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TO: Yolanda Chávez, Deputy Assistant Secretary for Grant Programs, DG

FROM:   
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1AGA

SUBJECT: The Community Builders Is Expected To Expend Funding Within the Deadline and Meet Its Goals for the Neighborhood Stabilization Program 2

## **HIGHLIGHTS**

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

We reviewed The Community Builders, a nonprofit development and asset management firm that received a \$78.6 million grant from the U.S. Department of Housing and Urban Development (HUD). Through the American Recovery and Reinvestment Act of 2009, Congress established the Neighborhood Stabilization Program 2 to grant funds to States, local governments, nonprofits, and a consortium of nonprofit entities for the purpose of stabilizing communities that have suffered from property foreclosures and abandonment. The goals of this program are realized through the purchase and redevelopment of foreclosed-upon and abandoned homes and residential properties.

The objectives of our review were to determine whether (1) the grantee was on track to expend Neighborhood Stabilization Program 2 funds within the statutory deadline, (2) Neighborhood Stabilization Program 2 funds were used for eligible and appropriate expenditures, and (3) the grantee can meet its program goals. We selected The Community Builders due to the size of its grant, its status as a nonprofit in a program typically used by units of local government, and its

operations in multiple States. The audit was initiated by the Office of Inspector General (OIG) as part of its annual audit plan activities.

### **What We Found**

The Community Builders (1) was on track to expend the funding within the statutory deadline; (2) used Neighborhood Stabilization Program 2 funds for eligible and appropriate expenditures; and (3) with continued diligence, can meet its program goals.

### **What We Recommend**

This report does not contain recommendations, and no further action is necessary with respect to our report.

### **Auditee's Response**

We provided The Community Builders a draft report on March, 8, 2011, but did not hold an exit conference with officials because The Community Builders did not request an exit conference. Also, The Community builder did not provide any formal comments regarding this report

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## BACKGROUND AND OBJECTIVES

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The Community Builders is a nonprofit development and asset management firm that received a \$78.6 million Neighborhood Stabilization Program 2 grant from the U.S. Department of Housing and Urban Development (HUD). We selected The Community Builders due to the size of its grant, its status as a nonprofit in a program typically used by units of local government, and its operations in multiple States. The Community Builders is using these funds to

1. Acquire or assemble vacant property to develop affordable housing in locally determined development initiatives.
2. Redevelop projects with vulnerable populations who are low and moderate income.
3. Acquire occupied projects facing foreclosure which house low- or moderate-income tenants.

The Community Builders has 10 satellite offices, four of which handle operations under the Neighborhood Stabilization Program 2. These four offices are Northeast (Boston, MA), Atlantic (Washington, DC), Midwest (Chicago, IL), and its construction office in Kentucky. Its corporate offices are located at 95 Berkeley Street, Boston, MA. The Neighborhood Stabilization Program 2 grant between HUD and The Community Builders allocated funds to projects for the District of Columbia, Illinois, Indiana, Massachusetts, New York, North Carolina, Ohio, Pennsylvania, and Virginia.

In 2008, Congress established the Neighborhood Stabilization Program to help stabilize communities that have suffered from foreclosures and abandonment. The American Recovery and Reinvestment Act of 2009 updated this legislation to create the Neighborhood Stabilization Program 2 to add a competitive grant open to States, units of general local government, and nonprofit entities or consortia of nonprofit entities. The goals of both programs are substantially similar. Grantees can realize the goals of these programs through the purchase and redevelopment of foreclosed-upon and abandoned homes and residential properties.

The objectives of our review were threefold: (1) determine whether the grantee was on track to expend Neighborhood Stabilization Program 2 funds within the statutory deadline, (2) determine whether Neighborhood Stabilization Program 2 funds were used for eligible and appropriate expenditures, and (3) determine whether the grantees can meet the goals laid out in their grant agreement.

## RESULTS OF AUDIT

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### Finding 1: With Continued Diligence, The Community Builders Can Expend the Funding Within the Statutory Deadline and Meet Its Goals for the Neighborhood Stabilization Program 2

The Community Builders appeared to be on track to expend its funding within the statutory deadline. Also, it used Neighborhood Stabilization Program 2 funds for eligible and appropriate expenditures. The Community Builders had expended \$5,202,245 of its grant through December 31, 2010. These funds were used for eligible and appropriate expenditures. While this is small amount of the \$78.6 million grant, the rate of expenditures was impacted by the seasonal slowdown due to adverse winter weather conditions in the Northeast and Midwest. More importantly, The Community Builders had commitments for another \$42 million at six multifamily projects going forward. In addition, our detailed review of two random projects found that progress was appropriately documented and these projects were scheduled for completion before the statutory deadline of February 11, 2013. With continued diligence, The Community Builders should meet its program goals.

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#### **The Grantee Was on Track To Expend the Funding Within the Statutory Deadline**

Unlike some other grants, the statutory deadlines for expenditures under the Neighborhood Stabilization Program 2 were written into the grant agreement between HUD and The Community Builders. The law establishing the Neighborhood Stabilization Program 2 requires grantees to expend at least 50 percent of allocated funds within 2 years of the date funds become available to the grantee for obligation and 100 percent of such funds within 3 years of that date . For The Community Builders, the 2-year deadline is February 11, 2012, and the 3-year deadline is February 11, 2013. The Community Builders had spent \$5,202,245 of its grant as of December 31, 2010, a small amount of the \$78.6 million grant.

In the Northeast and Midwest, where The Community Builders operates, there is a seasonal slowdown in building and renovating properties during the winter months due to adverse weather conditions. However, The Community Builders had commitments of \$42 million at six multifamily projects going forward, which is a substantial amount of its grant that was identified after the first amendment to the grant. The first amendment revised the grant agreement to add additional census tracts and the mix of projects to be funded. Regarding the deadline, The Community Builders was tracking each project to ensure that it met scheduled

timelines. Specifically, we randomly selected and examined two of six projects in detail: Province Landing in Provincetown, MA, and University Park Apartments, in University Park, IL. These two projects were approved by HUD, properly qualified for the program, had appropriate use restrictions on the land, and had appropriate plans to expend the funding before the deadline.

Finally, The Community Builders had proposed a second amendment to add more census tracts, which should expand its ability to use its remaining funding within the program deadlines for projects in the added new census tracts.

### **Program Funds Were Used for Eligible and Appropriate Expenditures**

To examine the eligibility and propriety of expenditures, we selected a nonstatistical sample of 24 journal entries with a net value of approximately \$2 million and an absolute value of more than \$3.3 million. We used a journal entry as our sample item and randomly selected specific large entries. Some of these entries were reversed during the course of operations and before our audit. The sample contained expenses, receipts, and corrections.

The expenses were eligible; were properly documented; were properly valued; occurred in the proper timeframe; and, when applicable, were properly allocated. The receipts were authorized, deposited into the appropriate account, and documented. Each receipt of grant funds must have an associated expenditure. These associated expenditures occurred in a timely fashion. The corrections linked to original expenses that were eligible; were properly documented; were properly valued; occurred in the proper timeframe; and, when applicable, were properly allocated. These corrections were properly authorized and made in a timely fashion. Our sample included some duplicate entries which could have led to duplicate payments. However, there were no duplicate payments because the duplication was noticed and corrected before the start of our review, apparently as part of a review process.

Several of our sample items addressed salaries and indirect overhead charged to the program. We traced the salary expenses to the payroll report showing the related project, the project identification code, the billing code, the billing descriptions, and the work description. The payroll report also calculated the salaries and benefits, the facilities charge, and the indirect overhead charge. To test the accuracy of the calculations and the system used for the calculations, we reperformed the calculations. Our calculations matched the methodology in the cost allocation plan. The indirect costs had a number of correction entries because the indirect cost allocation plan was approved after the start of the grant. These corrections were properly authorized and made in a timely fashion.

## The Grantees Should Meet the Goals as Amended

The grant agreement was revised between the original application and the grant agreement signed between The Community Builders and HUD. The Community Builders submitted a substantial amendment on September 29, 2010, to revise the grant agreement; specifically, to approve 11 additional census tracts, two of which are adjacent to already approved census tracts. This amendment did not change the amount of funding or the amount by eligible activity. Instead, it changed the mix of projects to be funded with the Neighborhood Stabilization Program 2 grant by adding new census tracts and projects in those census tracts. The Community Builders stated that the projects in the original applications were no longer feasible due to the sale of the projects to other developers. HUD approved the substantial amendment on October 29, 2010.

The Community Builders drafted a second substantial amendment that was added to its Web site for public comment on January 26, 2011. This amendment added new census tracts and requested the addition of “financing mechanisms for foreclosed homes” to eligible activities. This activity would allow The Community Builders to make a short-term loan to stabilize an eligible project while it worked to create a longer term strategy. The proposed projects would use the Neighborhood Stabilization Program 2 funds for predevelopment, acquisition, and construction during a bridge period as the end financing is being assembled. As the end financing closes, the Neighborhood Stabilization Program 2 funds would come back as program income to be lent to additional projects. The Community Builders hoped to use low-income housing tax credits, tax-exempt bonds, Federal Home Loan Board Affordable Housing Preservation funds, soft second mortgages, and/or private debt/equity as end financing sources. Before HUD will evaluate the second substantial amendment, The Community Builders must make the amendment available to the public for comment for 30 days and compile the public comments, if any.

We inquired whether the second substantial amendment would cause delays in meeting program goals. The Community Builders stated that the second amendment would have the opposite effect. By increasing the number of census tracts, the amendment would increase the flexibility of the program. For example, University Park Apartments is located in one of the census tracts added by the first amendment approved by HUD. The Community Builders moved this project forward because the owner was committed to selling and there was a defined need. Without the addition of the census tracts, this action would not be feasible. University Park Apartments was one of two randomly selected projects that we examined in detail. For both projects (University Park Apartments and Province Landing), we found that the progress through February 9, 2011, was consistent with the scheduled progress with appropriate supporting documentation in the

files. The projected completion dates were before the statutory deadline of February 11, 2013.

## **Conclusion**

With continued diligence, The Community Builders should be able to expend the funding within the statutory deadline and meet its goals for the Neighborhood Stabilization Program 2.

## **Recommendations**

Based on the results of this review, the report contains no recommendations, and no further action is necessary with respect to our report.



## SCOPE AND METHODOLOGY

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We conducted the audit from January to February 2011. Our fieldwork was conducted at The Community Builders' office located at 95 Berkeley Street, Boston, MA. Our audit covered the period February to December 2010 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Reviewed the enabling legislation, regulations, handbooks, and notices on the Neighborhood Stabilization 2 program.
- Identified the awards of Neighborhood Stabilization Program 2 funds and other HUD grant awards to The Community Builders and used these awards to identify the statutory deadlines for the Neighborhood Stabilization Program 2.
- Conducted interviews with officials at HUD and The Community Builders to learn about HUD's concerns, monitoring of the properties, operational controls, financial controls, and computerized data.
- Obtained and reviewed independent auditors' reports for the previous 3 years to identify problem areas and any corrective actions taken.
- Identified the organizational structure of the entity and its key staff.
- Reviewed the Web site for The Community Builders for background information and to learn about its operations.
- Obtained and reviewed the grant agreement, including any amendments, and identified the goals of the agreement.
- Selected a nonstatistical, representative sample of properties and reviewed the property progress reports to compare the progress made with the goals planned. We did not use a 100 percent selection because of the limited review and time consumption due to the complexity of the item reviews. Our sample of two projects was randomly drawn from a universe of six projects.
- Obtained a listing of all expenditures categorized by type of expenditure. We relied on information from the accounting system for a universe of journal entries. To test the reliability of this information, we selected a sample of transactions and traced the data to third-party supporting documentation on file at The Community Builders. We also tested this sample of expenditures for eligibility, proper evaluation, allocation (if applicable) and propriety. Our sample was drawn using a random number generator to generate 20 random numbers between 1 and 130. There were 130 entries in the universe of expenditures. We selected four additional units because we were interested in the repetition of items, the nature of the items, or the amount of the items. Our sample had a

value of more than \$2 million in a universe of more than \$5.2 million. We used an entry as our sample item and randomly selected specific large entries. Some entries were reversed during the course of operations and before our audit.

- Selected a nonstatistical, representative sample of projects and compared the timetables for the project to be completed with that project's goals to identify any omissions or mismatched data and whether the completion of tasks to meet these goals would occur before the statutory deadlines. We did not use a 100 percent selection because of the limited review and time consumption due to the complexity of the item reviews. Our sample of two projects was randomly drawn from a universe of six projects.

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

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about 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 objectives:

- A control system to recognize the program deadlines and track the progress of properties toward that goal;
- Controls to ensure that expenditures are eligible, are properly valued, occur in the proper timeframe, and are authorized and allocated when applicable;
- A monitoring system to ensure that projects will be completed before the statutory deadline;
- An annual independent audit; and
- Controls to ensure that use restrictions are added to the properties.

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 the internal controls related to our audit objectives in accordance with generally accepted government auditing standards. We found no reportable deficiencies with these controls. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal controls structure as a whole. Accordingly, we do not express an opinion on the effectiveness of The Community Builders' internal controls.