; and
Comments 13 and 14	c) As a result of the extremely short, regulated NSP timeframe within which the City had to secure professional services, obtain cost estimates, prepare contracts, and obligate the NSP1 funds we understand why the city selected a hybrid procurement process; the City believed it was actually a better method to ensure NSP funding stimulated the local economy by sharing the work and that it was prudent "stimulus funding" decision making.

Ref to OIG Evaluation	Auditee Comments

Finding #5: The Authority lacked adequate controls over posting quarterly performance reports for the program under the Act.

The HUD OIG Audit Report finds MSHDA lacked adequate procedures and controls to ensure that it reported program accomplishments under the Act in a timely manner and in accordance with federal requirements. As a result, the public did not have timely access to the State's quarterly performance reports for the Program under the Act.

Comment 16

The Authority disagrees with Finding #5. MSHDA believes it has adequate procedures and controls to ensure that it reports Program accomplishments in a timely manner and in accordance with federal requirements. The issue is what constitutes timeliness under NSP. As discussed with the OIG auditors, MSHDA acknowledges that it used previous HUD standards for posting performance reports, that is to say reports were posted only after HUD approved the submitted reports. The reports were all submitted to HUD for approval within required NSP timelines. MSHDA had sufficient procedures in place to immediately change the report posting dates on its Web site once the OIG identified the requirement to post within 30 days of the end of the quarter. MSHDA's procedure is as follows:

Comment 17

1. The QPR is to be posted at the same time MSHDA submits the QPR for HUD review.

2. The QPR submission automatically triggers an e-mail notification to be sent to the HUD Detroit Office. Immediately following the submission of that e-mail, the submitter will send a second e-mail to the Web site coordinator with a downloaded copy of the submission attached. Then the coordinator will initiate the addition of the QPR to the MSHDA Web site in a prominent location.

3. If the QPR is sent back for revisions by HUD then a replacement posting will be issued at the time of receipt of the HUD approval. This posting will be triggered by the submitter who receives the approval notification from HUD. Once the approval e-mail is received, an e-mail will be immediately sent to the Web site coordinator with a downloaded copy of the approved QPR attached. Then the coordinator will initiate the addition of the QPR to our Web site in a prominent location.

4. Once the posting is completed, a screen shot print out verifying that the QPR was posted will also be collected and maintained by our Web site coordinator. In addition, the Web site coordinator will also attach a copy of the Edit Asset Printout for completion date verification.

Ref to OIG Evaluation	Auditee Comments
	Finding # 6: The Authority lacked adequate controls over reporting jobs created or retained from the use of program funds under the Recovery Act. The HUD OIG Audit Report finds MSHDA lacked adequate procedures and controls to ensure that it reported Program accomplishments for the Program under the Recovery Act accurately and in accordance with federal requirements.
Comment 18	The Authority disagrees with Finding #6. We are not disputing that a technical violation may have occurred, however, we believe that MSHDA substantially complied with HUD requirements in this regard. The NSP2 grant agreement was sent to MSHDA for signature in March 2010 and was executed by MSHDA on March 18, 2010. Given the grant agreement was not signed by MSHDA until thirteen days prior to the end of the first ARRA NSP2 reporting period, MSHDA had no activity to report and consequently, submitted a report with all zeros. Pursuant to the execution of the HUD/MSHDA grant agreement, MSHDA was required to enter into formal NSP2 Funding Agreements with each of the 19 NSP2 consortium partners. The Funding Agreements were executed and submitted to HUD on April 8, 2010.
Comment 18	MSHDA followed guidance per the "Recovery Frequently Asked Questions," (http://www.whitehouse.gov/omb/recovery_faqs/#g2). This guidance directed ARRA grantees to report job created and retained on a cumulative basis. Unaware of updated guidance at the time of the June 2010 report, MSHDA felt that it was acting responsibly by reporting all jobs in both quarters cumulatively. Although it is true the 12.27 jobs that were reported in the June 30, 2010 report were cumulative, MSHDA believes it substantially accurate as the Funding Agreements with the consortium partners were not signed until the first month of that quarter. Although MSHDA had an initial misstep by reporting cumulatively in the June 30, 2010 report, the need to report on a quarterly basis was identified and corrected by MSHDA for the September 30, 2010 report. MSHDA made expanded efforts to provide accurate and updated guidance to the consortium partners on the reporting requirements and to accurately report the quarterly jobs and contractor information for the entire NSP2 Consortium beginning with the September 30, 2010 report. MSHDA's process for gathering consortium partner reporting information improved greatly after the June 2010 reporting period, with updated reporting forms and technical assistance materials. Furthermore, due to the complexity of ARRA reporting OMB has implemented Continuous QA periods on FederalReporting.gov that allow Prime Recipients such as MSHDA to further review their submissions and make corrections as needed after the reporting period deadline. The new OMB Continuous QA period greatly improves the Michigan NSP2 Consortium's effectiveness in meeting the reporting requirements and assuring HUD and the public receive accurate data regarding jobs created.

OIG's Evaluation of Auditee Comments

Comment 1 The State did not comply with Federal requirements in its award, obligation, and use of Program funds under the Act; ensure that a subgrantee complied with HUD's regulations when procuring architectural services for its Program-funded rehabilitation projects under the Act; and comply with Federal requirements in its reporting of Program accomplishments under the Act and Recovery Act. It lacked adequate procedures and controls to ensure that (1) it awarded and obligated Program funds under the Act in accordance with Federal requirements; (2) sufficient documentation was maintained to support subgrantees' administrative costs for the Program under the Act and Federal requirements were followed; (3) a subgrantee complied with HUD's regulations for competitive proposals when procuring architectural services for its Program-funded rehabilitation projects under the Act; and (4) it reported Program accomplishments under the Act and Recovery Act in a timely manner, accurately, and/or in accordance with Federal requirements.

Comment 2 As of September 2010, the Authority had awarded and obligated all of the State's nearly $98.7 million in Program funds under the Act. As of August 2010, more than $1.7 million in Program funds under the Act had been used for administrative expenses. Further, the Authority was required to post the State's quarterly performance reports for the Program under the Act on its official Web site beginning July 2009 and submit quarterly performance reports to HUD beginning April 2010 that contained a detailed list of all of the projects or activities for which Recovery Act funds were expended or obligated, including an estimate of the number of jobs created and retained by the project or activity. Therefore, our audit of the State's Program was not premature.

Comment 3 We agree that a full underwriting was not required prior to the obligation of Program funds. However, the Association was required to have a reasonable basis for its estimate of the fair market value of the Cass Avenue properties when it notified Auburn REO, LLC, of its estimate of the fair market value of the Cass Avenue properties.

HUD's regulations at 24 CFR 570.606(e) state that the acquisition of real property for an assisted activity is subject to subpart B of 49 CFR Part 24, which begins at 49 CFR 24.101. Appendix A to 49 CFR Part 24 states that for programs and projects receiving Federal financial assistance described in 49 CFR 24.101(b)(2), an agency is to inform the owner(s) in writing of the agency's estimate of the fair market value for the property to be acquired. While section 24.101(b)(2) does not require an appraisal for these transactions, an agency must have some reasonable basis for its determination of the fair market value. Further, attachment A, section A.2., of OMB Circular A-122 requires all costs to be reasonable and adequately documented. Section A.3. states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the

costs. In determining the reasonableness of a given cost, consideration shall be given to whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization; its members, employees, and clients; the public at large; and the Federal Government.

On September 15, 2010, the Association notified Auburn REO, LLC, that it estimated the fair market value of the Cass Avenue properties at $1 million, and the Authority awarded the Association $1 million in Program funds for a repayable loan to be used to finance the acquisition of the Cass Avenue properties for the redevelopment of a mixed-use apartment building with 58 units for rent. However, the Authority could not provide documentation to support that the Association had a reasonable basis for its estimate that the fair market value of the Cass Avenue properties was $1 million.

The Authority lacked adequate procedures and controls to ensure that it maintained sufficient documentation to support that it awarded Program funds under the Act in accordance with Federal requirements. As a result, HUD lacked assurance that the Authority awarded $1 million in Program funds for eligible project costs.

Comment 4 Section 2301(c)(1) of Title III of the Act states that a State must use Program funds to purchase and redevelop abandoned and foreclosed-upon homes and residential properties not later than 18 months after receipt of the Program funds. According to the Federal Register, dated October 6, 2008, each grantee must obligate its Program funds within 18 months of HUD signing the Program grant agreement with the grantee. HUD's Program policy alert, volume 3, dated April 2010, states that for property owned by a grantee or subrecipient, Program funds may be reported as obligated when a construction contract is awarded with respect to a specific property or other action is taken with respect to a specific property that is legally binding on the grantee/subrecipient. Program funds may also be reported as obligated when a developer's agreement is executed and the developer has identified specific properties to be acquired and/or rehabilitated. HUD will consider Program funds obligated for a specific activity only when the developer furnishes the grantee/subrecipient with information identifying specific properties and provides documented cost estimates for acquisition, construction, and related costs, such as appraisal fees, for each identified property. On March 19, 2009, HUD entered into a grant agreement with the Authority for nearly $98.7 million in Program funds. Therefore, the State was required to obligate its Program funds by September 19, 2010.

Comment 5 The City of Saginaw and Saginaw Habitat for Humanity entered into a rehabilitation agreement, dated April 5, 2010, for $300,000 in Program funds to rehabilitate up to four buildings as designated by the City. However, the rehabilitation agreement did not include specific property addresses. On September 21, 2010, the City amended the rehabilitation agreement with Saginaw Habitat for Humanity to revise the amount of Program funds to $795,000 to

obligate the remainder of the Program funds the Authority awarded the City and include specific property addresses for the properties the City had gained site control of and wanted Saginaw Habitat for Humanity to rehabilitate. However, the amendment was not executed until 2 days after the required 18-month obligation deadline for Program funds. Therefore, the Authority reported Program obligations of nearly $705,000 for the City that did not qualify as obligations.

Comment 6 The Authority provided a residential rehabilitation contract totaling $83,500 for a property that the City of Port Huron purchased on July 6, 2010. However, the administrator of the City's Program did not enter into the residential rehabilitation contract with the contractor until October 5, 2010, which was more than 10 days after the required 18-month obligation deadline for Program funds. In its response, the Authority provided a purchase agreement between St. Clair County Nonprofit Housing Corporation, a developer, and an owner for the purchase of a property using $35,000 in Program income. However, the developer did not enter into the purchase agreement with the owner until September 27, 2010, which was 8 days after the required 18-month obligation deadline for Program funds. Further, the Authority did not provide a developer's agreement between the City and the St. Clair County Nonprofit Housing Corporation or a cost estimate for the acquisition of the property. Therefore, the Authority reported Program obligations of nearly $15,000 for the City that did not qualify as obligations.

Comment 7 HUD's regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant and subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. HUD's regulations at 24 CFR 570.506(h) require grantees to maintain evidence to support how Block Grant funds are expended. Attachment A, paragraph C.1., of OMB Circular A-87 requires all costs to be necessary, reasonable, and adequately documented.

Contrary to Federal requirements, the Authority lacked sufficient documentation to support that two of its subgrantees, Habitat for Humanity of Michigan and the City of Benton Harbor, used nearly $87,000 in Program funds from May through August 2010 for eligible administrative costs. The weaknesses regarding the lack of documentation to support that administrative costs were eligible occurred because the Authority lacked adequate procedures and controls to ensure that sufficient documentation was maintained to support subgrantees' administrative costs and Federal requirements were followed.

Comment 8 We did not recommend that the Authority review all source documentation for every disbursement request. We recommended that the Director of HUD's Detroit Office of Community Planning and Development require the State to implement adequate procedures and controls to ensure that sufficient documentation is maintained and Program funds under the Act are only used for eligible administrative costs.

Comment 9 The Authority provided many documents to support Habitat for Humanity of Michigan's administrative costs. However, the documentation was insufficient and required additional information and/or documentation to support the administrative costs.

Comment 10 The Authority did not provide sufficient documentation to support that Habitat for Humanity of Michigan included an inaccurate reporting period on financial status report number 9 in the Authority's online project administration link system.

Comment 11 The Authority used $3,400 in Program funds to pay administrative salaries for the former rehabilitation coordinator, the director, and the deputy director of the City of Benton Harbor's Department of Community/Economic Development for the reporting period June 1 through July 20, 2010.

The Authority provided summary timesheets for the periods June 11 through 24, 2010; June 25 through July 8, 2010; and July 9 through 22, 2010, for the former rehabilitation coordinator, the director, and the deputy director. However, the summary timesheets only included the amount of salaries that were paid using Program funds. The timesheets did not detail the number of hours each employee worked on Program activities. The Authority also provided activity reports for the former rehabilitation coordinator, director, and deputy director for the period June 11 through 24, 2010. It did not provide activity reports for the employees for the period June 25 through July 22, 2010. The activity reports for the former rehabilitation coordinator for the period June 11 through 24, 2010, showed that the former rehabilitation coordinator worked 7.5 hours per day totaling 75 hours for the period. This amount included 28.5 hours for Program activities. However, the summary timesheet for the period included 7.5 vacation hours for the former rehabilitation coordinator. The activity reports did not include vacation hours. The activity reports for the director and deputy director did not identify the number of hours the director and deputy director worked on Program activities.

Therefore, due to the discrepancy between the summary timesheet and the activity reports for the period June 11 through 24, 2010, for the former rehabilitation coordinator and the Authority not being able to provide sufficient documentation to support the number of hours the former rehabilitation contractor, the director, and the deputy director, as applicable, worked on Program activities for the period June 11 through July 22, 2010, we were unable to determine whether $3,400 in

wages for the rehabilitation coordinator, director, and deputy director was eligible administrative expenses for the Program.

Comment 12 According to the summary timesheets for the former rehabilitation coordinator, the director, and the deputy director of the City of Benton Harbor's Department of Community/Economic Development for the period June 11 through July 22, 2010, the three employees worked on activities not involving Program funds. Further, the Authority did not provide documentation to support how the supplies were allocable to the Program. Therefore, due to the lack of sufficient documentation, we are unable to determine whether the $800 in supplies was an eligible administrative expense under the Program.

Comment 13 HUD's regulations at 24 CFR 85.36(d)(3)(iv) state that in procurement by competitive proposal, awards will be made to the responsible firm with the proposal that is most advantageous to the program, with price and other factors considered. Section 85.36(d)(3)(v) states that grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. Section 85.36(f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. Section 85.36(f)(4) states that the cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used. Contrary to HUD's regulations, the City of St. Clair Shores did not select one of the most qualified competitors, negotiate fair and reasonable compensation for the services, or perform a cost or price analysis in connection with the procurement and inappropriately used a percentage of construction cost method of contracting.

Comment 14 The City of St. Clair Shores received 25 proposals, which it reviewed using a 45-point checklist. Although the proposals included architectural fees based on a percentage of the construction costs, the City did not consider price in its evaluation of the proposals. As a result, the City was required to evaluate the competitors' qualifications and select the most qualified competitor(s). The City selected the 7 most qualified firms since it anticipated rehabilitating 12 to 15 homes with Program funds and assumed that each firm would be able to design at least 2 homes. It submitted the seven firms to its council for approval. The council only selected six of the seven firms as approved vendors for the Program-funded rehabilitation projects. The six firms' fees ranged from 6 through 12 percent of the construction cost. The council did not select the remaining firm because its fees were 15 percent of the construction costs. Therefore, the City did not evaluate all of the proposals based on the same factors and did not select one of the seven most qualified competitors.

Comment 15 The Authority provided a one-page analysis of the fees contained within the City of St. Clair Shores' contracts with the six architecture firms and generally stated

that the fees were within the Authority's acceptable rates for architectural services. However, the Authority did not provide, for the six architecture firms, its calculation or documentation to support its calculation of the fees for architectural services based on an averaged project cost range between $50,001 and $75,000 and documentation to support its acceptable rates for architectural services. Therefore, the Authority did not provide sufficient documentation to support that the nearly $68,000 in Program funds under the Act was reasonable for the architectural services provided for the City's rehabilitation projects.

Comment 16 The Federal Register, dated October 6, 2008, states that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter. Reports must be submitted using HUD's Web-based system and, at the time of submission, be posted prominently on the grantee's official Web site. The Authority posted the State's quarterly performance report for the fourth quarter of 2010 on its official Web site on February 1, 2011. However, it did not post the State's quarterly performance reports for the Program under the Act for the first through third quarters of 2010 on its official Web site for more than 30 days after the end of each quarter. Further, the Authority could not provide documentation to support the dates on which it posted the State's quarterly performance reports for the Program under the Act for periods before January 1, 2010, to its official Web site. The Authority lacked adequate procedures and controls to ensure that it reported Program accomplishments under the Act in a timely manner and in accordance with Federal requirements.

Comment 17 The Authority's revised procedures for posting the State's quarterly performance reports for the Program under the Act should assist the Authority in reporting Program accomplishments in a timely manner and in accordance with Federal requirements.

Comment 18 Section 1512(c) of Title XV of the Recovery Act requires each recipient that receives Program funds under the Recovery Act from a Federal agency to submit, no later than 10 days after the end of each calendar quarter, a report to that Federal agency that contains a detailed list of all the projects or activities for which Recovery Act funds were expended or obligated, including an estimate of the number of jobs created and retained by the project or activity. OMB Memorandum M-10-08, dated December 18, 2009, states that recipients will now report job estimates on a quarterly basis rather than a cumulative basis.

The Authority reported in federalreporting.gov that the use of Program funds under the Recovery Act created or retained 0 and 12.27 jobs in the first and second quarters of 2010, respectively. However, the Authority lacked sufficient documentation to support the number of jobs it reported as created or retained. It did not request its consortium members to provide the number of jobs created and retained for the quarterly performance report for the first quarter of 2010. Further, it requested its consortium members to provide the cumulative number of

jobs created and retained for the first and second quarters of 2010 for the quarterly performance report for the second quarter of 2010. In addition, (1) the consortium members did not provide detailed records to determine in which quarter the jobs were created or retained, (2) the Authority verbally clarified discrepancies with its consortium members without maintaining documentation to support the changes that it made to the number of jobs the consortium members provided as created or retained, and (3) the Authority did not provide documentation to support its calculation of the number of jobs created or retained within the Authority for the second quarter of 2010.

Appendix C

FEDERAL AND AUTHORITY REQUIREMENTS

Findings 1, 2, 3, 4, and 5
HUD's grant agreement with the Authority for the Program under the Act, dated March 19, 2009, states that the following are part of the grant agreement: the Federal Register, dated October 6, 2008; the Act, the State's submission for Program assistance; HUD's regulations at 24 CFR Part 570; and the funding approval.

Findings 1, 2, 3, and 4
HUD's regulations at 24 CFR 570.501(b) state that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise.

Findings 1, 3, and 4
The Federal Register, dated October 6, 2008, states that except as described in the Federal Register, statutory and regulatory provisions governing the Block Grant program, including the provisions in subparts A, C, D, I, J, K, and O of 24 CFR Part 570, as appropriate, shall apply to the use of Program funds.

Findings 1 and 3
HUD's regulations at 24 CFR 85.22(b) state that allowable costs for State, local, or Indian tribal governments will be determined in accordance with cost principles contained in OMB Circular A-87 and private nonprofit organizations will be determined in accordance with cost principles contained in OMB Circular A-122.

HUD's regulations at 24 CFR 570.502(a) state that recipients and subrecipients that are governmental entities, including public agencies, shall comply with OMB Circular A-87. Section 570.502(a)(6) states that recipients and subrecipients that are governmental entities shall comply with 24 CFR 85.22. HUD's regulations at 24 CFR 570.502(b) state that subrecipients, except subrecipients that are governmental entities, shall comply with the requirements and standards of OMB Circular A-122.

HUD's regulations at 24 CFR 570.506 state that recipients shall establish and maintain sufficient records to enable HUD to determine whether the recipients have met the requirements of 24 CFR Part 570. Section 570.506(a) states that recipients need to maintain records providing a full description of each activity assisted with Block Grant funds; the amount of Block Grant funds budgeted, obligated, and expended for the activities; and the provisions under which the activities are eligible. Section 570.506(h) states that recipients need to maintain financial records in accordance with the applicable requirements in section 570.502. Recipients shall maintain evidence to support how Block Grant funds are expended. The documentation must include

invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties, and/or other documentation appropriate to the nature of the activity as applicable.

Attachment A, section C.1., of OMB Circular A-87, revised May 10, 2004, requires all costs to be necessary, reasonable, and adequately documented. Section C.2. states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, and market prices for comparable goods or services.

Attachment A, section A.2., of OMB Circular A-122, revised May 10, 2004, requires all costs to be reasonable and adequately documented. Section A.3. states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration shall be given to whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization; its members, employees, and clients; the public at large; and the Federal Government.

Finding 1

The Federal Register, dated October 6, 2008, states that HUD does not have the authority to provide alternative requirements for the Uniform Relocation Act of 1970 (Relocation Act). Unless the Federal Register describes how the Act supersedes the statutes in the Relocation Act, these statutes in the Relocation Act will apply as in the Block Grant program.

HUD's regulations at 24 CFR 570.606(e) state that the acquisition of real property for an assisted activity is subject to subpart B of 49 CFR Part 24. Section 570.606(g)(1) states that a grantee is responsible for ensuring compliance with the requirements of 24 CFR 570.606, notwithstanding any third party's contractual obligation to the grantee to comply with the provisions of 24 CFR 570.606. For purposes of the State Block Grant program, the State shall require recipients to certify that they will comply with the requirements of this section.

The U.S. Department of Transportation's regulations at 49 CFR 24.101(b)(2) state that the requirements of subpart B do not apply to acquisitions for programs or projects undertaken by an agency or person that receives Federal financial assistance but does not have authority to acquire property by eminent domain, provided that such agency or person shall before making an offer for the property, clearly advise the owner that the agency or person is unable to acquire the property if negotiations fail to result in an agreement and inform the owner in writing of what the agency or person believes to be the market value of the property. Appendix A to 49 CFR Part 24 states that for programs and projects receiving Federal financial assistance described in 49 CFR 24.101(b)(2), an agency is to inform the owner(s) in writing of the agency's estimate of the fair market value for the property to be acquired. While section 24.101(b)(2) does not require an appraisal for these transactions, an agency may still decide that an appraisal is necessary to support its determination of the fair market value of these properties, and in any event, an agency must have some reasonable basis for its determination of the fair market value.

Paragraph 1 of the general terms of the Authority's award to the Association, dated September 15, 2010, stated that the Authority intended to provide a repayable loan to the Association to be used to finance the acquisition of the Cass Avenue properties and that the Authority expected the Association to enter into a development agreement with The Auburn, LLC, or another development entity acceptable to the Authority and transfer the Cass Avenue properties to the entity for a price to be approved by the Authority. The Authority would enter into a regulatory agreement with the Association that imposed Program restrictions as covenants running with the land. Paragraph 2 stated that the amount of the Program award should not exceed $1 million in Program funds. Paragraph 13 stated that the Association must also agree to comply with all applicable Program, Block Grant, and other regulations and requirements applicable to the use of Program funds and enter into a regulatory agreement as described in paragraph 1 of the general terms.

Finding 2

Section 2301(c)(1) of Title III of the Act states that any State or unit of general local government that receives amounts pursuant to this section shall, not later than 18 months after receipt of such amounts, use such amounts to purchase and redevelop abandoned and foreclosed-upon homes and residential properties.

The Federal Register, dated October 6, 2008, states that each grantee must use its Program funds within 18 months of HUD signing its Program grant agreement with the grantee. Program funds are used when a State, unit of general local government, or any subrecipient thereof obligates the Program funds for a specific Program activity. Program funds are obligated when orders are placed, contracts are awarded, services are rendered, and similar transactions have occurred that require payment by the State, unit of general local government, or subrecipient. If a State or unit of general local government fails to use its Program funds within 18 months, HUD will recapture any unused funds and reallocate the funds in accordance with 42 U.S.C. 5306(c)(4).

HUD's Program policy alert, volume 3, dated April 2010, states that Program funds are not obligated for an activity when subawards or grants to subrecipients or units of general local government are made. Program funds may be reported as obligated when (1) the grantee or subrecipient makes an offer and it is accepted by a seller, (2) a construction contract is awarded with respect to a specific property or other action is taken with respect to a specific property that is legally binding on the grantee or subrecipient, (3) rehabilitation assistance is awarded to an individual who will rehabilitate and occupy the property as a primary residence, (4) a developer's agreement is executed and the developer has identified specific properties to be acquired and/or rehabilitated, (5) a construction contract is awarded with respect to a demolished or vacant property, (6) an agreement is executed with a community-based development organization or developer that has control of the demolished or vacant property and furnished cost estimates, (7) a contract is signed for disposition costs, (8) an agreement is executed with a provider of counseling services, or (9) an instrument is executed that awards home-ownership assistance to an individual who will purchase a property.

Finding 3

HUD's regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted

activities. These records must contain information pertaining to grant and subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

HUD's regulations at 24 CFR 570.502(a)(4) state that recipients and subrecipients that are governmental entities shall comply with 24 CFR 85.20, except for section 85.20(a).

HUD's regulations at 24 CFR 570.506(h) require grantees to maintain evidence to support how Block Grant funds are expended.

Finding 4

HUD's regulations at 24 CFR 85.36(d)(3)(iv) state that in procurement by competitive proposal, awards will be made to the responsible firm with the proposal that is most advantageous to the program, with price and other factors considered. Section 85.36(d)(3)(v) states that grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, when price is not used as a selection factor, can only be used in procurement of architectural/engineering professional services. Section 85.36(f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. Section 85.36(f)(4) states that the cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used.

HUD's regulations at 24 CFR 570.502(a)(12) state that recipients and subrecipients that are governmental entities shall comply with 24 CFR 85.36.

Finding 5

The Federal Register, dated October 6, 2008, states that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following the end of each quarter. The quarterly performance reports must be submitted using HUD's Web-based system and, at the time of submission, be posted prominently on the grantee's official Web site.

Finding 6

Section 1512(c) of Title XV of the Recovery Act states that each recipient that receives Program funds under the Recovery Act from a Federal agency shall submit, no later than 10 days after the end of each calendar quarter, a report to that Federal agency that contains a detailed list of all of the projects or activities for which Recovery Act funds were expended or obligated, including an estimate of the number of jobs created and retained by the project or activity.
HUD's grant agreement with the Authority for the Program under the Recovery Act, dated February 11, 2010, states that the following are part of the grant agreement: the Recovery Act;

the Act, the State's application for Program assistance under the Recovery Act; HUD's regulations at 24 CFR Part 570; and the funding approval.

Section 1.1 of OMB Memorandum M-09-21, dated June 22, 2009, states that the purpose of the memorandum is to provide Federal agencies and funding recipients with information necessary to effectively implement the reporting requirements included in section 1512 of Title XV of the Recovery Act. Section 2.5 states that beginning October 10, 2009, prime recipients must submit their data through federalreporting.gov no later than 10 days after each quarter. Section 2.6 states that prime recipients are required to collect and maintain all relevant information responsive to the reporting requirements outlined in section 1512 of Title XV of the Recovery Act and guidance since the enactment of the Recovery Act, including activities for the quarter ending June 30, 2009.

OMB Memorandum M-10-08, dated December 18, 2009, states that part 2 of the memorandum updates section 5 of OMB Memorandum M-09-21. The update reflects important simplifications to the manner in which job estimates are calculated and reported. Specifically, recipients will now report job estimates on a quarterly basis rather than cumulative basis. Section 3.1 of part 1 states that the data fields in the quarterly performance reports that are of major concern for significant errors are the Federal amount of the award, number of jobs retained or created, Federal award number, and recipient name. Section 5.1 of part 2 states that this updated guidance changes the job estimate calculation in that the recipient will now report job estimate totals by dividing the hours worked in the reporting quarter by the hours in a full-time schedule in that quarter. Recipients will no longer be required to sum across multiple quarters of data as part of the formula. Section 5.2 states that recipients should be prepared to justify their estimates. Recipients must use reasonable judgment in determining how best to estimate the job impact of recovery dollars, including appropriate sources of information used to generate such an estimate. Section 5.3 states that to perform the calculation for the number of jobs created or retained, a recipient will need the total number of hours worked by employees in jobs that meet the definition of a job created or a job retained for the quarter being reported. The recipient will also need the number of hours in a full-time schedule for the quarter. The reporting formula can be represented as total number of hours worked and funded by the Recovery Act within the reporting quarter divided by the quarterly hours in a full-time schedule. The reporting period quarters are defined as (1) first quarter, January 1 – March 31; (2) second quarter, April 1 – June 30; (3) third quarter, July 1 – September 30; and (4) fourth quarter, October 1 – December 31. The full-time-equivalent formula is intended to prevent overcounting of short-term or part-time jobs.