

Prince George's County, Maryland
Office of Audits and Investigations

Department of Housing and Community Development

Community Housing Development Organization (CHDO) Audit

October 2009



David H. Van Dyke
County Auditor

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THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

October 2009

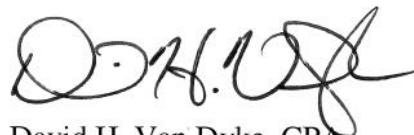
The County Council and County Executive
of Prince George's County, Maryland

We have conducted a compliance audit of the

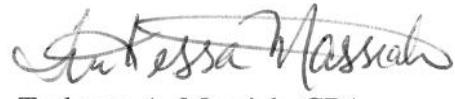
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT'S COMMUNITY HOUSING DEVELOPMENT ORGANIZATION PROCESS

in accordance with the requirements of Article III, Section 313, of the Charter for Prince George's County, Maryland. Our report is submitted herewith.

We have discussed the contents of this report with appropriate personnel of the Department of Housing and Community Development, and wish to express our sincere gratitude to them for the cooperation and assistance extended to us during the course of this engagement.



David H. Van Dyke, CPA
County Auditor



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Results In Brief

The Department of Housing and Community Development's (DHCD) mission is to expand access to a broad range of quality housing; to create safe, well planned, attractive residential communities; and to enable families to become self-sufficient and communities to become stable. To achieve this mission the agency has been tasked with addressing priority housing and community development projects in Prince George's County. The Annual Action Plan prepared by DHCD allocates Federal entitlement funds from several programs, including the HOME Investment Partnership (HOME) program, to address these priorities.

The HOME program was established under Title II of the Cranston-Gonzalez National Affordable Housing Act (NAHA) in 1990 to help expand the supply of decent, affordable housing for low income families by providing grants to state and local governments known as participating jurisdictions (PJs). The program is administered through the U.S. Department of Housing and Urban Development (HUD). Between FY 2004 and FY 2008 approximately \$17 million in HOME funds were awarded to the County by HUD.

In order to promote partnerships between states, local government and nonprofit organizations, and to expand nonprofit organizations' capacity to develop and manage decent and affordable housing, participating jurisdictions are required to set-aside at least 15 percent of their HOME grant funds for investment in housing to be developed, sponsored, or owned by Community Housing Development Organizations (CHDOs). Of the total HOME funds awarded in FY 2004 through FY 2008, \$3.7 million was allocated for CHDO set-aside activities. The HOME program also provides funds to cover a certified CHDO's operating expenses. Approximately \$790,000 in total was allocated for this purpose during the same period.

Given the amount of funding received from HUD for community housing development organizations, effective internal controls over the administration of the CHDO program are essential. Breakdowns in key internal control activities can leave the County liable for the disbursement of federal funds for fraudulent or questionable CHDO activity.

The following major findings are addressed in our report:

- Adequate documentation to support the certification of an organization as a CHDO was not available for 14 out of the 15 (93%) CHDOs certified by DHCD. Additionally, we did not find evidence to support the CHDO expenses submitted for reimbursement in 31 out of the 61 (51%) disbursements reviewed.
- Evidence of staff review and supervisory approval of CHDO applications were not present for 12 out of the 15 (80%) CHDOs reviewed.

- For 11 of the 37 (30%) operating disbursements reviewed expenditures exceeded the amount allowed in the grant agreement for specific operating categories. (It should be noted, however, that the total expenditures did not exceed the total operating grant awarded.)
- Progress reports documenting the use of operating grant funds and the status of its affordable housing projects were not submitted for 16 out of the 24 (67%) operating disbursements reviewed. Furthermore, we were unable to determine whether construction staff visited project sites and verified/approved requests to disburse CHDO set-aside funds for 24 out of the 37 (65%) project disbursements reviewed.
- Grant agreements for the 10 CHDOs reviewed were signed between 47 and 689 days after the start of the performance period. In addition, 4 out of the 10 operating grant agreements reviewed did not include a provision for enforcement of the affordable housing requirements, as required by HUD.
- As reported in our September 2008 audit, CHDO reimbursements were made to an organization for activity that was not authorized by its governing body.

Internal control activities are an important part of an agency's planning, implementing, and reviewing. They are essential for effective and efficient operations and proper accountability of county, state, and federal resources. Hence, several recommendations for its improvement are made throughout this report.

Background

DHCD uses HOME funds to carry out its mission of providing affordable housing to County residents through acquisition, rehabilitation, and new construction of housing, and tenant-based rental assistance. Title 24 Part 92 (HOME regulations) of the Code of Federal Regulations stipulates that only nonprofit organizations that have been certified by a participating jurisdiction as a Community Housing Development Organization (CHDO) can receive funds from the required minimum 15 percent set-aside of HOME grant funds.

A CHDO is a private nonprofit, community-based service organization whose primary purpose is to provide and develop decent, affordable housing for the community it serves. CHDOs receive certification from a participating jurisdiction indicating that they meet certain HOME Program requirements and therefore are eligible for HOME funding. To be certified as a CHDO an organization must meet certain legal and organizational characteristics, as well as experience, capacity, and financial accountability requirements.

The Housing Development Division of DHCD provides financial and technical assistance to CHDOs for the acquisition and/or rehabilitation of rental housing; new construction of rental housing; acquisition and/or rehabilitation of homebuyer properties; new construction of homebuyer properties; and direct financial assistance to purchasers of HOME-assisted housing sponsored or developed by a CHDO with HOME funds. The Division also provides direct operating assistance to CHDOs that are receiving or are under a written agreement to receive set-aside funds.

In addition, the Housing Development Division provides an annual recertification conference for all existing CHDOs to provide them with the necessary tools to build its capacity. Semi-annual conferences are also held to provide non-profits interested in becoming a CHDO the information needed to become certified.

The 15 percent CHDO set-aside may only be used to acquire and/or rehabilitate rental housing or homebuyer property; for new construction of rental housing or homebuyer property; and to provide direct financial assistance to purchasers of housing sponsored or developed by a CHDO. The HOME program also provides funds to cover reasonable and necessary costs for the operation of CHDOs.

Objective, Scope, & Methodology

The purpose of this audit was to (1) assess the adequacy and performance of designed control activities related to the management and administration of the CHDO program, (2) determine adherence to federal regulations and internal policies and procedures, and (3) identify factors inhibiting satisfactory performance and recommend corrective action.

To conduct this audit, we requested and obtained a listing from DHCD of all of the nonprofit organizations certified by the County as a CHDO and a listing of all disbursements made by the County under the CHDO program since its inception. We reviewed the CHDO applications for all of the nonprofits certified by DHCD as well as all of the disbursements made under the program for the last 5 calendar years, ending in December 2008.

We also interviewed DHCD personnel and reviewed operating procedures and other documents related to the CHDO program. All significant fieldwork was completed by February 11, 2009.

Management's Responsibility for Internal Controls

Internal control is a process, effected by people at every level of the organization, designed to provide reasonable assurance that the following objectives are being achieved¹:

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

Management is responsible for establishing and maintaining an environment that sets a positive and supportive attitude towards internal control. When the importance of internal control is communicated to employees, particularly through management's own actions and beliefs, the process is more likely to function effectively.

A strong internal control environment is essential in minimizing operational risks and improving accountability; further helping an agency to achieve its mission.

We noted the following strengths in relation to the controls we reviewed in the DHCD's management and administration of the CHDO program:

- Written policies and procedures are in place regarding CHDO certification and recertification, HOME funds reimbursement, and operating expense reimbursement.
- DHCD procedures require the use of a checklist to determine whether nonprofit organizations meet the eligibility requirements to be certified as a CHDO.
- DHCD procedures require recertification annually or at the time of subsequent application by the CHDO for additional funds.

We also observed many control weaknesses in the award and administration of the CHDO program that require management's attention. The following sections detail the items noted during our review.

Inadequate Documentation

During our audit, we noted that DHCD did not maintain adequate documentation to support the certification of CHDOs or the expenses submitted for CHDO reimbursement.

¹ Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Copyright 1994

Adequate documentation to support certification of the CHDO was not available for review for 14 out of the 15 (93%) CHDOs certified by DHCD. Specifically:

- An approved CHDO application package was not available for review for 3 of the 15 CHDOs certified (20%).
- Notarized CHDO Board Member Information forms were not submitted for all board members for 2 out of the 15 CHDOs certified (13%). We also noted that DHCD does not require the Affidavit of Board Representation (submitted as part of the CHDO application process) to be completed by the individual members of the nonprofit's Board of Directors.
- Adequate support to determine how certification requirements were met was not available for review for 10 out of the 15 CHDOs certified (67%).

Furthermore, adequate documentation to support the CHDO expenses submitted for reimbursement was not available for review for 31 out of 61 (51%) disbursements. Specifically:

- Adequate documentation to support the expenses incurred was not available for review for 28 out of 61 (46%) disbursements selected for testing. Of these, 17 were operating expense reimbursements and 11 were reimbursed with set-aside HOME funds.
- Files for 3 out of the 61 (5%) disbursements selected could not be located by DHCD for review.

Proper documentation is essential to ensure the transparency, continuity, and reliability of public processes. In its publication on standards for internal controls (GAO/AIMD-00-21.3.1) the Government Accountability Office (GAO) states that:

“Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.” Furthermore, “all documentation and records should be properly managed and maintained.”

In addition, the CHDO Procedures for Operating Expense Reimbursement established by DHCD states that “all of the following documentation of HOME eligible expenses must be included” with the reimbursement request – invoices, receipts, and copies of cancelled checks evidencing payment of CHDO funds for expense (or copies of bank statements identifying the expense). Also, the County’s HOME reimbursement process requires the recipient to submit an invoice and back-up documentation to receive reimbursement for HOME funded activities.

The lack of a comprehensive records management policy related to the completeness of CHDO records may have resulted in the insufficient documentation. The absence of adequate documentation may also be attributed to the lack of management review to ensure completeness of the CHDO files.

Insufficient documentation decreases the level of accountability and increases the likelihood of errors, thus resulting in inaccurate records, information, and reports. Moreover, inadequate documentation may lead to the improper certification of nonprofits as community housing development organizations.

Lack of documentation can also decrease the amount of evidence available if a question or dispute arises about specific CHDO activities. If DHCD is not able to substantiate the expenditures that were reimbursed, this may also result in the repayment of HUD funds or the loss of future funding for the CHDO program.

We recommend that the Director of Housing and Community Development develop and implement a comprehensive records management policy that addresses:

- The standardization of CHDO project and operating grant files by establishing requirements for obtaining and retaining documentation pertinent to the CHDO program;
- The centralization of CHDO files and a system to account for these files; and;
- Proper maintenance and retention of CHDO file documentation.

We further recommend that the Director of Housing and Community Development develop and implement a quality control review process to ensure compliance with agency policies and procedures.

Lack of Evidence of Application Review and Approval

During our audit, we noted that the CHDO Application does not indicate the individuals in DHCD that reviewed and approved the application or the dates of review and approval. Evidence of staff review and supervisory approval of CHDO applications was not present for 12 out of the 15 (80%) CHDOs reviewed. (Applications for the remaining 3 CHDOs were not available for review. See previous finding for details.) However, it should be noted that approval of CHDO certifications by the Director of Housing and Community Development, as evidenced by the signed certification letter granting the applicant organization CHDO status, was present. Nevertheless, this does not demonstrate that applications were reviewed and approved.

CHDO procedures established by DHCD, as verbally described by staff, include the review of applications for CHDO certification by DHCD staff and approval of applications by the Deputy Director and Director of DHCD for review. Once eligibility requirements are met and DHCD approval is obtained, a certification letter is sent to the nonprofit granting its certification and stating the amount of the operating grant awarded (if applicable).

In contrast, written procedures established by DHCD do not require the approval of the Deputy Director and Director until after the re-certification letter is sent to the non-profit.

Nevertheless, strong internal controls include preventative measures designed to discourage errors, such as supervisory review. Furthermore, it is a prudent business practice to indicate review and approval of documents by signing and dating the documents reviewed to ensure staff and management acknowledges and assumes responsibility for their decisions.

The lack of supervisory approval in the certification process may be attributed to inconsistencies in the organization's policies and procedures. As previously described the CHDO process, as understood and practiced by the DHCD staff, is different from the requirements set forth in the written CHDO procedures.

In addition, the absence of signatures indicating the review and approval of the certification application by staff and management may be due to the lack of management emphasis on obtaining such evidence. Furthermore, the absence of approval signatures may have resulted from management's failure to review the CHDO applications.

Lack of supervisory review in the certification process decreases the level of accountability and increases the likelihood that nonprofits that do not meet CHDO requirements are being improperly certified.

We recommend that the Director of Housing and Community Development revise the written CHDO procedures to include obtaining approval from DHCD management prior to certifying or recertifying the CHDO and requiring sign-off from all parties responsible for the certification decision as evidence of this review.

Additionally, we recommend that the Director of Housing and Community Development ensure revised policies and procedures are enforced.

Expenditures Exceed Budgeted Categories

Our review of the 37 selected disbursements made to reimburse organizations for their CHDO operating expenses revealed that 11 (30%) of these exceeded the amount allowed in their respective grant agreements for specific expenditure line items. However, it should be noted that the total expenditures did not exceed the total operating grant awarded for any of the CHDOs.

Article I of the CHDO operating grant agreement states that the grantee shall be reimbursed for expenses as shown in the corresponding budget. These expenses are broken down in the grant agreement into General operating (non-salary), Salary related to general operating expenses, Salary related to project expenses, and Capacity Building & Project Development Training expenses.

Furthermore, CHDO Procedures for Operating Expense Reimbursement states that the “only costs to be reimbursed shall be documented eligible operating costs outlined in the Operating Grant Agreement approved budget”. CHDOs have a responsibility to achieve the goals specified in the grant agreement within the stated budget.

DHCD’s noncompliance with its written CHDO procedures and the operating grant agreements may have resulted in these organizations’ expenditures exceeding specific line items in the budget. In addition, lack of emphasis by DHCD to hold CHDOs to the budget outlined in their specific grant agreements may have also contributed to their lack of compliance.

Not adhering to the specified budget could result in the ineffective or improper use of CHDO funds, return of funds to HUD, and/or the loss of future funding from HUD.

We recommend that the Director of Housing and Community Development enforce the agency’s policies and procedures for reimbursing operating expenses in accordance with the signed grant agreement.

Insufficient Monitoring of CHDO Projects

Progress reports documenting the use of operating grant funds and the status of its affordable housing projects were not submitted for 16 out of the 24 (67%) operating disbursements reviewed.

In addition, we were unable to determine whether construction staff visited project sites before approving requests to disburse CHDO set-aside funds for 24 out of the 37 (65%) project disbursements reviewed.

Article VI of the CHDO grant agreement states that the grantee shall submit narrative progress reports quarterly on the activities that is has performed with the HOME funds. Furthermore, DHCD policy and procedures state that disbursement of funds will not be made if the quarterly reports are not submitted.

Also, the HOME reimbursement process established by DHCD states that reimbursement requests are to be submitted to construction staff so that they can review the payment request and visit the project site to verify and approve the request.

The absence of regular progress reports is likely a result of management’s failure to enforce its policies and procedures. Furthermore, DHCD staff reported that regular monitoring of the project sites are not performed as a result of inadequate staffing in the agency.

Inadequate monitoring provides the County with minimal assurance that CHDO funds are being used in accordance with all program requirements and written agreements. In addition, inadequate monitoring of CHDO projects may result in the disbursement of funds for projects that are not completed in a timely or satisfactory manner. Furthermore, funds that are disbursed to nonprofits that do not meet program requirements may have to be returned to HUD.

We recommend that the Director of Housing and Community Development enforce the agency's policies and procedures for progress reporting and monitoring of Community Housing Development Organizations.

Untimely and Noncompliant Grant Agreements

Our review of the operating grant agreements for the nonprofits receiving CHDO funding revealed that the 10 grant agreements reviewed were signed between 47 and 689 days after the start of the performance period. We also identified 4 (40%) operating grant agreements that did not include a provision for enforcement of the affordable housing requirements, as required by HUD.

According to § 92.504 of the HOME regulations, a written agreement must be made between the participating jurisdiction and the nonprofit before disbursing any HOME funds. Furthermore, good business practice dictates that the signing and execution of grant agreements be made within a reasonable time frame.

Furthermore, Section 92.504 (c)(3) of the HOME regulations states that written agreements with a for-profit or nonprofit housing owner, sponsor or developer must include a provision for a means of enforcement of the affordable housing requirements.

Lack of emphasis by DHCD management to obtain written agreements within a reasonable amount of time and to include all required provisions may have resulted in the excessive lapse of time between the beginning of the performance period and the date the grant agreements were executed and the absence of the provision for a means of enforcement of the affordable housing.

The CHDO operating grant is governed by the terms of the grant agreement, which is generally not binding unless a properly executed agreement is in place. If contracts are signed after the performance period begins there is no clear understanding of the expectations of the parties involved.

Furthermore, HUD may elect to withhold funding if written grant agreements do not conform to the requirements outlined in their HOME regulations.

We recommend that the Director of Housing and Community Development implement written procedures requiring the execution of grant agreements within 30 days of the beginning of the performance period.

We further recommend that the Director of Housing and Community Development ensure all written and executed agreements conform to HUD requirements.

Previous Audit Findings

During an earlier audit² that we conducted, we discovered that the County paid CHDO reimbursements to an organization for activity that was not authorized by that organization's governing board. Since these CHDO payments were outside the scope of that audit, and since there was some question as to whether these payments were properly made, we did a more extensive review of that matter during the course of this audit.

As reported in the earlier audit, the Chairman of the Board of the organization – the Central Prince George's County Community Development Corporation (CPGCCDC) – informed us that he and his colleagues on the Board were unaware that their organization was a certified CHDO organization, and that they were billing and receiving payment from a County agency for CHDO related activity. This was accomplished in part, because there were other bank accounts opened in the CPGCCDC's name, without the knowledge of its Board of Directors.

During our audit we discovered that:

- An individual applied for and received CHDO certification from DHCD without the knowledge or approval of the organization it was representing;
- The individual prepared and approved invoices for his own salary, along with supporting checks made payable to himself, and submitted these documents to DHCD for reimbursement without the knowledge or approval of the CPGCCDC Board of Directors. The requests were approved by DHCD and disbursements in the amount of \$25,000 were made by the County to the nonprofit organization from CHDO grant funds.
- A review of the documentation submitted to DHCD for reimbursement from CHDO funds indicated that the expenses incurred were questionable, given that the checks submitted as payment by CPGCCDC were written to and signed by the same individual.
- Separate bank accounts were maintained by this individual to facilitate the movement of CHDO funds without the knowledge of

² Central Prince George's County Community Development Corporation, Professional Football Stadium Impact Grant Audit, September 2008

the CPGCDC's Board of Directors. Of the \$25,000 in expenses incurred above, two payments in the amount of \$10,000 each were written from one account and one payment in the amount of \$5,000 was written from another. In our previous audit, it was revealed that these accounts were not authorized by the nonprofit and they have since been closed.

- The disbursements mentioned above for the individual's salary exceeded the \$12,000 budgeted in the CHDO's operating grant agreement for salary related expenses. See *Expenditures Exceed Budgeted Categories* finding for details.
- In the progress reports submitted to DHCD with the request for reimbursement, the individual in question stated that he attended meetings with several entities, secured financing for projects, and attended training seminars. However, sufficient evidence was not provided to support the individual's participation in the various CHDO activities. Furthermore, since the organization was not aware of the CHDO activities conducted by the individual, it terminated its CHDO status with the County.

The Application for Certification & CHDO Operating Subsidy is to be submitted by an "authorized representative" as indicated in item number 26 of the application. By signing the application the "authorized representative" is certifying that they have read and understood the Signature Certification section of the application. The Signature Certification states the following:

- All information in the application is true and correct;
- The governing body of the CHDO has duly authorized the document; and
- The CHDO will fully comply with all program requirements if certification is issued.

Furthermore, a review of the nonprofit's operating procedures submitted with the CHDO application revealed that checks written on its accounts require two signatures – that of the Chairman or Vice President of the Board, and that of the Treasurer of the Board. The operating procedures also state that the nonprofit's Executive Committee should authorize all bank accounts and approve all check signers.

The questionable activity noted above can be attributed to the weak controls in the CHDO certification process and the process of disbursing CHDO funds for reimbursable expenses. As stated earlier, these internal control breakdowns include insufficient documentation and inadequate monitoring.

The lack of controls in the CHDO certification process and the process of disbursing CHDO funds may result in improper certification and disbursement of

federal funds, potential legal liability, and the compromise of the programmatic intent of the CHDO grant.

Since the individual was operating without the expressed authority of the organization he represented, and since the intent of the CHDO program may have been compromised, **we recommend** that the County's Office of Law determine whether a criminal act has occurred and whether any legal action or recourse should be taken.



THE PRINCE GEORGE'S COUNTY GOVERNMENT
Department of Housing and Community Development



JACK B. JOHNSON
County Executive

MEMORANDUM

November 4, 2009

TO: David H. Van Dyke, County Auditor
Office of Audit and Investigations

THRU: Ralph E. Moultrie, Acting Chief Administrative Officer
Office of the County Executive

THRU: David J. Byrd, Deputy Chief Administrative Officer
Governmental Operations and Environmental Services

FROM: James E. Johnson, Acting Director
Department of Housing and Community Development

RE: Response to CHDO Audit

The memorandum is in response to the Community Housing Developer Organization (CHDO) Audit conducted by the County's Office of Audits and Investigations dated September 14, 2009.

The Department of Housing and Community Development would like to thank you and your staff for the opportunity to review the draft CHDO Audit and respond to findings and recommendations prior to its release.

Attached please find the Department's responses to the findings and recommendations as requested.

Should you have any questions or concerns please contact my office at 301-883-5531.

Thank you.

Attachment

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DHCD RESPONSES

Notification of Findings and Recommendation No. 1:

Condition: Adequate documentation to support the certification of an organization as a CHDO was not available for 14 out of the 15 (93%) CHDOs certified by DHCD. Evidence to support the CHDO expenses submitted for reimbursement was not available in 31 out of the 61 (51%) disbursement reviewed.

Recommendation: The Director of Housing and Community Development should develop and implement a comprehensive records management policy that addresses:

- The standardization of CHDO project and operating grant files by establishing requirements for obtaining and retaining documentation pertinent to the CHDO program;
- The centralization of CHDO files and a system to account for these files; and
- Proper maintenance and retention of CHDO file documentation.

In addition, the Director of Housing and Community Development should develop and implement a quality control review process to ensure compliance with agency policies and procedures.

Agency's Response: The Department of Housing and Community Development concurs with the finding and recommendation.

The Community Planning and Development (CPD) Division created a new comprehensive CHDO Application for Certification and Re-certification Review Checklist. The Review Checklist also includes a Certification line which must be signed by the CPD Project Manager, the HOME Manager, the CPD Administrator and the Director of DHCD.

The CPD Division is in the process of upgrading the Central Filing System for all HOME Program files.

The CPD Division improved its internal control for tracking expenses submitted for reimbursements by creating a new Payment Requisition form for CHDOs. This form includes budget line items as described in the grant agreement, funds paid to date, and available balances by each line item. The Payment Requisition form also includes a Certification line which must be signed by the CHDO authorized representative, the CPD Project Manager, the HOME Manager, the CPD Administrator and the Director of DHCD.

Notification of Findings and Recommendation No. 2:

Condition: Evidence of staff review and supervisory approval of CHDO applicants were not present for 12 out of the 15 (80%) CHDOs reviewed.

Recommendation: The Director of Housing and Community Development review the written CHDO procedures to include obtaining approval from DHCD management prior to certifying or recertifying the CHDO and requiring sign-off from all parties responsible for the certification decision as evidence of this review. The Director of Housing and Community Development ensure revised policies and procedures are enforced.

Agency's Response: The Department of Housing and Community Development concur with the finding and recommendation.

The Community Planning and Development (CPD) Division created a new comprehensive CHDO Application for Certification and Re-certification Review Checklist. The Review Checklist also includes a Certification line which must be signed by the CPD Project Manager, the HOME Manager, the CPD Administrator and the Director of DHCD.

Notification of Findings and Recommendation No. 3:

Condition: For 11 of 37 (30%) operating disbursements reviewed expenditures exceeded the amount allowed in the grant agreement for specific operating categories. (It should be noted, however, that the total expenditures did not exceed the total operating grant awarded.)

Recommendation: The Director of Housing and Community Development enforce the agency's policies and procedures for reimbursing operating expenses in accordance with the signed Operating Grant Agreement.

Agency's Response: The Department of Housing and Community Development concur with the finding and recommendation.

The CPD Division revised the CHDO grant agreement to include a provision that if any request for a line item budget revision will require a written explanation. In addition if the amount of the revision to a line item varies by more than ten percent an amendment to the grant agreement will be required. However, in no event shall a line item revision result in an increase of the total operating grant.

Notification of Findings and Recommendation No. 4:

Condition: Progress reports documenting the use of operating grant funds and the status of its affordable housing projects were not submitted for 16 out of the 24 (67%) operating disbursements reviewed. Furthermore, it could not be determined whether construction staff visited project sites and verified/approved requests to disburse CHDO set-aside funds for 24 out of the 37 (65%) project disbursements reviewed.

Recommendation: The Director of Housing and Community Development enforce the agency's policies and procedures for progress reporting and monitoring of Community Housing and Development Organizations.

Agency's Response: The Department of Housing and Community Development concur with the finding and recommendation.

The CPD Division revised Payment Requisition must include a CHDO Progress Report documenting the use of the operating grant funds.

The CPD Division is in the process of upgrading the Central Filing System for HOME Program files. The files (such as CHDO Set-Aside Activities) will include a complete case history of the project monitored in a more specific classification folder in an effort to maintain a more accurate tracking system.

Notification of Findings and Recommendation No. 5:

Condition: Grant agreements for the 10 CHDOs reviewed were signed between 47 and 689 days after the start of the performance period. In addition, 4 out of the 10 operating grant agreements reviewed did not include a provision for enforcement of the affordable housing requirements, as required by HUD.

Recommendation: The Director of Housing and Community Development implement written procedures requiring the execution of grant agreements within 30 days of the beginning of the performance period. The Department of Housing and Community Development ensure all written and executed agreements conform to HUD requirements.

Agency's Response: The Department of Housing and Community Development concur with the finding and but does not concur with the recommendation.

The CPD Division is in the process of developing a written procedure requiring the execution of grant agreements within 60 to 90 days of the beginning of the performance period. This procedure takes into consideration of the time allowed for the Office of Law (OOL) to review for legal sufficiency (up to 60 days) and the time allowed for the Administrative Review Committee (ARC) to review and execute the grant agreement (4 to 6 weeks).

Notification of Findings and Recommendation No. 6:

Condition: As reported in a previous audit, CHDO reimbursements were made to an organization for activity that was not authorized by its governing body.

Recommendation: The County's Office of Law determines whether a criminal act has occurred and whether any legal action or recourse should be taken.

Agency's Response: The Department of Housing and Community Development concur with the finding and recommendation.