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Audit Report Number	2011-LA-1016
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TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

*Tanya E. Schulze*

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

SUBJECT: The City of Compton Did Not Administer Its HOME Program in Compliance With HOME Requirements

## **HIGHLIGHTS**

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

We audited the City of Compton's (City) HOME Investment Partnerships Program (HOME) in response to a citizen complaint generally alleging misuse of HOME funds by the Community Redevelopment Agency (subrecipient) administering the program, including allegations stating that more than \$4 million in HOME funds was missing and that program objectives were not met.

Our audit objective was to determine the validity of the complaint allegations, whether program objectives were met, and if program activities complied with HOME requirements.

### **What We Found**

Although we found nothing to support allegations that funds were missing from HOME funding, we determined that the City and its subrecipient did not properly administer the program in accordance with HUD requirements.

Required completion data were not always entered to close out funded activities, and appropriate source documentation had not been maintained to support activity costs or salary and wages charges. In addition, home-buyer eligibility was not correctly determined, and HOME affordability requirements were not always maintained. Finally, HOME funds were not always used within the required timeframe, and program income was not always processed in such a way to ensure compliance with HOME requirements.

### **What We Recommend**

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to support or repay more than \$2.2 million in HOME withdrawals for unsupported activity expenditures and unsupported salaries and wages. The City should also repay \$193,420 for two home buyers who were ineligible to receive assistance, \$100,000 in HOME funds used for a property that did not maintain affordability standards, and \$72,397 that was drawn for a cancelled activity. Policies and procedures should be established or revised as necessary for the administration of the program, and the City should implement regular monitoring of its subrecipient.

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 the City the draft report on June 10, 2011, and held an exit conference with the City on June 15, 2011. The City generally disagreed with our report.

We received the City's response on June 27, 2011. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The auditee also included some additional schedules with its response; however, we did not include these in the report and they are available upon request.

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## **BACKGROUND AND OBJECTIVE**

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### **The HOME Program**

The HOME Investment Partnerships Program (HOME) is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act. The program regulations are contained in 24 CFR (Code of Federal Regulations) Part 92 and the HOME Investment Partnerships Program Final Rule. HOME funds are awarded annually as formula grants to participating jurisdictions and used to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income households. According to 24 CFR 92.500 (a)(b)(c), HUD establishes a HOME Investment Trust Fund United States Treasury account, which houses the funds that are allocated to each participating jurisdiction. The participating jurisdiction may use a separate local HOME account to house deposits disbursed from the Treasury account. The program allows State and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancement, rental assistance, or security deposits. Further, a participating jurisdiction may invest HOME funds as equity investments, interest-bearing loans or advances, non-interest-bearing loans or advances, interest subsidies, deferred payment loans, grants, or other forms of assistance that U.S. Department of Housing and Urban Development (HUD) determines to be consistent with the regulation. Households must meet certain low-income limit criteria published by HUD to receive HOME assistance. HOME funds are managed through HUD's Integrated Disbursement and Information System (IDIS), which disburses funds that are allocated or reallocated and reports information on the use of HOME funds in the U.S. Treasury account.

### **The City of Compton**

The City of Compton, CA (City), was officially incorporated on May 14, 1888. The City's elected officials include the mayor, four city council members, city attorney, city treasurer, and city clerk. The City's administration is comprised of a city manager and two assistant city managers.

As a participating jurisdiction, the City is responsible for the overall administration and oversight of Community Development Block Grant (CDBG), Emergency Shelter Grant (ESG), and HOME program funds, as well as Neighborhood Stabilization Program (NSP) and Homelessness Prevention and Rapid Re-Housing Program funds. Between 2009 and 2010, the City was awarded more than \$4 million in CDBG funds, \$1.7 million in HOME funds, and nearly \$200,000 in ESG funds. The City also received CDBG Recovery Act grants totaling \$1.4 million and more than \$3 million in NSP funds. The City's HOME and NSP programs are managed through its Community Redevelopment Agency.

### **The Community Redevelopment Agency**

The mission of the Community Redevelopment Agency (subrecipient) is to support the City's mission of creating a viable, affluent, self-reliant, and safe community by causing the

resurgence of Compton's physical, economic, and social development through dynamic growth achieved by commercial, industrial, and residential progress. The subrecipient serves as the economic development arm of the City for rebuilding and generating economic vitality in the community. The overriding objective of the subrecipient is to implement the council's policy of fostering growth by using tax increment revenues, in combination with State and Federal resources; providing physical and social infrastructure to stimulate growth; and providing gap financing options to attract private investment for retail and residential development, as well as job development, in the community.

As a subrecipient to the City, it administers the HOME-funded First Time Home Buyer (FTHB) program, which provides homeownership assistance, and the Residential Rehabilitation (RR) program (comprised of its Emergency Assistance, Deferred Equity Loan, and Fix-It Programs), which provides assistance to homeowners by eliminating property code violations and unsafe living conditions. To ensure that homebuyer properties remain affordable, HUD requires participating jurisdictions to impose either resale or recapture provisions, at its option. Resale requires the assisted housing to be made available for purchase by another family who qualifies as low income and will use the property as their principal residence, if the original family does not continue to reside in the property. Recapture provisions must ensure the participating jurisdiction recoups all or a portion of the HOME assistance to home buyers, if the housing does not continue to be the principal residence of the family. The time period the assisted family must remain in the property is based upon the amount of assistance provided.

The above programs may also generate program income, which can include, but is not limited to, proceeds from repayment of loans provided to participants and any interest earned on program income in interest bearing accounts. According to CPD Notice 97-9, Section III.E, earned program income must be disbursed on eligible activities before requesting HOME entitlement funds, which are received by the participating jurisdiction as part of its original allocation.

In a 2008 single audit report, the City's independent auditor made 13 findings related to the City's HOME program. Eight findings were fully implemented, two were partially implemented, and three were not implemented. A 2009 single audit report contained four HOME-related findings. In addition, HUD performed a 2009 monitoring review of the City's HOME, ESG, and NSP programs, which resulted in four findings related to the HOME program. HUD closed out all four findings in June 2010. The findings generally stated that there were deficiencies in the City's income verifications, determination of maximum property rehabilitation values, and maintenance of adequate source documentation for its activities.

We initiated the review in response to a citizen complaint alleging misuse of more than \$4 million in HOME funding and nonachievement of program objectives. The objective of our audit was to determine the validity of the allegations, whether program objectives were met, and if program activities complied with HOME requirements.

## RESULTS OF AUDIT

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### Finding 1: Required Completion Data Were Not Entered in a Timely Manner and Adequate Drawdown Source Documentation Was Not Provided

The City's subrecipient did not enter required completion data into IDIS in a timely manner for 15 of its program activities. In addition, one of its activities needs to be cancelled, and the balances for two of its activities need to be reallocated to current activities. The subrecipient also could not provide adequate source documentation to support 10 open activities, totaling more than \$2.2 million for funds that were committed in IDIS between 1993 and 2005. This deficiency was due to the subrecipient's lack of understanding of HOME requirements and a lack of an adequate quality control system to ensure that required project completion data were complete, accurate, entered into IDIS in a timely manner, and supported. In addition, the subrecipient had not been routinely monitored by the City. Failure to enter project completion data negatively affects the City's score on several program performance indicators and may negatively impact future funding for the program. In addition, there was insufficient information available to determine whether more than \$2.2 million in program funds was expended for eligible HOME activities.

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#### Final Draw Activities Overdue

The subrecipient did not maintain an adequate quality control system to ensure that required project completion information and beneficiary data were complete, accurate, and entered into IDIS within 120 days of final draw in accordance with 24 CFR 92.502(d)(1). The IDIS Report C04PR22, Status of HOME Activities, dated January 2011, listed 12 activities with a status of "final draw,"<sup>1</sup> 2 were more than 11 years overdue to be completed, and 3 were more than 10 years overdue. All funds that were committed were drawn for each activity listed in the below table.

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<sup>1</sup> "Final draw" status means that all committed funds have been drawn but financial and beneficiary information has not yet been entered. Entering the required financial and beneficiary information would result in "complete" status.

IDIS activity no.	Commit <sup>2</sup> date	Status /final draw date	120-day project completion due date	Days overdue	Years overdue	Drawn amount
53	4/21/97	9/26/06	1/24/07	1,457	3.99	\$118,950
55	10/27/93	8/20/97	12/18/1997	4,781	13.10	\$151,800
56	4/3/95	7/30/03	11/27/03	2,611	7.15	\$412,000
57	10/22/96	8/20/97	12/18/1997	4,781	13.10	\$107,000
173	7/1/97	6/23/99	10/21/99	4,109	11.26	\$269,876
275	7/1/98	8/26/99	12/24/99	4,045	11.08	\$299,406
347	7/1/99	6/29/00	10/27/00	3,737	10.24	\$616,643
606	7/31/03	8/31/04	12/29/04	2,213	6.06	\$40,487
633	7/31/03	8/31/04	12/29/04	2,213	6.06	\$40,000
832	8/3/06	10/24/07	2/21/08	1,064	2.92	\$136,000
917	2/8/07	11/4/09	3/4/10	322	.88	\$855,000
1080	2/2/10	2/2/10	6/2/10	232	.64	\$800,000

After the completion of our fieldwork, the auditee updated the “status/final draw dates” for Activities 55 and 57 and changed the status of Activity 53 to “completed.” After reviewing documentation provided by the auditee, we determined that the Activity 53 documents only supported a portion of the funds that were drawn.

### Overdue Open Activities

The City also had three activities with “open” status in IDIS that need to have completion information entered into HUD’s system and one activity with “open” status that needs to be cancelled. HOMEfires, Volume 6, No.1, August 2005 states, “Participating Jurisdictions must report HOME project completion and beneficiary data for initial occupants timely by entering it in IDIS on a regular basis, and periodically review the status of all projects in the system to identify those that need to be cancelled (see appendix E).” The following table identifies the four activities that need to be completed or cancelled.

<sup>2</sup> The commit date represents the date on which program funds were first committed to the activity.

IDIS activity no.	Commit date	Status date (Date of last action)	Committed amount	Drawn amount	Balance	Percentage completed (Drawn/committed amount)
46	5/13/96	8/20/97	\$56,720	\$31,407	\$25,313	55%
48	10/29/96	8/20/97	\$300,000	\$296,555	\$3,445	99%
631	7/30/03	8/16/10	\$0	\$0	\$0	0%
810	6/23/05	10/24/07	\$368,250	\$368,249.50	\$0.50	100%

**Activities 46 and 48**

The last draw for both activities 46 and 48 was on August 20, 1997. Therefore, the City’s subrecipient needs to reallocate the \$28,758 (\$25,313 + \$3,445) total remaining balance to other current activities. In addition, the subrecipient needs to enter completion information into IDIS.

**Activity 631**

Activity 631 reflects a commit date of July 30, 2003, but showed \$0 committed or drawn as of August 16, 2010. Since the activity remained inactive for 7 years and no funds were committed or drawn, the subrecipient should cancel this activity. After the completion of our fieldwork, the subrecipient stated the activity should not be cancelled and provided additional documentation. However, the documents provided did not support this position, as the same information had also been furnished as support for Activity 53.

**Activity 810**

The subrecipient had not updated activity 810’s status since the date of the last draw, October 24, 2007. IDIS showed the activity as 100 percent complete; therefore, the subrecipient needs to enter completion information into IDIS. After the completion of audit fieldwork, the subrecipient provided additional documentation to support the draw down for this activity and changed the status to “completed.” However, the new information did not support the draw down. Therefore, this activity should not be closed until sufficient documentation is available.

**Inadequate Support for More Than \$2.2 Million Drawn**

The 15 open activities also included 10 activities that did not have adequate support documentation. Further, 9 of the 10 activities had a commit date before 2000 and either had no name identified or did not clearly indicate what IDIS activity was funded. Therefore, we reviewed those nine activities to determine whether the City’s subrecipient maintained adequate financial



documentation to support the charges in IDIS and whether program funds were used for eligible HOME activities. In addition, we reviewed a tenth activity that had been reopened during fiscal year 2009-2010 after the subrecipient completed its final draw in fiscal year 2008-2009.

During our fieldwork, the subrecipient provided documentation for 8 of the 10 activities reviewed; however, the information in the files was not sufficient to support the amounts shown as committed and drawn in IDIS. Further, although some of the files included IDIS drawdown screens, vouchers, or invoices from a community housing development organization, the majority of the files did not contain source documentation to support the amount paid, including cancelled checks, paid bills, receipts, etc., in accordance with HUD requirements. In addition, invoices provided for one activity were questionable because they appeared to have been produced from the same source, although they were supposed to have been from multiple vendors and did not appear to be the original documents. After the completion of fieldwork, the subrecipient provided additional documentation for 8 of 10 activities reviewed; however, the new information still did not fully support the draw downs made for the activities. In some cases, the expenditure amounts on the documentation did not reconcile to the IDIS draws, appeared applicable to different IDIS activity numbers, or the same documentation was provided to support more than one activity number.

Given that the subrecipient did not provide adequate source documentation for the majority of the 10 IDIS activities and related commitments and draws reviewed, we were unable to determine whether program funds were used for eligible HOME activities, and more than \$2.2 million drawn in IDIS was unsupported, as detailed in the table below.

<b>IDIS activity no.</b>	<b>Activity type</b>	<b>Commit date</b>	<b>Drawn amount</b>	<b>Unsupported amount</b>
46	Acquisition only	5/13/96	\$31,407	\$31,407
48	Rehabilitation	10/29/96	\$296,555	\$296,555
53	Acquisition only	4/21/97	\$118,950	\$109,630
55	New construction	10/27/93	\$151,800	\$124,572
56	New construction	4/3/95	\$412,000	\$271,461
57	New construction	10/22/96	\$107,000	\$23,238
173	New construction	7/1/97	\$269,876	\$269,876
275	Rehabilitation	7/1/98	\$299,407	\$299,407
347	Rehabilitation	7/1/99	\$616,643	\$475,471
810	Rehabilitation	6/23/05	\$368,250	\$368,250
<b>Totals</b>			<b>\$2,671,888</b>	<b>\$2,269,867</b>

### **Subrecipient Not Monitored**

The City informed us that it had established procedures and had been monitoring other organizations receiving HUD funding; however, the City acknowledged that as of September 2010, no HOME program monitoring of its subrecipient had yet occurred. 24 CFR 92.504 (a) states that participating jurisdictions are responsible for managing the day-to-day operations of their HOME program and that each contractor and subrecipient must be reviewed annually. HUD Handbook 6509.2, Community Planning and Development Monitoring Handbook, Exhibit 7-19 advises participating jurisdictions to monitor subrecipients to ensure that they maintain adequate records to comply with program requirements such as record retention. Although the activity in question occurred a number of years ago, the City should monitor the status of the activities and the subrecipient's efforts to close or adjust them.

In addition, there was no agreement between the City and the subrecipient outlining program requirements. 24 CFR 92.504 (c)(2)(iii) requires that the agreement between the City and subrecipient comply with Uniform Administrative Requirements documented in 24 CFR 92.505(a). The requirements state that 24 CFR Part 85.20, which contains specific source documentation requirements, applies to participating jurisdictions receiving HOME funds. By the end of our fieldwork, the City and its subrecipient had

established an agreement. However, we did not review the individual provisions to determine whether the agreement referenced all necessary provisions or whether they had been implemented.

## Conclusion

Failure to enter project completion data into HUD's IDIS negatively affects a participating jurisdiction's score on several HOME performance reports, understating actual accomplishments and reducing the participating jurisdiction's statewide and national overall rankings. The widespread failure of participating jurisdictions to enter data in a timely manner results nationally in underreporting of actual HOME program accomplishments to Congress and the Office of Management and Budget (OMB), which may negatively impact future funding for the program. In addition, delays in entering project completion data impact and extend the record retention requirement for the activities. The subrecipient was unable to support more than \$2.2 million in HOME expenditures in open IDIS activity to demonstrate whether program funds were spent for eligible activities. The subrecipient acknowledged that the missing documentation made it more difficult to enter reliable and accurate data into IDIS to close the activities. If satisfactory project completion data are not provided, HOME regulations allow HUD to suspend further project setups or take other corrective actions. According to HUD regulations, participating jurisdictions are responsible for managing day-to-day operations of their programs. Therefore, the City must monitor the subrecipient to ensure that data are complete, accurate, and supported.

## Recommendations

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

- 1A. Require the subrecipient to enter project completion information into IDIS for activities 46, 48, 55, 56, 57, 173, 275, 347, 606, 633, 832, 917, and 1080 and cancel activity 631. In addition, Activities 53 and 810 should be reopened until the subrecipient provides sufficient documentation to support the draw downs for these activities.
- 1B. Require the subrecipient to reallocate the remaining balance for activities 46 (\$25,313) and 48 (\$3,445) to other current activities immediately.
- 1C. Require the subrecipient to support the \$2,269,867 drawn from the U.S. Treasury or reimburse its HOME program from non-Federal funds.

- 1D. Require the City and subrecipient to establish and implement effective policies and procedures to ensure that an adequate quality control system is maintained and required project completion information and beneficiary data are complete, accurate, entered into IDIS in a timely manner, and supported.
- 1E. Require the City to regularly monitor the subrecipient, to ensure that project data are complete, accurate, timely, and supported.
- 1F. Require the City to conduct training for subrecipient personnel on HOME program requirements pertaining to entry of activity completion data and maintenance of supporting documentation for HOME projects and activities.

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## Finding 2: The Allocation of HOME Salaries and Wages Did Not Comply With OMB Circular A-87

The City's method of allocating program salaries and wages to the HOME program was not supported by employee timesheets breaking out time spent on each program as required by OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Selected Items of Cost, Paragraph 8, Compensation for Personal Services. The City's noncompliance was due to its lack of understanding of the OMB time documentation requirements. As a result, there was no assurance that these charges were accurate.

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### **Time Charged to Program Based on Predetermined Estimates**

We identified \$61,959 in salaries and wages that was charged to the HOME program using transaction listings from July 2008 through December 2010. The City and its subrecipient prepared annual budgets that estimated the percentage of time their employees were expected to work on various programs during the year, including the HOME program. The percentages were then entered into the City's accounting system annually to calculate the amounts that were allocated to the program. The budget estimates did not reflect all of the staff working on the programs and were not regularly updated to reflect changes that may have occurred during the year to the number of staff members working on programs or their work assignments. However, OMB Circular A-87, Attachment B, Selected Items of Cost, paragraphs 8 (h)(4) and (5), states that when employees work on multiple activities, time worked must be supported by personnel activity reports or equivalent documentation. Budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to Federal awards (see appendix E).

The City used the same methodology to charge HOME program salaries during fiscal years 2008-09 and 2009-10. The City's 2008 and 2009 single audit reports contained a finding which stated that personnel costs allocated to the HOME program were not supported by personnel activity reports or equivalent documentation. Since then, the City had attempted to obtain compliance by distributing sample timecard formats to each department. However, full compliance had not yet occurred.

### **Distribution of Time Worked Not Reflected on All Employee Timesheets**

Our discussions with City and subrecipient management confirmed that employees worked on more than one program. We sampled timesheets for fiscal years 2009 through 2011 and found that not all employees identified time worked by program. As a result, there was insufficient documentation to determine whether the amounts charged to HOME funds were reasonable compared to the actual hours spent on HOME activities.

### **City Maintained Annual Administrative Cap Not Exceeded**

The City maintained that although it used annual budgeted estimates, it still did not exceed the 10 percent HOME program funding cap that it is allowed to charge annually. The City explained that an accountant reviewed total administrative program charges near the end of the fiscal year and made adjustments to the total, charging any amounts exceeding the cap to the City or its subrecipient. Regulations at 24 CFR 92.207 allows a participating jurisdiction to charge up to 10 percent of the HOME formula allocations for administrative costs such as necessary salaries, wages, and related costs, and the City did not exceed this threshold. However, 24 CFR 92.505(a) requires the charges to be supported in compliance with OMB time and attendance records requirements.

### **Conclusion**

The salaries of the City's employees were not properly tracked and charged to the HOME program in compliance with OMB Circular A-87. The charges were based on annual, predetermined percentages, which do not qualify for support for charges to Federal awards. This was due to the City's lack of understanding of OMB Circular A-87 time documentation requirements. As a result, the City needs to discontinue its method of allocating salaries and wages and replace it with a method that is based on the actual time charged by its personnel as required by OMB Circular A-87. The City should also conduct regular monitoring to ensure that the subrecipient maintains the appropriate time distribution records and makes appropriate charges to its HOME program.

## Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development

- 2A. Require the City to support or repay from non-Federal funds the \$61,959 in salaries and wages charged to the HOME program between July 2008 and December 2010.
- 2B. Require the City and its subrecipient to establish and implement a timekeeping methodology that accurately reflects charges made to the program and written policies and procedures to ensure compliance with OMB Circular A-87.
- 2C. Require the City to conduct regular monitoring of its subrecipient to ensure that appropriate time distribution records are maintained.

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### Finding 3: Home Buyers' Income Eligibility Was Not Adequately Determined, Affordability Requirements Were Not Maintained, and Key Agreement Provisions Were Not Documented

The City's subrecipient did not ensure that income for 13 HOME program participants was determined and supported in accordance with program requirements. Also, the subrecipient did not ensure that HOME-assisted properties met the required affordability period or that funds were applied to the property. Finally, written agreements with participants did not contain clear affordability provisions to document the disposition of assisted properties if they no longer remained in the properties. This condition occurred because the subrecipient lacked the necessary procedures and controls regarding the administration of the program. As a result, ineligible persons received assistance, and HOME affordability objectives were not met.

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#### **Income Eligibility Not Always Determined or Supported in Accordance With HOME Requirements**

Our review of 13 loan participant files disclosed that 2 participants that received assistance to purchase homes did not meet the definition of a low-income family as defined by 24 CFR 92.2. The HOME program requires HOME funds to be targeted to households that are low and very low income. However, the participants had incomes that exceeded 80 percent of median income for the area, as determined by HUD. The two home buyers were inappropriately qualified using 120 percent moderate income limits, which was not applicable to the HOME program. The home buyers received a total of \$193,420 in HOME downpayment assistance. Because the two participants' income exceeded the allowable limit, they were ineligible to participate in the program and should not have received assistance.

In addition, income for participants was not determined in accordance with HOME Income Eligibility requirements documented in Chapters 1 and 2 of the Technical Guide for Determining Income and Allowances for the HOME program (see appendix C).

- Ten participant files did not indicate what income definition was used to qualify participants, and the subrecipient did not have written policies



and procedures at that time to otherwise identify which income definition was used.<sup>3</sup>

- Seven participant files did not contain the minimum amount of documentation needed to make a complete assessment of income.
- Four home buyers' incomes were incorrectly calculated. The frequency of two home buyers' pay was not correctly determined, causing income to be incorrectly calculated. The income determinations for the third and fourth home buyers did not consider all pay documentation in their files.
- Overtime income for four participants was not separately analyzed for continuance.<sup>4</sup>

With the exception of two participants wrongfully qualified for assistance (above), we recalculated the remaining incomes and determined the participants to be eligible to receive assistance.

### **HOME Affordability Requirements Not Met and Not Clarified in Written Agreements**

We confirmed that one property of six reviewed had been foreclosed on and was no longer owned or occupied by the HOME-assisted participant. The property was purchased in September 2006 with \$100,000 in HOME assistance. It was sold to a banking institution in November 2009 and purchased by new owners in September 2010 with no recovery of the HOME investment. According to 24 CFR 92.254 (a)(4), if more than \$40,000 in assistance is provided, the property must remain the principal residence of the family for a minimum of 15 years; otherwise, the participating jurisdiction must repay the HOME investment (see appendix E). This requirement is applicable to termination of affordability restrictions due to foreclosure or transfer in lieu of foreclosure. HOMEfires Policy Newsletter Volume 5, No. 2, June 2003, states that participating jurisdictions should regularly review projects and intervene before default. If the property goes into default, the participating jurisdiction must work with the project owner and primary lenders to maintain the project as affordable housing throughout the affordability period or the participating jurisdiction must repay the HOME account.

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<sup>3</sup> The HOME program requires participating jurisdictions to use one of three definitions of annual income to determine income eligibility of applicants (annual income as defined by 24 CFR 5.609, annual income as reported by the U.S. Census long form, or adjusted gross income as defined by the Internal Revenue Service Form 1040).

<sup>4</sup> Chapter 2 of the Technical Guide for Determining Income and Allowance for the HOME program requires earned overtime to be analyzed to determine whether the income will continue to be a regular part of the participant's income.

However, the written agreement for the HOME assisted purchase of the property did not clearly specify whether the property would be resold to another eligible low-income participant or whether the City would recapture all or a portion of the HOME investment in the event that the participant did not remain in the property. HOMEfires, Volume 5, No. 5, November 2003, states that either resale or recapture provisions must be selected at the time assistance is provided. However, the home-buyer agreements contained language pertaining to both resale and recapture options and did not clearly state which recovery method would be used to ensure that the property remained affordable.

### **One Property Never Occupied by Owner**

We confirmed that another property was never occupied by the home buyer. The subrecipient told us that the loan was cancelled. However, the \$125,329 in HOME funds that was drawn to fund the purchase was not cancelled in IDIS or used to fund other eligible activities. In addition, the check was outstanding for 2 years. Since our inquiry, the subrecipient had taken steps to reallocate the \$125,329 to other activities. However, the funds remained unused for nearly 2 years, and a balance of \$72,397 in drawn funding remained listed as available in IDIS. HOME requires repayment of drawn funds, plus applicable interest, not expended within 15 days, to the U.S. Treasury account of the HOME Investment Trust Fund.

### **Annual Recertifications Not Timely and Accurate**

The annual recertification letter provided by the subrecipient was dated 3 years after the initial property purchase for the foreclosed-on property. In addition, 3 annual recertification letters were sent to the property address of the cancelled home buyer who never occupied the property.

### **All HOME Provisions Not in Agreements**

Ten agreements for homeowners and home buyers assisted between fiscal years 2006-07 and 2008-09 did not contain all minimum required HOME provisions documented in 24 CFR 92.504(c)(5)(see appendix D).

- Two homeowner agreements did not describe the rehabilitation work to be undertaken. Files contained many bid proposal forms but did not

- incorporate a final bid or estimate in the agreement. In addition, specific property standards were not detailed, and the estimated value of the assisted property after rehabilitation was not included in the agreement.
- Eight home-buyer agreements did not include a deadline for acquisition of the assisted housing and did not identify the assisted housing as low-income. An assessment to determine whether the assisted property exceeded the 95 percent of median purchase price for the area was included in the file but not incorporated into the agreement.
- Seven home-buyer agreements included both resale and recapture provisions and did not specify which option would be used to ensure continued affordability of the assisted property.
- Amounts of assistance identified on the agreements were inconsistent and sometimes varied greatly from the actual amount of assistance provided, as reflected in IDIS. The actual amount of assistance provided to one participant was \$49,690. However, the agreements in the file stated that the participant would receive a maximum of \$25,000.

## Conclusion

Income determinations performed for 13 home buyers did not always comply with HOME program requirements, and HOME long-term affordability requirements were not met. In addition, HOME funds remained unused and were not available to fund other eligible HOME activities for nearly 2 years. The subrecipient lacked the necessary procedures and controls to assist in making income determinations, to maintain affordability, and to ensure that HOME funds were used in an effective and timely manner. Most of the deficiencies occurred during the City's fiscal years 2006-07 through 2008-09, when the subrecipient did not have written policies and procedures for its HOME program. Since that time, a written procedure had been established, and loans issued after that timeframe contained fewer errors. However, the HOME account must be reimbursed for the two ineligible participants and the foreclosed-on property that did not maintain affordability. The subrecipient is also required to reimburse the HOME account for the remaining loan balance for the property that was never occupied by the home buyer. Since HOME funds were drawn but not expended within the required 15-day timeframe, interest, if applicable, would also be due.

## Recommendations

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

- 3A. Repay from non-Federal funds \$193,420 for two households that were wrongfully qualified for assistance (see appendix C, loans 3 and 4).
- 3B. Repay to the HOME account \$100,000 for the foreclosed-on property for which HOME affordability requirements were not maintained.
- 3C. Repay to the HOME account the remaining \$72,397 balance of the cancelled \$125,329 loan, plus applicable interest, for which HOME funds were drawn but not expended within the required 15-day timeframe. The \$52,932 reallocated to other activities based on Office of Inspector General (OIG) inquiries is considered funds put to better use.
- 3D. Establish and implement procedures and controls to assist in preventing future instances of noncompliance with HOME income determination, affordability, and written agreement requirements.

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## Finding 4: Funds Were Not Expended for Eligible Costs Within 15 Days of Drawing Down Funds From the U.S. Treasury

The City and subrecipient did not, in a timely manner, reallocate HOME funds withdrawn from the U.S. Treasury to other activities after program expenses were cancelled. This occurred because their procedure of drawing down funds to reimburse the City for HOME expenses was inadequate to ensure that the program funds were expended for eligible costs within 15 days of drawdown. Therefore, the subrecipient may continue to draw down and hold HOME funds instead of using them for eligible expenses, increasing the risk the City may earn interest on HOME funds and not remit it to HUD.

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### Voucher Revision Delays

The City's subrecipient drew down HOME funds, on a reimbursement basis, after the City had paid for the program expense. This process should ensure that any HOME funds drawn down from the City's U.S. Treasury account are expended for eligible costs within 15 days as required by 24 CFR 95.502(c)(2) (see appendix E).

Although the funds were drawn immediately or shortly after a check was issued for the program expense, the check had not necessarily cleared. As a result, in the case of unforeseen obstacles such as a voided check or a property falling out of escrow, the City and the subrecipient may not have become aware of this situation and reallocated the voucher to another eligible expense within the 15-day timeframe.

The two vouchers we reviewed demonstrated that it could take as many as 343 days to successfully reallocate a voucher to eligible costs after initial drawdown. In one case, the City issued a check for \$115,969 for a first-time home buyer applicant on April 13, 2009, and program funds were drawn down from the U.S. Treasury and deposited into the City's bank account on April 29, 2009. The City voided the original check on June 1, 2009, and ultimately reallocated the funds to multiple activities between September 2009 and April 7, 2010, which was 153 to 343 days after final draw, far exceeding the 15-day requirement. In addition, \$85 remained unexpended as of April 1, 2011, 702 days after the draw, although it was reflected in IDIS as reallocated.

Although it was the City's and subrecipient's practice to reallocate the funds to other activities, HUD regulations require any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement to be returned to HUD for deposit into the participating jurisdiction's U.S. Treasury account.

Therefore, the City and subrecipient need to revise their procedures and controls to ensure that HOME funds exceeding the 15-day expenditure period are immediately returned to HUD for deposit into the U.S. Treasury account.

### **Interest Earned on Delays**

HUD regulations allow for the participating jurisdiction to retain any interest earned on program funds drawn from the U.S. Treasury within the 15-day expenditure period. However, any interest earned after 15 days belongs to the United States and must be remitted promptly to HUD. Therefore, by not expending its HOME funds within 15 days of drawdown, the City may have earned interest on HOME funds, which it may not have remitted to HUD.

In the case of the specific vouchers reviewed, the funds were either in the City's non-interest-bearing account, or the City did not earn interest on its interest-bearing accounts during the periods in question due to insufficient fund balances. Therefore, the City did not earn interest on those funds; however, this may not be the case with future revisions.

### **Conclusion**

The City and subrecipient did not reallocate HOME funds to other eligible activities in a timely manner after they were cancelled. Their procedure was inadequate to ensure that funds were expended for eligible costs within 15 days of draw down from the U.S. Treasury. Therefore, the City and subrecipient may continue to draw down HOME funds and hold them for extended periods instead of returning them to HUD, increasing the risk that the City may earn interest on HOME funds and not remit it to HUD.

### **Recommendations**

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

- 4A. Require the City and subrecipient to establish and implement effective policies and procedures to ensure that the subrecipient expends funds for eligible costs within 15 days of drawing down funds from the U.S. Treasury or returns the funds to HUD.
- 4B. Require the subrecipient to reallocate the \$85 outstanding for voucher 1666597 to an eligible HOME expense and immediately remit any accrued interest to HUD.

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## Finding 5: Program Income Was Not Processed in Accordance With HOME Requirements

The City and its subrecipient had a \$220,772 discrepancy in the program income balance. In addition, the City did not record interest on program income funds as program income received, and the City's subrecipient's methods of processing program income did not ensure that the City disbursed program income before making cash withdrawals from the U.S. Treasury. This problem is due to the City's and its subrecipient's lack of understanding of HOME requirements, a lack of adequate policies and procedures, and infrequent monitoring. Therefore, additional program income may have been attributable to the program, and there is a risk that entitlement funds will be expended before program income.

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### Program Income Balance Discrepancy

As of December 2010, the City's accounting records indicated that there was \$220,772 in program income remaining to be used, while its subrecipient and IDIS indicated that there was no available program income. 24 CFR 92.508(a)(5)(iv) set forth that each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met its requirements, which include financial records demonstrating adequate budget control and evidence of periodic account reconciliations (see appendix E). However, the City did not regularly perform complete account reconciliations with its subrecipient, increasing the risk that the subrecipient might not report all program income to IDIS and the City would ultimately expend entitlement funds before program income.

A 2008 single audit finding stated that the City had not accurately reported receipt of program income and did not accurately record it in the City's financial records and in IDIS. In approximately February 2009, the subrecipient started updating its program income within IDIS. According to the subrecipient, it reconciled program income receipts in the City's general ledger with program income entries within IDIS and added adjusting entries as necessary. Previously, subrecipient staff had not realized that program income needed to be entered into IDIS and, therefore, only maintained internal program income logs to track the amount of program income obtained.

We found other discrepancies between the accounting department's spreadsheet and the information entered into IDIS. Most of the discrepancies arose from the accounting department's practice of recording cancelled



HOME expenditures as program income if HOME funds had already been drawn down from IDIS.

Since the subrecipient was revising the voucher and not entering it into IDIS as program income, the process automatically created a discrepancy between the City's and subrecipient's records. As a result, the City risked reporting inaccurate program income totals. Therefore, the City needs to implement alternate methods of tracking these amounts. However, our review of these items did not explain the December 2010 discrepancy of \$220,647.<sup>5</sup> Until the City can explain how that discrepancy arose, we have to conclude that the subrecipient did have an additional \$220,647 unrecorded program income available for use.

### **Interest on Program Income Not Recorded**

The City did not record interest allocated on program income funds as program income received, as required by 24 CFR 92.2, Definitions, and CPD Notice 97-9, Section III.A. In response to a finding in its 2008 single audit report, the City developed procedures to ensure that interest income received was allocated equitably to the HOME general ledger fund account. The City allocated interest to HOME funds for fiscal year 2008 through July 2009, totaling \$56,853. Although a portion of this interest was earned on City funds that had been drawn from the U.S. Treasury to reimburse the City for HOME expenses it had already incurred, the remaining portion of the interest was earned on \$463,010 in program income that was maintained in the City's interest-bearing account at various points since fiscal year 2008. Although the City initially deposited HOME program income into its non-interest-bearing account, it then moved the program income to its interest-bearing account. However, the City did not record the interest earned on the program income as additional program income, as it incorrectly considered everything in the interest-bearing account as City funds. HUD regulations state that program income includes interest earned on program income. The city controller's staff agreed that program income was going into the interest-bearing account and that the balance was not only representative of HUD reimbursements. Therefore, a portion of the \$56,853 total interest allocated to HOME general ledger account funds should have been recorded as available program income received and available for eligible HOME program activities.

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<sup>5</sup> We identified two transactions, totaling \$125, missing from the City's spreadsheet that reduced the discrepancy balance to \$220,647.



## Program Income Procedures Increasing Risk to Program

The subrecipient's methods of processing program income did not ensure that the City disbursed program income to pay HOME program costs before making cash withdrawals from the U.S. Treasury. The subrecipient's method included

- The subrecipient's consultant provided notification when there was a "large balance" of program income. The subrecipient completed a substantial amendment identifying what activities it would apply its program income to, which was presented to the city council. Prior substantial amendments totaled \$2 million, \$1.2 million, and \$93,926 in accumulated program income, which was then incorporated into the budgets for fiscal years 2006-2007, 2008-2009, and 2010-2011, respectively.
- The subrecipient notified the consultant of the city council-approved activities to fund.
- The consultant funded those activities until the program income was all committed.

24 CFR 92.504(c)(2)(vi) states "Program income must be disbursed before the subrecipient requests funds from the participating jurisdiction." CPD Notice 97-9, Section III.E explains, "A participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account. Available program income must be used to pay the next eligible program cost (or portion thereof)." In addition, 24 CFR 92.502(c)(3) states, "HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account." However, the subrecipient's method increased the risk that entitlement funds would be drawn from the U.S. Treasury when program income was available, either because the subrecipient accumulated the program income for a substantial amendment or the funds were later committed to specific activities.<sup>6</sup> Once the subrecipient committed the program income to an activity, it did not reallocate and commit the program income to another activity even if that activity needed a disbursement of funds before the originally committed activity. Therefore, although the subrecipient ensured that it committed program income before committing entitlement funds, it did not ensure that it disbursed program income before drawing funds from the U.S. Treasury.

CPD Notice 97-9, Section III.B states that the participating jurisdiction must be able to reasonably predict anticipated program income during the next

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<sup>6</sup> We did not test for or identify instances of these issues occurring in the past.

program year. Thus, the participating jurisdiction's financial management system should enable the participating jurisdiction to track program income receivable.

According to HUD, most cities add anticipated program income to their allocation of entitlement funds and identify how they are going to spend the overall balance, which allows them to use program income as needed.

However, the City did not consistently record estimated program income in its annual action plans. In fiscal year 2011, the City estimated no program income for all programs, despite having regular sources of program income and annually accruing significant program income in the past. When the City estimated program income, such as for fiscal years 2009 and 2010, the action plan specified which projects and programs the income would be allocated to, instead of including that amount in its total allocation available for the year and allowing the City to use the funds as needed.

## Conclusion

The City and subrecipient did not process program income in accordance with HOME requirements because they lacked an understanding of HOME requirements. The City lacked adequate policies and procedures, and no recent monitoring had been performed to identify discrepancies between the City's and the subrecipient's records. As a result, there may have been additional program income due to the program, and the City risked drawing entitlement funds before disbursing all program income.

## Recommendations

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

- 5A. Require the City to reconcile the accounting department's program income spreadsheet to the subrecipient's program income logs to determine the origin of the \$220,647 discrepancy and make any necessary adjustments to program income in IDIS.
- 5B. Require the City to track entitlement funds that have been drawn for cancelled activities separately from program income.
- 5C. Require the City to determine the amount of interest applicable to program income while in the interest-bearing account and record it as program income funds in IDIS.

- 5D. Require the City and subrecipient to establish and implement effective policies and procedures to ensure that the City disburses program income to pay HOME program costs before making cash withdrawals from the U.S. Treasury.
- 5E. Require the City and its subrecipient to obtain training on HOME program requirements pertaining to tracking and recording of program income.
- 5F. Require the City to conduct regular monitoring to identify and resolve discrepancies among program income records.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the City, located in Compton, CA, between August 2010 and March 2011. Our audit generally covered the period July 2006 through June 2010. To accomplish our audit objectives, we reviewed

- IDIS Report C04PR22, Status of HOME Activities, covering program years 1993 through 2010 to determine whether activities were supported with adequate documentation and to determine whether completion data was entered into IDIS within the required timeframe. After reviewing the City’s IDIS Draw Down policies and procedures and verifying selected IDIS data in Line of Credit and Control System (LOCCS) reports, we determined the data was reliable for our use during the audit. We obtained the following information regarding the 27 activities identified with a status of “final draw” (20) or “open” (7):
  - Twelve “final draw” and 3 “open” activities exceeded HUD’s 120-day deadline for entering completion data into IDIS.
  - 15 “final draw” activities had funds that were partially drawn down, and had no activity for more than 6 months.
  - Nine of the 15 had commitment dates between 1993 and 1999 and did not clearly identify what type of activity was funded. We selected those nine activities for further review. In addition, we selected one additional activity for further review because it was reopened after the final draw down.
- IDIS Report C04PR09, Program Income Detail Report, as of December 2010, to assist in determining whether the amount of program income identified in the City’s accounting records agreed to amounts reported in IDIS and to determine proper allocation of interest income. We further reviewed two reconciling amounts to determine if the funds were expended for eligible costs within HUD’s 15-day timeframe.
- FYs 2008-09, 2009-10, and 2010-11 Departmental Budgeted Estimates and tested 34 corresponding timesheets for 6 employees who work on the HOME program to determine whether the employees were reflected on the estimates and to determine whether the employees were identifying time worked by program as required by OMB Circular A-87.
- A nonstatistical sample of 13 loans out of a universe of 72 loans (35 home buyer and 37 homeowner). Ten of the loans were issued during the City’s fiscal years 2006-07 through 2008-09, and 3 were issued during fiscal years 2009-10 and 2010-11. Our sample primarily included loans that were issued during the timeframe of the citizen complaint (the City’s fiscal year 2008-09) and loans where applicants’ income appeared to exceed the HUD income limit. Our results apply to the items selected and were not projected to the entire universe of loans.
- The ten written agreements for homeowners and home buyers assisted between fiscal years 2006-07 and 2008-09.

- Public search information for the 35 home buyer loans and selected 6 who were no longer listed as owners of their assisted properties for further review.
- Applicable HUD regulations, including 24 CFR Part 92; HOME Investment Partnerships Program Final Rule; 24 CFR Part 85; Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments; and OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.
- The City and subrecipient's internal policies and procedures, including HOME program and financial procedures related to administration of the program.
- Transaction listings for the City's fiscal years 2007-08 through 2009-10.
- The City's single audit reports for fiscal years 2008 and 2009.
- The City's 2008-09 through 2010-11 action plans and fiscal years 2005-2010 and 2010-2014 consolidated plans. We also reviewed fiscal years 2008-09 and 2009-10 consolidated annual performance and evaluation reports.
- The City's 2008, 2009, and 2010 grant agreements.
- The City's organization charts, agendas, meeting minutes, and resolutions.
- 2008 HUD program review letter and 2009 and 2010 HUD monitoring reports.

We also interviewed appropriate HUD, City, and subrecipient management and staff.

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

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

The City did not have sufficient policies and procedures to ensure that

- Funded activities were supported with adequate documentation (finding 1).

- Program activities complied with program requirements (findings 2, 3, 4, and 5).
- Program objectives were met (finding 3).

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1B			\$28,758
1C		\$2,269,867	
2A		\$61,959	
3A	\$193,420		
3B	\$100,000		
3C	\$72,397		\$52,932
4B			\$85
5A		\$220,647	
Totals	\$365,817	\$2,552,473	\$81,775

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. These costs consist of the HOME assistance provided to two home buyers who did not meet program income requirements, plus HOME funds that were used for a cancelled activity and a property that did not maintain affordability.

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. These costs include HOME activity expenditures and program salaries and wages for which documentation was not sufficient to support eligibility. In addition, the \$220,647 discrepancy is considered unsupported until the City and subrecipient reconcile their program income records.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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. The \$28,758 in outstanding committed funds will result in funds put to better use when reassigned to other activities. Also, the \$52,932 reassigned from a



cancelled activity to other HOME activities as a result of our audit is considered funds to be put to better use. Finally, the \$85 should be reallocated to another eligible expense.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



City of Compton  
**COMMUNITY REDEVELOPMENT AGENCY**

KOFI SEFA-BOAKYE  
Director

(310) 605-5511  
Fax. (310) 637-3484

June 27, 2011

**Tanya Schultz**  
**Office of the Inspector General**  
**U.S Department of Housing and Urban Development**  
**Los Angeles Field Office, Region IX**  
**611 W. 6<sup>th</sup>. Street, Suite 1000**  
**Los Angeles CA 90017**

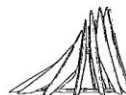
**RE: Discussion Draft Audit Comments**  
**Community Redevelopment Agency**  
**City of Compton**

**Dear Ms. Schultz,**

The Community Redevelopment Agency (Agency) appreciates the opportunity afforded to the Agency to provide comments on the OIG Draft Audit report (dated June 10, 2011) concerning the City of Compton's HOME program. The Agency appreciates the cooperation of the OIG staff in working with the City towards completion of the audit report. While the Agency agrees with some of the findings, the Agency equally disagrees with the OIG that the current Administrator of the HOME Program (Agency) should bear the brunt of past HOME Administration deficiencies for the years covering **1993-2005**.

More specifically, OIG's recommendation that the City of Compton should repay \$2.5 million in HOME funds from withdrawals that were inadequately supported with source documentation is unreasonable, given that such specific deficiencies occurred 12 years ago! The identified deficiencies were vestiges of past City Management. Consequently, current HOME administrator should not be accountable for past mismanagement of the City's HOME program.

During 2009, HUD performed a series of audits on the City's HOME program. Areas covered by the HUD audit included income verifications, determinations of maximum property rehabilitation values and maintenance of adequate source documentation of its activities. The outcome of these HUD audits and monitoring reviews of the program enabled the current HOME administrator (Agency) to produce an improved and revamped Policies and Procedures Manual for the HOME program. In light of our improved and quality performance, HUD issued a report in June 2010, which closed out all previous findings and deficiencies against the Agency.



**COMPTON CITY HALL**  
205 South Willowbrook Avenue Compton, California 90220

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**Comment 1**

**Comment 2**

**Comment 2**


At this juncture, it is also important to note that the revamped and improved performance of the HOME program is a tribute to a series of Technical Assistance provided to current Agency staff through the efforts of HUD officials. These interventions have bolstered effective and efficient administration of the HOME program. In fact this sentiment (quality performance) was subsequently echoed in the preliminary draft OIG audit report (dated April 2011) wherein the OIG referenced **“fewer deficiencies in the loans committed and processed in FY 2009-10 and 2010-11” in comparison with previous years. OIG’s acknowledgement of Sub-recipient’s improved performance contradicts** the OIG’s recommendation that current HOME program staff does not understand the HOME guidelines.

It must also be noted that the unprecedented accomplishment of the Agency in the production of affordable housing for the community is a testament to the improved performance of current Agency staff in comparison to previous administration. Within the last four years, the Agency utilized a combination of its HOME allocation and Redevelopment set-aside funds totaling \$16 million to provide over 260 affordable housing units in the community. These accomplishments have transformed Compton into model of Urban Development in the LA County region.

**Comment 1**

It is for these reasons that we respectfully appeal to OIG to evaluate the Agency’s performance in the context of the revamped policy manual as well as successful delivery of affordable housing to the community during the past four (4) years. Consequently, the current Administration of the HOME program (Agency) should not be held accountable for past mismanagement that occurred between the years covering 1993-2005.

The attached comments and supporting documentation represent the Agency’s preliminary response to the draft audit report. Once again, the Agency appreciates the time taken by the OIG to assist the City in meeting its obligations to HUD with respect to the HOME Program. If additional information is required, please contact Dr. Kofi Sefa-Boakye, Director at 310 605-5511.

  
Dr. Kofi Sefa-Boakye  
Director,  
Community Redevelopment Agency  
City of Compton.

**General Comments**

**Comment 3**

In reviewing the audit report, staff noticed several regulatory interpretations that may cloud understanding of readers. For example the OIG's use of terminology such as sub-recipient, JP, Controller and Account has the potential to confuse readers. The complexity of the City organizational structure does not allow the City's sub-recipient to administer independently. While the roles of such parties may be self-explanatory to the OIG and HUD, they may not be self-explanatory to the General public or readers of this report. For instance, the Sub-recipient (CRA) does not operate independent of other parties, the City Controller and City Treasurer Offices play a critical role in the implementation of the HOME program). Consequently, the Agency requests that OIG report detail specific roles each City department perform in the implementation of the HOME program, instead of generalizing statements regarding the sub-recipient performance.

**Specific Responses to the OIG Draft Audit**

**Comment 4**

**Finding1:**

**Required Completion Data Were Not Entered in a Timely Manner and Adequate Drawdown Source Documentation Was Not Provided**

As emphasized in the cover letter, the City respectfully appeals to OIG to exercise strong objectivity by evaluating this deficiency within a historical context. The conditions that gave rise to these irregularities are a result of shortcomings endemic in past previous administration covering 1993-2005. From 1993-2005, implementation of the HOME program experienced insufficient documentation of expenditures, lack of thorough understanding of the HOME regulations, inadequate policies and procedures manual and voluminous staff attrition, which negatively affected the efficient implementation of the HOME program.. Under current administration, these deficiencies have been rectified. HOME activities have been entered, updated and closed in line with regulations, illustrating that proper procedures are in place to ensure compliance. In reference to the 10 "open" files that lacked "adequate drawdown documentation, (from 1993-2005)," current Agency staff has begun the cleanup process in IDIS system in compliance with HOME guidelines. Attached for your review is source documentation which validates and substantiates the \$2.5 million drawdown's undertaken between1993-2005. (See Attached Exhibit A).

**Comment 5**

**Subrecipient Response to OIG Recommendations:**

**1A.** Agency staff is in the process of researching files from (1993-2005) in order to extract necessary data to enter into IDIS and close the activities. In addition, IDIS activity# 917 and #1080 cannot be closed because these two projects are "**still under construction**". Once these projects are completed and the affordable housing units have been sold or rented to eligible low-income individuals, Agency staff will enter data into IDIS and close these activities.

**1B.** Agency staff has undertaken this activity and it will be completed soon.

1C. Agency disagrees with OIG recommendation. In light of the fact that Agency has submitted verifiable source documentation to OIG validating and substantiating draw down activities from 1993-2005 to support the expenditure of 2.5 million dollars.

1D. The Agency provided its HOME Policies and Procedures Manual to OIG. The manual was reviewed and edited by various technical assistance consultants provided to the City by the Los Angeles area HUD Office. As part of the Agency's HOME manual, there is a policy which requires 10% retention be withheld from each CHDO projects until completion, sale and rental of the project. This provision will be incorporated into all written CHDO agreements. Agency staff is undergoing making the necessary revisions to CHDO agreements and all the HOME agreements.

**Finding 2:  
The Allocation of HOME Salaries and Wages Did Not Comply with OMB Circular A-87**

**Agency's Response to OIG Recommendations:**

2A. The Agency is in the process of retrieving specific source documentation to further support the City Controller's Office policy for staff budget allocations. Additionally, the City's Written Policies and Procedures are in effect as are timekeeping methods. Agency in coordination with the Controller will establish and implement a timekeeping methodology that accurately reflects charges made to the program and written policies and procedures to ensure compliance with OMB Circular A-87.

**Finding 3:  
Home Buyer's Income Eligibility Was Not Adequately Determined, Affordability Requirements Were Not maintained, and Key Agreement Provisions Were Not Documented.**

The Agency strongly disputes OIG finding that HOME program participants did not meet not meet required affordability period. Additionally, the Agency disagrees with OIG that Written Agreements for HOME participants did not contain clear affordability provisions. During 2009, HUD performed a series of audits of the City's HOME program. Areas of the past HUD audit of the HOME program included income verifications, determinations of maximum property rehabilitation values and maintenance of adequate source documentation of its activities. This monitoring review culminated in the production of an improved and revamped policies and procedures manual. In June 2010, HUD issued a report which closed out all previous findings and deficiencies in light of quality performance. Additionally, the current OIG audit echoed the City's quality performance by indicating that its audit identified "fewer deficiencies in the loans committed and processed in FY 2009-10 and 2010-11", in comparison with previous years. Consequently, the OIG finding #3 is in contradiction to its own assessment of the City's performance.

Comment 6

Comment 7

**Comment 8**

According to the OIG report there were 2 files that did not meet the definition of a low come income family and had incomes that exceeded 80% of the median income. These beneficiaries included:

- - Applicant was qualified accurately as a (120% Moderate Income Participant) however staff inadvertently coded incorrect funding source. The total amount of HOME Funds was \$93,530.
- - Applicant was qualified accurately as a (120% Moderate Income Participant) however staff inadvertently coded incorrect funding source. The total amount of HOME Funds was \$99,890.

**Comment 8**

**Agency's Response to OIG Recommendations:**

**3A.** The Agency will reprogram HOME funds in FY 2011-12 with an eligible activity to satisfy the \$193,420 for the two households that were qualified accurately as a 120% moderate household and inadvertently coded to an incorrect funding source.

**Comment 9**

**3B.** The Agency strongly disagrees with OIG that the City must repay the HOME account of \$100,000 for a HOME assisted foreclosed property. Section 92.254 states that the amount of HOME funds subject to recapture should be based on *the amount of net proceeds (if any) from the foreclosure sale. Consequently, in the event of foreclosure sale where net proceeds are zero, HOME subsidy cannot be recovered.* The City currently uses recapture option instead of resale provision to recover HOME funds pursuant to Section 92.254

The basis for the Agency's disagreement with the OIG recommendation is detailed below; as such the Agency feels that this recommendation does not apply to this activity.

**Comment 10**

1. The cited activity determined to be ineligible was completed in 2006.
2. The applicable HUD rule Section 92.254 was approved in 2008; two years after the referenced activity was completed. Therefore, OIG would be punitively applying a rule retroactively against the City.

**Comment 11**

The City has added the HOME rule section 92.254 to its Annual Action Plan for FY 2011-2012.

**Comment 12**

**3C.** The Agency will reprogram HOME funds in FY 2011-12 with an eligible activity to satisfy the \$72,397 balance of the cancelled \$125,329 Loan.

**Comment 13**

**3D.** During 2009, HUD performed a series of audits of the City's HOME program. Areas of the past HUD audit of the HOME program included income verifications, determinations of maximum property rehabilitation values and maintenance of adequate source documentation of its activities. This monitoring review culminated in the production of an improved and revamped policies and procedures manual. In June 2010, HUD issued a report which closed out all

Names were redacted for privacy reasons.

**Comment 14**

previous findings and deficiencies in light of quality performance. Additionally, the current OIG audit echoed the City's quality performance by indicating that its audit noticed "**fewer deficiencies in the loans committed and processed in FY 2009-10 and 2010-11**", in comparison with previous years. Consequently, the OIG finding #3 is in contradiction to its own assessment of the City's performance.

Furthermore, the Agency has already submitted its HOME Program Policies and Procedures Manual to OIG; therefore this recommendation should be null and void. Under current HOME Administration these deficiencies have been rectified and implementation of procedures and controls are in place, therefore the Agency's current HOME *Policies and Procedures Manual* mitigates **past deficiencies from 1993-2005**.

**Finding 4:**

**Funds Were Not Expended for Eligible Costs Within 15 Days of Drawing Down Funds the US Treasury.**

**4A.** The Agency has submitted its HOME Program Policies and Procedures Manual to OIG; therefore this recommendation should be null and void. Under current HOME Administration (Agency) these deficiencies have been rectified and implementation of procedures and controls are in place, therefore this mitigates **past deficiencies from 1993-2005**.

For further clarification, the cited case of a "voided check" and property falling out of escrow delays that occurred in the processing of HOME funds were a result of unforeseen external obstacles that are outside of the control of the Agency or City and is unrelated to the 15-day rule. The City's policy of drawing down HOME funds from the US Treasury on a reimbursement basis to fund HOME program expense does not constitute the City's misuse of HOME funds for ineligible activity. On the contrary, the City's policy to reimburse the City's General Fund (reimbursement transaction) ensures that HOME funds are correctly expended (within a 15-day period) prior to requesting funds from the US Treasury. The project cited by OIG to support finding #4 does not validate the City's violation of the 15 Day Rule (Sec 24 CFR 92.502.). As a result, the Agency requests this OIG recommendation to be deleted.

**4B.** The Agency has submitted its HOME Program Policies and Procedures Manual to OIG; therefore this recommendation should be null and void. Under current HOME Administration (Agency) these deficiencies have been rectified and implementation of procedures and controls are in place, therefore this mitigates **past deficiencies from 1993-2005**.

Additionally, the \$85 cited as unexpended item has been determined as unfounded. The IDIS screen would corroborate this statement. However, if in the view of OIG, such practice has the "potential" to violate the 15-day rule, the subrecipient (Agency) will collaborate with the City Controller and City Treasurer to revise current policies and procedures that will ensure that checks have cleared the bank for proposed eligible HOME project prior to requesting a drawdown from the US Treasury. Thus, the need for voucher revisions will be greatly reduced

**Comment 15**

and the HOME 15-day draw rule will be met. It does not appear that \$85 is available for revision to another activity. IDIS voucher screens have been printed to support this.

**Finding5:  
Program Income Was Not Processed in Accordance With HOME Requirements.**

The City Controller and City Treasurer's Office will develop policies for compliance with reporting, expenditure, tracking and documenting Program Income under the HOME regulations in accordance with the Agency's HOME Program Policy and Procedures Manual.

In addition, the Agency will work with all responsible departments to project and allocate program income during the Action Plan period in order to alleviate the need for and risk created through the current substantial amendment procedures. Activity Set-up and funding procedures in IDIS will also be revised and included in the Procedures Manual to address the expenditure of program income versus commitment issues. Eliminating the substantial amendment allocation of program income method, should also address this issue. The Controller's Office and Treasurer's Office shall each be responsible for addressing their own items within this finding.



## OIG Evaluation of Auditee Comments

**Comment 1** The OIG disagrees that the recommendation to HUD requiring the subrecipient to support or repay over \$2 million in HOME funds withdrawn is unreasonable. 24 CFR 92.508(a)(3) outlines specific recordkeeping requirements for HOME assisted projects. The criteria states that project records must provide a full description of each project assisted with HOME funds, including the location, form of HOME assistance, and the units or tenants assisted with HOME funds. In addition, project records must show the source and application of funds, including supporting documentation in accordance with 24 CFR 85.20. The projects discussed in our report are still considered by HUD to be open activities, as they either had a status of “open” or “final draw” and had not been recorded as completed in HUD’s Integrated Disbursement and Information System (IDIS). Therefore, the subrecipient was obligated to retain records through the applicable period commencing after project completion as outlined in 24 CFR 92.508 (c). Whether or not the transactions initially occurred when the City or its subrecipient had different management has no bearing on the City and subrecipient’s responsibility to maintain supporting documentation. In addition, HUD advised the City in June 2008 and May 2009 to review its “HOME PJs Open Activities Report” to identify open activities in IDIS that needed to be closed or cancelled.

**Comment 2** The OIG acknowledged in the report that HUD performed monitoring reviews of the City’s HOME program, and has since closed out the findings and deficiencies discussed in its monitoring report. We also acknowledged that our review of more recent loans issued during the City’s fiscal years 2009-10 and 2010-11, revealed that the subrecipient’s income verification process had improved. However, this statement was meant to apply to the recent improvement in the subrecipient’s income eligibility determination process, not to other aspects of the HOME program. We found other deficiencies during our review including a property that did not maintain affordability and funds that were drawn and remained outstanding for a homebuyer who did not occupy the property. The deficiencies in these areas were due to a lack of procedures and controls to ensure that only eligible persons received assistance (loans issued during the City’s fiscal years 2006-07 through 2008-09), and that HOME affordability objectives were met. We therefore recommend the subrecipient obtain training in the areas where deficiencies still exist, including timely entry of activity completion data and maintenance of adequate supporting documentation (Finding 1) and tracking and recording of program income (Finding 5).

**Comment 3** The OIG took care to ensure that all roles and responsibilities of the relevant parties were clearly and specifically identified. The report does not contain “generalizing statements” regarding the subrecipient’s performance. If the City had responsibility for a particular transaction, we identified it as such.

Accordingly, if the subrecipient was responsible, we identified it as the responsible party. This is particularly evident in Findings 4 and 5, where the roles that the City and the subrecipient played with regard to deficiencies in drawing down funds and processing program income are discussed in detail.

**Comment 4** The OIG ensured that all findings were based on the evidence that was made available by the auditee. Although the unsupported costs span back to prior years, the lack of support is not solely the responsibility of or due to inaction of previous administrations, as the subrecipient's response contends. Written HUD communications show that the subrecipient was notified of open activities in IDIS as recently as 2008 and 2009, which was under the current administration (see Comment 1). In addition to a lack of documentation to support charges made in IDIS, we found deficiencies in other areas including lack of timeliness for expenditure of HOME funds and processing of program income. The foregoing deficiencies existed under the current administration and have not been rectified as the response states.

Although the subrecipient had begun the process of cleaning up activities within HUD's IDIS system, the process was far from complete. OIG reviewed the additional documentation provided by the subrecipient after the completion of fieldwork; however, the documentation only supports an additional \$234,254 of the \$2,504,121 million previously reported as unsupported. Accordingly, we reduced our total unsupported amount to \$2,269,867. Much of the documentation provided could not be reconciled to the amounts charged to the activities, as it either far exceeded the amounts identified in IDIS or were far less, with no documentation linking the expenditures to the activity numbers in question. In other cases, information indicated that the documentation actually applied to different activity numbers. We also noted that Activities 53 and 810 had been changed to a "completed" status in IDIS after the completion of audit field work. However, the documentation provided did not support this change in status. The subrecipient also stated that Activity 631 should not be cancelled, and documentation showed expenditures had been made under this activity. However, the support did not substantiate that the activity should remain open, as the same documents had also been provided as the support for Activity 53. The subrecipient will need to continue its cleanup process to reconcile inconsistencies and to fully support the charges that were made in IDIS.

**Comment 5** The OIG acknowledges that subrecipient staff was in the process of researching and closing out its open activities in IDIS. However, activities 917 and 1080 showed a status of "final draw" on HUD's IDIS Report C04PR22, Status of HOME Activities (Entitlement). The last draws for these activities were completed in November 2009 and February 2010, respectively. 24 CFR 92.502(d)(1) states that "complete project completion information must be entered into the disbursement and information system, or otherwise

provided, within 120 days of the final project drawdown. If satisfactory project completion information is not provided, HUD may suspend further project set-ups or take other corrective actions.” Although neither activity is complete, the subrecipient should expedite its process as necessary to ensure this information is entered as soon as possible.

OIG disagrees that the subrecipient has submitted adequate source documentation to “validate and substantiate” the \$2.3 million in unsupported charges in IDIS (see Comment 4).

The subrecipient’s response stated it provided a copy of its HOME Policies and Procedures Manual to OIG. Further, it stated that the manual was reviewed and edited by various consultants from the HUD Los Angeles Field Office, and that the manual includes a 10 percent retention to be withheld from projects until completion. However, this does not appear to address the lack of timely entry of completion data for open projects identified in our report; nor does it address the lack of adequate documentation to close out the projects in IDIS or support project expenditures. The subrecipient should ensure that its policies and procedures are amended to include measures to address these issues.

In consideration of points brought forward by the subrecipient during the exit conference we have removed recommendation 1G.

**Comment 6** The OIG acknowledges the subrecipient is attempting to provide the necessary documentation to support salaries and wages charged to the HOME program. However, as stated in the report and in subsequent discussions, budget estimates do not comply with OMB Circular A-87 requirements, which state that time worked must be supported by personnel activity reports. Budget estimates are unallowable for time worked charged to federal awards. The estimates used by the City also lack accuracy, as they do not include all personnel who work on the HOME program. Only actual time records evidencing hours worked along with supporting salary and wage computations will comply with OMB Circular A-87 requirements.

**Comment 7** We disagree with the subrecipient’s response. The HOME program participant referenced in our report did not remain in the assisted property for a minimum of 15 years as required for HOME assistance over \$40,000 (see 24 CFR 92.254 (a) (4)). The agreement for the homebuyer did not clearly specify which option, resale or recapture, would be exercised in the event the participant did not remain in the property for the required time period. Further, the conclusions and recommendations of past reviews, whether from HUD or another entity, do not pertain to conclusions and recommendations obtained during our review, as the basis, scope, and approach of our audits vary significantly from HUD reviews. Our audit report does state the subrecipient’s performance recently improved with respect to its income

verification process for participants. However, this statement does not apply to other areas reviewed and does not negate the fact that the assisted property did not fulfill the affordability requirement of 24 CFR 92.254(a) (4).

**Comment 8** The \$193,420 was used to fund loans for two participants whose incomes exceeded the 80 percent HOME income limit. Therefore, the funds must be repaid, as they were used for ineligible HOME activities. The participants were qualified using a higher moderate income limit of 120 percent. The subrecipient's response states that HOME funds were used due to incorrect coding of the transaction. However, inter-office correspondence found in each of the files states that the applicants were qualified using 120 percent income limits and that HOME funds should be used to fund the respective loans.

**Comment 9** The \$100,000 that was used to assist the foreclosed property should be repaid because the property did not meet HUD's affordability requirement. HOME regulations at 24 CFR 92.254(a)(4) state that HOME-assisted housing must meet affordability requirements for at least 15 years if assistance exceeded \$40,000. 24 CFR 92.503(b)(1) states "any HOME funds invested in housing that does not meet the affordability requirements for the period specified in 92.252 or 92.254, as applicable, must be repaid by the participating jurisdiction in accordance with paragraph (b)(3) of this section."

The subrecipient's response indicates the funds should not have to be repaid due to the net proceeds limitation available under the recapture option. The criteria states "that the amount of HOME funds subject to recapture should be based on the amount of net proceeds (if any) from the foreclosure sale" and that "in the event of foreclosure sale where net proceeds are zero, the HOME subsidy cannot be recovered." There are several problems with the subrecipient's use of the criteria. First, the agreement between the homebuyers and the subrecipient did not specify which of the two options, resale or recapture, would be used should the homebuyers fail to occupy the property throughout the required affordability period. The agreement contained language pertaining to both resale and recapture options. Second, the City's 2006-2007 Action Plan, which covered the time period of the loan, references resale restrictions, not recapture. Third, if the recapture option applied, the only way that the City would be limited to net proceeds (if any) is if it had specifically stated this in the agreement with the homebuyers (see HOMEfires, Volume 5, No. 2, June 2003, "Homebuyer Housing with a Recapture Agreement"). However, since the homebuyer agreement did not clearly specify a method of recovery, including a limitation to net proceeds, the City is required to repay the \$100,000 HOME investment.

**Comment 10** The criteria referenced in the report, 24 CFR 92.254(a)(4), is contained in the HOME Investment Partnerships Program Final Rule, 24 CFR Part 92, dated

September 16, 1996, and updated through December 22, 2004. Therefore, the requirement existed prior to the referenced 2006 loan. We also verified the existence of the criteria in the 2005 and 2006 versions of the Code of Federal Regulations. Therefore, OIG is not punitively applying the rule retroactively against the City.

**Comment 11** In addition to adding 24 CFR 92.254(a)(4) to its FY 2011-2012 Annual Action Plan, the City and its subrecipient should ensure that future agreements with participants identify which option, resale or recapture, will be used if the property does not remain affordable. If the City chooses to use the recapture option, it should ensure that the agreement includes the treatment of any net proceeds from the voluntary or involuntary sale of the property.

**Comment 12** 24 CFR 92.502 (c) (2) states “Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction’s United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.)” Therefore, the subrecipient must repay the \$72,397 balance of the cancelled \$125,329 loan to the HOME account.

**Comment 13** The City has not rectified all deficiencies in its administration of the HOME program. The subrecipient’s income verification process has improved (as stated in the report). However, the existence of written policies and procedures does not mean that the entire program is in compliance with HOME program rules. During our fieldwork, the subrecipient only became aware that the homebuyer no longer lived in the foreclosed property after our inquiries. In addition, annual recertification notices were sent out to verify continued residency three years after the initial purchase of the property. In addition, three annual recertification letters were sent to the property address of the cancelled home buyer who never occupied the property. We do not consider the recommendation to be “null and void” just because the subrecipient submitted its policies and procedures manual to OIG, as we found that some program deficiencies still exist and need to be corrected.

**Comment 14** Although the subrecipient submitted its HOME Program Policies and Procedural Manual to OIG, this does not render OIG’s recommendation for the City and subrecipient to establish and implement effective policies and procedures “null and void.” Further, the subrecipient’s HOME Manual does not include guidance covering expenditure of HOME funds within the required 15-day time period, nor do the City and subrecipient’s IDIS Drawdown Policies and Procedures. The vouchers that we reviewed demonstrated that it could take as many as 343 days to successfully reallocate

a voucher to another eligible expense after the initial drawdown. Funds for one activity were drawn in April 2009; however, the check was voided in June 2009. The funds were reallocated to other activities between September 2009 and April 2010, which far exceeded the 15-day requirement. In addition, HOME funds that were drawn to assist a homebuyer who never occupied the property remained outstanding for two years, until OIG inquired about the status of the funds. Our report never indicated that the funds were used for ineligible activity, but rather, the funds were not used within the required timeframe. Accordingly, the subrecipient should establish new procedures or improve its current procedures to address this issue. Although the subrecipient states the OIG's recommendation should be eliminated, we noted its response stated its intention to "revise current policies and procedures that will ensure that checks have cleared the bank for proposed eligible HOME project prior to requesting a drawdown from the US Treasury." We agree that the subrecipient should continue revising its procedures to better ensure that funds are expended within the required 15-day timeframe. Therefore, the OIG recommendation will stand.

Finally, as mentioned in the subrecipient's response, the \$85 was reflected in IDIS as reallocated to another expense. However, the subrecipient should coordinate with the Controller's office as the City's financial transaction listings reflected the amount was still outstanding at the time of our review.

**Comment 15** The City and subrecipient need to resolve the \$220,647 discrepancy between the accounting department's spreadsheet and the subrecipient's program income logs and make any necessary adjustments to program income in IDIS. In addition, the City should ensure that entitlement funds drawn for cancelled activities are tracked separately from program income. Any interest earned on program income in interest bearing accounts should be recorded as program income in IDIS. The City should regularly monitor the subrecipient to identify and resolve present and any future discrepancies among program income records.

## Appendix C

### SCHEDULE OF DEFERRED EQUITY AND FIRST-TIME HOME BUYER LOAN DEFICIENCIES

Loan no.	Program /loan type	Funds committed	Total loan amount per IDIS	No. in household	Annual income per OIG calculation (excluding Overtime)	HUD income limit	Income < or = HUD limit?	Income definition used identified?	3 months' income documentation in file?	Overtime analyzed?	Correct annual income calculation used?
<b>Deferred equity and first-time home buyer loans (fiscal years 2006-07 through 2008-09)</b>											
1	DEL	3/22/2007	\$49,690	3	\$18,000	\$49,900	Y	N	N	N/A	Y
2	DEL	8/8/2007	\$24,893	3	\$20,717	\$53,300	Y	N	N	N	N
3	FTHB	2/28/2009	\$93,530	3	\$62,500	\$54,600	N	N	N	N/A	Y
4	FTHB	2/28/2009	\$99,890	1	\$48,880	\$42,450	N	N	N	N	Y
5	FTHB	2/28/2009	\$150,000	6	\$42,719	\$70,350	Y	N	Y	N/A	Y
6	FTHB	2/28/2009	\$149,909	2	\$48,036	\$48,500	Y	N	Y	N	N
7	FTHB	2/28/2009	\$148,564	3	\$41,600	\$54,600	Y	N	N	N/A	Y
8	FTHB	2/28/2009	\$125,283	1	\$38,304	\$42,450	Y	N	Y	N/A	Y
9	FTHB	2/28/2009	\$144,915	3	\$37,098	\$54,600	Y	N	Y	N/A	Y
10	FTHB	3/2/2009	\$125,329	1	\$24,232	\$42,450	Y	N	N	N	N
<b>Fiscal years 2006-07 through 2008-09 total deficiencies (sum of all "N"s)</b>							<b>2</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>3</b>
<b>Sum of all "Y" answers</b>							<b>8</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>7</b>
<b>Sum of all "N/A"</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>0</b>
<b>First-time home buyer loans (fiscal years 2009-10 through 2010-11)</b>											
11	FTHB	10/28/2009	\$108,548	2	\$45,760	\$50,750	Y	Y	N	N/A	Y
12	FTHB	1/4/2010	\$85,650	2	\$50,478	\$50,750	Y	Y	Y	N/A	N
13	FTHB	7/1/2010	\$22,770	2	\$23,568	\$53,000	Y	Y	Y	N/A	Y
<b>Fiscal years 2009-10 and 2010-11 total deficiencies (sum of all "N"s)</b>							<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>Sum of all "Y" answers</b>							<b>3</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>2</b>
<b>Sum of all "N/A"</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>

## Appendix D

### SCHEDULE OF MISSING LOAN AGREEMENT PROVISIONS

Required provision	Loan Nos. <sup>7</sup>										Total Ys	Total Ns
	1	2	3	4	5	6	7	8	9	10		
<b>24 CFR 92.504 (c)(5) - Required Provisions in Written Agreements - Homeowners/Homebuyers</b>												
<b>If homeowner agreement, must specify</b>												
Amount of assistance	Y	Y									2	0
Form of assistance	Y	Y									2	0
Rehabilitation work to be done	N	N									0	2
Date for completion (if homeowner agreement)	Y	Y									2	0
Property standards to be met	N	N									0	2
Must also conform to 24 CFR 92.254(b)(1) & (2) and specify												
Housing is principal residence at time of funds commitment.	N	N									0	2
Purchase price does not exceed 95% of the median purchase price for the area.	N	N									0	2
<b>If home buyer agreement, must specify</b>												
Amount of assistance			Y	Y	Y	Y	Y	Y	Y	Y	8	0
Form of assistance (grant, amortizing loan, deferred payment loan)			Y	Y	Y	Y	Y	Y	Y	Y	8	0
Use of funds (e.g., downpayment, closing costs, rehabilitation)			Y	Y	Y	Y	Y	Y	Y	Y	8	0
Deadline by which housing must be acquired			N	N	N	N	N	N	N	N	0	8
<b>Must also conform to 24 CFR 92.254(a) (2), (3), &amp; (5) and specify</b>												
The housing is single family.			Y	Y	Y	Y	Y	Y	Y	Y	8	0
The purchase price does not exceed 95% of the median purchase price for the area.			N	N	N	N	N	N	N	N	0	8
The family is low income.			N	N	N	N	N	N	N	N	0	8
The housing will be principal residence of family.			Y	Y	Y	Y	Y	Y	Y	Y	8	0
Applicable affordability period			Y	Y	Y	Y	Y	Y	Y	Y	8	0
Either resale or recapture provisions			N	N	N	N	Y	N	N	N	1	7
Ys	3	3	6	6	6	6	7	6	6	6		
Ns	4	4	4	4	4	4	3	4	4	4		
<b>Total</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>		

<sup>7</sup> Loans 1 and 2 are homeowner agreements and loans 3 through 10 are home buyer agreements. Blank boxes are due to non-applicability of criteria.



## Appendix E

### CRITERIA

**24 CFR 85.20(b)(6)**, states, “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

**24 CFR 92.2, Definitions**, states that program income includes “interest earned on program income pending its disposition.”

**24 CFR 92.203(a), Income Determinations**, states, “the HOME program has income targeting requirements for the HOME program and for HOME projects. Therefore, the participating jurisdiction must determine each family is income eligible by determining the family’s annual income.”

**24 CFR 92.203(a)(2), Income Determinations**, explains that for families other than those who are tenants in HOME-assisted housing and not receiving HOME tenant-based rental assistance, the participating jurisdiction must determine annual income by examining the source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family.

**24 CFR 92.203(b), Income Determinations**, states, “When determining whether a family is income eligible, the participating jurisdiction must use one of the following three definitions of ‘annual income’:

- (1) ‘Annual income’ as defined at 24 CFR 5.609 (except when determining the income of a homeowner for an owner-occupied rehabilitation project, the value of the homeowner’s principal residence may be excluded from the calculation of Net Family Assets); or
- (2) Annual Income as reported under the Census long-form for the most recent available decennial Census.
- (3) Adjusted gross income as defined for purposes of reporting under Internal Revenue Service (IRS) Form 1040 series for individual Federal annual income tax purposes.”

**24 CFR 92.207, Eligible Administrative and Planning Costs**, states, “A participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the HOME program and ADDI [American Dream Downpayment Initiative], an amount of HOME funds that is not more than ten percent of the sum of the Fiscal Year HOME basic formula allocation plus any funds received in accordance with § 92.102(b) to meet or exceed participation threshold requirements that Fiscal Year.”

#### **24 CFR 92.254, Qualification as Affordable Housing: Homeownership**

- a. *Acquisition with or without rehabilitation*, states that housing that is for acquisition by a family must meet the below affordability requirements.
  1. The housing must be single-family housing.

2. The housing must be modest housing as follows:
  - i. In the case of acquisition of newly constructed housing or standard housing, the housing has a purchase price for the type of single family housing that does not exceed 95 percent of the median purchase price for the area, as described in paragraph (a)(2)(iii) of this section.
  - ii. In the case of acquisition with rehabilitation, the housing has an estimated value after rehabilitation that does not exceed 95 percent of the median purchase price for the area, described in paragraph (a)(2)(iii) of this section.
  - iii. If a participating jurisdiction intends to use HOME funds for homebuyer assistance or for rehabilitation of owner-occupied single-family properties, the participating jurisdiction may use the Single Family Mortgage Limits under Section 203(b) of the National Housing Act (12 U.S.C. [United States Code] 1709(b)) (which may be obtained from the HUD Field Office) or it may determine 95 percent of the median area purchase price for single family housing in the jurisdiction, as follows. The participating jurisdiction must set forth the price for different types of single family housing for the jurisdiction. The 95 percent of median area purchase price must be established in accordance with a market analysis which ensured that a sufficient number of recent housing sales are included in the survey. Sales must cover the requisite number of months based on volume: For 500 or more sales per month, a one-month reporting period; for 250 through 499 sales per month, a two-month reporting period; for less than 250 sales per month, at least a three-month reporting period. The data must be listed in ascending order of sales price. The address of the listed properties must include the location within the participating jurisdiction. Lot, square and subdivision data may be substituted for the street address. The housing sales data must reflect all, or nearly all, of the one-family house sales in the entire participating jurisdiction. To determine the median, take the middle sale on the list if an odd number of sales and if an even number, take the higher of the middle numbers and consider it the median. After identifying the median sales price, the amount should be multiplied by .95 to determine the 95 percent of the median area purchase price. This information must be submitted to the HUD Field Office for review.
3. The housing must be acquired by a homebuyer whose family qualifies as a low-income family and the housing must be the principal residence of the family throughout the period described in paragraph (a)(4) of this section.
4. *Periods of affordability.* The HOME-assisted housing must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion.

Homeownership assistance HOME amount per-unit	Minimum period of affordability in years
Under \$15,000	5
\$15,000 to \$40,000	10
Over \$40,000	15

5. Resale and recapture. To ensure affordability, the participating jurisdiction must impose either resale or recapture requirements, at its option.
  - i. *Resale.* Resale requirements must ensure, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability, that the housing is made available for subsequent purchase only to a buyer whose family qualifies as a low-income family and will use the property as its principal residence.
  - ii. *Recapture.* Recapture provisions must ensure that the participating jurisdiction recoups all or a portion of the HOME assistance to the homebuyers, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability.
  
- b. *Rehabilitation not involving acquisition.* Housing that is currently owned by a family qualifies as affordable housing only if:
  1. The estimated value of the property, after rehabilitation, does not exceed 95 percent of the median purchase price for the area, described in paragraph (a)(2)(iii) of this section; and
  2. The housing is the principal residence of an owner whose family qualifies as a low-income family at the time HOME funds are committed to the housing.
  
- c. *Ownership interest.* The ownership in the housing assisted under this section must meet the definition of “homeownership” in § 92.2.
  
- d. *New construction without acquisition.* Newly constructed housing that is built on property currently owned by a family which will occupy the housing upon completion, qualifies as affordable housing if it meets the requirements under paragraph (a) of this section.

**24 CFR 92.500(a)(b)(c), The HOME Investment Trust Fund**

- a. *General.* A HOME Investment Trust Fund consists of the accounts described in this section solely for investment in accordance with the provisions of this part. HUD will establish a HOME Investment Trust Fund United States Treasury account for each participating jurisdiction. Each participating jurisdiction may use either a separate local HOME Investment Trust Fund account or, a subsidiary account within its general fund (or other appropriate fund) as the local HOME Investment Trust Fund account.

b. *Treasury Account.* The United States Treasury account of the HOME Investment Trust Fund includes funds allocated to the participating jurisdiction under § 92.50 (including for a local participating jurisdiction, any transfer of the State’s allocation pursuant to § 92.102(b)(2)) and funds reallocated to the participating jurisdiction, either by formula or by competition, under subpart J of this part; and

c. *Local Account.*

1. The local account of the HOME Investment Trust Fund includes deposits of HOME funds disbursed from the Treasury account; the deposit of any State funds (other than HOME funds transferred pursuant to § 92.102(b)(2)) or local funds that enable the jurisdiction to meet the participating threshold amount in § 92.102; any program income (from both the allocated funds and matching contributions in accordance with the definition of program income); and any repayments or recaptured funds as required by § 92.503.

2. The participating jurisdiction may establish a second local account of the HOME Investment Trust Funds if:

i. The participating jurisdiction has its own affordable housing trust fund that the participating jurisdiction will use for matching contributions to the HOME program;

ii. The statute or local ordinance requires repayments from its own trust fund to be made to the trust fund;

iii. The participating jurisdiction establishes a separate account within its own trust fund for repayments of the matching contributions; and

iv. The funds in the account are used solely for investment in eligible activities within the participating jurisdiction’s boundaries in accordance with the provisions of this part, except as provided under § 92.201(a)(2).

3. The funds in the local account cannot be used for the matching contribution and do not need to be matched.

**24 CFR 92.502(c)(2), Program Disbursement and Information System, General, Disbursement of HOME funds,** states, “HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction’s United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).”

**24 CFR 92.502(c)(3), Program Disbursement and Information System, Disbursement of HOME Funds**, states, “HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account.”

**24 CFR 92.502(d)(1), Program Disbursement and Information System, Project Completion**, states, “Complete project completion information must be entered into the disbursement and information system, or otherwise provided, within 120 days of the final project drawdown. If satisfactory project completion information is not provided, HUD may suspend further project set-ups or take other corrective actions.”

**24 CFR 92.503(b)(1), Program Income, Repayments, and Recaptured Funds**, states, “Any HOME funds invested in housing that does not meet the affordability requirements for the period specified in § 92.252 or § 92.254, as applicable, must be repaid by the participating jurisdiction in accordance with paragraph (b)(3) of this section.”

**24 CFR 92.504, Participating Jurisdiction Responsibilities; Written Agreements; Onsite Inspection, Executing a Written Agreement**

- (a) *Responsibilities*. The participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.
- (b) *Executing a written agreement*. Before disbursing any HOME funds to any entity, the participating jurisdiction must enter into a written agreement with that entity. Before disbursing any HOME funds to any entity, a State recipient, subrecipient, or contractor which is administering all or a part of the HOME program on behalf of the participating jurisdiction, must also enter into a written agreement with that entity. The written agreement must ensure compliance with the requirements of this part.
- (c) *Provisions in written agreements*. The contents of the agreement may vary depending upon the role the entity is asked to assume or the type of project undertaken. This section details basic requirements by role and the minimum provisions that must be included in a written agreement.
  - (2) *Subrecipient*. A subrecipient is a public agency or nonprofit selected by the participating jurisdiction to administer all or a portion of the participating jurisdiction’s HOME Program. The agreement between the participating jurisdiction and the subrecipient must include:
    - i. Use of the HOME funds. The agreement must describe the use of the HOME funds, including the tasks to be performed, a schedule for

completing the tasks, a budget, and the period of the agreement. These items must be in sufficient detail to provide a sound basis for the participating jurisdiction effectively to monitor performance under the agreement.

- ii. Program income. The agreement must state if program income is to be remitted to the participating jurisdiction or to be retained by the subrecipient for additional eligible activities.
- iii. Uniform administrative requirements. The agreement must require the subrecipient to comply with applicable uniform administrative requirements, as described in § 92.505(a).

(5) *Homebuyer, homeowner or tenant receiving tenant-based rental or security deposit assistance.* When a participating jurisdiction provides assistance to a homebuyer, homeowner or tenant the written agreement may take many forms depending upon the nature of assistance. As appropriate, it must include as a minimum:

- i. For homebuyers, the agreement must conform to the requirements in § 92.254(a), the value of the property, principal residence, lease-purchase, if applicable, and the resale or recapture provisions. The agreement must specify the amount of HOME funds, the form of assistance, e.g., grant, amortizing loan, deferred payment loan, the use of the funds (e.g., down-payment, closing costs, rehabilitation) and the time by which the housing must be acquired.
- ii. For homeowners, the agreement must conform to the requirements in § 92.254(b) and specify the amount and form of HOME assistance, rehabilitation work to be undertaken, date for completion, and property standards to be met.
- iii. For tenants, the rental assistance contract or the security deposit contract must conform to §§ 92.209 and 92.253.

**24 CFR 92.504(c)(2)(vi), Participating Jurisdiction Responsibilities; Written Agreements; Onsite Inspection, Subrecipient,** states, “Program income must be disbursed before the subrecipient requests funds from the participating jurisdiction.”

24 CFR 92.505(a), Applicability of Uniform Administrative Requirements, states, “the requirements of OMB Circular No. A-87 and the following requirements of 24 CFR part 85 apply to the participating jurisdiction, State recipients, and any governmental subrecipient receiving HOME funds: §§ 85.6, 85.12, **85.20**, 85.22, 85.26, 85.32-85.34, 85.36, 85.44, 85.51, and 85.52.

**24 CFR 92.508(a)(3)(ii), Recordkeeping, General, Project Records**, states, “each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part.” At a minimum, records including “the source and application of funds for each project, including supporting documentation in accordance with 24 CFR 85.20, are needed.”

**24 CFR 92.508(a)(5)(iv), Recordkeeping, General, Financial Records**, states, “each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part.” At a minimum, records demonstrating adequate budget control, in accordance with 24 CFR 85.20, including evidence of periodic account reconciliations, are required.

**CPD (Office of Community Planning and Development) Notice 97-9, HOME Program Income, Recaptured Funds, Repayments, and CHDO [community housing development organization] Proceeds, Section III.B**, states, “The participating jurisdiction must also be able to reasonably predict anticipated program income during the next program year. Thus, the participating jurisdiction's financial management system should enable the PJ [participating jurisdiction] to track program income receivable (such as the amount and date of principal and interest due on a HOME loan).”

**CPD Notice 97-9, HOME Program Income, Recaptured Funds, Repayments, and CHDO Proceeds, Section III.A**, states, “HOME program income is defined in the Definitions section of the HOME Final Rule at 24 CFR 92.2. Program income means gross income received by the participating jurisdiction, subrecipient or State recipient which is directly generated from the use of HOME funds (including HOME program income) and matching contributions. When program income is generated by housing that is only partially assisted with HOME funds or matching funds, the income shall be prorated to reflect the percentage of HOME funds or match used. Following is a list of examples. Please note that this is not an exclusive list.

- (1) Proceeds from the disposition by sale or long-term lease of real property acquired, rehabilitated, or constructed with HOME funds or matching contributions;
- (2) Gross income from the use or rental of real property, owned by the participating jurisdiction, State recipient, or a subrecipient, that was acquired, rehabilitated, or constructed with HOME funds or matching contributions, less costs incidental to generation of the income (Note: rental income from property owned by entities other than the participating jurisdiction, a State recipient or a subrecipient does not constitute program income);
- (3) Payments of principal and interest on loans made using HOME funds or matching contributions;
- (4) Proceeds from the sale of loans made with HOME funds or matching contributions;

- (5) Proceeds from the sale of obligations secured by loans made with HOME funds or matching contributions;
- (6) Interest earned on program income pending its disposition; and
- (7) Any other interest or return on the investment permitted under §92.205(b) of HOME funds or matching contributions (Note: this does not include recaptured funds, repayments or CHDO proceeds).

**CPD Notice 97-9, HOME Program Income, Recaptured Funds, Repayments, and CHDO Proceeds, Section III.B,** states, “the participating jurisdiction is not required to identify program income by program funding year. However, the participating jurisdiction must be able to identify which projects generated program income and which projects received program income, including the amount. The participating jurisdiction must also be able to reasonably predict anticipated program income during the next program year. Thus, the participating jurisdiction's financial management system should enable the PJ to track program income receivable (such as the amount and date of principal and interest due on a HOME loan).”

**CPD Notice 97-9, HOME Program Income, Recaptured Funds, Repayments, and CHDO Proceeds, Section III.E,** states, “a participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account. Available program income must be used to pay the next eligible program cost (or portion thereof).”

**HUD Handbook 6509.2, Community Planning and Development Monitoring Handbook, Exhibit 7-19, Guide for Review of Subrecipient Management,** provides guidance on participating jurisdictions’ evaluation of subrecipients.

**HOMEfires Policy Newsletter Volume 5, No. 2, June 2003, Preserving Affordability,** states, “To preserve affordability, PJs should negotiate as part of the original financing agreement, purchase options, rights of first refusal or other preemptive rights to purchase the housing before foreclosure or transfer in lieu of foreclosure. PJs should regularly review the management and financial condition of projects so that they can intervene before projects reach the point of default. If a project goes into default, the PJ must work with the project owner and primary lenders to maintain the project as affordable housing for the remaining affordability period or the PJ must repay the HOME account.”

**HOMEfires Policy Newsletter Volume 5, No. 2, June 2003, Homebuyer Housing with a Resale Agreement,** states, “Section 92.254(a)(5)(i)(A) of the HOME Rule provides that the affordability restrictions for homebuyer housing subject to a resale agreement may terminate upon foreclosure, transfer in lieu of foreclosure or assignment of an FHA insured mortgage to HUD. However, this does not terminate the long-term affordability requirements. The affordability requirements would be met if the housing is sold to another HOME-eligible low-income family and the new homebuyer agrees to enter into a resale agreement for the remaining affordability period. Homebuyer housing with a resale agreement that is



presumed to meet the affordability requirements pursuant to § 92.254(a)(5)(i)(B) continues to meet the affordability requirements even after a foreclosure.

“If the PJ provides additional HOME funds to the new homebuyer or invests additional HOME funds in a property, the original affordability period is terminated and a new affordability period starts. The length of the new affordability period is determined by the amount of HOME funds invested.”

**HOMEfires Policy Newsletter Volume 5, No. 2, June 2003, Homebuyer Housing with a Recapture Agreement**, states, “Homebuyer housing with a recapture agreement is not subject to the affordability requirements after the PJ has recaptured the HOME funds in accordance with its written agreement. If the ownership of the housing is conveyed pursuant to a foreclosure sale, the family may or may not have a recapture obligation, depending upon the option the PJ has chosen in accordance with §92.254(a)(5)(ii)(A). Unlike rental housing and homeownership housing under resale restrictions, the amount of HOME funds required to be repaid in the event of foreclosure is the amount that would be subject to recapture under the terms of the written agreement with the homebuyer. If the recapture agreement provides for shared net proceeds, the amount subject to recapture is based on the amount of net proceeds (if any) from the foreclosure sale. If the recapture agreement requires the entire amount of the HOME investment from the homebuyer or an amount reduced prorata based on the time the homebuyer has owned and occupied the housing measured against the affordability period, the amount required by the agreement is the amount that must be recaptured by the PJ for the HOME program. If the PJ is unable to recapture the funds from the family, the PJ must repay the HOME account in the amount due pursuant to the recapture agreement. [Please note that in the case of noncompliance other than foreclosure (e.g., homebuyer is no longer using the property as a principal residence), the amount the PJ must repay is the entire HOME investment rather than the amount due under the written agreement.] Regardless of the terms of its written agreements, it is important that the PJ establish mechanisms that ensure that it will be notified of pending foreclosures so that it can attempt to recoup some or all of the HOME subsidy.”

**HOMEfires, Volume 5, No.5, November 2003**, states, “a PJ must select either the resale or recapture option for its HOME assisted homebuyer projects at the time the assistance is provided. The PJ may select one option for all of its HOME-assisted homebuyer projects or choose on a case-by-case basis depending upon market conditions and/or the buyer's preference. In addition, all options that the PJ will employ must be identified in its Consolidated Plan and approved by HUD.

**HOMEfires, Volume 6, No.1, August 2005**, states, “PJs must report HOME project completion and beneficiary data for initial occupants timely by entering it in IDIS on a regular basis, and periodically review the status of all projects in the system to identify those that need to be cancelled. The HOME final rule at 24 CFR 92.502(d)(1) requires PJs to enter project completion information into IDIS within 120 days of making a final draw for a project. Failure to do so is a violation of this provision and of 24 CFR 92.504(a), which states that PJs are responsible for managing day-to-day operations of its program. The final

rule states that HUD may suspend further project set-ups or take other corrective actions, if satisfactory project completion data is not provided.

**HUD Technical Guide for Determining Income and Allowances for the HOME Program, January 2005, Chapter 2, Assessing Information, Variations in Pay**, states, “For applicants whose jobs provide steady employment (e.g., 40 hours a week, 50 weeks a year), it can be assumed that there will only be slight variations in the amount of earnings reflected in monthly or bi-weekly pay stubs. In such cases, three consecutive month’s worth of income documentation is an appropriate amount upon which to base a projection of income over the following 12-month period.

“For those whose annual employment is less stable or does not conform to a twelve-month schedule (e.g., seasonal laborers, construction workers, teachers), PJs should examine income documentation that covers the entire previous twelve-month period. Such workers can experience substantial variations in earned income over the course of a year. As such, an examination of three month’s worth of income documentation may not provide an accurate basis upon which to project the applicant’s income over the following 12 months.”

**HUD Technical Guide for Determining Income and Allowances for the HOME Program, January 2005, Chapter 2, Assessing Information, Sources of Earned Income**, states, “In addition to hourly earnings, PJs must account for all earned income. In addition to the base salary, this will include annual cost of living adjustments (COLAs), bonuses, raises, and overtime pay. In the case of overtime, it is important to clarify whether overtime is sporadic or a predictable component of an employee’s income. If it is determined that an applicant has earned and will continue to earn overtime pay on a regular basis, PJs should calculate the average amount of overtime pay earned by the applicant over the pay period the PJ is using to calculate income eligibility (3 months or 12 months). This average amount is then to be added to the total amount of projected earned income over the following 12-month period.”

**HUD Technical Guide for Determining Income and Allowances for the HOME Program, January 2005, Chapter 2, General Requirements, Anticipating Income**, states, “The HOME regulations at 24 CFR 92.203(d)(1) require that, for the purpose of determining eligibility for HOME assistance, a PJ must project a household’s income in the future. To do so, a “snapshot” of the household’s current circumstances is used to project future income. In general, a PJ should assume that today’s circumstances will continue for the next 12 months, unless there is verifiable evidence to the contrary. For example, if a head of household is currently working for \$7.00 per hour, 40 hours per week, the PJ should assume that this family member will continue to do so for the next year. Thus, estimated earnings will be \$7.00 per hour multiplied by 2,080 hours, or \$14,560 per year.

“This method should be used even when it is not clear that the type of income received currently will continue in the coming year. For example, assume a family member has been receiving unemployment benefits of \$100 per month for 16 weeks at the time of income certification. It is unlikely that the family member will continue on unemployment for another 52 weeks. However, because it is not known whether or when the family member

will find employment, the PJ should use the current circumstances to anticipate annual (gross) income. Income would therefore be calculated as follows: \$100 per week x 52 weeks, or \$5,200.

“The exception to this rule is when documentation is provided that current circumstances are about to change. For example, an employer might report that an employee currently makes \$7.50 an hour, but a negotiated union contract will increase this amount to \$8.25 an hour eight weeks from the date of assistance. In such cases, income can be calculated based on the information provided.”

### **OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment B, Selected Items of Cost**

#### **8. Compensation for personal services.**

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has

been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
    - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
    - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
    - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- (6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.
- (a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:
    - (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c);

- (ii) The entire time period involved must be covered by the sample; and
    - (iii) The results must be statistically valid and applied to the period being sampled.
  - (b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.
  - (c) Less than full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.
- (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.