



Issue Date	July 08, 2010
Audit Report Number	2010-LA-1013

TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

*Tanya E. Schulze*

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The City of Montebello Did Not Comply With HOME Requirements

## **HIGHLIGHTS**

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

We reviewed the City of Montebello's (City) HOME Investment Partnerships Program (HOME) at the request of the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Community Planning and Development (CPD). The request was based on findings contained in a 2008 single audit report and 2009 HUD CPD technical assistance report, which stated that the City did not fully comply with HOME program requirements in the ongoing development of its 2006 Whittier and 6<sup>th</sup> Street project. Our objective was to determine whether the City's project was timely, supported with valid agreements, and accurately reported in HUD's Integrated Disbursement and Information System (IDIS).

### **What We Found**

The City's Whittier and 6<sup>th</sup> Street project was not timely, and the City committed and disbursed \$1.3 million in HOME funds without the required written agreement. It also recorded the project as completed in IDIS although no project construction had begun.

## **What We Recommend**

We recommend that the Director of HUD CPD require the City to repay the \$1.3 million in HOME project funds, plus any interest due, and place the funds into the HOME U.S. Treasury account. In addition, require the City to implement written procedures and controls over the HOME program and obtain HUD information system training.

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 directive issued because of the audit.

## **Auditee's Response**

We provided the City the draft report on May 18, 2010, and held an exit conference with the City on June 3, 2010. The City generally disagreed with our report.

We received the City's response on June 14, 2010. The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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The HOME Investment Partnerships Program (HOME) is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act. The program regulations are contained in 24 CFR (Code of Federal Regulations) Part 92 and the HOME Investment Partnerships Program Final Rule. HOME funds are awarded annually as formula grants to participating jurisdictions and used to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income households. The program allows State and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancement, rental assistance, or security deposits. Further, a participating jurisdiction may invest HOME funds as equity investments, interest-bearing loans or advances, non-interest-bearing loans or advances, interest subsidies consistent with the purposes of this part, deferred payment loans, grants, or other forms of assistance that HUD determines to be consistent with the regulation. Households must meet certain low-income limit criteria published by the U.S. Department of Housing and Urban Development (HUD) to receive HOME assistance.

The City of Montebello: The City of Montebello (City) was incorporated on October 16, 1920, and conducts its operations as a general law, council/administrator city. The City is governed by a council of five members elected at large that serve for staggered 4-year terms. The city clerk and city treasurer are also elected to 4-year terms. The city mayor, mayor pro tem, city administrator, and city attorney are appointed by the city council. Montebello, CA, encompasses 8.2 square miles and has a population of approximately 65,000.

As a participating jurisdiction, the City is responsible for the overall administration and oversight of the HOME and Community Development Block Grant (CDBG) programs. Using funds from these programs, the City has sponsored rehabilitation, low-interest loan, and various redevelopment projects. Between 2008 and 2009, the City was awarded just over \$2.1 million in CDBG and \$1 million in HOME funds. It received \$282,296 in CDBG funds under the American Recovery and Reinvestment Act of 2009 and was allocated \$333,565 in Neighborhood Stabilization Program funds from the State of California. The City's HOME program is managed through its Economic Development Department, which reports to the city administrator and city council.

In its 2008 single audit report, the City's independent auditor found that the City inappropriately requested and received \$1.3 million in HOME funds before the funds were expended or committed to a specific local project. HUD's June 2009 technical assistance review letter stated that the City's written HOME agreements did not include all of the necessary HOME provisions and did not specify a HOME project. HUD requested that the City provide the current status of the project, including documentation of the timeframe of the HOME commitment, accounting of funds, and return of any funds due plus interest to the U.S. Treasury. The City issued a response to HUD's report, stating that the project was still on track to go forward by April 2010, but did not provide all project details as requested by HUD.

Our objective was to determine whether the City's Whittier and 6<sup>th</sup> Street project was timely, supported with valid agreements, and accurately reported in HUD's Integrated Disbursement and Information System (IDIS).

## RESULTS OF AUDIT

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### Finding: The City's Whittier and 6<sup>th</sup> Street Project Did Not Comply With HOME Requirements

The City did not follow HOME requirements when it drew down funds from the HOME U.S. Treasury account for its Whittier and 6<sup>th</sup> Street project. Funds were not drawn for the project until more than 1 year after the original commitment, they were not disbursed to the developer for another 8 months, and construction on the project had not begun. In addition, the City did not have a valid written agreement when it withdrew funds as required by HOME regulations. Finally, the City improperly recorded the project as completed in IDIS. This problem occurred because the City lacked procedures and controls over its program and did not have an adequate understanding of HOME program requirements. As a result, its affordable housing goals had not been met, and the project's status was misrepresented to HUD.

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#### **The City's Project Was Not Timely**

HOME funds totaling \$1.3 million were committed in November 2006 for acquisition and rehabilitation of the Whittier and 6<sup>th</sup> Street area of Montebello, CA. According to the City's records, the project would produce a mixed-use development consisting of 62 rental units, of which 10 would be affordable. Although funds were originally committed in November 2006, they were not drawn until June 2008, and as of April 2010, construction had not begun. Our review disclosed that the City severed its ties with its original project developer in 2004. However, the developer was in possession of one of the City's properties to be used for the project and did not grant the property back to the City's Redevelopment Agency until 2007.

While it was severing ties with its original developer, the City was also negotiating with a second developer to complete the project. The City entered into an exclusive negotiation agreement with its current developer in March 2008. The City's records also contained a March 2008 owner's participation agreement, a June 2008 purchase and sales agreement, and a February 2009 loan agreement stating that the developer would receive \$1.3 million in HOME funds as a forgivable loan in exchange for the developer's creating 10 affordable housing units as a part of the 62-unit development. Since the agreements were signed, no project construction had taken place. Although 24 CFR 92.502 requires HOME funds to be expended within 15 days, escrow documents showed that the \$1.3 million was given to the developer for the purchase of property at the site in February 2009, 8 months after funds were withdrawn.

The City cited a number of reasons why project construction had not been initiated, including frequent changes in the city council's composition and unfavorable market

conditions. The City indicated that its council had recently expressed concerns about the height of the project and that the project was on hold until relocation of utilities from an adjacent alley had been completed. We concluded our fieldwork in early April; however, the City assured us that work on the utilities relocation would begin in the near future.

Like the City, the developer told us that once the utilities relocation was completed, he could begin construction. However, the developer told us that he was still acquiring properties for the site and searching for additional sources of funding. The developer estimated that actual project construction could begin in 2 years with an estimated completion date of 3 years.

24 CFR 92.2 defines a commitment for a new construction project as a project in which construction “can reasonably be expected to start within twelve months of the agreement date.” HOME regulations also require the funds to be committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of its execution of the HOME agreement. Otherwise, HUD will reduce or recapture the uncommitted HOME funds (see Appendix C of this report).

The following are photographs of the project site awaiting development:



Front - Whittier and 6<sup>th</sup> Street view of preexisting store





Side – 6<sup>th</sup> Street view of City’s vacant lot granted to developer



Rear view of vacant lot

**Funds Were Drawn Without a Valid Written Agreement**

In March 2008, the City entered into an exclusive agreement with its current developer to determine whether it wished to proceed with further negotiations to redevelop the Whittier and 6th Street properties. The agreement did not state that the developer would produce a specific amount of affordable units or discuss project funding but only



indicated that both parties (the City and developer) agreed to negotiate exclusively with each other concerning overall project development. If after a 1-year term, each party agreed that the developer could deliver the project as specified, an owner's participation agreement, specifying design, construction, and financing of the project, would be entered into by both parties.

The City provided a copy of an owner's participation agreement; however, it had not been officially approved. The City's project file also contained a number of memorandums stating its intention to obtain such an agreement, and the City had recently contracted with its attorney to prepare the owner's participation agreement. HOME regulations at 24 CFR 92.2 state that a commitment to a specific local project means the participating jurisdiction has executed a legally binding agreement under which HOME funds will be provided to the owner for an identifiable project. In addition, the agreement did not include the required description of the use of HOME funds, as required by 24 CFR 92.504(c)(3), including a schedule for completing tasks and a budget. The City's purchase and loan agreements also did not contain all required provisions, and the loan agreement was executed after withdrawal of funds. As a result, the City did not meet HUD's commitment and agreement requirements before withdrawing and disbursing the funds to the developer.

### **The City Inaccurately Reported the Project in HUD's System**

The City recorded the project as a completed acquisition and rehabilitation activity in IDIS. HOME regulations state that project completion means that all the necessary title transfer requirements and construction work have been performed and the project complies with HOME property standards (see Appendix C). Therefore, it is not possible for the rehabilitation portion of the project to have been complete since construction had not been initiated.

The City claimed that this action was necessary because the acquisition portion of the project had been completed. However, HUD's IDIS Reference Manual identifies in progress projects as "underway" and details the various stages of rental and homebuyer activities. In order for a HOME activity to be recorded as completed, IDIS requires that the participating jurisdiction enter such information as the total number of completed units, monthly rents, and household income. This information is not yet available since project construction has not begun.

It is important that projects be recorded accurately in IDIS, as it feeds into other HUD financial and program reporting systems and is used to track the project status. Therefore, the City must record its projects accurately and in accordance with stated HOME and other applicable guidance.

## **HUD Was Not Informed of Project Problems**

The City told us that it remained in contact with HUD and had informed the Los Angeles CPD field office of the problems associated with the project. However, we could find no records in the City's or HUD's files that confirmed this claim, and the field office had been unaware of the problems associated with the project. The City's records showed that the City was concerned about losing a portion of its HOME funding due to a commitment shortfall and wanted to expedite the withdrawal of funds. Therefore, it is likely that the City did not want to inform HUD of the problems and delays associated with the project because HUD may have required the return of project funds, as HUD later did after its 2009 review (see Background and Objective section). The City then misinformed HUD of its commitment status.

HUD's HOMEfires guidance recognizes and allows for unforeseen events that can occur and are beyond the control of the grantee and advises grantees to remain in contact so that a workable solution can be achieved. However, HUD will make a finding if a participating jurisdiction has committed HOME funds to a project when there is not a reasonable expectation that construction would start within 12 months. In such instances, HUD requires cancellation of the project (see Appendix C).

## **The City Had No Written Internal Policies and Procedures**

The City informed us that they did not maintain current written policies and procedures to administer its HOME program. Instead, the City stated that it regularly consulted the HUD CPD website as needed for program information. However, based on the issues identified above, the City did not sufficiently consider HOME program requirements nor have an adequate understanding of HUD's IDIS system. A proper system of written procedures and controls would help ensure the City's personnel administering the program understand and adhere to HOME requirements. Such a system would reduce the risk to the program when unusual circumstances or issues are encountered.

## **Conclusion**

The City did not comply with HOME requirements when it withdrew and spent \$1.3 million in HOME funds for its Whittier and 6<sup>th</sup> Street project. This condition occurred because the City lacked sufficient procedures, controls, and understanding of HOME requirements to take proper action when difficulties arose with the project. The City's lack of communication with HUD officials further aggravated the problem. Consequently, HUD's and the City's affordable housing goals were not met.

The City's commitment and expenditure of HOME funds without a valid written agreement was an ineligible use of funds, and, therefore the funds should be returned to the U.S. HOME Investment Treasury account, where they can be reallocated to fund other HOME projects. Since the funds were not expended for eligible costs within 15 days of withdrawal, interest would also be due.

## **Recommendations**

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

- 1A. Repay \$1,300,000 in HOME project funds, plus any interest due, to the HOME U.S. Treasury account.
- 1B. Revise the Whittier and 6<sup>th</sup> Street project information to accurately reflect the project's status in IDIS.
- 1C. Implement internal written procedures and controls over the administration of the HOME program.
- 1D. Obtain formal IDIS training.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the City, located in Montebello, CA, between October 2009 and April 2010. Our audit generally covered the period November 1, 2006, through March 2010.

To accomplish our audit objectives, we

- Reviewed applicable HUD regulations, including 24 CFR Part 92, and the IDIS Reference Manual.
- Reviewed the City's Financial Department's general ledger details and summaries for the City' fiscal years 2007 through 2009.
- Reviewed the City's action plans and grant agreements.
- Reviewed single audit reports for fiscal years 2007 and 2008.
- Reviewed HUD's technical assistance review and other correspondence between HUD and the City.
- Reviewed agreements between the City and its developer.
- Reviewed IDIS reports pertaining to the \$1.3 million in HOME funds.
- Reviewed HUD Line of Credit and Control System reports to analyze and verify the City's drawdowns.
- Reviewed the City's board meeting minutes, resolutions from city council meetings, and organization charts.
- Interviewed appropriate City management and staff.
- Interviewed the project developer and escrow company staff.

We conducted the review 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 conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

- Implementation of policies and procedures to ensure that program activities meet established objectives.
- Implementation of policies and procedures to ensure that program activities comply with applicable laws and regulations.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

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

The City did not have

- Sufficient policies and procedures to ensure that its Whittier and 6<sup>th</sup> street project accomplished HOME affordable housing program goals.

- Sufficient policies and procedures to ensure that the Whittier and 6<sup>th</sup> Street project complied with HOME program rules and regulations.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible <u>1/</u>
1A	\$1,300,000

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



## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



*City of Montebello*

June 14, 2010

Ms. Joan S. Hobbs  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
OFFICE OF INSPECTOR GENERAL (OIG) Region IX  
611 West Sixth Street, Suite 1160  
Los Angeles, California 90017-3101

**SUBJECT: City of Montebello Comments to HUD OIG  
Draft Audit Report Number 2010-LA-1XXX**

The City is in receipt of the May 18, 2010, letter and Draft Audit Report. The following is the City's formal response to the Office of Inspector General's Draft Audit Report dated May 18, 2010.

#### SUMMARY OF CITY'S POSITION

The City of Montebello ("City") acted in good faith to implement the intent and requirements of the HOME program and associated regulations. We have consistently informed and worked with HUD staff in implementing the program, discussing the specifics of the project, seeking guidance, and following HUD's guidance. While raising some important points, the draft audit contains numerous statements and conclusions which we believe to be inaccurate or simply wrong.

Accordingly, we respectfully dispute the findings of the draft audit. We particularly emphasize our belief that the recommend action -- City repayment of the entire \$1.3 million HOME fund grant, plus interest -- is excessive. We believe it is important to note that the situation giving rise to the draft audit arose in the context of an unprecedented drop in our nation's housing market in general, and the housing market in southern California in particular, which has precipitated numerous delays and other unanticipated problems. These issues are not simply issues that agencies like the City face, but are issues which plague the entire real estate market. We respectfully suggest that the draft audit does not completely or adequately assess the impact of these issues, and is otherwise unreasonably accusative in light of this economic crisis.

*1600 West Beverly Boulevard • Montebello, California 90640-3932 • (323) 887-1200*

**Comment 1**

**Comment 1**

Thus, to the extent the final audit recommends that action be taken against the City, we believe a lesser penalty is appropriate, such as: (i) establishing administrative schedules and procedures to address the perceived HOME Program violations; (ii) implementing requirements which would allow the City to complete the project to HUD's satisfaction; and (iii) imposing other requirements which address the perceived violations but otherwise allow the City to continue to devote the \$1.3 million in HOME funds toward expanding affordable housing in the City.

In this economic climate, local agencies should be accommodated in their good faith efforts to develop affordable housing, even if such efforts may have fallen short in some aspects. The City respectfully suggests that the \$1.3 million in HOME Program funds continue to be devoted toward the use they were provided, and that HUD work with the City to ensure development of affordable units to HUD's satisfaction.

**OVERVIEW OF THE CITY'S PROJECT**

**Comment 1  
Comment 2**

The purpose of the HOME program is foremost to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income Americans. The funds in question were devoted for this purpose. Specifically, through a loan agreement entered-into with a third party developer, the City provided \$1.3 million in HOME Program funds for the purpose of developing ten (10) affordable units. The loan agreement precedes a formal development agreement with the developer, but expressly requires development of the ten (10) affordable units, requires compliance with HOME Program requirements, and is secured by a first deed of trust on non income-restricted property to ensure recourse in the event of default.

The ten (10) affordable units will be one component of a much larger four-to-six (4-6) story mixed-use project containing a multi-level parking structure for the commercial development along Whittier Boulevard, the vacation of an alley and relocation of utilities to underground, and a new restaurant development. The project includes development of sixty-two (62) residential units, fifty-two (52) of which will be market rate units and ten (10) of which will be affordable units funded through the \$1.3 million HOME Program loan agreement, to be developed with the same quality and craftsmanship as the market rate units.

**Comment 1  
Comment 3**

It appears that the draft audit mischaracterizes the use of the HOME Program funds by stating that the funds were used for property acquisition. This is an inaccurate statement which appears throughout the draft audit. The \$1.3 million HOME Program funds were provided to enable the development of the ten (10) affordable units noted above, serving essentially as subsidization (at a rate of \$130,000 per affordable unit) so that the project's affordability component will meet the same standards of development as its market rate component. As indicated, this component requires adherence to HOME Program requirements and is secured by a first deed of trust on a non income-restricted parcel, which is part of the overall project. The property on which the ten (10) affordable units will be developed is subject to affordability covenants, and each unit will be subject to

such affordability covenants upon development and conveyance to a qualified very low- or low-income purchaser.

Unfortunately, the project has been delayed by a number of unanticipated factors, including but not limited to enormous changes to regional, state, and national real estate markets, which have impacted real estate development, real estate finance, construction, and related fields, all of which bear heavily on the City's anticipated timing for development of this project. While this delay is unwelcome, it is not different from impacts that other jurisdictions have faced, and it has not altered the City's commitment to cause the ten (10) affordable units to be developed in conformance with HOME Program requirements.

The project will generate jobs causing a windfall to the local economy and meeting the administration's job creation goal. In combination with its affordability component, this will further the goals of the HOME Program and assist the City in overcoming the current economic downturn. In this respect, ongoing financial viability of the project, including the City's commitment to HOME Program requirements is important.

#### SPECIFIC RESPONSES TO DRAFT AUDIT

##### **Allegation: The City's Project was not timely**

###### Comment 1:

The City disagrees with this finding. First, the draft audit contains an inflexible standard for commencement of construction while the HUD HOME regulations contain a more flexible standard. Specifically, the regulations state that *a jurisdiction must "reasonably expect" construction to begin within twelve months of executing the HOME agreement in order to commit funds*. The draft audit implies that the City did not have a reasonable expectation that construction would commence within a reasonable amount of time when the funds were committed to the project. However, the City has extensive documentation to demonstrate that the project was moving forward (e.g., traffic reports, environmental reports, utilities relocation report, etc.) with an expectation to complete the project.

Secondly, the draft audit uses terms such as "commitment" intermittently throughout and has different connotations for these terms. Therefore, the draft audit miscalculates the time of original commitment as November, 2006. To clarify, the City received City Council approval for the use of HOME funds for the acquisition of land in 2006 and the IDIS system was recorded to reflect the use of the HOME funds for this use. The "commitment" term as defined by the HOME regulations is quite different. It specifies "commitment" as an agreement for development or acquisition of land. The City recognizes June, 2008, as the commitment date, the date in which the loan agreement with the developer was recorded.

CFR 92.2(2)(i) provides:

## **Comment 4**

**Comment 1**  
**Comment 5**

"If the project consists of rehabilitation or new construction ... the participating jurisdiction ... and project owner have executed a written legally binding agreement under which HOME assistance will provide to the owner for an identifiable project under which *construction can reasonably be expected to start within twelve months of the agreement date.*" (Emphasis added.)

The definition of "construction" above must be interpreted to mean the beginning of a large development, initiated not by "grading" but rather by the plans and specifications necessary for the development of the project. The developer had prepared and submitted plans to the City as well as the design and specifications for off-site improvements and relocation of the utilities necessary for the development. While this satisfies the HUD regulatory requirement quoted above, it should also be noted that, at the time, the City reasonably expected that physical construction on the project site would commence within twelve months of the execution of its loan agreement with the developer, further satisfying this requirement.

As noted, unforeseeable factors occurred which have prolonged the commencement of physical site work, and such factors are not unexpected in a project of this magnitude, including architectural changes, lawsuits, inability of contractor to secure private financing, adoption of the Redevelopment Five-Year Implementation Plan, environmental compliance and clearances, insurance, utility relocation, zoning and height concerns, etc. Coupled with these factors is the global recession and collapse of the real estate market nationally and throughout southern California, including associated downturns in construction financing, availability of credit, loss of local revenues, and related factors. As provided at HOME fires, Volume 3, No. 5, April 2001:

"Failure to begin construction within twelve months or transfer title within six months for acquisition *does not automatically necessitate the cancellation of the project or render it ineligible.* Many circumstances beyond the PJ's control can cause delays, including lawsuits, unforeseen environmental issues, the loss of other financing, labor strikes, natural disasters and zoning issues. The PJ and the Field Office must *use their judgment* when deciding what course of action to take on a delayed project." (Emphasis added.)

Whether or not construction begins within twelve (12) months for land acquisition activities does not automatically require the cancellation of the project or render it ineligible. As indicated above, the City may use its judgment to address the delays and need not cancel the project. We respectfully assert that the draft audit does not adequately recite these requirements, and we believe that the City's actions adhered to these standards.

HOME fires, Volume 3, No.5, April 2001, also provide:

“Participating Jurisdictions with project experiencing significant delays must document their files of the causes for delays, and assess whether there is a likelihood that the project will go forward. A PJ should consider canceling a construction project nearing the end of the twelve month period or an acquisition only project nearing the end of the six month period, if it does not appear that construction is likely to begin or transfer to occur within the required time frame *or within a reasonable period thereafter.*”

**Comment 1**  
**Comment 5**

The draft audit focuses on the construction delays but documentation, including the erroneous assertion that the City’s agreement with the developer was for the “Acquisition of Land,” not for the construction of the ten (10) affordable units. Not only does the draft audit use a rigid time standard which deviates from the applicable CRF language, the draft’s approach does not comport with the realities of developing affordable housing in a highly urbanized metropolitan area like Montebello. Included in the City’s strategy for development of affordable housing is the knowledge that there are significant constraints on available and appropriate sites for the development of affordable housing in Montebello, a highly urbanized City. Most of the City is built-out; when limited sites become available if they are not captured quickly, the opportunity to develop affordable housing on them is lost. In-fill sites also have unexpected and complicated issues that arise, as well as add to the cost of development on these sites. The HOME funds were used to ensure the development of ten (10) affordable housing units, and a loan agreement with the developer providing such affordable units was executed within eight (8) months of the disbursement of HOME funds. The City considers execution of such loan agreement within eight (8) months to be a *reasonable period thereafter*. The term “reasonably” must be addressed in today’s economic climate as Washington, D.C., cannot address the housing foreclosure crisis any more accurately than cities can predict construction and construction costs. Furthermore, the construction of the utilities and any new agreements were postponed pending a better understanding of HUD’s position on the project and the OIG audit.

Comment 2:

**Comment 6**

The audit report challenges the fifteen (15) day requirements under 24 CFR 92.502. In framing the review of the expenditure in this manner, the audit mischaracterizes the regulations, and places personal views of the expenditures rather than the actual transaction. The cited regulations were adhered to and the \$1.3 million drawn on June 26, 2008 was expended on July 2, 2008, well within the fifteen (15) day requirement. The unforeseen escrow delays were not delays on the City part, but were delays relating to the developer’s provision of property which serves as security for the City’s loan of HOME funds. It should be made clear the City was not party to the transactions by which the developer provided that property (which the developer obtained through private agreement between the developer and the seller), but the developer did provide it and allow a first deed of trust to be recorded against it as full security for the \$1.3 HOME Program loan. The \$1.3 million is recorded as an expenditure in the City’s ledger and

audited by the City's independent auditor. No concerns over the expenditures were considered as part of the City's independent auditor's finding(s).

**Comment 1**  
**Comment 7**

**Allegation: Funds Were Drawn Without a Valid Written Agreement**

The HOME funds were used to subsidize development of ten (10) affordable housing units conforming to HOME Program requirements. As noted in the draft audit, a HOME Program Loan Agreement was signed with the developer to require this and ensure development of the affordable units. In addition to working with HUD, the City worked closely with the City's Attorney's Office on the preparation of the HOME Program Loan Agreement, an agreement that the City Attorney's office drafted and is determined to meet the definition of a "Valid Written Agreement" between the City of Montebello and the developer for the purposes of 24 CFR 92.504. It is the City Attorney's legal opinion that the deed of trust recorded on other project property pursuant to the HOME Program Loan Agreement provides security to protect the \$1.3 million loan because that deed of trust is in first position as required in the loan agreement.

**Comment 8**

**Allegation: The City Inaccurately Reported the Project in HUD's System**

The draft audit states that the City inaccurately reported the project as completed in IDIS. 24 CFR 92.2., Definitions and HOMEfires, Volume 3, No. 5, April 2001, state that "Project Completion" means that all necessary title transfer requirements and construction work have been performed; and a PJ should consider canceling a construction project nearing the end of the twelve month period "OR" an acquisition only project nearing the end of the six month period. As explained above, the HOME Program Loan Agreement was executed within eight (8) months, which the City considers reasonable. The IDIS system does not have a mechanism in place to address activities such as those proposed for this project without keeping the activity "open" for the period of construction. The City was informed by HUD that, although a project is completed in IDIS, the ability to input additional data as the project develops is possible. 24 CFR 92.502(d)(1) requires PJ's to enter project completion data into IDIS within one hundred and twenty (120) days of making the final draw for a project (see HOME fires Vol. 6, No. 1, Aug. 2005). In a project such as this it is not reasonable to assume one hundred twenty (120) days is sufficient to construct the ten (10) affordable units, and the activity should not remain "underway" for the construction period. Any attempt to leave a dollar (\$1.00) in the IDIS system after drawdown of funds in order to maintain an "underway" status would be misleading. Secondly, the audit refers to various stages of a "rental" activity. Just to be clear, this is a mixed-use project to produce ten (10) affordable units within a sixty-two (62) unit mixed-use project complex for "owner occupied" very low- and low-income families.

**Comment 9**

**Allegation: HUD Was Not Informed of Project Problems**

The source of the reasons which are cited on Page 10 of the draft Audit Report is unclear but it is not information which the City provided the auditors nor was the City asked to

provide any written records and is an incomplete and inaccurate statement. As indicated in the draft audit report, this project has been on-going in various stages since 2003 and inherited by current staff. During that time HUD has reorganized its Field Office to accommodate newly hired employees, including CPD reps and the City has had three (3) separate CPD reps during the course of the project. It was established that the review of this project superseded the knowledge and ability of the current CPD representative and referred to OIG to provide guidance and review to the HUD Field Staff. The City is in receipt of correspondence as early as 2003 from HUD regarding addressing the issue of commitment and commitment shortfall.

Secondly, the City had asked (and received) technical assistance during 2007 from the LA Field Office in regards to the acquisition and commitment shortfall issues and specifically on this project. The LA Field Office was helpful in providing guidance on this project and the City proceeded as directed. The meeting included our Director, Project Manager, Grant Coordinator, Planner as well as two representatives from the LA Field Office. The guidance was "that the City is better to draw funds to avoid the commitment shortfall and receive a Finding than to loose the funds". Does the HUD regret directing staff or did they simply forget? It is not uncommon to seek verbal direction from HUD.

Thirdly, the City responded immediately to the initial letter sent by the Director regarding the \$1.3 million in HOME Program funds and in conversation with him was assured that HUD and the Department was reasonable and willing to resolve any issues regarding the project. The Director asked the City to schedule a meeting with the LA Field Manager. Again, the City left several messages to schedule a meeting and HUD did not respond and this was not accomplished until April 20 of this year.

HUD has been kept informed of project progress through, at a minimum, the annual Consolidated Annual Performance and Evaluation Report (CAPER). There have been no requests from HUD as a result of the CAPER submission to clarify the timeliness of a project. We believe the draft audit report fails to recite these facts and adequately account for their role in the current state of affairs. We respectfully assert that this failure results in conclusions which are flawed and inadequately interpret and implement HUD regulations.

**Allegation: The City Had No Written or Internal Policies and Procedures**

The City does not agree that a Finding was the result of lack of written policies and procedures to administer its HOME program. In addition to the HOME training, there have been numerous and detailed CPD bulletins and HOME fires posted to gain an understanding of the intent of the regulations. The website is very detailed and various staff members have attended extensive training in both the HOME training and IDIS system training. Our staff attended the initial IDIS training in Washington, D.C., and was used by HUD to assist other cities in the transition from the old system to the new system. HUD is continually updating the IDIS system to address the many concerns and glitches associated with the program, but cities are made aware of any and all updates.



**Comment 1**  
**Comment 11**

Additionally, due to the reduction in staff, other departments are attending training for the IDIS system to maintain a consistency. The City consults with various PJ's and other agencies in the operation of the HOME program for similar projects.

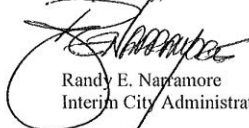
The lack of response from the HUD Field Office and uncertainty from any guidance given to the City thus far, harbors a lack of confidence in reliable direction and a lack of willingness to move this project forward with anticipation of affordable units. While reliable guidance should be provided to the City by the Field Office, the City is ultimately responsible for compliance with the regulations.

**CONCLUSION**

The crux of this draft audit is whether \$1.3 million HOME funds will be used to produce ten (10) affordable housing units for very low- and low-income families. The City makes the following points regarding the recommendation to recapture funds or reduce funding. The City acted in good faith and believed that the system for committing HOME funds with the City was sufficient because it was based on an agreement which requires development of the ten (10) affordable units, as subsidized through the loan of \$1.3 million in HOME Program funds, and as allowed by HUD regulation. The HOME funds were used for the purposes of the National Affordable Housing Act of 1990 (NAHA), which authorized the HOME Program. The housing which these funds were committed to has been reached through an agreement with a private developer for serving the intended very low- and low-income beneficiaries of the Program. Failure to produce affordable housing units would be detrimental for the intended income targeted families and repayment of funds would not be returned HUD for future affordable units but rather returned to the Department of Defense, thereby eliminating any possible goal of achieving affordability.

This concludes the City of Montebello's comments to this HUD OIG Draft Audit Report. We would like to extend our appreciation to the HUD OIG field staff assigned to this project. They conducted this draft audit in an extremely professional manner with very limited disruption to the City's daily operations. I am confident that our federal HOME activities will benefit as we respond to the recommendations included in this report.

Respectfully,



Randy E. Napramore  
Interim City Administrator

cc: William Vasquez, Director,  
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## OIG Evaluation of Auditee Comments

**Comment 1** The City’s response stated that it “acted in good faith to implement the intent and requirements of the HOME program and associated regulations,” that it “consistently informed and worked with HUD staff in implementing the program, discussing project specifics, seeking guidance, and following HUD’s guidance.” However, there was no evidence in the City’s or HUD’s records to confirm that the City informed the local HUD Community Planning and Development field office of the problems surrounding the project.

We also disagree with the City’s statements that our report did not completely or adequately address the extenuating circumstances that impacted the Whittier and 6<sup>th</sup> Street project, and that our recommendation that the City repay the \$1.3 million in HOME funds was excessive. The report discussed the external factors mentioned by the City, including market conditions, problems with the prior developer, and City Council’s concerns about the project. Although the housing market experienced an unprecedented drop, this does not excuse the violations of the program requirements identified in the report. HOME regulations at 24 CFR 92.2 state that a commitment to a specific local project consisting of rehabilitation or new construction (with or without acquisition) means that a participating jurisdiction has executed a written legally binding agreement under which HOME assistance will be provided to the owner of an identifiable project. The agreements that were on record when the City drew down the \$1.3 million, an Exclusive Negotiation Agreement (ENA) an Owner’s Participation Agreement (OPA), and Purchase and Sales Agreement, were insufficient to support the draw down. The ENA was merely a preliminary agreement the City had with its developer to establish the City’s intent to proceed with further negotiations to redevelop the Whittier and 6<sup>th</sup> Street properties, and did not contain the required HOME provisions described in 24 CFR 92.504(c)(3). The signature page of the OPA, submitted to HUD in response to its 2009 technical review to show the City had entered into a commitment, had approval signatures and dates that appeared to be inappropriately cut and pasted from the ENA, making it invalid. Upon further inquiry, the City confirmed there actually was no approved OPA. The Purchase and Sales Agreement was executed at the time that funds were withdrawn, but was incomplete and also did not contain the required HOME provisions. As a result, our recommendation is in accordance with HUD guidance and we do not consider it to be excessive.

**Comment 2** The City maintained that its loan agreement, which preceded a formal development agreement (or OPA) with its developer, expressly required development of 10 affordable units, required compliance with HOME program requirements, and was secured by a first deed of trust to ensure recourse in the event of default. While HOME program requirements do not specify what type of agreement a participating jurisdiction must execute, HOME does require that a participating jurisdiction have a written, legally binding agreement, and specific

provisions outlined in 24 CFR 92.504(c)(3). The City established a loan agreement with its developer; however, it was executed 8 months after withdrawal of funds. The loan agreement also did not include all required HOME provisions, such as a schedule for completing tasks and a budget.

**Comment 3** The City claimed that the report mischaracterized the use of funds as “property acquisition.” However, our report referred to the project as an “acquisition and rehabilitation” project because this was how the City recorded it in HUD’s Integrated Disbursement and Information System (IDIS). The City’s 2009-2010 Action Plan also referenced the use of HOME funds for the City’s “Acquisition and Rehabilitation Program.” The audit report stated that the project would “produce a mixed-use development consisting of 62 rental units, of which 10 would be affordable.”

**Comment 4** We disagree with the City’s contention that our report contained an inflexible standard for commencement of construction. The City committed the \$1.3 million for the project in IDIS in November 2006. However, nearly four years later, no work has started and the project has therefore not been timely. HOMEfires guidance acknowledges that projects may experience unforeseen delays; however, the participating jurisdiction should inform the HUD field office if a project is likely not to proceed within the prescribed 12-month timeframe, or reasonably thereafter. The Field Office will review the circumstances causing delays and advise whether or not the project should be cancelled.

The City stated that it had extensive documentation to show that the project was moving forward, and therefore had a reasonable expectation that construction would commence within twelve months of commitment. However, there was no evidence any such information or documentation was provided to HUD. The City should have notified HUD once it became clear that the project would be delayed beyond the prescribed 12-month timeframe, so that HUD could have advised whether the project should have been cancelled. Instead, the project remained in IDIS with a misleading status of “completed.”

Our report did not use different connotations for the HOME program definition of a “commitment” and did not miscalculate the time of original funds commitment. The City’s response stated that November 2006, the date the City recorded the \$1.3 million in IDIS as a commitment, was not the true funds commitment date. The City also asserted that June 2008 was the actual date that funds were committed, because it was the date that the loan agreement with the developer was recorded. The City’s statements are incorrect. According to IDIS Reference Manual, paragraph 9.1.4, the \$1.3 million was obligated for future use when the City recorded the funds in IDIS in November 2006. Reports from HUD’s IDIS System confirm the November 2006 commitment date. The City’s and HUD’s records show that June 2008 was the date the City withdrew the \$1.3 million for use. When the funds were withdrawn, all necessary agreements should have been in place. However, contrary to the City’s assertion, the City did not have a loan

agreement or any other valid agreement in place at that time. The loan agreement was not finalized until February 2009, eight months later.

**Comment 5** Plans and specifications alone will not satisfy the regulatory requirements stated in 24 CFR 92.2. In addition, we disagree with the City's statement that its expectation that construction would begin within 12 months of the executed loan agreement further satisfies the requirements of 24 CFR 92.2. The 12 month timeframe for initial construction began when funds were committed in November 2006, not when the loan agreement was executed in February 2009. Therefore, the City should have either started project construction, or notified HUD of project delay within the 12 month timeframe. Contrary to the City's assertions, our report discussed other factors that the City stated impacted the project's timeliness, and the auditors reviewed documents from the City's project file and additional documents on the project's progress. According to HOMEfires, Volume 3, No.5, April 2001, failure to initiate a project within the specified 12-month timeframe does not automatically necessitate cancellation of the project. However, our audit recommendations were not solely based on the fact the project was delayed. The City did not comply with HOME program regulations which clearly state that the definition of a commitment means that the participating jurisdiction has executed a legally binding agreement with an entity receiving HOME funds. While the City did later execute a loan agreement with its developer, it was executed eight months after withdrawal of funds. The City's response states that execution of the loan agreement within eight months of disbursement of funds to the developer to be a "reasonable period thereafter." We disagree, funds were not disbursed to the developer until February 2009, and 24 CFR 92.504(b) states agreements must be in place before disbursement of funds.

**Comment 6** We disagree that the City adhered to 24 CFR 92.502(c)(2), which states that HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. The City initially placed the \$1.3 million in HOME funds in escrow on July 2, 2008. However, the funds were not actually provided to the Developer until eight months later. The funds were moved from the original escrow company and were wired to a second escrow company in February 2009. According to public search information provided by the City, the property was purchased in February 2009 with the \$1.3 million recorded as a loan to the developer. As the City's response states, the funds were originally recorded in the City's ledgers in July 2008. However, the funds were not actually provided to the developer, and therefore not actually spent until February 2009.

**Comment 7** We reviewed all pertinent agreements related to the project, including the HOME loan agreement that the City executed with the developer in February 2009. Our review determined that in addition to being executed eight months after the \$1.3 million in HOME funds were withdrawn, the loan agreement was incomplete, and did not include all required HOME provisions, including a schedule for completing project tasks and a budget. These requirements are thoroughly

outlined in 24 CFR 92.504(c)(3). The agreements that were on record at the time of funds withdrawal (the ENA, OPA, and Purchase and Sales Agreement) were deficient, for reasons earlier noted. Regardless of the Deed of Trust recorded against other project property, based on HUD criteria, our statements regarding the validity of the City's agreements at the time of funds withdrawal are accurate.

In addition, we revised the criteria reference in this section of the report to underscore that the City had no legally binding agreement meeting the program requirements before withdrawing and disbursing funds to its developer.

**Comment 8** We disagree that the “completed” status currently recorded in IDIS is an accurate reflection of the project’s status. According to 24 CFR Part 92.2, all necessary conditions must be met in order to consider a project completed. In addition to necessary title transfer requirements and completion of all construction work, the project must comply with property standards outlined in 24 CFR 92.251. The property standards require that housing constructed or rehabilitated with HOME funds meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

The City recorded the project as completed in IDIS on August, 27, 2008. However, this inaccurately reflects the project’s true status, as stated in our audit finding. As the City’s response states, 24 CFR 92.502(d)(1) requires participating jurisdictions to enter project completion data into IDIS within 120 days of making the final draw for a project. However, this information is not yet available since project construction has not begun. The City’s response states that it would be misleading to leave \$1.00 in the IDIS system after drawdown of funds in order to reflect the project as “underway.” However, showing the project as completed in IDIS implies that the project has met all the stated requirements, and is more misleading than leaving a minimal dollar amount in the system so that the actual project status of “underway” may be reflected. A HUD 2007 HOME Monitoring Report found that the City disbursed HOME funds to a different project in which the activity address, description, and current status were not properly reflected in IDIS. The report stated that the City incorrectly reported the status of the project as completed, when in fact the project was still under construction (underway). The report stated the City agreed to adjust IDIS to reflect the correct status of the project as underway. Similar to the HUD Monitoring Report, we maintain that the City should have identified the Whittier and 6<sup>th</sup> Street project status as “underway.”

Although the City states the project was to produce affordable units for “owner occupied” very low- and low-income families, its loan agreement with its developer made references to project “household purchasers” and project affordability requirements for “new construction of rental housing.” This would not affect the project’s status in IDIS or other issues noted in our report. However, we adjusted our report to include criteria that is applicable to both homebuyer and rental projects.

**Comment 9** The City’s statement that the review of the project “superseded the knowledge and ability of the current CPD representative,” and was “referred to OIG to provide guidance and review to the HUD Field Staff,” is incorrect. The matter was referred by HUD to OIG after the City did not provide requested details concerning project commitments and expenditures. To that end, our purpose was to review the City’s HOME program, not to provide “guidance and review” to HUD staff.

The City did not provide evidence of contact with HUD concerning the project when requested by the auditors, and we found no such documentation in HUD’s or the City’s files. In addition, we cannot rely on un-validated claims of “verbal direction” from HUD. Although one HUD-CPD representative has retired, we spoke with two other field office representatives, one who previously had responsibility for the City’s HOME program and the current representative. Both told our auditors they had no prior knowledge of any of the problems, issues, and delays associated with the project.

The City stated that it responded immediately to an initial letter sent by the Director regarding the \$1.3 million in HOME funds. However, we only found evidence of the City’s communication with HUD concerning the project after HUD stated in a June 2009 letter that it would require repayment of project funds if the City failed to provide adequate project details. This letter was preceded by an April 2009 site visit in which a HUD CPD representative requested project records, and according to the technical assistance report, the City failed to provide the requested records. The City’s response, dated July 2009, was incomplete because it did not provide much of the requested documentation.

The City’s Consolidated Annual Performance and Evaluation Reports (CAPERs) only provided a broad overview of how the City used its HOME funds, and did not provide sufficient detail to allow HUD to be aware of the factors that caused the City’s project to be delayed. As the City’s response indicated, the CAPERs provide a minimal amount of information on project progress.

**Comment 10** Our review determined that the main reason the City’s project did not comply with HOME program requirements was because the City did not have procedures and controls to ensure it followed program requirements. Written procedures and controls would have helped the City ensure the project met the commitment requirements and was supported with a written, legally binding agreement at the time that funds were withdrawn. Although the City stated that it has attended numerous HUD trainings and regularly accesses the HUD-CPD website, these actions have not been sufficient to prevent the City’s noncompliance with program regulations. While a valuable resource, the HUD-CPD website does not substitute for readily available, organized internal procedures that can be accessed by all staff members working with the program as needed. Written internal policies and procedures are a valuable tool in maintaining consistency in program knowledge among various staff, especially when there is staff turnover.

**Comment 11** We encourage the City to continue its affordable housing program efforts. However, the City must comply with applicable program requirements if it wishes to participate in HUD programs. The City must also ensure that it remains in contact with HUD representatives, to ensure that there is agreement concerning project progress, as well as project commitments and expenditures.



## Appendix C

### CRITERIA

#### **A. 24 CFR 92.2, Definitions** – “Commitment” means

1. The participating jurisdiction has executed a legally binding agreement with a State recipient, a subrecipient or a contractor to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance; or has executed a written agreement reserving a specific amount of funds to a community housing development organization; or has met the requirements to commit to a specific local project, as defined in paragraph (2), below.
2. Commit to a specific local project, which means:
  - i. If the project consists of rehabilitation or new construction (with or without acquisition) the participating jurisdiction (or State recipient or subrecipient) and project owner have executed a written legally binding agreement under which HOME assistance will be provided to the owner for an identifiable project under which construction can reasonably be expected to start within twelve months of the agreement date. If the project is owned by the participating jurisdiction or State recipient, the project has been set up in the disbursement and information system established by HUD, and construction can reasonably be expected to start within twelve months of the project set-up date.

#### **B. 24 CFR 92.2, Definitions** – “Project Completion” means that all necessary title transfer requirements and construction work have been performed; the project complies with the requirements of this part (including the property standards under 92.251); the final drawdown has been disbursed for the project; and the project completion information has been entered in the disbursement and information system established by HUD. For tenant-based rental assistance, project completion means the final drawdown has been disbursed for the project.

#### **C. 24 CFR 92.500(d)(1)(B)**, HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD’s execution of the HOME Investment Partnership Agreement.

#### **D. 24 CFR 92.500(d)(1)(C)**, Any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the

participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

- E. 24 CFR 92.502(c)(2)**, HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).
- F. 24 CFR 92.504(b)**, Before disbursing any HOME funds to any entity, the participating jurisdiction must enter into a written agreement with that entity. Before disbursing any HOME funds to any entity, a State recipient, subrecipient, or contractor which is administering all or a part of the HOME program on behalf of the participating jurisdiction, must also enter into a written agreement with that entity. The written agreement must ensure compliance with the requirements of this part.
- G. 24 CFR 92.504(c)(3)(i)**, The agreement between the participating jurisdiction and a for-profit or non-profit housing owner, sponsor or developer must describe the use of the HOME funds, including the tasks to be performed, a schedule for completing the tasks, and a budget. These items must be in sufficient detail to provide a sound basis for the participating jurisdiction to effectively monitor performance under the agreement.
- H. IDIS Reference Manual, Chapter 9, Setting up and Completing HOME Activities, Section 9.1.3**, The term "Project" refers to the Consolidated Plan and Action Plan items added and maintained in the system. Each HOME project is called an "Activity" in IDIS.
- I. IDIS Reference Manual, Chapter 4, Setting up the Activity Common Path, Section 4.3.3**, states that activities should be given a status of "underway" if funds have been drawn down.
- J. IDIS Reference Manual, Chapter 9, Setting up and Completing HOME Activities, Section 9.4**, details how to set up a HOME Rental Activity.
- K. IDIS Reference Manual, Chapter 9, Setting up and Completing HOME Activities, Section 9.6**, details how to record a HOME Rental Activity as completed.

- L. IDIS Reference Manual, Chapter 9, Setting up and Completing HOME Activities, Section 9.10,** details how to set up a HOME Homebuyer Activity
- M. IDIS Reference Manual, Chapter 9, Setting up and Completing HOME Activities, Section 9.12,** details how to complete a Homebuyer Activity.
- N. HOMEfires, Volume 3, No.5, April 2001,** Participating Jurisdictions with projects experiencing significant delays must document their files of the causes for delays, and assess whether there is a likelihood that the project will go forward. A PJ [participating jurisdiction] should consider canceling a construction project nearing the end of the twelve month period or an acquisition only project nearing the end of the six month period, if it does not appear that construction is likely to begin or transfer to occur within the required time frame or within a reasonable period thereafter. The PJ should also keep the Field Office informed of its concerns.

The Field Office will review the circumstances causing project delays and advise the PJ if the project should be canceled. Projects that have been canceled for this reason can be set-up again when they are ready to move forward. The Field Office, however, will make a finding if a PJ has committed HOME funds to a project when there was not a reasonable expectation that construction would start within twelve months for new construction and rehabilitation, or transfer take place within six months for acquisition. In such instances, the Field Office may require cancellation of the project if it remains unlikely.