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TO: Douglas P. Carlson, Director, Office of Community Planning and Development, OED

FROM: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: Oregon Housing and Community Services Generally Complied With Neighborhood Stabilization Program 2 Requirements

HIGHLIGHTS

What We Audited and Why

We audited Oregon Housing and Community Services (OHCS) to determine whether it ensured that properties funded with its Neighborhood Stabilization Program 2 (NSP 2) grant were eligible, obtained adequate supporting documentation for NSP expenditures, procured goods and services properly, and ensured that program income was properly used. We selected OHCS because it was the only entity awarded NSP 2 funds in the U.S. Department of Housing and Urban Development's (HUD) Region X (Alaska, Idaho, Oregon, and Washington).

What We Found

OHCS ensured that the NSP 2 properties were eligible, generally had adequate supporting documentation for its NSP 2 expenditures, and generally procured goods and services properly. As of the date of our review, no program income had been generated with NSP 2 funds.

Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

Auditee's Response

We provided a draft report to OHCS officials on March 21, 2011. They chose not to have an exit conference or provide a written response.

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BACKGROUND AND OBJECTIVE

Oregon Housing and Community Services

Oregon Housing and Community Services (OHCS) is the State of Oregon's housing finance agency and works to create and preserve opportunities for quality, affordable housing for low- and moderate-income families. Governed by a seven-member council, OHCS promotes affordable housing through grants and tax credits, the construction or rehabilitation of multifamily developments, and the financing of single-family homes. Additionally, OHCS manages Federal and State funds for antipoverty, homelessness, energy assistance, and community service programs.

Neighborhood Stabilization Program

The Housing and Economic Recovery Act of 2008 (HERA) appropriated \$4 billion to stabilize communities through the purchase and redevelopment of foreclosed-upon and abandoned residential properties. Commonly called the Neighborhood Stabilization Program (NSP), these funds, unless otherwise stated by HERA, are considered to be Community Development Block Grant funds under the Housing and Community Development Act of 1974.

The American Recovery and Reinvestment Act of 2009 (ARRA) extended NSP and provided, on a competitive basis, an additional \$2 billion. This extension is commonly known as NSP 2, and its funding can be used to

- A. Establish financing mechanisms for purchase and redevelopment of foreclosed-upon homes and residential properties,
- B. Purchase and rehabilitate homes and residential properties abandoned or foreclosed upon,
- C. Establish and operate land banks for homes and residential properties that have been foreclosed upon,
- D. Demolish blighted structures, and
- E. Redevelop demolished or vacant properties as housing.

The U.S. Department of Housing and Urban Development (HUD) awarded OHCS, the lead member of a consortium including Clackamas County, Washington County, the City of Bend, the City of Medford, and the City of Salem, more than \$6.8 million to carry out NSP 2 activities. OHCS planned to assist 130 housing units with these funds.

Our objective was to determine whether OHCS

- Ensured that the properties were eligible,
- Obtained adequate supporting documentation,
- Procured goods and services properly, and
- Ensured that program income was properly used.

RESULTS OF AUDIT

OHCS Generally Complied With NSP 2 Requirements

OHCS made NSP 2 fund disbursements for 40 properties. We reviewed the files containing the supporting documentation for all 40 of these properties to determine whether OHCS (1) ensured that the properties were eligible, (2) obtained adequate supporting documentation for NSP 2 expenditures, (3) procured goods and services properly, and (4) used program income properly.

Our review determined that

- (1) The files for each property purchased with NSP 2 funds contained documentation showing that the property had been foreclosed upon and was eligible for purchase with NSP2 funds.
- (2) There was adequate support for all NSP 2-funded expenditures. The purchase of each property was fully documented, and there was documentation showing that the discount requirement was met.
- (3) The files generally contained adequate documentation of procurements.
- (4) As of the end of our review, NSP 2 funds had generated no program income.

We communicated two immaterial items to OHCS by management letter.

Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

SCOPE AND METHODOLOGY

Our audit period covered April 2010 through January 2011. We performed our fieldwork in February 2011 at OHCS's office located at 725 Summer Street, NE., Salem, OR, and at the City of Bend's office at 710 Northwest Wall Street, Bend, OR.

To accomplish our objective, we interviewed staff and reviewed the financial information and individual NSP 2-funded project files at OHCS and the City of Bend.

Sample Selection

We reviewed OHCS's records for all 40 projects for which NSP 2 funds were paid during the audit period. This number includes 32 projects administered by the City of Bend, seven by Washington County, and one by OHCS.

We reviewed the files of all 32 projects of the City of Bend for which NSP 2 funds were paid. We did not visit Washington County because we conducted an onsite review of its operations during our recently completed audit of OHCS's NSP 1 activity.

We used HUD's Line of Credit Control System and Disaster Recovery Grant Reporting system for background information only and did not rely on the data to base our conclusions. We relied on computer-processed data maintained by OHCS for tracking program activities. Based on our assessment and testing of these data, we concluded that the data were sufficiently reliable for our objective.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- OHCS's policies implemented to reasonably ensure that consortium members and developers follow NSP 2 rules.
- OHCS's policies implemented to reasonably ensure that NSP 2 funds are used in accordance with ARRA and HUD guidance.

We assessed the relevant controls identified above.

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

Significant Deficiency

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of OHCS' internal control.