

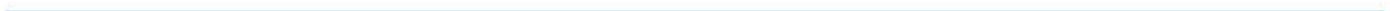


City of Jacksonville, FL

HOME Investment Partnerships Program

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2017-AT-1014
September 29, 2017**





To: Gary A. Causey, Director, Office of Community Planning and Development, 4HD

//Signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The City of Jacksonville, FL's HOME Investment Partnerships Program Was Not Always Administered in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the City of Jacksonville, FL's HOME Investment Partnerships Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2017-AT-1014

Date: September 29, 2017

**The City of Jacksonville, FL's HOME Investment Partnerships Program
Was Not Always Administered in Accordance with HUD Requirements**

Highlights

What We Audited and Why

We audited the City of Jacksonville, FL's HOME Investment Partnerships program as part of the activities in our annual audit plan. Our audit objective was to determine whether the City administered its HOME program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements. Specifically, we evaluated whether the City (1) properly supported HOME commitments in the Integrated Disbursement and Information System and (2) ensured that all HOME contracts and agreements were properly executed.

What We Found

The City did not always administer its HOME program in accordance with HUD's requirements. Specifically, it did not (1) ensure that some HOME contracts and agreements were properly executed and (2) properly support HOME commitments in the Integrated Disbursement and Information System¹. This condition occurred because the City's staff did not comply with HUD's HOME program guidance concerning contract execution requirements and commitment deadlines. As a result, the City entered improper commitments into the information system and may be at risk of losing the funds to recapture.

What We Recommend

We recommend that HUD (1) recalculate the commitment requirement as a result of the City's improperly committing HOME funds for the activities identified and determine the cumulative effect on the City's overall commitment requirement, and (2) require the City to establish and implement controls and procedures to ensure that valid commitment entries and all HOME contracts and agreements are properly executed.

¹ HUD's Integrated Disbursement and Information System disburses HOME funds, which are allocated or reallocated, and collects and reports information on the use of funds in the Treasury account.

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Background and Objective

The City of Jacksonville is an entitlement grantee that receives from the U.S. Department of Housing and Urban Development (HUD) annual allocations of HOME Investment Partnerships program funds authorized under the National Affordable Housing Act as amended. HUD allocates funds by formula among eligible State and local governments (participating jurisdictions) to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing.

Participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, and new construction of housing, and tenant-based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies, and other forms of investment that HUD approves.

To assist in achieving these purposes, participating jurisdictions must designate a minimum of 15 percent of their HOME allocations for investment in housing to be developed, sponsored, or owned by community housing development organizations (CHDO). A CHDO is a private, nonprofit, community-based service organization, the primary purpose of which is to provide and develop decent, affordable housing for the community it serves. During fiscal years 2014 through 2016, HUD allocated to the City more than \$6.5 million in HOME funds, including nearly \$1.1 million in CHDO reserves.

During our audit, Congress suspended the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019 via the Fiscal Year 2017 Consolidated Appropriations Act (Public Law No. 115-31). However, the suspension did not apply to CHDO set-aside funds (CHDO reserves). Therefore, our audit results are based on improper and invalid commitments funded with CHDO reserves that have deadlines occurring in 2015 or earlier.

Our audit objective was to determine whether the City administered its HOME program in accordance with applicable HUD requirements. Specifically, we evaluated whether the City (1) properly supported HOME commitments in the Integrated Disbursement and Information System and (2) ensured that all HOME contracts and agreements were properly executed.

Results of Audit

Finding 1: The City's HOME Program Was Not Always Administered in Accordance With HUD Requirements

The City did not properly commit HOME funds in accordance with HUD's requirements. This condition occurred because the City's staff did not comply with HUD's HOME program guidance concerning contract execution requirements and commitment deadlines. As a result, the City entered improper commitments into the information system and may be at risk of losing \$2.3 million in funds to recapture.

Regulations at 24 CFR (Code of Federal Regulations) 92.508; require participating jurisdictions to commit HOME funds within 24 months of their allocation and report commitment information in HUD's information system. Since the 24-month commitment deadline had not been met when the City committed more than \$2.3 million in HOME funds from its CHDO reserves, the funds were subject to HUD's cumulative and recapture provisions. Regulation at 24 CFR 92.500(d) state that HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of any funds from fiscal year 2014 and prior fiscal year allocations in the United States Treasury account that are not committed within the 24-month deadline. For purposes of determining the amount by which the HOME Investment Trust Fund will be reduced or recaptured, HUD will consider the sum of commitments to CHDOs, other commitments, or expenditures, as applicable, from all fiscal year allocations through the Fiscal Year 2014 allocation. This sum must be equal to or greater than the sum of all fiscal year allocations through the fiscal year allocation being examined (minus previous reductions to the HOME Investment Trust Fund), or in the case of commitments to CHDOs, 15 percent of those fiscal year allocations.

Invalid Commitments Due to Unexecuted Written Agreements

During our audit, we determined that both parties executing the contract or agreement did not always include a date with their signatures. According to CPD Notices 07-06 and 15-09, the signatures of all parties signing the agreement or contract must be dated to show the execution date. Five of the fifteen CHDO contracts and one of the five home buyer assistance loan agreements were signed but not dated by all of the interested parties.

Two CHDO contracts (activities 5058 and 5059) and one home buyer downpayment assistance agreement (activity 5059) were not properly executed before the 24-month deadline, which occurred on September 30, 2014, because the contracts and agreement were not dated.

Therefore, the \$155,408 in HOME funds was improperly committed from CHDO reserves and was subject to HUD's recapture and cumulative provisions for pre-2015 fiscal year allocations. See table 1.

In addition, three CHDO contracts (activities 5173, 5174, and 4652) were not fully executed before their applicable 24-month deadline. The City, the CHDO, or both did not date the contracts. The deadline for activities 5173 and 5174 was September 30, 2015, and for activity 4652 was October 31, 2013. More than \$2 million in HOME funds was improperly committed from CHDO reserves and therefore, was subject to HUD’s recapture and cumulative provisions for pre-2015 fiscal year allocations. See table 1.

Table 1

No.	Activity no.	Activity status	Commitment deadline date	Questioned CHDO contract amount	Questioned downpayment assistance agreement amount	Total questioned amount
1	5058	Completed	09/30/2014	\$ 62,700		\$ 62,700
2	5059	Completed	09/30/2014	82,708	\$10,000	92,708
3	5173	Open	09/30/2015	754,313		754,313
4	5174	Open	09/30/2015	385,687		385,687
5	4652	Completed	10/31/2013	878,624		878,624
Total						2,174,032

We discussed this issue with a City official who stated that staff incorrectly viewed the effective dates in the contracts as execution dates. As a result, the City improperly committed more than \$2.1 million in HOME funds because it did not fully execute the contracts.

Funds Improperly Committed

The City did not properly commit HOME funds according to HUD requirements. We reviewed 10 activities² and determined that 2 had issues involving improper commitments. For activity 5455, the City committed HOME funds more than 4 months after the 24-month deadline due to a delay in the City’s approval of the project. For activity 5456, the City committed the funds in HUD’s information system without a legally binding agreement and the activity was still open during our audit. These conditions occurred because the City’s staff did not comply with HUD’s HOME program guidance concerning commitment deadlines. See table 2.

² Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

Table 2

No.	Activity no.	Commitment due date (24-month deadline)	Actual agreement date	Committed amount	Drawn down	Remaining balance
1	5455	09/30/2015	02/18/2016	\$76,808	\$0	\$76,808
2	5456	10/31/2016	07/01/2016*	77,484	0	77,484
Total				154,292	0	154,292

* The City entered the \$77,484 into HUD's information system without an executed legally binding written agreement in place; therefore, the agreement date was invalid. The activity was open in the system until April 3, 2017.

- Activity 5455 was listed under two different program years (2013 and 2014). Based on discussions with the City, we used the earlier program year for determining the commitment deadline. We determined that the commitment deadline was September 30, 2015, and the HOME funds for the activity were committed on February 18, 2016, more than 4 months after the deadline. As a result, the 24-month commitment deadline had not been met when the City committed the \$76,808 in HOME funds from CHDO reserves.
- Activity 5456, listed under program year 2014, was improperly committed in HUD's information system in July 2016. The system showed this activity as open; although the City had not executed a legally binding agreement for the activity.³ The 24-month commitment deadline was October 31, 2016. After we identified this issue, the City canceled the activity in the system on April 3, 2017.

Conclusion

The City did not properly commit HOME funds in accordance with HUD's requirements. We determined that (1) some HOME contracts and agreements were not properly executed due to missing signature dates, (2) funds were committed after the 24-month deadline, and (3) funds were committed in HUD's information system without a legally binding agreement. As a result, the City entered improper commitments into the information system for seven contracts and one homebuyer agreement and may be at risk of losing \$2.3 million in funds to recapture.

³ Regulations at 24 CFR 92.2, provide that a commitment occurs when the participating jurisdiction (1) has executed a legally binding agreement with a State recipient, a sub recipient, or a contractor to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance; (2) has executed a written agreement reserving a specific amount of funds for a CHDO; or (3) has met the requirements to commit to a specific local project.

Recommendations

We recommend that the Director of HUD's Jacksonville, FL, Office of Community Planning and Development

- 1A. Recalculate the commitment requirement as a result of the City improperly committing HOME funds for activities 5455, 5456, 5058, 5059, 5173, 5174, and 4652 and determine the cumulative effect on the City's overall commitment requirement. Any overpayments should be recaptured or reduced in the HOME Investment Trust Fund account.

- 1B. Require the City to establish and implement controls and procedures to ensure compliance with requirements for commitments entered into HUD's information system. This includes but is not limited to controls and procedures to ensure that valid commitment entries and all HOME contracts and agreements are properly executed.

Scope and Methodology

We performed our audit work between February and June 2017 at the City's Housing and Community Development Division located at 214 North Hogan Street, 7th floor, Jacksonville, FL. The audit period was January 1, 2014, through December 31, 2016. We expanded the audit period as needed to accomplish our objective.

To accomplish our objective, we

- Reviewed relevant HOME program requirements and applicable Federal regulations to gain an understanding of the HOME administration requirements.
- Interviewed staff from the HUD Jacksonville, FL, Office of Community Planning and Development and the City.
- Obtained an understanding of the City's management controls and procedures through interviews with City housing management officials.
- Reviewed the City's consolidated annual performance and evaluation reports and action plan for HOME program years 2014 through 2016 to gather data on the City's expenditures and planned activities.
- Reviewed reports from the Integrated Disbursement and Information System to obtain HOME commitment and expenditure data for the audit period.
- Reviewed the City's organizational chart for its HOME program and its HOME program policies, including its HOME policies and procedures manual.
- Reviewed HUD's 2014 monitoring report on the City's HOME program to determine the City's compliance with program regulations and guidelines.
- Reviewed certification documentation for CHDOs to ensure that the City certified the nonprofit organizations before committing HOME funds to them.
- Reviewed documentation, including written agreements, CHDO certifications, contractors' requests for payment, detailed expenditure reports, journal entries, and payroll registers, to determine the eligibility of CHDOs, and the HOME activities and associated costs included in our commitment and expenditure samples.

We selected a nonstatistical sample of 10 of 276 HOME activity commitments reported in the information system on HUD's PR-22 report from January 2014 through December 2016 to determine whether the commitments reported to HUD were accurate and properly supported.

Those 10 commitments represented more than \$868,000, or 18.3 percent, of the City's total \$4,736,428 of HOME funds committed during the audit period from January 2014 through December 2016. The sample was selected based on commitments of \$75,000 or greater.

Therefore, the results of this audit apply only to the items reviewed and cannot be projected to the universe of commitments.

Computer-processed data generated by the City were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of the computer-processed data. Instead, our conclusions were based on the supporting documentation obtained during the audit, including but not limited to expenditure support documents, contracts, agreements, and CHDO certification letters.

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

Internal Controls

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is in accordance with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The City's staff did not comply with HUD's HOME program guidance concerning contract execution requirements and commitment deadlines (finding).

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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City of Jacksonville, Florida
Lenny Curry, Mayor
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214 North Hogan Street, 7th Floor
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(904) 255-8200
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August 29, 2017

Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit Region IV
75 Ted Turner Drive, SW, Room 330
Atlanta, GA 30303

Dear Ms. Irons,

In response to your office's draft audit report provided to this agency on August 25, 2017, the City of Jacksonville's Housing and Community Development Division, Neighborhoods Department, offers the following comments:

Finding 1: The City's HOME Program was not always administered in accordance with HUD requirements:

- A. It was determined that both parties executing the contract or agreement did not always include a date with their signatures; therefore, the City did not properly commit HOME funds in accordance with HUD requirements per the HOME Final Rule as 92.2 defines.
- B. Comments to insert into the final report – Staff had already identified a weakness in the internal controls prior to the HUD audit. As such, staff had previously identified the weakness of not always dating the contracts and was actively seeking corrective action prior to the HUD OIG visit this summer.

In March, 2016 a new Chief of Housing and Community Development Division was hired by the City of Jacksonville. The Chief has compiled existing Division policies and procedures manuals and is currently updating them. In addition, the Chief is creating a desk manual for each employee that will be completed by 11/1/17. The Chief has also implemented new file procedures, file checklists to ensure all documents are in the file, monitoring of subrecipients on a quarterly basis, added compliance language to the universal applications as well as the contracts, reviewed and made corrections to the IDIS system on projects and activities, and most importantly, added checks and balances to the contract routing procedures, including the review of signatures and dates.

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Comment 1

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1



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August 29, 2017
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HUD

A new Compliance Analyst has been hired as of 8/28/17, and this person will be responsible for monitoring the contracts, files, acquisitions, property closings, as well as the affordability periods.

With the above internal controls in place, the City of Jacksonville will be more efficient and effective managing the program to provide reasonable assurance it meets its objectives, reliable reports are timely, all contracts are executed properly, and are in accordance with the guidelines and regulations. Monitoring policies and procedures have been strengthened and implemented so the City can address audit issues in a timely manner and incorporate corrective actions going forward. Housing and Community Development Division, Neighborhoods Department, looks forward to working with the local HUD CPD office in implementing the positive changes that the City are and have been incorporating.

If you have any questions, please contact my office at (904) 255-8204 or via email at dianams@coj.net.

Sincerely,

Diana M. Seydlorsky
Chief of Housing and Community Development Division

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OIG Evaluation of Auditee Comments

Comment 1 The City stated that their staff had identified the weakness of not always dating the contracts and was actively seeking corrective action prior to the OIG audit. The officials also stated that the new Chief of Housing and Community Development Division is updating policies and procedures, creating a desk manual for employees, and added checks and balances to contract routing procedures, including the review of signatures and dates. The City further stated that with the internal controls in place, it will be more efficient and effective managing the program to provide reasonable assurance it meets its objectives, reliable reports are timely, all contracts are executed properly, and are in accordance with the guidelines and regulations. Lastly, the City stated that monitoring policies and procedures have been strengthened and implemented so the City can address audit issues in a timely manner and incorporate corrective actions going forward.

We acknowledge that the City has begun taking action. The City must work with HUD to provide adequate supporting documentation and ensure that all corrective actions are completed and effective to address the recommendations during the audit resolution process.