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TO: Lana Vacha, Acting Director of Community Planning and Development, 5FD

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The City of Flint, MI, Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System

## **HIGHLIGHTS**

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

We audited the City of Flint's (City) HOME Investment Partnerships Program (Program). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the City based upon our analysis of risk factors relating to Program grantees in Region V's jurisdiction and a citizen complaint to our office. Our objectives were to determine whether the City complied with Federal requirements in its use of Program funds for community housing development organizations' (organization) home-buyer projects and subrecipients' activities and accurately reported Program accomplishments in the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (System). This is the second of three planned audit reports on the City's Program.

### **What We Found**

The City did not comply with Federal requirements in its use of Program funds for organizations' home-buyer projects. It (1) did not ensure that organizations entered into lease-purchase agreements or entered into appropriate lease-purchase agreements with households, (2) failed to ensure that an organization transferred

homes to home buyers within 42 months of project completion and did not convert the home-buyer projects to rental projects, (3) did not reimburse its HOME trust fund treasury account (treasury account) for terminated projects, (4) inappropriately used Program funds for home-buyer project costs that were administrative expenses, (5) did not prevent an organization from entering into a land contract with a home buyer, (6) inappropriately used Program organization reserve funds for an owner-occupied single-family rehabilitation project, (7) used Program funds for unreasonable acquisition costs, and (8) did not decommit and reprogram Program funds for a terminated project. As a result, the City drew down and disbursed nearly \$1.7 million in Program funds for organizations' home-buyer projects that did not meet Federal requirements and inappropriately drew down and disbursed more than \$143,000 in additional Program funds.

The City also did not comply with Federal requirements in its use of Program funds for subrecipients' activities. It (1) inappropriately used Program funds for costs that were not associated with an eligible project, were administrative expenses, and were unrelated to the City's Program activities; (2) lacked sufficient documentation to support Program funds used for projects; and (3) did not reprogram Program funds for a terminated project. As a result, the City inappropriately drew down and disbursed nearly \$427,000 in Program funds and lacked sufficient documentation to support nearly \$65,000 in Program funds.

Further, the City did not accurately report Program accomplishments in HUD's System. It (1) inappropriately entered activity data into HUD's System for 61 properties under 2 or more activity numbers for a total of 130 activities, (2) overreported Program units created by 79 units, (3) did not accurately report completion dates for 35 home-buyer activities, and (4) inappropriately reported the type of activity in HUD's System for 2 activities.

## **What We Recommend**

We recommend that the Acting Director of HUD's Detroit Office of Community Planning and Development require the City to (1) revise 12-month lease agreements and 60-month purchase option agreements with households to 36-month lease-purchase agreements, convert the home-buyer project to a rental project, or reimburse its Program more than \$843,000 from non-Federal funds; (2) convert home-buyer projects to rental projects if it can support that the homes meet property standards or reimburse its Program more than \$607,000 from non-Federal funds; (3) reimburse its treasury account nearly \$164,000 from non-Federal funds; (4) reimburse its Program nearly \$406,000; (5) reimburse its Program nearly \$26,000 from non-Federal funds or reprogram the nearly \$26,000 from Program organization reserve funds to Program entitlement or subrecipient funds; (6) decommit more than \$94,000 in Program funds; (7) reimburse its Program nearly \$112,000 from non-Federal funds or reprogram the nearly \$112,000 from homeowner and/or acquisition-only activity costs to administrative

costs; (8) provide supporting documentation or reimburse its treasury account nearly \$65,000 from non-Federal funds; (9) reimburse its treasury account nearly \$14,000 from non-Federal funds or reprogram nearly \$14,000 to the appropriate project; (10) revise Program accomplishments in HUD's System as appropriate; and (11) implement adequate procedures and controls to address the findings cited in this audit report.

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

### **Auditee's Response**

We provided our discussion draft audit report and/or supporting schedules to the director of the City's Department, the City's mayor, and HUD's staff during the audit. We held an exit conference with the City's director on August 19, 2010.

We asked the City's director to provide comments on our discussion draft audit report by September 10, 2010. The director provided written comments, dated September 10, 2010. The director agreed with our findings and recommendations. The complete text of the written comments, except for three addresses included in the comments and 31 pages of documentation that were not necessary to understand the director's comments, along with our evaluation of that response, can be found in appendix B of this audit report. We provided the Acting Director of HUD's Detroit Office of Community Planning and Development with a complete copy of the City's written comments plus the 31 pages of documentation.

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## BACKGROUND AND OBJECTIVES

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**The Program.** Authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act (Act), as amended, the HOME Investment Partnerships Program (Program) is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new home buyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance.

**The City.** Organized under the laws of the State of Michigan, the City of Flint (City) is governed by a mayor and a nine-member council, elected to 4-year terms. The City designated its Department of Community and Economic Development (Department) as the lead agency to administer its Program. The overall mission of the Department is to strengthen the economic well-being of the City by promoting affordable housing, neighborhood revitalization, business development, and job growth. The City did not renew its contract with the former director of the Department and hired a new director on February 23, 2010. The City's Program records are located at 1101 South Saginaw Road, Flint, MI.

The following table shows the amount of Program funds the U.S. Department of Housing and Urban Development (HUD) awarded the City for program years 2005 through 2009.

Program year	Program funds
2005	\$1,299,639
2006	0
2007	1,027,094
2008	1,173,131
2009	<u>1,306,202</u>
<b>Total</b>	<b><u>\$4,806,066</u></b>

HUD did not award the City Program funds in program year 2006 and reduced the City's award of Program funds for program year 2007 by more than \$100,000 due to the City's failure to commit nearly \$156,000 in Program funds by June 30, 2005, to comply with HUD's 24-month commitment deadline and to disburse more than \$1.2 million in Program funds by October 31, 2005, to comply with HUD's 5-year disbursement deadline.

Our objectives were to determine whether the City complied with Federal requirements in its use of Program funds for community housing development organizations' (organization) home-buyer projects and subrecipients' activities and accurately reported Program accomplishments in HUD's Integrated Disbursement and Information System (System).

## RESULTS OF AUDIT

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### Finding 1: The City Lacked Adequate Controls Over Organizations' Home-Buyer Projects

The City did not comply with Federal requirements in its use of Program funds for organizations' home-buyer projects. It (1) did not ensure that organizations entered into lease-purchase agreements or entered into appropriate lease-purchase agreements with households, (2) failed to ensure that an organization transferred homes to home buyers within 42 months of project completion and did not convert the home-buyer projects to rental projects, (3) did not reimburse its HOME trust fund treasury account (treasury account) for terminated projects, (4) inappropriately used Program funds for home-buyer project costs that were administrative expenses, (5) did not prevent an organization from entering into a land contract with a home buyer, (6) inappropriately used Program organization reserve funds for an owner-occupied single-family rehabilitation project, (7) used Program funds for unreasonable acquisition costs, and (8) did not decommit and reprogram Program funds for a terminated project. These weaknesses occurred because the City lacked adequate procedures and controls to ensure that Program funds were used for organizations' home-buyer projects in accordance with Federal requirements. As a result, the City drew down and disbursed nearly \$1.7 million in Program funds for organizations' home-buyer projects that did not meet Federal requirements and inappropriately drew down and disbursed more than \$143,000 in additional Program funds.

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#### **The City Did Not Ensure That Court Street Village Entered Into Lease-Purchase Agreements or Appropriate Lease-Purchase Agreements**

We reviewed all of the organizations' home-buyer projects that the City had reported in HUD's System for its Program as of April 7, 2010. The City provided more than \$6 million in Program funds for the organizations' home-buyer projects through June 2010.

The City drew down and disbursed \$1,325,000 in Program funds from September 2006 through June 2008 to Court Street Village Nonprofit Housing Corporation (Court Street Village) for acquisition and rehabilitation costs associated with one home-buyer project, project numbers 1763 and 1795. The City inappropriately entered data into HUD's System for the project under two different project numbers. Of the project's 22 units, 11 were floating Program units.

HUD's regulations at 24 CFR (Code of Federal Regulations) 92.254(a) state that housing that is for acquisition by a household must meet the affordability

requirements in 24 CFR 92.254(a). Section 92.254(a)(5)(ii)(A)(7) states that Program funds may be used to assist home buyers through lease-purchase programs for existing housing. The housing must be purchased by a home buyer within 36 months of signing the lease-purchase agreement. The Program affordability requirements for rental housing in 24 CFR 92.252 shall apply if the housing is not transferred to a home buyer within 42 months after project completion.

On October 20, 2008, the former director of the City's Department requested that for home-buyer project numbers 1763 and 1795, HUD waive its requirement that housing be purchased by a home buyer within 36 months of signing a lease-purchase agreement and allow Court Street Village to enter into 5-year lease-purchase agreements with households. On January 16, 2009, the former Director of HUD's Detroit Office of Community Planning and Development denied the City's request.

Contrary to HUD's regulations, Berridge Place, LLC, which is owned by Court Street Village, initially entered into 12-month lease agreements and 60-month purchase option agreements with households for four units (numbers 105, 201, 301, and 303) from December 30, 2008, through October 3, 2009, and 12-month lease agreements with households for five units (numbers 4, 103, 106, 202, and 206) from December 16, 2008, through May 6, 2010. As of August 3, 2010, Berridge Place, LLC, had 12-month lease agreements and 60-month purchase option agreements with households for two units (numbers 301 and 303) and 12-month lease agreements with households for five units (numbers 4, 103, 106, 202, and 206). In addition, five of the 22 units were vacant.

**The City Did Not Ensure That Salem Transferred Homes to Households or Convert Home-Buyer Projects to Rental Projects**

The City drew down and disbursed nearly \$669,000 in Program funds from June 1997 through September 2009 to Salem Housing Development Corporation (Salem) for acquisition and rehabilitation costs associated with 15 home-buyer projects. The 15 projects were for 10 homes. The City inappropriately entered project data into HUD's System for five of the homes under two different project numbers.

Salem entered into month-to-month lease agreements with households for eight of the homes, a 24-month lease agreement with a household for one home, and a no-term lease agreement with a household for one home. Salem also entered into purchase option agreements with eight households ranging from 12 through 24 months, and one household with no term in which to purchase the home. The

purchase option agreement for the remaining home was not signed by the household. The eight households did not purchase the homes within the agreed-upon purchase option period. Further, contrary to HUD's regulations, the 10 households did not purchase the homes within 36 months of signing their lease and/or purchase option agreements, Salem did not transfer 9 of the homes to a household within 42 months of project completion, and the City did not convert the 9 home-buyer projects to rental projects. The following table shows the project numbers, the effective dates of the initial lease and purchase option agreements, the number of months the households had to purchase the homes under the initial purchase option agreements, the number of months since the effective dates of the initial lease and purchase option agreements, and the amount of Program funds used for each project number as applicable.

<i>Project number</i>	<i>Date of initial agreements</i>		<i>Months to purchase</i>	<i>Months since initial lease</i>	<i>Program funds</i>
	<i>Lease</i>	<i>Purchase option</i>			
72	Feb. 1, 2000	Feb. 3, 2000	24	126	<b>\$7,062</b>
616	Feb. 1, 2000	Feb. 3, 2000	24	126	<b>50,203</b>
617	Feb. 7, 2000	Feb. 7, 2000	24	126	<b>70,000</b>
800	May 25, 2000	May 25, 2000	No term	122	<b>35,346</b>
619	June 24, 2000	June 24, 2000	24	121	<b>42,031</b>
801	Aug. 1, 2000	July 25, 2000	24	120	<b>40,876</b>
936	July 1, 2002	June 28, 2002	23	97	<b>50,000</b>
1253	July 1, 2002	June 28, 2002	23	97	<b>59,455</b>
935	Mar. 20, 2003	Mar. 20, 2003	18	88	<b>50,000</b>
1252	Mar. 20, 2003	Mar. 20, 2003	18	88	<b>63,269</b>
934	June 1, 2005	June 2, 2005	12	62	<b>60,730</b>
1255	June 1, 2005	June 2, 2005	12	62	<b>16,205</b>
1393	Dec. 14, 2006	Not signed	Not applicable	43	<b>62,177</b>
1206	June 15, 2007	June 14, 2007	13	37	<b>7,978</b>
1254	June 15, 2007	June 14, 2007	13	37	<b>53,530</b>
<b>Total</b>					<b><u>\$668,862</u></b>

\* The City inappropriately entered project data into HUD's System for five homes under two different project numbers. The project numbers were 72 and 616, 936 and 1253, 935 and 1252, 934 and 1255, and 1206 and 1254.

Further, Salem entered into a lease agreement with a new household for the home under project number 617 nearly 77 months after the date of the initial lease and purchase option agreements. It also entered into lease and purchase option agreements with three new households for the homes under project numbers 619, 800, and 801, when the options to purchase the homes exceeded 42 months after the dates of the initial lease and purchase option agreements by more than 9 through 22 months.

Two of the four new households (project numbers 619 and 801) and the households that entered into the initial lease and purchase option agreements for three homes (project numbers 935 and 1252, 1393, and 1206 and 1254) were still leasing the homes from Salem as of July 30, 2010. The homes for project numbers 72 and 616, 617, 800, 934 and 1255, and 936 and 1253 were vacant as of July 30, 2010.



In addition, neither the City nor Salem had provided documentation to support that the homes met applicable housing standards after the 42<sup>nd</sup> month or as of September 10, 2010.

**The City Did Not Reimburse Its Treasury Account for Program Funds Used for Terminated Projects**

The City drew down and disbursed more than \$169,000 in Program funds from April 2003 through September 2009 to four organizations—Salem, Flint West Village Community Development Organization (Flint West Village), Greater Eastside Community Association (Greater Eastside), and Court Street Village—for acquisition and/or rehabilitation costs associated with 10 home-buyer projects. The 10 projects were for 7 homes. The City inappropriately entered project data into HUD’s System for three of the homes under two different project numbers.

HUD’s regulations at 24 CFR 92.503(b)(2) state that any Program funds invested in a project that is terminated before completion, either voluntarily or otherwise, must be repaid by a participating jurisdiction in accordance with section 92.503(b)(3). Section 92.503(b)(3) states that if the Program funds were disbursed from the participating jurisdiction’s treasury account, the funds must be repaid to the participating jurisdiction’s treasury account. If the Program funds were disbursed from the participating jurisdiction’s HOME trust fund local account (local account), the funds must be repaid to the participating jurisdiction’s local account.

Contrary to HUD’s regulations, the City reported in HUD’s System that eight of the projects had been completed, although none of the homes had been fully rehabilitated and sold or rented to low- or moderate-income households. The following table shows the project numbers, the name of the organization, the type of home-buyer project, the completion date, and the amount of Program funds used for each project number as applicable.

Organization	Project number	Type of home-buyer project	Completion date	Program funds
Salem	1209	Acquisition and rehabilitation	Not applicable	<b>\$26,300</b>
	1223	Acquisition and rehabilitation	Jan. 29, 2007	<b>26,631</b>
	1224	Acquisition and rehabilitation	Jan. 29, 2007	<b>3,095</b>
Flint West	1385	Acquisition and rehabilitation	Sept. 30, 2006	<b>1,172</b>
Village	1387	Acquisition and rehabilitation	Sept. 30, 2006	<b>14,302</b>
	1409	Acquisition	Apr. 16, 2004	<b>22,412</b>
Greater	1410	Acquisition	Apr. 16, 2004	<b>26,142</b>
Eastside	1411	Acquisition and rehabilitation	Apr. 16, 2004	<b>32,997</b>
Court Street	1986	Acquisition and rehabilitation	Sept. 22, 2009	<b>13,539</b>
Village	2100	Acquisition and rehabilitation	Not applicable	<b>2,623</b>
<b>Total</b>				<b><u>\$169,213</u></b>

\* The City inappropriately entered project data into HUD's System for three homes under two different project numbers. The project numbers were 1223 and 1387, 1224 and 1385, and 1986 and 2100.

The City drew down and disbursed \$15,306 in Program funds from April 2003 through September 2009 to Salem for rehabilitation cost associated with project number 1209. The City reported the activity as complete as of January 29, 2007. Further, the City reported the project as open, committed an additional \$64,334 in Program funds for the project since September 22, 2009, and drew down and disbursed an additional \$10,994 in Program funds from September 2009 through February 2010 to Salem for soft costs for the project. However, Salem's acting director said that Salem would not continue to rehabilitate the home due to a collapsing foundation.

The City drew down and disbursed \$45,200 in Program funds from April 2003 through April 2004 to Flint West Village for rehabilitation and soft cost associated with project numbers 1223, 1224, 1385, and 1387. As stated above, the four projects were for two homes. Flint West Village filed for Chapter 7 bankruptcy on March 31, 2005, and was dissolved on October 1, 2006. On May 23, 2008, the home for project numbers 1223 and 1387 was sold to a private party as part of the bankruptcy. Flint West Village did not complete the projects, and the City did not recapture any of the \$40,933 in Program funds used for rehabilitation of the home for project numbers 1223 and 1387. As of September 2010, the deed for the home for project numbers 1224 and 1385 showed Flint West Village as the owner of the home. The City's program manager said that the City had not received project records from Flint West Village. Further, the City did not plan to rehabilitate the home for project numbers 1224 and 1385.

The City drew down and disbursed \$81,551 in Program funds from February through April 2004 to Greater Eastside for acquisition and soft costs associated with project numbers 1409 through 1411. In February 2002, Greater Eastside purchased the home for project number 1411 through a land contract. In July 2006, Greater Eastside filed a quit claim deed for the home, granting the original owner full rights to the home. As the result of a June 2006 civil judgment, Greater Eastside transferred the homes for project numbers 1409 and 1410 to the City on July 26, 2006, and repaid the City \$20,083 for the two projects on

October 16, 2006. However, the City placed the repaid Program funds into its self-insurance fund rather than returning the funds to its treasury account. The repaid Program funds had not been used through July 2010. Further, the City did not allocate more than \$1,100 in interest earned on the repaid Program funds to its local account. The City's Program manager said that the City had not received project records from Greater Eastside. Further, Greater Eastside no longer does business with the City's Program. In addition, the City did not plan to rehabilitate the two homes for project numbers 1409 and 1410.

The City committed \$75,334 and drew down and disbursed \$13,539 in Program funds to Court Street Village from June 2008 through June 2009 for various costs associated with project number 1986. In September 2008, Court Street Village informed the City that the cost to rehabilitate the home was not reasonable. Of the nearly \$14,000 in Program funds the City disbursed to Court Street Village, \$450 was disbursed in June 2009 for capping water and sewer lines in preparing the home for demolition. On September 22, 2009, the City decommitted the remaining \$61,795 in Program funds for the project and reported the project as completed in HUD's System. However, on the same date, the City committed, drew down, and disbursed an additional \$490 in Program funds for a foundation inspection and City taxes associated with project number 2100, which was for the same home as the home under project number 1986. The City committed an additional \$2,135 and drew down and disbursed an additional \$2,133 in Program funds for project number 2100 after April 7, 2010. On January 20, 2010, Court Street Village's director said that Court Street Village stopped the project because damage to the home was more extensive than anticipated. Further, there were no plans to rehabilitate the home. However, on June 3, 2010, the director said that the City had recently informed her that if Court Street Village did not complete the home associated with project numbers 1986 and 2100, it would have to repay the Program funds. The director said that the home would be completed. However, project number 1986 was closed, and project number 2100 was not sufficiently funded.

On August 18, 2010, and as a result of our audit, the City reimbursed its treasury account \$21,258 for the repaid Program funds and interest earned on the repaid Program funds associated with project numbers 1409 and 1410. The City did not cancel any of or reimburse its treasury account for any of the remaining \$149,130 in Program funds drawn down and disbursed for the 10 projects.

**The City Inappropriately Used Program Funds for Home-Buyer Project Costs That Were Administrative Expenses**

HUD's regulations at 24 CFR 92.207 state that a participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the

Program, an amount of Program funds that is not more than 10 percent of its fiscal year Program basic formula allocation. A participating jurisdiction may also expend, for payment of reasonable administrative and planning costs of the Program, up to 10 percent of the program income deposited into its local account or received and reported by its subrecipients during the program year. Chapter IV, paragraph A, of HUD’s Office of Community Planning and Development (CPD) Notice 06-01 states that general management, oversight, and coordination costs are always categorized as administrative costs.

Contrary to HUD’s requirements, the City drew down and disbursed more than \$105,000 in Program funds to Flint Neighborhood Improvement and Preservation Project (Flint Project), an organization, for home-buyer project costs that were general management, oversight, and coordination expenses. The City drew down and disbursed the funds from September 2006 through April 2010 to Flint Project for administrative salaries of its director and bookkeeper and its accounting and auditing fees. The City inappropriately included the general management, oversight, and coordination expenses as project costs associated with home-buyer project numbers 1730 through 1733, 1964, 1972, 1983, 1984, 2048, and 2049, rather than administrative costs. However, the City could not provide documentation to support the amount of administrative salaries and accounting and auditing fees it applied to each of the projects. The following table shows the contract numbers, the amount of Program funds used for administrative salaries and/or accounting and auditing fees, and the total amount of Program funds used for general management, oversight, and coordination expenses for each contract number.

<i><b>Contract number</b></i>	<i><b>Administrative salaries</b></i>	<i><b>Accounting and auditing fees</b></i>	<i><b>Total Program funds</b></i>
06-033	\$33,650	\$8,390	<b>\$42,040</b>
07-077	13,174	852	<b>\$14,026</b>
07-078	24,056		<b>24,056</b>
08-059	<u>25,000</u>		<u><b>25,000</b></u>
<b>Totals</b>	<b><u>\$95,880</u></b>	<b><u>\$9,242</u></b>	<b><u>\$105,122</u></b>

As of August 5, 2010, the City had \$111,999 in Program administrative funds available for disbursement for eligible administrative costs. However, recommendation 2B includes the reprogramming of \$111,999 from homeowner and/or acquisition and new construction project costs and/or acquisition-only activity costs to administrative costs (see finding 2).

### **The City Did Not Prevent Flint Project From Entering Into a Land Contract With a Home Buyer**

The City drew down and disbursed \$48,866 in Program funds from May 2004 through September 2005 to Flint Project for acquisition and rehabilitation costs associated with home-buyer project number 1415. HUD's regulations at 24 CFR 92.2 state that homeownership means ownership in fee simple title or a 99-year leasehold interest in a one- to four-unit dwelling or condominium unit or equivalent form of ownership approved by HUD. Chapter 5, part I, of HUD's "Building HOME: A Program Primer," states that land contracts are not approved by HUD as an eligible form of ownership. Contrary to HUD's requirements, Flint Project entered into a land contract with the home buyer on April 3, 2007.

On September 1, 2010, and as a result of our audit, Flint Project converted the land contract for home-buyer project number 1415 to a conventional mortgage.

### **The City Inappropriately Used Program Organization Reserve Funds for an Owner-Occupied Single-Family Rehabilitation Project**

HUD's regulations at 24 CFR 92.300(a)(1) state that participating jurisdictions must reserve not less than 15 percent of their Program allocation for investment only in housing to be developed, sponsored, or owned by organizations. Chapter 8 of HUD's "Building HOME: A Program Primer" states that homeowner rehabilitation is an ineligible set-aside activity.

Contrary to HUD's regulations, the City drew down and disbursed \$25,724 in Program organization reserve funds in March 2001 to Flint Project for owner-occupied single-family rehabilitation project number 888. Flint Project was not the developer, sponsor, or owner of the home. Therefore, the project did not qualify to be funded with Program organization reserve funds.

### **The City Used Program Funds for Unreasonable Acquisition Costs**

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

provided for financially assisted activities. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. Attachment A, section C.1., of Office of Management and Budget (OMB) Circular A-87 requires that all costs to be necessary, reasonable, and adequately documented. Attachment A, section A.2.7., of OMB Circular A-122 requires all costs to be adequately documented. Section A.3. states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Section A.3.4. states that in determining the reasonableness of a given cost, consideration shall be given to significant deviations from the established practices of the organization, which may unjustifiably increase the award costs.

The City drew down and disbursed \$24,600 in Program funds in March 2009 to reimburse Flint Project for the acquisition of a property associated with home-buyer acquisition and rehabilitation project number 1984. Flint Project purchased the property in July 2008. The purchase price of the property was based on approximately twice the state equalized value of the property for 2007. However, an independent appraisal, dated May 2, 2008, valued the property at \$12,000. Further, the City's established practice for the reimbursement of the acquisition of property was limited to the amount of the independent appraisals. Therefore, it was not reasonable to use an additional \$12,600 in Program funds to acquire the property.

**The City Did Not Decommit and Reprogram Program Funds or Reimburse Its Treasury Account for Program Funds Used for a Terminated Project**

The City committed \$100,451 and drew down and disbursed \$6,095 in Program funds from June 2008 through March 2009 to Flint Project for home-buyer acquisition and rehabilitation project number 1983. The Program funds were used for administrative salaries (\$4,000) and soft costs (\$2,095). Flint Project terminated the project in April 2008 since it could not purchase the property from its owner due to a potential conflict of interest between the City and the owner of the property. However, the City did not cancel the project in HUD's System, decommit the more than \$94,000 in Program funds remaining for the project, reprogram the \$4,000 in Program funds used for administrative salaries as administrative costs, or reimburse its treasury account for the more than \$2,000 in Program funds used for soft costs.

## **The City Lacked Adequate Procedures and Controls**

The weaknesses regarding the City's inappropriate use of Program funds for organizations' home-buyer projects occurred because the City lacked adequate procedures and controls to ensure that Program funds were used for organizations' home-buyer projects in accordance with Federal requirements.

The Department's Program manager said that she was not aware that (1) Court Street Village and Salem had not entered into lease-purchase agreements and/or had entered into inappropriate lease-purchase agreements with households; (2) Salem had leased homes for more than 42 months; (3) the City had reported the home-buyer projects for Salem, Flint West Village, Greater Eastside, and Court Street Village as complete in HUD's System although none of the homes had been fully rehabilitated and sold or rented to low- or moderate-income households; and (4) Flint Project had entered into a land contract with the home buyer.

The Program manager also said that Flint Project was informed that it could not include the director and bookkeeper salaries as project costs. However, project budgets that Flint Project provided to the City showed that the salaries were included in planned and actual project soft costs.

The files for project number 1984 showed that Flint Project requested permission from the City to disregard the independent appraisal and acquire the property based on the City-assessed taxable value of the property. The Program manager said that she did not remember authorizing Flint Project to acquire the property based on the City-assessed taxable value. However, the City authorized the disbursement of nearly \$25,000 for the acquisition of the property.

The City administrator said that the current administration did not know what the problems were with the City's Program and to correct the problems and ensure that they did not continue, the City would need to know what went wrong and who did not do what they were supposed to do. Further, problems had been occurring with current staff, and the administration wanted to be able to correct the problems.

## **Conclusion**

The City lacked adequate procedures and controls to ensure that Program funds were used for organizations' home-buyer projects in accordance with Federal requirements. The City drew down and disbursed nearly \$1.7 million in Program funds (more than \$843,000 to Court Street Village for 7 of the 11 units associated with home-buyer project numbers 1763 and 1795, more than \$607,000 to Salem

for the home-buyer projects for 9 of the 10 homes, more than \$169,000 to 4 organizations for acquisition and/or rehabilitation costs associated with 10 home-buyer projects, nearly \$49,000 to Flint Project for home-buyer project number 1415, and more than \$6,000 to Flint Project for home-buyer acquisition and rehabilitation project number 1983) for organizations' home-buyer projects that did not meet HUD's requirements.

Further, the City inappropriately drew down and disbursed more than \$143,000 in additional Program funds (more than \$105,000 to Flint Project for home-buyer project costs that were general management, oversight, and coordination expenses; nearly \$26,000 to Flint Project for owner-occupied single-family rehabilitation project number 888; and nearly \$13,000 to Flint Project for home-buyer acquisition and rehabilitation project number 1984).

As a result, HUD and the City lacked assurance that Program funds were used effectively and efficiently.

## Recommendations

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

- 1A. Revise Berridge Hotel, LLC's 12-month lease agreements and 60-month purchase option agreements with the households for the 2 units to 36-month lease-purchase agreements and lease agreements with the households for the 5 units to 36-month lease-purchase agreements and convert the home-buyer project to a rental project and void Berridge Hotel, LLC's 60-month lease-purchase agreements with the households for the 2 units or reimburse its Program from non-Federal funds for the \$843,182 (\$1,325,000 used for the project divided by 11 units times 7 units) in Program funds used for the 7 units of the home-buyer project.
- 1B. Implement adequate procedures and controls to ensure that Berridge Hotel, LLC, enters into appropriate lease-purchase agreements or lease agreements as applicable to the decision made for recommendation 1A for the remaining four Program units of the project. This measure will ensure that \$481,818 in Program funds (\$1,325,000 used for the project divided by 11 units times 4 units) is used in accordance with HUD's requirements.
- 1C. Provide documentation to support that Salem's home-buyer projects for the nine homes, in which the initial households did not purchase the homes within 36 months of signing their lease and purchase option agreements and Salem did not transfer the homes to a household within 42 months of project completion, meet property standards and convert the home-buyer projects to rental projects or reimburse its Program from non-Federal funds for the



\$607,354 in Program funds used for the home-buyer projects for the nine homes.

- 1D. Implement adequate procedures and controls to ensure that Salem sells and transfers the remaining home (project numbers 1206 and 1254) to an eligible home buyer within 42 months of project completion.
- 1E. Reimburse its treasury account \$163,825 from non-Federal funds for the remaining \$149,130 in Program funds used for acquisition and/or rehabilitation costs associated with the 4 organizations' 10 home-buyer project numbers, \$12,600 in Program funds used to acquire the property for home-buyer acquisition and rehabilitation project number 1984, and \$2,095 in Program funds used for soft cost associated with home-buyer acquisition and rehabilitation project number 1983.
- 1F. Reimburse its Program from non-Federal funds for the \$105,122 in Program funds inappropriately used for Flint Project's general management, oversight, and coordination expenses associated with home-buyer project numbers 1730 through 1733, 1964, 1972, 1983, 1984, 2048, and 2049.
- 1G. Reimburse its Program \$25,724 from non-Federal funds or reprogram \$25,724 from Program organization reserve funds to Program entitlement or subrecipient funds for the \$25,724 in Program organization reserve funds inappropriately used for Flint Project's owner-occupied single-family rehabilitation project number 888.
- 1H. Decommit the \$94,356 (\$100,451 obligated minus \$6,095 used) in Program funds remaining for home-buyer acquisition and rehabilitation project number 1983.
- 1I. Implement adequate procedures and controls to ensure that Program funds are used for organizations' home-buyer projects that comply with Federal requirements and Program funds are used in accordance with Federal requirements.

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

- 1J. Ensures that the City uses the \$21,258 it reimbursed its treasury account for the repaid Program funds and earned interest associated with project numbers 1409 and 1410 only for eligible Program costs.
- 1K. Ensures that the City does not permit Flint Project to convert the conventional mortgage for home-buyer project number 1415 back to a land contract to assure that the City's use of \$48,866 in Program funds for home-buyer project number 1415 continues to meet HUD's requirements.

## Finding 2: The City Lacked Adequate Controls Over Subrecipients' Activities

The City did not comply with Federal requirements in its use of Program funds for subrecipients' activities. It (1) inappropriately used Program funds for costs that were not associated with an eligible project, were administrative expenses, and were unrelated to the City's Program activities; (2) lacked sufficient documentation to support Program funds used for projects; and (3) did not reprogram Program funds for a terminated project. These weaknesses occurred because the City lacked adequate procedures and controls to ensure that Program funds were used for subrecipients' activities in accordance with Federal requirements. As a result, the City inappropriately drew down and disbursed nearly \$427,000 in Program funds and lacked sufficient documentation to support nearly \$65,000 in Program funds.

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### **The City Inappropriately Used Program Funds for Costs That Were Not Associated With an Eligible Project**

We reviewed all of the subrecipients' activities that the City had reported in HUD's System for its Program as of February 3, 2010, that did not appear to include appropriate addresses. The City provided more than \$945,000 in Program funds from December 2001 through June 2009 for these activities.

HUD's regulations at 24 CFR 92.2 state that a commitment of Program funds occurs when a participating jurisdiction has (1) executed a legally binding agreement with a State recipient, subrecipient, or contractor to use a specific amount of Program funds to produce affordable housing or provide tenant-based rental assistance, (2) executed a written agreement reserving a specific amount of Program funds to an organization, or (3) met the requirements to commit Program funds to a specific local project. If the project consists of rehabilitation or new construction, a commitment of Program funds to a specific local project occurs when the participating jurisdiction and project owner have executed a written, legally binding agreement under which Program assistance will be provided to the project owner for an identifiable project under which construction can reasonably be expected to start within 12 months of the agreement date. If the project is owned by the participating jurisdiction, the project has been set up in HUD's System, and construction can reasonably be expected to begin within 12 months of the project setup date.

Contrary to HUD's regulations, the City inappropriately drew down and disbursed \$155,312 in Program funds to Rowe Incorporated (Rowe), a for-profit professional services company, from July 2007 through June 2008 for topographical survey and replatting services at the Smith Village Neighborhood Redevelopment and associated with new construction project number 1879.

However, the City did not execute a written, legally binding agreement with Rowe or any other entity to produce affordable housing before it committed and used the Program funds for project number 1879. Further, the City did not own and was not the developer of the property for the Smith Village Neighborhood Redevelopment. Therefore, the Smith Village Neighborhood Redevelopment did not qualify as a specific local project.

### **The City Inappropriately Used Program Funds for Homeowner Project Costs That Were Administrative Expenses**

The City drew down and disbursed nearly \$192,000 in Program funds from January 2005 through May 2010 to Flint Project and Metro Housing Partnership (Metro), subrecipients, for homeowner project costs and acquisition-only activity numbers 1477 and 1478, respectively.

HUD's regulations at 24 CFR 92.207 state that a participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the Program, an amount of Program funds that is not more than 10 percent of its fiscal year Program basic formula allocation. A participating jurisdiction may also expend, for payment of reasonable administrative and planning costs of the Program, up to 10 percent of the Program income deposited into its local account or received and reported by its subrecipients during the program year. Chapter IV, paragraph A, of CPD Notice 06-01 states that general management, oversight, and coordination costs are always categorized as administrative costs.

Contrary to HUD's requirements, the City drew down and disbursed more than \$133,000 in Program funds to Flint Project for homeowner project costs that were general management, oversight, and coordination expenses. The City drew down and disbursed the funds from September 2006 through May 2010 to Flint Project for the administrative salaries of its director and bookkeeper as project costs associated with 41 homeowner projects rather than administrative costs. Further, the City could not provide sufficient documentation to support the amount of administrative salaries it applied to each of the projects. The following table shows the contract numbers and the amount of Program funds used for administrative salaries.

Contract number	Program funds
05-043	\$23,800
06-049	14,923
06-075	22,101
06-076	11,170
07-076	28,194
07-160	10,210
08-057	<u>23,084</u>
<b>Total</b>	<b><u>\$133,482</u></b>

In addition, the City inappropriately drew down and disbursed \$58,046 in Program funds to Metro on January 4, 2005, for acquisition-only activity numbers 1477 and 1478. The City drew down and disbursed the funds to Metro for staff salaries associated with its downpayment assistance program. However, acquisition-only activity numbers 1477 and 1478 were not related to specific activities. Therefore, since the staff salaries were not allocated to specific acquisition-only activities, they must be treated as general management, oversight, and coordination expenses, which are administrative costs. Further, the City could not provide documentation showing which acquisition-only activities the staff worked on.

As previously stated, as of August 5, 2010, the City had \$111,999 in Program administrative funds available for disbursement for eligible administrative costs.

**The City Lacked Sufficient Documentation To Support the Use of Program Funds for Two Homeowner Projects**

HUD’s regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents. Attachment A, section C.1., of OMB Circular A-87 requires all costs to be necessary, reasonable, and adequately documented. Attachment A, section A.2.7., of OMB Circular A-122 requires all costs to be adequately documented. Section A.3. states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Section A.3.4. states that in determining the reasonableness of a given cost, consideration shall be given to significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

The City could not provide sufficient documentation to support \$63,141 in Program funds that it drew down and disbursed to Flint Project from September 2006 through November 2008 for homeowner project numbers 1900 and 1901. Flint Project took control over activities from the Genesee County Community Action Response Department (Genesee). The City's documentation stated that the costs for homeowner project numbers 1900 and 1901 were associated with activities of which Flint Project had taken control from Genesee. However, the documentation did not specify which activities the costs were related to and what the costs were.

**The City Inappropriately Used and Lacked Sufficient Documentation To Support Its Use of Program Funds for an Acquisition and New Construction Project**

The City drew down and disbursed \$75,000 in Program funds to Greater Eastside, a subrecipient, from December 2001 through June 2002 for acquisition and new construction project numbers 930 and 931. However, contrary to HUD's requirements, the City drew down and disbursed \$48,697 of the funds for costs unrelated to the City's Program activities, \$13,983 of the funds for costs associated with acquisition and new construction project number 1449, and \$10,700 of the funds for office expenses. In addition, the City lacked sufficient documentation to support that the remaining \$1,620 in Program funds was used for eligible Program costs.

**The City Did Not Reprogram Program Funds for a Terminated Project**

HUD's regulations at 24 CFR 92.503(b)(2) state that any Program funds invested in a project that is terminated before completion, either voluntarily or otherwise, must be repaid by a participating jurisdiction in accordance with section 92.503(b)(3). Section 92.503(b)(3) states that if the Program funds were disbursed from the participating jurisdiction's treasury account, the funds must be repaid to the participating jurisdiction's treasury account. If the Program funds were disbursed from the participating jurisdiction's local account, the funds must be repaid to the participating jurisdiction's local account.

The City drew down and disbursed \$6,534 to Flint Project from December 2006 through July 2007 for homeowner project number 1734. The City drew down and disbursed the funds to Flint Project for administrative salaries and intake costs. Although Flint Project informed the City on April 12, 2007, that the homeowner

had passed away and that it had terminated the project, the City did not cancel the project and reprogram the funds from homeowner project costs to administrative costs. The project was still open in HUD's System as of July 2010.

### **The City Lacked Adequate Procedures and Controls**

The weaknesses regarding the City's inappropriate use of Program funds for subrecipients' projects occurred because the City lacked adequate procedures and controls to ensure that Program funds were used for subrecipients' projects in accordance with Federal requirements.

The Department's Program manager said that she did not know why the activity was set up for Rowe and that because multiple persons had access to entering data into HUD's System for the City, she did not know who set up the project.

The Program manager said that she did not know why the City lacked sufficient documentation to support Program funds that it drew down and disbursed for subrecipients' projects. She also said that the City did not cancel project number 1734 and reprogram the Program funds since the City may move forward with the project in the future. However, since the homeowner passed away, the City cannot continue with the project. If the City were to provide rehabilitation assistance for the property, it would have to create a new project in HUD's System.

### **Conclusion**

As previously mentioned, the City lacked adequate procedures and controls to ensure that Program funds were used for subrecipient projects in accordance with Federal requirements.

The City inappropriately drew down and disbursed nearly \$427,000 in Program funds (more than \$155,000 to Rowe for new construction project number 1879, more than \$133,000 to Flint Project for 74 homeowner projects, more than \$58,000 to Metro for acquisition-only activity numbers 1477 and 1478, more than \$73,000 to Greater Eastside for acquisition and new construction project numbers 930 and 931, and nearly \$7,000 to Flint Project for project number 1734) and lacked sufficient documentation to support nearly \$65,000 in Program funds (nearly \$2,000 to Greater Eastside for acquisition and new construction project numbers 930 and 931 and more than \$63,000 to Flint Project for homeowner project numbers 1900 and 1901). As a result, HUD and the City lacked assurance that Program funds were used effectively and efficiently.

## Recommendations

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

- 2A. Reimburse its Program \$204,009 from non-Federal funds for the Program funds inappropriately used for new construction project number 1879 (\$155,312) and acquisition and new construction project numbers 930 and 931 (\$48,697).
- 2B. Reimburse its Program \$96,763 (\$208,762 in Program funds inappropriately used for homeowner and acquisition and new construction project costs and acquisition-only activity costs minus \$111,999 in Program administrative funds available for disbursement for eligible administrative costs) from non-Federal funds and reimburse its Program \$111,999 from non-Federal funds or reprogram \$111,999 from homeowner and/or acquisition and new construction project costs and/or acquisition-only activity costs to administrative costs for the (1) \$133,482 in Program funds inappropriately used for Flint Project's general management, oversight, and coordination expenses associated with 41 homeowner projects; (2) \$10,700 in Program funds inappropriately used for office expenses associated with acquisition and new construction project numbers 930 and 931; (3) \$58,046 in Program funds inappropriately used for staff salaries associated with acquisition-only activity numbers 1477 and 1478; and (4) \$6,534 in Program funds inappropriately used for administrative salaries and intake costs associated with homeowner project number 1734.
- 2C. Provide supporting documentation or reimburse its treasury account \$64,761 from non-Federal funds, as appropriate, for the Program funds used for unsupported costs associated with acquisition and new construction project numbers 930 and 931 (\$1,620) and homeowner project numbers 1900 and 1901 (\$63,141).
- 2D. Reimburse its treasury account \$13,983 from non-Federal funds or reprogram \$13,983 in Program funds from acquisition and new construction project numbers 930 and 931 to acquisition and new construction project number 1449.
- 2E. Implement adequate procedures and controls to ensure that Program funds are used in accordance with Federal requirements and to maintain documentation to sufficiently support its subrecipient project costs.

### Finding 3: The City's Controls Over Reporting Program Accomplishments in HUD's System Had Weaknesses

The City did not accurately report Program accomplishments in HUD's System. It (1) inappropriately entered activity data into HUD's System for 62 properties under 2 or more activity numbers for a total of 130 activities, (2) overreported Program units created by 79 units, (3) did not accurately report completion dates for 35 home-buyer activities, and (4) inappropriately reported the type of activity for 2 activities in HUD's System. These weaknesses occurred because the City lacked adequate procedures and controls to ensure that it reported Program accomplishments in HUD's System in accordance with HUD's requirements. As a result, HUD and the City lacked assurance regarding the accuracy of the City's Program accomplishments reported in HUD's System.

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#### **The City Overreported Activities and Program Units Created in HUD's System**

We reviewed the Program accomplishments that the City had reported in HUD's System as of April 7, 2010, for all of its 865 new construction, rehabilitation, acquisition, acquisition and rehabilitation, and acquisition and new construction activities. The City provided more than \$18.6 million in Program funds and reported that 971 Program units had been created for the 865 activities.

HUD's regulations at 24 CFR 92.2 state that project completion means that all necessary title transfer requirements and construction work have been performed; the project complies with the requirements of 24 CFR Part 92, including the property standards under 24 CFR 92.251; the final drawdown has been disbursed for the project; and the project completion information has been entered into HUD's System. HUD's regulations at 24 CFR 92.502(d)(1) state that complete project completion information must be entered into HUD's System or otherwise provided within 120 days of the final project drawdown. If satisfactory activity completion information is not provided, HUD may suspend further activity setups or take other corrective actions.

The City inappropriately entered activity data into HUD's System for 62 properties under 2 or more activity numbers for a total of 130 activities. Further, it reported that 153 Program units had been created for 130 properties when only 74 Program units had been created for 62 properties. The following table shows the type of activity, the number of activities and Program units created that the City reported in HUD's System, and the actual number of properties and Program units created for each of the activities.



Activity type	Reported in HUD's System		Actual	
	Activities	Program units	Properties	Program units
Homeowner rehabilitation	33	30	16	16
Home-buyer acquisition	28	28	14	14
Home-buyer acquisition and rehabilitation	26	33	13	18
Rental rehabilitation	5	22	2	2
Multiple activities	38	40	17	24
Totals	130	153	62	74

**The City Did Not Accurately Report Activity Completion Dates in HUD's System**

The City inaccurately reported completion dates in HUD's System for 35 home-buyer activities in which the City used nearly \$1.2 million in Program funds from June 1997 through September 2009. The City did not report 26 of the activities as completed until 7 to 117 months after the final drawdown of Program funds occurred for the activities. Further, the home buyers purchased their homes from 7 to 121 months before the City reported the activities as completed. The completion dates for the 26 activities were from April 1998 through September 2009. The City reported another six activities as completed from 9 to 71 months before the home buyers purchased their homes. Further, the final drawdown of Program funds for two of the six activities did not occur until 8 months after the City reported the activities as completed. The completion dates for the six activities were from November 1997 through September 2005. In addition, as of July 14, 2010, the City had not reported three activities as completed, although the final drawdown of Program funds occurred for the activities in September 2009. Further, one home buyer purchased his home in November 2005, and the other two home buyers purchased their homes in October 2009.

The City inappropriately reported in HUD's System that 23 home-buyer activities were completed, although home buyers had not purchased the homes. The City used more than \$926,000 in Program funds from June 1997 through June 2009 for the 23 activities. Of the 23 activities, homes for 16 of the activities were leased to households but not purchased. Further, the activities were not converted to rental projects. The completion dates for the 16 activities were from November 1997 through September 2009. The homes for the remaining seven activities had not been leased to households or purchased as of July 2010. The completion dates for the seven activities were from April 2004 through September 2009.

### **The City Inappropriately Reported Activity Types in HUD's System**

The City inappropriately reported in HUD's System the type of activity for activity numbers 617 and 888. It used nearly \$96,000 in Program funds from June 1999 through March 2001 for the two activities. The City reported activity number 617 as a home-buyer acquisition activity rather than a home-buyer acquisition and rehabilitation project and project number 888 as a home-buyer acquisition and rehabilitation project rather than a homeowner rehabilitation project.

### **The City Lacked Adequate Procedures and Controls**

The weaknesses regarding the City's inaccurate reporting of Program accomplishments in HUD's System occurred because the City lacked adequate procedures and controls to ensure that it reported Program accomplishments in HUD's System in accordance with HUD's requirements.

The Department's Program manager said that because multiple persons had access to entering Program activity data into HUD's System for the City, she did not know who entered the inaccurate activity data. In April 2009, we informed the Program manager of inaccurate reporting of Program accomplishments that we noted during the first phase of our audit of the City's Program but stated that we would not review the accuracy of the City's reporting of Program accomplishments until the second phase of our audit of the City's Program. The Program manager said that although she had begun correcting the activity data in HUD's System more than a year ago, she was not able to correct all of the activity data. Therefore, she requested assistance from HUD's Technical Assistance Unit (Unit) on March 20, 2010. HUD's Unit provided the City technical assistance on correcting the activity data in HUD's System. However, the City had not corrected the activity data as of July 2010.

### **Conclusion**

The City lacked adequate procedures and controls to ensure that it reported Program accomplishments in accordance with HUD's requirements. It inappropriately entered activity data into HUD's System for 62 properties under 2 or more activity numbers for a total of 130 activities, overreported Program units created by 79 units, did not accurately report completion dates for 35 home-buyer activities, and inappropriately reported the type of activity for 2 activities in HUD's System. As a result, HUD and the City lacked assurance regarding the

accuracy of the City's Program activity accomplishments reported in HUD's System.

## Recommendations

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

- 3A. Cancel 69 of the 130 activities in which it inappropriately entered activity data into HUD's System for 62 properties under 2 or more activity numbers.
- 3B. Cancel 79 of the 153 Program units that it inappropriately reported in HUD's System for the 62 properties.
- 3C. Revise the completion dates that it reported in HUD's System for 32 home-buyer activities for which it inaccurately reported the completion dates for 26 activities more than 120 days after the final drawdown of Program funds and for 6 activities before the home buyers purchased the properties.
- 3D. Report accurate completion dates for the three home-buyer activities, which it had not reported as completed, although the final drawdown of Program funds occurred for the activities in September 2009 and the home buyers had purchased their homes as of October 2009.
- 3E. Revise the type of activity for activity numbers 617 and 888 to a home-buyer acquisition and rehabilitation project and homeowner rehabilitation project, respectively.
- 3F. Implement adequate procedures and controls to ensure that it enters Program accomplishments into HUD's System accurately and in a timely manner.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we reviewed

- Applicable laws; OMB Circulars A-87, A-110, and A-122; HUD’s regulations at 24 CFR Parts 84, 85, and 92; CPD Notice 06-01; HUD’s “Building HOME: A Program Primer”; and HUD’s HomeFires, volume 6, number 1.
- The City’s accounting records, annual audited financial statements for 2008 and 2009, data from HUD’s System, Program and activity files, computerized databases, policies, procedures, organizational chart, consolidated community development and annual plans, and consolidated annual performance and evaluation reports.
- Genesee County records of deeds.
- HUD’s files for the City.

We also interviewed the City’s employees, Flint Project’s director, Salem’s director, Court Street Village’s director, and HUD’s staff.

### **Finding 1**

We reviewed all of the organizations’ home-buyer projects that the City had reported in the HUD’s System for its Program as of April 7, 2010. The City provided more than \$6 million in Program funds for the organizations’ home-buyer projects through June 2010. The organizations’ home-buyer projects were selected to determine whether the City complied with Federal requirements in its use of Program funds for organizations’ home-buyer projects.

### **Finding 2**

We reviewed all of the subrecipients’ activities that the City had reported in HUD’s System for its Program as of February 3, 2010, that did not appear to include appropriate addresses. The City provided more than \$945,000 in Program funds from December 2001 through June 2009 for these activities. The subrecipients’ activities were selected to determine whether the City complied with Federal requirements in its use of Program funds for subrecipients’ activities.

### **Finding 3**

We reviewed the Program accomplishments that the City had reported in HUD’s System as of April 7, 2010, for all of its 865 new construction, rehabilitation, acquisition, acquisition and rehabilitation, and acquisition and new construction activities. The City provided more than \$18.6 million in Program funds and reported that 971 Program units had been created for the 865 activities. The Program accomplishments were selected to determine whether the City accurately reported its Program accomplishments in HUD’s System.

We performed our onsite audit work from September 2009 through August 2010 at the City's offices located at 1101 South Saginaw Road, Flint, MI. The audit covered the period July 2007 through August 2009 and was expanded as determined necessary.

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

# INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

## Significant Deficiency

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

- The City lacked adequate procedures and controls to ensure that Program funds were used for organizations' home-buyer projects and subrecipients' activities in accordance with Federal requirements and that it reported Program accomplishments in HUD's System in accordance with HUD's requirements (see findings 1, 2, and 3).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$843,182		
1B			\$481,818
1C	607,354		
1E	163,825		
1F	105,122		
1G	25,724		
1H			94,356
1J			21,258
1K			<u>48,866</u>
2A	204,009		
2B	208,762		
2C		<u>\$64,761</u>	
2D	<u>13,983</u>		
Totals	<u>\$2,171,961</u>	<u>\$64,761</u>	<u>\$646,298</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the City implements our recommendations, it will ensure that its use of Program funds meets HUD's requirements.




# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION


### Ref to OIG Evaluation

### Auditee Comments



**Wendy S. Johnson**  
Director

OFFICE OF THE CITY ADMINISTRATOR  
Department of Community and Economic Development



**Dayne Walling**  
Mayor

September 10, 2010

Brent Bowen  
Assistant Regional Inspector General for Audit  
United States Department of HUD-Office of Inspector General  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604

Dear Mr. Bowen:

**Comment 1** The City of Flint is committed to new approaches in the use of all Federal and State funds. These changes include: targeting resources to a few locations with higher potential for success, undertaking development and redevelopment projects with per unit costs more in keeping with the current real estate values, partnering with only a few sub-recipients with solid track records, and limiting the types of housing and neighborhood programs to better focus city staff. These will be difficult changes but are necessary if the City of Flint is to be successful in re-positioning the city as an affordable community of choice.

**Comment 1** This response to the OIG report is a first step in that process. We have carefully examined what happened in the past and have begun creating the internal procedures and policies that will allow the Department of Community and Economic Development to be a well-managed and professional agent for change in Flint. Since this process is complex and demanding, it is hoped that the Federal Department of Housing and Urban Development will consider carefully the financial impacts on the City of Flint if all of the reimbursements cited in this report are required.

**Comment 2** Since many of these recommendations refer to actions as far back as 1995, it is disheartening to think that the current efforts of the City of Flint will be undermined by previous poor management, 15 years of misunderstandings of eligible costs, loss of subrecipients' due to local political issues, and similar conditions. While the City of Flint is ultimately responsible, it is hoped that the officials of HUD will look for ways to mitigate the direct costs to the City and citizens and will partner with us in reaching new benchmarks of effectiveness.

**Finding 1: The City Lacked Adequate Controls Over Organizations' Home-Buyer Projects**  
We understand this Finding as having two primary elements, both of which have validity and both of which speak to the underlying issues that have impacted Flint, especially over the last few years.

CITY OF FLINT 120 E FIFTH STREET, ROOM N 102 FLINT MICHIGAN 48502  
OFFICE: 810.766.7436 FAX: 810.766.7351

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 3  
Comment 4  
Comments 5  
and 6**

**Comment 1**

**Comment 5**

The two key aspects of concern are: 1) the failure to adequately manage the disposition of home-buyer project houses and units and 2) the failure to appropriately deal with procedural matters relating to the use of funds and the terminating of projects.

We have carefully looked at each area and have identified organizational and programmatic responses that are being or will be put in place.

First, homebuyers of completed home-buyer projects were repeatedly given non-compliant or extended leases or lease option agreements on the home-buyer properties or units. The reasons for this varied, but at the core, the central problem is the severe weakness in the local economy. The organizations repeatedly faced the fact that stable households at or below 60% of AMI would qualify for renting but not for a mortgage. In the last two years this has become an even greater problem due to the effective freeze on mortgage activity in the City of Flint. What should have occurred is the properties should have been converted to rental and then later made available for home purchase to the qualifying households.

The particular responses to each separate finding are noted below. But overall approach is to bring all properties into compliance. For example, the land contract property now has a standard mortgage. And of the other nine non-compliant single-family properties, four will be sold to qualified homebuyers immediately through in-house mortgages. A property in the 36-month period will be converted as well and the remaining five houses will be rentals or sold. Also when the 42-month deadline is reached, the Berridge Hotel will become a rental facility under the rules then agreed upon with HUD. These actions are being taken to resolve years of noncompliance and to forestall potential problems in the future.

Second, the responsible staff of the City of Flint made numerous errors in the use of funds and in the proper termination of properties. In the response to the recommendations, we acknowledge that these mistakes occurred and will work with HUD on the best ways to rectify the problems. On-going issues with under-trained staff handling too many duties on a wide range of program initiatives produced poor quality performance. Therefore, it is of great importance to change our internal systems and staff capacity to address these systematic deficiencies.

We have addressed personnel issues related to the HOME program manager approving data input into the Integrated Disbursement and Information System (IDIS) and internal monitoring of the situation has increased through the supervision and oversight of a new director of the department and a newly created position, community development administrator, which provides oversight to the HOME program and other entitlement programs. In addition, we are using the services of a professional consultant to work with the staff around clarifying responsibilities, providing training, and setting departmental performance benchmarks. Likewise, it is expected that the department will reduce the range of HOME-funded activities in order to assure that only eligible activities and reimbursements occur. Finally, the department will establish new goals that target program activities that make more sense in the current real estate market. All of this will be accomplished to end the long-term pattern of too many programs, too little training, too few staff, and too many unachievable goals in this economy.

The specific recommended actions are detailed below.

**Recommendation 1A**

Court Street Village, Subrecipient managing the Berridge Hotel, LLC, which is now part of the Genesee County Land Bank, will immediately revise all leases, purchase option agreements, and

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**Auditee Comments**

**Comment 5**

lease-purchase agreements on all 21 residential units in the Berridge Hotel to bring the lease agreements in compliance with HOME requirements. The original confusion was an inappropriate attempt to address the requirements under the Historic Tax Credits for 60-month lease purchase options and the HOME requirements of a maximum of 36 months before conversion to rental. The HOME regulations will be followed. In the future there will be more careful consideration of the implication of multi-source development projects.

**Recommendation 1B**

**Comment 5**

As noted above, all 21 residential units will be converted to lease agreements. This includes the three vacant units. At the time of the conversion of all units to rental, Court Street Village, acting for Berridge Hotel LLC, will also establish the number of units renting to low-income households based on the percentage of HOME dollars in the total project costs less that portion of costs for development of the commercial space. This will be done to place the property in accordance with HUD's requirements on such projects. Staff of the Flint Department of Community and Economic Development will monitor this process as well as the initial conversion to rental to make sure all regulations are met.

**Recommendation 1C**

In the case of Salem Housing there are nine properties that were financed with HOME funds with the intent of selling the properties during the 36-month period for such a sale before converting the properties to rental. Since the properties were completed, the economy continued to erode, so that many households could not show stable incomes for home purchase. Second, even when a household was prepared, the local mortgage market had become so restrictive that conventional financing was out of the question. Due to these obstacles, Salem Housing staff chose to extend the times for conversion of the units to homeownership. The staff acknowledges that this did not follow the HOME rules in either the time frames or the forms of leases.

**Comment 5  
Comment 4  
Comment 5**

Therefore, following the recommendation of the auditor, the leadership of Salem Housing will convert five houses to rental properties. It is the intent of Salem Housing to then request that four be converted to homeownership with the organization providing the mortgages. One of the houses would be kept as a rental property to be managed with 19 other properties Salem Housing owns and rents. The other four houses are not up to standard for rental housing without repairs. The City of Flint will determine whether to refund the HOME funds, use non-HOME money for repairs or to follow any approved procedure. Regardless, either the units will be placed in service or sold, with all proceeds from that sale put in the HOME accounts as re-captured funds, according to the rules of the HOME program.

**Recommendation 1D**

**Comments 5  
and 6  
Comment 4**

Salem Housing will complete the sale of the property at [REDACTED] (project numbers 1206 and 1254) to the current tenant within the 36-month period through a mortgage provided by Salem Housing. Salem Housing will receive assistance to make sure this is done correctly as a template for the four conversions noted above.

**Recommendation 1E**

Regarding the cited 10 home-buyer projects, the City of Flint will proceed as follows:

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**Comment 7**

In the case of project 1209, the property was determined to have a faulty foundation, partially the result of the long delays in funding the project on the part of the City. Salem Housing has proposed two alternatives that meet the regulations of HOME. The first is to proceed with the project with an additional \$28,000 grant to rebuild the basement. The second option is for the City to reimburse the HOME accounts with \$26,300.

**Comment 8**

In the case of [REDACTED], the Court Street Village has proceeded on the project, so the \$16,162 cited no longer applies. The City of Flint will address the issue of the closed project number 1986 and will assure that project number 2100 will be augmented to complete the project through stabilization of the foundation. Since [REDACTED] are complete, this concentration will produce the targeting of activity that is increasingly at the core of HUD recommendations.

**Comment 9**

In the cases of Flint West Village and Greater Eastside (numbers 1223, 1224, 1385, 1387, 1409, 1410, 1411), these Subrecipients have gone out of business, so the City of Flint agrees to reimburse the Program fund a total of \$126,751, pending final review of all eligible expenses.

**Comment 5**

Regarding project 1984 and the \$12,600 additional payments made based on assessed value rather than appraised value, the City of Flint acknowledges this error and will reimburse the Program accounts according to procedures acceptable to HUD. Further, the staff members of the Department of Community and Economic Development, and all of the current and future Subrecipients, will be informed of the need for accurate, fair appraisals on all property purchases.

**Comment 5**

Regarding project 1983 in which a potential of conflict of interest was determined after \$2,095 in soft costs had been expended, the City of Flint will reimburse the accounts for this amount. In the future there will need to be a clearer internal policy since pre-development soft costs, such as the expense of an appraisal of other purchase expenses as noted above, are normal business costs and need to be planned for in the first stages of any project.

**Recommendation 1F**

**Comment 5**

The funds will be reimbursed according to the formula suggested by the auditor in recommendation 2B and detailed by the response provided under that recommendation number. Since Flint NIPP (or the Flint Project) is no longer a Subrecipient, this matter should not arise with this group. In the case of all other groups, there will be improved procedures, upgraded training, and closer review of all submissions.

**Recommendation 1G**

**Comment 3**

The Flint Project (also known here as Flint NIPP) has already converted the unapproved land-contract to a conventional mortgage. Therefore, these funds do not need to be repaid to the Program account. In the future Subrecipients will receive improved training to avoid repeating these sorts of errors. Further, City of Flint staff will more closely monitor Subrecipient actions.

**Recommendation 1H**

**Comment 5**

The City of Flint acknowledges that the funds for project 888 were taken from the reserve funds incorrectly since the monies were used for a single-family owner-occupied renovation instead of for a project to be developed or owned by a Subrecipient. The Flint Department of Community

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**Auditee Comments**

**Comment 5**

and Economic Development will reimburse the reserve fund or will substitute an eligible property of equal or greater value from the appropriate time period. Staff will be trained to use the reserve funds only for eligible activities. Again, this should be easier as the Department of Community and Economic Development more carefully focuses its work and limits the variety of HOME activities.

**Recommendation 1I**

**Comment 10  
Comment 5  
Comment 1**

The City of Flint has decommitted \$94,356 for home-buyer acquisition and rehabilitation project number 1983, which was canceled due to the potential of conflict of interest. The remaining \$6,095 used will be acknowledged and dealt with in other recommendations. In the future, such decommitments will take place promptly and there will be a clearer internal policy regarding funds expended during the start up of any HOME project, since this problem arises often, especially in renovation projects.

**Recommendation 1J**

**Comment 1**

Under the current Mayor and City Administrator, the management and staff responsibilities of the Department of Community and Economic Development are being completely revised and improved. An experienced director for the department has been hired, along with a community development specialist and a business manager, and the first steps of upgrading all internal policies, procedures, and controls have been put in place. Further, the City of Flint is committed to seeking the services of professionals to assist staff in creating new systems and establishing paradigms of excellence. It is anticipated that this will take six to eight months to complete. It is also likely that the City will more tightly focus its HOME and other federally funded programs and will link the projects more directly to carefully crafted neighborhood plans. Under these new approaches, it will be easier to improve management of funds and oversight of Subrecipients.

***Finding 2: The City Lacked Adequate Controls Over Subrecipients' Activities***

The City of Flint agrees that, in a number of cases, Subrecipients were misinformed about how to bill for certain activities and which ones were ineligible. Moreover the City acknowledges that HOME funds were spent on the Smith Village project and, therefore, the funds were not linked to specific addresses. Also, poorly enforced procedures and unclear policies led to ineligible payments for activities that date back fifteen years. Unfortunately, these errors were overlooked during previous evaluations and work with HUD or the Flint staff chose to not act. But in large part, failures were the result of poor training, over-stretched staff, and inadequate supervision in the department. These conditions were the consequence of too many changes of administration, too little spent on skilled management, and sloppy internal controls.

**Comment 1**

While individual responses to the recommendations are cited below, it should be noted that the Flint Department of Community and Economic Development now has a professional, trained community development manager in place as well as several new program specialists. As discussed in our response to Finding 1, an experienced consultant will be providing hands-on assistance over the next eight months to rectify some of the procedural and policy issues and will work with city staff around reducing the range of departmental activities and clarifying the department's outcomes.

**Ref to OIG Evaluation**

**Auditee Comments**

The specific recommended actions are detailed below.

**Comment 5**

**Recommendation 2A**

The City of Flint acknowledges that under previous administrations Program funds were inappropriately used for certain projects that were not address-specific as required under HOME regulations. In particular, the City of Flint agrees with the auditors recommendation to return \$155,312 and \$48,698 to the Program funds for ineligible activities under project numbers 1879, 930, and 931. (Each of these last three projects will be reviewed to assure accuracy.) In the future all HOME fund expenditures will be tied to specific addresses as soon as the lot has been surveyed and has an address. The staff will follow the directions of the HUD representative on how to properly handle these matters and the department director will closely monitor this activity.

**Comment 1**

**Recommendation 2B**

The City of Flint agrees with the finding regarding ineligible charges for executive director and accounting costs. The staff of the Flint Department of Community and Economic Development will inform each of the current and future Subrecipients that such charges are ineligible as part of the 10% administrative charges allowed under HOME regulation

**Comments 5 and 11**

The City of Flint will reimburse its Program \$88,943 for inappropriate payments made since 1995 to Subrecipients for administrative costs identified as executive director and accounting costs. The sum of \$88,943 is based on the four citations in the finding, which total \$200,942 less the \$111,999 in Program administrative cost funds currently available.

**Comment 5**

**Recommendation 2C**

The City of Flint does not have adequate documentation in its files to support payments for Greater Eastside (930 and 931) and for Flint NIPP (homeowner project 1900 and 1901) which were related to a property that Flint NIPP took over from Genesee County Community Action Resource Department (GCCARD). Unless such documentation is located, the City of Flint will return \$72,580 to the HOME account.

**Comment 5**

**Recommendation 2D**

The City of Flint will reprogram \$13,983 from project number 930 and 931 to project number 1449.

**Recommendation 2E**

The City of Flint recognizes that HOME funds have had an enormous positive impact on the neighborhoods and residences of Flint for more than 15 years. As the new Administration, we also acknowledge that hundreds of houses have been made safer and more attractive because of this program. During that same time, the staff reductions of the city, the limited administrative capacities of the Subrecipients and the overall decline of the economy have lead to inadequate

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

management of this excellent resource. It is the strong commitment of the elected and appointed officials of the City that the Department of Community and Economic Development be given the staff support and the technical assistance to improve both the production of the department and the accuracy of its operation. We look forward to working with our HUD representatives to achieve those outcomes. As a first step, we will carefully implement the suggested procedures and controls suggested by the auditors findings and will go further by creating a realistic strategic plan for the Department and for the neighborhoods of Flint.

***Finding 3: The City's Controls Over Reporting Program Accomplishments in HUD's System Had Weaknesses***

**Comment 1**

The City of Flint acknowledges that through inadequate oversight, understaffing, and insufficient training incorrect data was submitted to HUD's System. The City of Flint will resolve all past errors as noted by the auditor and will train staff to deal with future reporting responsibilities. Cross-training will also be instituted so that performance isn't dependent on a single person. There will be monthly progress meetings to assure timely performance and a series of policy changes will encourage even more prompt and accurate use of data. The correction of past errors will be completed in conjunction with HUD staff as will the training of new or re-assigned staff in Flint.

The specific recommended actions are detailed below.

**Comment 5**

**Recommendation 3A**

The City of Flint will correct the inaccurate entries into HUD's system, which created additional properties instead of just additional activities. This matter is currently being addressed after consultation with HUD Technical Assistance Unit staff. Since the employee charged with this responsibility is not available, the director of the department will oversee these actions in the immediate future. A formal policy will be put in place so that the number of properties in process and completed is clearly understood.

Moreover, projects will not be allowed to linger in the system. It is now organizational policy to review and update all property activities monthly.

**Comment 5**

**Recommendation 3B**

As in the above recommendation, the number of program units will also be reduced to reflect the correct number of properties. The same procedure will be used as that in Recommendation 3A. Again, monthly review of all activities should forestall this error in the future.

**Comment 5**

**Recommendation 3C**

The completion dates entered into HUD's System will be corrected following the format suggested by the OIG Audit. Thereafter, the department director will require full reporting on these dates before an entry is made. Completion dates will be part of the in-house tracking system that will be used in the monthly progress meetings.

**Comment 1**

**Recommendation 3D**

The monthly internal reporting procedure should mean that no work can ever be more than 30 days out-of-date and it is anticipated that the City will avoid even this much delay by keeping records accurate well in advance of the progress meetings.

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 5**

**Recommendation 3E**

According to the suggestion of the auditor, the type of activity classification for project number 617 and project number 888 will be corrected

**Comment 1**

**Recommendation 3F**

The procedures and controls cited above should make the reporting much more timely and accurate, especially if training and staff capacity building are used to reinforce the requirements of professionalism placed on all members of the staff.

Sincerely,



Wendy S. Johnson  
Director

Attachments

cc: Gregory Eason, City Administrator



## OIG's Evaluation of Auditee Comments

- Comment 1** The City's commitment to new approaches in its use of Federal funds, addressing personnel issues, and revising its procedures and controls, if fully implemented, should improve the City's management of its Program.
- Comment 2** The City did not provide specifics regarding its statement that many of the recommendations refer to actions as far back as 1995. However, although some of the recommendations may involve issues where initial actions occurred as far back as 1995, the projects and activities were still active as of the scope of our audit and the incorrect reporting of past Program accomplishments in HUD's System caused current Program accomplishments to be inaccurate.
- Comment 3** We added to this report that on September 1, 2010, and as a result of our audit, Flint Project converted the land contract for home-buyer project number 1415 to a conventional mortgage.
- We removed from this report the recommendation that the Acting Director of HUD's Detroit Office of Community Planning and Development require the City to reimburse its Program from non-Federal funds for the \$48,866 in Program funds Flint Project used for home-buyer project number 1415.
- We also added to this report the recommendation that the Acting Director of HUD's Detroit Office of Community Planning and Development ensures that the City does not permit Flint Project to convert the conventional mortgage for home-buyer project number 1415 back to a land contract to assure that the City's use of \$48,866 in Program funds for home-buyer project number 1415 continues to meet HUD's requirements.
- Comment 4** The City would also need to provide documentation to support that the home-buyer projects for the five homes meet property standards before converting the home-buyer projects to rental projects and then obtain approval from HUD to convert four of the rental projects back to home-buyer projects.
- Comment 5** The City's planned corrective actions, if fully implemented, should resolve the issues and recommendations cited in this audit report, as applicable.
- Comment 6** Note that Salem must sell and transfer the remaining home (project numbers 1206 and 1254) to an eligible home buyer by December 15, 2010.
- Comment 7** If the City repairs the collapsing foundation for project number 1209, it should ensure that the Program funds used for the project were only for necessary and reasonable costs and that the home meets property standards when the project is completed. The City did not include the source of the \$28,000 that might be used to repair the collapsing foundation. If the City uses Program funds to repair the collapsing foundation, it should also ensure that the Program funds are not

used for items that were previously completed using Program funds. If the City reimburses its treasury account \$26,300 from non-Federal funds for rehabilitation costs associated with project number 1209, this should resolve the issue and recommendation cited in this audit report applicable to the project.

- Comment 8** If the City sufficiently funds and completes the project, it should ensure that the Program funds used for the project were only for necessary and reasonable costs, the additional Program funds are not used for items that were previously completed using Program funds, and that the home meets property standards when the project is completed.
- Comment 9** HUD's regulations at 24 CFR 92.503(b)(2) state that any Program funds invested in a project that is terminated before completion, either voluntarily or otherwise, must be repaid by a participating jurisdiction. None of the homes had been fully rehabilitated and sold or rented to low- or moderate-income households. Therefore, the City is required to reimburse its treasury account for the entire \$126,751 in Program funds used for acquisition and/or rehabilitation costs associated with the Flint West Village and Greater Eastside projects.
- Comment 10** The City did not provide documentation to support that it cancelled home-buyer acquisition and rehabilitation project number 1983 in HUD's System and decommitted \$94,356 in Program funds remaining for the project.
- Comment 11** The oldest disbursement associated with the City's inappropriate use of the \$88,943 in Program funds occurred in December 2001.

## Appendix C

### FEDERAL REQUIREMENTS

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#### Findings 1 and 2

HUD's regulations at 24 CFR 84.27 state that allowable costs for nonprofit organizations will be determined in accordance with cost principles contained in OMB Circular A-122.

HUD's regulations at 24 CFR 85.20(b)(2) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

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

HUD's regulations at 24 CFR 92.205(e) state that a Program-assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible activity and any Program funds invested in the project must be repaid.

HUD's regulations at 24 CFR 92.207 state that a participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the Program, an amount of Program funds that is not more than 10 percent of its fiscal year Program basic formula allocation. A participating jurisdiction may also expend, for payment of reasonable administrative and planning costs of the Program, up to 10 percent of the program income deposited into its local account or received and reported by its subrecipients during the program year.

HUD's regulations at 24 CFR 92.503(b)(2) state that any Program funds invested in a project that is terminated before completion, either voluntarily or otherwise, must be repaid by a participating jurisdiction in accordance with section 92.503(b)(3). Section 92.503(b)(3) states that if the Program funds were disbursed from the participating jurisdiction's treasury account, the funds must be repaid to the participating jurisdiction's treasury account. If the Program funds were disbursed from the participating jurisdiction's local account, the funds must be repaid to the participating jurisdiction's local account.

HUD's regulations at 24 CFR 92.505(a) state that the requirements of OMB Circular A-87 and sections 85.20 and 85.22 of 24 CFR Part 85 are applicable to a participating jurisdiction that is a government entity. Section 92.505(b) states that the requirements of OMB Circular A-122 and 24 CFR 84.27 are applicable to nongovernmental nonprofit subrecipients that receive Program funds.

HUD's regulations at 24 CFR 92.508(a)(5) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR Part 92. Section 92.508(a)(6) states that the participating jurisdiction must maintain records demonstrating compliance with the applicable uniform administrative requirements in section 92.505.

Attachment A, section C.1., of OMB Circular A-87, revised May 10, 2004, requires that all costs to be necessary, reasonable, and adequately documented.

Attachment A, section A.2.7., of OMB Circular A-122, revised May 10, 2004, requires all costs to be adequately documented. Section A.3. states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Section A.3.4. states that in determining the reasonableness of a given cost, consideration shall be given to significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

Chapter IV, paragraph A, of CPD Notice 06-01 states that general management, oversight, and coordination costs are always categorized as administrative costs.

## **Finding 1**

HUD's regulations at 24 CFR 92.2 state that homeownership means ownership in fee simple title or a 99-year leasehold interest in a one- to four-unit dwelling or in a condominium unit or equivalent form of ownership approved by HUD and project completion means that all necessary title transfer requirements and construction work have been performed; the project complies with the requirements of 24 CFR Part 92, including the property standards under 24 CFR 92.251; the final drawdown has been disbursed for the project; and the project completion information has been entered into HUD's System.

HUD's regulations at 24 CFR 92.205(c) state that the minimum amount of Program funds that must be invested in a project involving rental housing or homeownership is \$1,000 times the number of Program-assisted units in the project.

HUD's regulations at 24 CFR 92.251 state that an owner of rental housing assisted with Program funds must maintain the housing in compliance with all applicable State and local housing quality standards and code requirements. If there are no such standards or code requirements, the housing must meet the housing quality standards of 24 CFR 982.401.

HUD's regulations at 24 CFR 92.254(a) state that housing that is for acquisition by a household must meet the affordability requirements in 24 CFR 92.254(a). Section 92.254(a)(5)(ii)(A)(7) states that Program funds may be used to assist home buyers through lease-purchase programs for existing housing. The housing must be purchased by a home buyer within 36 months of signing the lease-purchase agreement. The home buyer must qualify as a low-income household at the time the lease-purchase agreement is signed. The Program affordability requirements for rental housing in 24 CFR 92.252 shall apply if the housing is not transferred to a home buyer

within 42 months after project completion. Section 92.254(c) states that the ownership in housing assisted under 24 CFR 92.254 must meet the definition of homeownership in 24 CFR 92.2.

HUD's regulations at 24 CFR 92.300(a)(1) state that participating jurisdictions must reserve not less than 15 percent of their Program allocation for investment only in housing to be developed, sponsored, or owned by organizations. The funds are reserved when a participating jurisdiction enters into a written agreement with an organization.

HUD's regulations at 24 CFR 92.502(d)(2) state that additional Program funds may be committed to a project up to 1 year after project completion.

Chapter 5, part I, of HUD's "Building HOME: A Program Primer," dated March 2008, states that land contracts are not approved by HUD as an eligible form of ownership.

Chapter 8, of HUD's "Building HOME: A Program Primer," dated August 2002, states that homeowner rehabilitation is an ineligible set-aside activity.

## **Finding 2**

HUD's regulations at 24 CFR 92.2 state that a commitment of Program funds occurs when a participating jurisdiction has (1) executed a legally binding agreement with a State recipient, subrecipient, or contractor to use a specific amount of Program funds to produce affordable housing or provide tenant-based rental assistance; (2) executed a written agreement reserving a specific amount of Program funds to an organization, or (3) met the requirements to commit Program funds to a specific local project. If the project consists of rehabilitation or new construction, a commitment of Program funds to a specific local project occurs when the participating jurisdiction and project owner have executed a written, legally binding agreement under which Program assistance will be provided to the project owner for an identifiable project under which construction can reasonably be expected to start within 12 months of the agreement date. If the project is owned by the participating jurisdiction, the project has been set up in HUD's System, and construction can reasonably be expected to begin within 12 months of the project setup date.

## **Finding 3**

HUD's regulations at 24 CFR 92.2 state that project completion means that all necessary title transfer requirements and construction work have been performed; the project complies with the requirements of 24 CFR Part 92, including the property standards under 24 CFR 92.251; the final drawdown has been disbursed for the project; and the project completion information has been entered into HUD's System.

HUD's regulations at 24 CFR 92.502(d)(1) state that complete project completion information must be entered into HUD's System or otherwise provided within 120 days of the final project drawdown. If satisfactory activity completion information is not provided, HUD may suspend further activity setups or take other corrective actions.

HUD's regulations at 24 CFR 92.504(a) state that a participating jurisdiction is responsible for managing the day-to-day operations of its Program, ensuring that Program funds are used in accordance with all Program requirements and written agreements.

HUD's HOMEfires, volume 6, number 1, states that a participating jurisdiction must report activity completion and beneficiary data for initial occupants in a timely manner by entering the data into HUD's System on a regular basis. HUD's regulations at 24 CFR 92.502(d)(1) require participating jurisdictions to enter project completion information into HUD's System within 120 days of making a final activity drawdown. Failure to do so is a violation of HUD's regulations at 24 CFR 92.502(d)(1) and 92.504(a).