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audit report

OFFICE OF INSPECTOR GENERAL

TO: James Barnes, Director, Office of Community and Development, 1AD

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

SUBJECT: HOME Program
Holyoke/Chicopee Consortium
Holyoke, Massachusetts

We completed our audit of the Holyoke/Chicopee Consortium's (Consortium) HOME Program. Our objectives were to determine whether the Consortium utilized its HOME funds in such a way that decent, safe, and affordable housing opportunities for low and very low income families, in the Holyoke/ Chicopee area, were expanded and whether the funds were used efficiently. We looked at both home-ownership and rental housing projects developed by the Consortium.

This report contains two findings. We found that although the Consortium managed the rental housing segment of its HOME Program effectively, its management of the home-ownership segment needs improvement. Specifically, we noted that of the four home-ownership projects reviewed, one of them did not have the necessary restrictions attached to it to ensure its long-term affordability in accordance with program requirements and the remaining three had restrictions attached to them that were either incorrect or unwarranted. As a result, the Consortium may have incurred $330,782 in ineligible HOME expenditures. We also found that HOME program income and its use was not properly accounted for or reported to HUD.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact our office at (617) 565-5259.

Executive Summary

We performed an audit of the HOME Program administered by the Holyoke/Chicopee Consortium (Consortium). The primary purpose of our audit was to determine whether the Consortium efficiently used HOME funds in a manner consistent with HOME Program objectives. Specifically, we determined whether HOME funds were efficiently used to expand the supply of decent, safe, and affordable rental and home-ownership housing opportunities for low and very low income families.

Audit Results

In order to expand the supply of affordable housing opportunities for low and very low-income families, the Consortium managed a rental housing program as well as a home-ownership program. While the Consortium adequately managed the rental housing program, several deficiencies were noted in the Consortium's management of its home-ownership program. We also found that the Consortium was not reporting the generation or use of HOME program income in accordance with HOME Program requirements.

Specifically, our audit disclosed that the Consortium did not: 1) document the necessity of the HOME investment; 2) follow HOME regulations governing recapture restrictions for home-ownership properties; 3) impose mandatory resale provisions on home-ownership properties funded through HOME development subsidies; 4) ensure that families who purchased HOME assisted homes were income eligible; and 5) properly account for its HOME program income.

As a result, $330,782 in HOME funds expended on two home-ownership projects is questioned as to its eligibility. Specifically, the Consortium cannot establish or ensure the necessity of HOME funds invested to produce four home-ownership projects that incurred $1,089,665 in total costs and had an aggregate after construction/ rehabilitation appraised value of only $449,000. Furthermore, since the mandatory resale provisions were not imposed on two of the above homes, the families who eventually purchased the homes may subsequently sell to any person, at any time, without regard to the HOME program's income targeting (low and very low-income) or primary residence requirements. Also, the recapture restrictions executed for three of the projects were either incorrect or in one instance unwarranted which could have an effect on the long-term affordability of these projects. There is also an increased risk that families who benefited from the HOME Program through affordable home-ownership opportunities were ineligible. Lastly, actual HOME assistance reported to HUD is understated.

Recommendations

We are recommending that you require the Consortium to adhere to their established HOME Program requirements and HUD requirements in their administration of the home ownership segment of the HOME Program. The recapture agreements executed for three of the four home-ownership projects cited in this report should be terminated and re-executed between the proper entities and in the proper amounts. If the Consortium cannot ensure affordability for the two projects requiring mandatory resale restrictions, we recommend that the HOME assistance provided be returned to the Consortium for future eligible use. We are also recommending that you instruct the Consortium to establish an accounting system that accurately tracks and reports the generation and use of its HOME Program income

Findings and Recommendations Discussed

We discussed the findings in this report with Consortium staff during the course of our audit. We issued a draft audit report to the Consortium on August 2, 1999. The Consortium issued a written response to the draft on August 27, 1999. The Consortium generally disagreed with the contents of the report. Appropriate revisions were made where deemed necessary. We included the Consortium's pertinent comments in the Findings section of this report. The Consortium's full response is included in Appendix B.

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Introduction

The HOME Program was established under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990. HOME is the largest Federal housing block grant to State and local governments designed exclusively to create affordable housing for low and very low income households. Each year over $1 billion is allocated among the States and hundreds of localities nationwide.

As a housing block grant, the HOME Program provides communities flexibility and discretion over which housing activities to pursue. Communities can invest their HOME funds in home-ownership and/or rental housing activities. Different affordability and income targeting requirements apply, depending on whether the housing activity is home-ownership or rental housing. However, regardless of the different affordability and income targeting requirements, a community can only invest its HOME funds in housing that qualifies as affordable and targets low and very low income households.

Communities that do not qualify for an individual allocation under the formula can join with one or more neighboring localities in a legally binding Consortium whose members' combined allocation would meet the threshold for direct funding. The Holyoke/ Chicopee, MA Consortium (Consortium) receives its funding under this method. The Consortium consists of two (2) cities; the City of Holyoke, MA; which is considered the lead city; and the City of Chicopee, MA; which is considered a participating city. Each city's office for Community Planning and Development is responsible for the administration of the HOME grant for its City. The Administrator of the Office for Community Development, City of Holyoke, William Murphy, has overall responsibility of the HOME grant for both cities.

To accomplish its objectives, the HOME Program requires Consortiums to maintain existing partnerships and to forge new ones. Partners play different roles at different times, depending on the project or activity being undertaken. The Holyoke/Chicopee Consortium generally utilizes the following partners:

- **Developers and owners**: Individuals, for profit entities, and nonprofit entities participate in the HOME Program as owners and developers of housing;

- **Subrecipients**: A public agency or nonprofit organization selected by a Consortium to administer all or a portion of the Consortium's HOME Program; and

- **Community Housing Development Organizations (CHDO)**: A private, nonprofit organization that meets a series of qualifications prescribed in the HOME regulations. Each Consortium must use a minimum of 15 percent of its annual allocation for housing owned, developed or sponsored by CHDOs.

The Consortium received HOME allocations totaling $6,440,000 from Fiscal Year (FY) 1992 to 1998. As of February 9, 1999, the Consortium had expended a total of $4,530,193 of its HOME allocations as follows:

Development of Rental Properties (14 projects)	$3,056,651
Development of Home-ownership Properties (19 projects)	911,529
Down Payment Assistance for 1st Time Home-buyers (71 families assisted)	224,080
Rental Assistance	45,093
Administration	292,840
TOTAL	$4,530,193

Audit Objectives

The overall objective of our audit was to ascertain whether the Consortium utilized its HOME funds in such a way that decent, safe, and affordable housing opportunities for low and very low income residents, in the Holyoke/Chicopee area, were expanded and whether the funds were used efficiently. Specific objectives included determining whether:

1. The supply of affordable rental housing was increased and whether the housing continued to be decent, safe, and affordable;

2. The supply of home-ownership opportunities was increased and benefited eligible families.

3. Down payment and closing cost assistance provided to first-time home-buyers was consistent with program requirements.

Audit Scope and Methodology

To achieve our objective we:

- Reviewed applicable HUD regulations to gain an understanding of program requirements.

- Interviewed City of Holyoke and Chicopee managers and staff who administer the HOME program to gain an understanding of the structure of the Consortium's HOME Program and to identify procedures and management controls in place.

- Discussed items with HUD staff from the Massachusetts State Office, Office of Community Planning and Development, to obtain their perspective, insight, clarification and interpretation of the HOME Program and its requirements.

- Reviewed a sample of rental projects and home-ownership projects to determine proper project management with regard to 1) selection of projects; 2) affordability; 3) assisted families eligibility; 4) sub-recipient oversight; and 5) adequate supporting documentation for project expenditures.

- Performed site inspection for a sample of the projects reviewed to ascertain existence and assess appearance.

- Reviewed the extent to which the Consortium monitors its recipients of HOME funds to ensure on-going compliance with regard to 1) homebuyer income eligibility; 2) tenant initial and continued income eligibility; and 3) rental unit affordability.

- Reviewed the Home-buyers Assistance Programs administered by both Cities (Holyoke and Chicopee) to ascertain whether the programs were adequately assisting low-income families obtain home-ownership opportunities in the Holyoke/Chicopee area in accordance with HOME requirements.

- Compared Consortium records with HUD's Integrated Disbursement and Information System (IDIS) records to ascertain whether accurate information was provided to HUD with respect to 1) project information; 2) funding information; and 3) program income.

- Performed limited reviews on the Consortiums compliance with the HOME Program's Matching funds and CHDO set-asides requirements.

Audit Period

Our audit period covered January 1, 1995 to December 31, 1998 and was extended, as appropriate, to meet our objectives. Field work was performed from February through June 1999.

We performed our audit in accordance with generally accepted government auditing standards.

Home-Ownership Activities Were Not In Accordance With Program Requirements

HOME funds invested in home-ownership projects were not used efficiently and did not meet program requirements. Specifically, the Holyoke/Chicopee Consortium:

- Did not adequately document the necessity of the HOME investment;
- Allowed a developer to enter into long-term affordability agreements with home-buyers, against HOME requirements and for amounts greater than warranted.
- Failed to impose proper mechanisms to enforce the projects' long-term affordability in the event of resale; and
- Did not maintain documentation demonstrating that the projects were sold to and occupied by low-income families nor did they review the performance of entities awarded HOME funds for home-ownership activities to ensure compliance with written agreement.

As a result, HOME allocations totaling $330,782 are questioned as to their eligibility since they were invested in housing that did not meet the program affordability requirements meant to ensure that the housing remained affordable for a minimum of 5 - 20 years. The above occurred because the Consortium either did not follow their own established requirements or misinterpreted HUD requirements.

Consortium Responsible For Ensuring Program Requirements are Met

HOME Program regulations provide that the Participating Jurisdiction is responsible for managing the day to day operations of its HOME program, including work performed by sub-recipients, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise (24 CFR Part 92.504(a)).

Universe and Sample Reviewed

As of February 9, 1999, the Consortium had committed $1,056,341 and expended $911,529 in HOME allocations for 19 home-ownership projects (2 new construction and 17 rehabilitation of existing structures). The homes were constructed or rehabilitated as part of the Consortium's Home-ownership segment of its HOME Program with the intent that upon project completion, they would be sold to low or very low income families. We reviewed 4 projects where HOME allocations totaling $512,782 were made.

Necessity Must be Established and Documented

Home regulations require a Participating Jurisdiction to evaluate HOME funded projects in accordance with guidelines that it has adopted for this purpose to ensure that the HOME investment, in combination with other governmental assistance, is not more than is necessary to provide affordable housing (24 CFR Part 92.250(b)).

HUD guidelines provide that this review must be documented and the documentation should be included in the project file (CPD Notice 98-01(IV): Layering Guidance for HOME Participating Jurisdictions When Combining HOME Funds with Other Governmental Subsidies). Each city in the Consortium; Holyoke, Massachusetts and Chicopee, Massachusetts; adopted its own set of guidelines. Both sets are similar in nature and include the use of CPD Notice 98-01 as an evaluation tool.

Lack of Insufficient Evaluations to Demonstrate Need

The project files for the home-ownership projects reviewed either did not contain evidence of an evaluation or the evaluation provided was found to be insufficient. Specifically, two of the project files contained insufficient documentation (10 Cooney Place, Chicopee, and 51-55 Maple Street, Chicopee) and for the remaining two projects, we were advised that the file was misplaced (83-85 Center Street, Holyoke and 87-89 Center Street, Holyoke).

Cost in Excess of Properties Value

The Consortium funded HOME home-ownership projects whose total costs were substantially greater than the after rehabilitation/construction appraised value of the projects:

Project	Total Costs	Appraised Value	Percent
83-85 Center St.	$ 231,483	$ 70,000	331%
87-89 Center St.	223,483	93,000	240%
51-55 Maple St.	418,133	186,000	225%
10 Cooney Place	216,566	100,000	217%
TOTALS	$1,089,665	$449,000	243%

The majority of the costs were funded through HOME allocations and the proceeds generated from the sale of the homes (purchasers' mortgages). The remaining costs were generally covered by CDBG or HOPE 3 grant funds as shown below:

Projects	Total Costs	Source Of Funds		
		Home Allocations	Purchasers Mortgages	Other
83-85 Center St.	$ 231,483	$ 85,540	$ 69,900	$ 76,043
87-89 Center St.	223.483	96,460	72,900	54,123
51-55 Maple St.	418,133	214,216	183,000	20,917
10 Cooney Place	216,566	116,566	100,000	0.00
Totals	$1,089,665	$512,782	$425,800	$151,083

A lack of sufficient evidence to demonstrate the necessity of the high development costs, coupled with the significant cost vs. value discrepancies, raises questions as to whether more funds than necessary were used to provide affordable housing.

Project Costs Must be Reasonable

The Consortium is required to follow OMB Circular A-87; Cost Principles for State, Local, and Indian Tribal Governments; when determining costs for awards carried out by the HOME program (24 CFR Part 92.505(a)). OMB Circular A-87's Basic Guidelines provide that for costs to be allowable they must be reasonable. A reasonable cost is defined as a cost that in its nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

Support Not Maintained

HOME regulations require a Consortium to maintain records that identify the source and application of funds for each project, including supporting documentation in accordance with 24 CFR Part 85.20, Standards for Financial Management Systems (24 CFR Part 92.508(a)(3)(ii). 24 CFR 92.206a. states that the Participating Jurisdiction may use HOME funds for the actual cost of constructing or rehabilitating housing.

To meet this requirement, the Consortium relies on the developers submittal of an initial budget proposal. However, upon project completion, the Consortium does not require the developers of the projects to provide any final cost accounting. As shown previously, the four projects reviewed had reported total costs of $1,089,665 with HOME allocations of $512,782. Supporting documentation was only required and maintained for the costs applicable to the HOME allocations. The projects' files did not include documentation to substantiate the source and application of all funds utilized to develop the projects. As a result, there is no way to ascertain how much of the $1,089,665 in reported costs represented actual cost and how much was profit.

Funds Could Have Been Used on Other Financially Reasonable Projects

We asked Consortium officials why they invested so much HOME funds in these projects. The officials advised that the funds were invested in accordance with HOME regulations and that they believed the investments represented a good use of the HOME funds. They maintain that the projects cited could not have been done for any less. However, given the high costs associated with developing the projects, the Consortium could have chosen not to fund the projects and instead used the HOME funds on more economically sensible projects.

Maximum Benefit of Funds Not Achieved

We disagree with the Consortium's reasoning. We believe that grant and program funds provided by the Federal government should be spent in ways that represent "best use" of the funds and provides the maximum benefit to the intended benefices. Public support for programs such as HOME is based upon a belief that the funds will be spent wisely in a manner such as a reasonably responsible person would spend it.. The Consortium did not provide any studies, cost or otherwise, to support its position that the above projects were the only way to improve the neighborhood.

Options to Ensure Affordability

To ensure that HOME investments yield affordable housing over the long-term, HOME regulations impose affordability periods on projects assisted with HOME funds. To ensure affordability, the Consortium must impose either resale or recapture requirements, at its option (24 CFR part 92.254(a)(5).

Resale restrictions provide that, if the home does not continue to be the initial purchaser's primary residence for the duration of the period of affordability, it must be made available for subsequent purchase only to a buyer whose family qualifies as low-income and will use the property as its primary residence (24 CFR Part 92.254(a)(5)(i). Recapture provisions allow the Participating Jurisdiction to recoup all or a portion of the HOME assistance provided to the home-buyer, if the housing does not continue to be the principle residence of the family for the entire affordability period (24 CFR Part 92.254(a)(5)(ii)).

The HOME investment that is subject to recapture is based on the amount of HOME assistance that enabled the home-buyer to buy the dwelling unit. This includes any HOME assistance that reduced the purchase price from fair market value to an affordable price (direct subsidy), but excludes the amount between the cost of producing the unit and the market value for the property (development subsidy) (24 CFR Part 92.254(a)(5)ii)(A)(5). If the HOME assistance is only used for the development subsidy and therefore not subject to recapture, the resale option must be used (24 CFR Part 92.254(a)(5)(ii)(A)(5)).

No Mechanisms to Enforce Long-term Affordability

Contrary to HOME regulations, the Consortium did not impose resale provisions for two of the projects assisted via development subsidies (10 Cooney Place, Chicopee and 51-55 Maple Street, Chicopee). Each of the two projects' HOME assistance included a development subsidy in excess of $40,000 per unit, which triggered a minimum 15 year period of affordability (24 CFR Part 92.254(a)(4)). However, without the resale restrictions attached to the property's deed, the long-term affordability requirements are unenforceable. HOME funds invested in housing that does not meet the affordability requirements must be repaid to the HOME program (24CFR PART 92 503(b)(4).

Recapture Agreements Incorrect or Unwarranted

The Consortium entered into recapture agreements for 3 of the 4 projects reviewed as follows:

Project	Subject To Recapture
83-85 Center St.	$20,000
87-89 Center St.	20,000
10 Cooney Place	13,000
51-55 Maple St.	0
Total Subject to Recapture	$53,000

For three of the above four projects, the amount of funds subject to recapture ($53,000) was established prior to each projects' development and was based on the anticipated difference between the after construction/rehabilitation values and subsequent offering price of the homes.

For one project, the Consortium was mandated by HOME requirements to impose resale restrictions because no direct assistance was provided to the home-buyer (10 Cooney Place, Chicopee). On April 22, 1998 and January 7, 1999, the project had an appraised Fair Market Value of $100,000. The project was sold on February 26, 1999 for the contract sales price of $100,000. Yet, the Consortium executed a recapture agreement with the home-buyer for $13,000 with no basis for doing so, as no direct assistance was provided.

For the other two projects, the Consortium allowed a developer to execute recapture agreements with the home-buyers, against HOME regulations, for amounts that greatly exceeded the amount subject to recapture (83-85 Center Street, Holyoke and 87-89 Center Street, Holyoke). Under HOME regulations, any HOME funds recaptured must be deposited in the Participating Jurisdiction's HOME investment Trust Fund Local account unless permission is granted to a State Recipient, sub-recipient, or Community Housing Development Organization to recapture HOME funds (24 CFR Part 92.503 (c). Further, HOME regulations state that a public agency or non-profit organization that receives HOME funds solely as a developer or owner of housing (as in these two cases) is not a sub-recipient (24 CFR Part 92.2).

83-85 Center Street

The 83-85 Center Street project was appraised at $70,000 on May 19, 1998 and sold for the contract sales price of $69,900 on July 9, 1998. Under HOME regulations, the $100 difference between the contract sales price and the appraised fair market value can be considered as direct assistance to the home-buyer. The Consortium would have the option of imposing resale or recapture restrictions. The Consortium allowed the developer to enter into a recapture agreement with the home-buyer in violation of HOME requirements and in an amount of $20,000, which equates to $19,100 above the amount subject to recapture. The Consortium had no basis for allowing a recapture agreement in the amount of $20,000.

87-89 Center Street

The 87-89 Center Street project was appraised at $93,000 on March 17, 1998 and sold for the contract sales price of $72,900 on April 28, 1998. It appears that $20,100 in direct assistance was provided to the home-buyer ($93,000 - $72,900). However, upon reviewing the appraisal in detail, it was discovered that the appraiser made adjustments based on what he termed "special circumstances created by the Olde Holyoke program".

In the additional comments section of the appraisal, the appraiser describes the "special circumstances created by the Olde Holyoke program," in part, as:

> ". .. . Buyers and their tenants must meet income criteria and buyers must commit to living in the property they purchase. In return, the developer assumes a portion of the closing costs and provides a $20,000 mortgage, which if the owner abides by the covenants is reduced each year, without monetary payments, until it reaches zero at the end of the tenth year . . . .An adjustment has been made in the Sales Comparison Approach in the financing section to account for the special circumstances created by the Olde Holyoke program."

The above description is that of a typical recapture restriction, in which the amount subject to recapture typically reduces each year of the affordability period until it reaches zero. First, in order to determine if any amount of HOME assistance is subject to recapture in any given project, the appraised value and subsequent sales price must first be determined. If the sales price is lower than the appraised value than that amount would be subject to recapture if chosen by the Consortium. In the instance described above, the recapture amount was pre-determined by the developer and the Consortium as being $20,000. The appraiser considered the $20,000 in the appraisal and as a direct result of that consideration increased the appraised value of the property.

Furthermore, in the Sales Comparison section of the appraisal there were two errors noted. First, the subject property (87-89 Center St.) was listed as having a sales price of $92,900, when in fact it was sold for $72,900. Secondly, one of the comparable properties (56-58 Center St.) was listed as having a sales price of $94,900, when in fact it sold for $74,900. The source of the sales price information was listed as "insp/develop", and it should be noted that the developer was the same for each property; the subject and one of the comparables.

Given the above, the appraisal, in our opinion, is not reflective of the actual market value of the project at the time of sale. Without the special considerations taken into account by the appraiser, the fair market value would have been approximately $20,000 less, or $73,000. A listing of projects developed and sold by the developer, Olde Holyoke Development Corporation, disclosed that the sales price for 11 of the developer's properties ranged from $69,900 to $74,900. There is no basis for the Consortium to allow a recapture agreement in the amount of $20,000.

51-55 Maple Street

The fourth project reviewed; 51-55 Maple Street, had neither a recapture provision or resale restrictions. The appraised value of the project was $186,000 and the sales price was $183,000. The Consortium, in conjunction with the developer, Valley Opportunity Council, Inc., is currently trying to persuade the homeowners to enter into resale restrictions. However, due to some legal disputes with the developer, the homeowners have been reluctant to enter into a resale restriction. Nonetheless, the Consortium had an obligation under HOME regulations to ensure affordability.

Home-buyer Eligibility is Required

The Participating Jurisdiction must establish and maintain sufficient records to enable HUD to determine whether HOME Program requirements have been met (24 CFR Part 92.508(a)). At a minimum, records demonstrating that each low and very low-income family is income eligible in accordance with 24 CFR Part 92.203; Income Determinations; must be maintained.

Developer Responsible for Determining Home-buyer Eligibility

The Consortium opted to rely on the developers of the home-ownership projects to determine the initial home-buyers eligibility. If assigned to a developer, this responsibility must be included in the written agreement required to be executed with the Participating Jurisdiction (24 CFR Part 92.504(b)). Our review disclosed that two of the four projects included in our sample, either did not have an executed agreement or the agreement that was executed did not provide for this assignment of responsibility. In any event, the Consortium relied on the developer to perform this function.

Insufficient Records

The Consortium does not have any records to demonstrate that families who purchased the homes were income eligible. Additionally, the Consortium does not perform any on-site reviews of the developers' records to ensure that eligibility was properly determined.

The only information the Consortium requires from its developers to demonstrate that a low and very low income home-buyer is eligible is the Project Completion Report; HUD form 40097. The Project Completion Report does not provide the names of the home-buyers nor does it require any signatures certifying the information contained in the report is accurate. It also does not provide any information regarding how the income was determined.

Risk of Ineligible Persons Receiving Assistance

The absence of key information, such as certifications that low and very low income families' had/have low or moderate income, coupled with the fact the Consortium lacks management controls that provide for a review to verify and confirm that developers are performing this function properly, increases the risk of ineligible persons receiving assistance.

HOME Program Goals Not Achieved

The goal of the Consortium's Home-ownership Program was to create affordable home-ownership opportunities for low and very low income families. Without a comprehensive understanding of the HOME Program's unique requirements necessary to ensure goals are met, the Consortium cannot establish that affordable home-ownership opportunities for low and very low income families were expanded.

Auditee Comments

The Consortium, for the most part, disagreed with our conclusions that the Consortium:

- Did not adequately document the necessity of the HOME investment;
- Failed to impose proper mechanisms to enforce the projects' long-term affordability in the event of resale; and
- Did not maintain documentation that the projects were sold to and occupied by low-income families nor did they review the performance of entities awarded HOME funds for home-ownership activities to ensure compliance with written agreements.

The Consortium contends that they do document the necessity of their HOME investments and that the documentation was available to and reviewed by the field auditors. The Consortium asserts that the only documentation not available was the actual reviewers notes which were misplaced. The Consortium further states that the development costs of the projects were reasonable and consistent with the costs per square foot incurred by a local architect and a local developer. The Consortium also states that they are investigating other means of developing affordable housing which may include working directly with private developers and property owners to keep the development cost more reasonable.

The Consortium states that when there is both a development and direct subsidy provided, the Consortium has the option to choose either HOME resale or recapture provisions. The Consortium elected to use HOME recapture provisions. The Consortium also provided a copy of a second appraisal performed on one property (83-85 Center Street) and a table illustrating the development costs, market value, and sales price for eight duplex units constructed during the last few years in support of its contention that the original appraisal of the property (83-85 Center Street) was an anomaly. The Consortium offered no other support for the remaining projects reviewed (87-89 Center Street, 51-55 Maple Street, and 10 Cooney Place.

The Consortium states that it does ensure that all purchasers of HOME assisted units are eligible. The Consortium advises that it relies on its non-profit developers to ensure that HOME income eligibility requirements are met and that this is specified in their agreement with the non-profit developer. The City of Holyoke states that it does not believe that they are required to maintain source documentation on site as long as the non-profit developer maintains the documentation. Nonetheless, the City of Holyoke advises that they have amended their HOME procedures to include on-site reviews of source documentation prior to final payment on any HOME assisted home-buyer project. The City of Chicopee states that it does maintain duplicate records of information available from the sub-recipient's project files and that annual reviews are performed. No documentation was included with the response.

OIG Evaluation of Auditee Comments

The Consortium did not provide any additional information for review or consideration that was not already reviewed and analyzed during the course of our review. The project files of the Consortium did not contain any indication that a subsidy layering review was performed or that the proposed costs were deemed reasonable in nature. The fact that the reviewers notes were misplaced is a main part of the reason that we could not determine if the Consortium conducted a necessity and reasonableness review. While on-site, another project was selected solely for the purpose of reviewing the documentation maintained by the Consortium regarding necessity and reasonableness, but we were advised that the file for this project was misplaced as well because it was in the same folder as the other misplaced notes.

We agree with the Consortium that when there is both a development subsidy and a direct subsidy the Consortium has the option to choose either HOME resale or recapture provisions. We disagree, however, that the Consortium adhered to these requirements. Regarding the two projects for the City of Holyoke (83-85 and 87-89 Center Street), the Consortium allowed the non-profit developer to enter into the recapture agreements (executed as a promissory note and mortgage) with the home-buyers, which is against HOME regulations. Further the recapture agreements were executed for $20,000 each, when the Consortium had no basis for allowing such an amount.

The Consortium's opinion that the original appraisal of 83-85 Center Street was an anomaly is not supported by their own documentation. First, the appraisal was prepared a year after the original and was based on a comparable property and not the project itself. Second, Table 1 provided by the Consortium, for the most part, illustrates properties developed by the same developer and the information is not considered reliable due to inaccuracies found in at least one of the appraisals. Further, the two projects located in the City of Chicopee (51-55 Maple Street and 10 Cooney Place) either did not have resale or recapture restrictions imposed (51-55 Maple Street) or were restricted to HOME resale restrictions as no direct subsidy was provided (10 Cooney Place). The Consortium offered no support to substantiate its claim that both a development and direct subsidy was provided to 10 Cooney Place.

We also disagree that the Consortium maintains documentation to support that purchasers of HOME assisted units are income eligible. In its own response, the Consortium states that it has amended its HOME procedures to include an on-site review of source documentation prior to payment on any HOME assisted home-buyer project. The Consortium was not performing on-site reviews, as required, of its non-profit developers delegated the responsibility of ensuring income eligibility, and maintained only a copy of the Project Completion Report to support the income eligibility of its home-buyers. For the two projects reviewed in the City of Chicopee (51-55 Maple Street and 10 Cooney Place), no written agreement was ever executed (10 Cooney Place) or the written agreement executed was for rental housing as opposed to home-ownership (51-55 Maple Street).

Upon further consideration of the total development costs, we are still concerned with the significant disparity between the total costs incurred and the subsequent appraised market value. The Consortium offered no studies, cost or otherwise, to support its position that the projects undertaken were the best way to improve the neighborhood. Furthermore, the Consortium, in its own response, acknowledged that alternatives should be sought out to keep the development costs more reasonable, and pledged to work directly with private developers and property owners to strive for such.

Recommendations

We recommend that you require the Consortium to:

1A. Adhere to its established guidelines with respect to documenting necessity and include evaluation substantiating such need in the project files.

1B. Terminate the existing recapture agreements executed between the developer, Olde Holyoke Development Corporation and the home-buyers of

83-85 and 87-89 Center Street with the understanding that new recapture agreements be executed between the City of Holyoke and the home-buyers. Execute recapture agreements with the home-buyers in the proper amount subject to recapture, at the time of project closing, or attempt to impose resale restrictions to gain a greater benefit.

1C. Terminate recapture agreements executed between the City of Chicopee and the home-buyer of 10 Cooney Place and attempt to impose the mandatory resale provisions on this project and the 51-55 Maple Street project. If resale provisions cannot be executed, due to home-buyer's reluctance, the Consortium should repay the $330,782 in HOME funds invested in these projects.

1D. Maintain sufficient documentation to ascertain that families purchasing homes under the home-ownership program are income eligible in accordance with program requirements.

1E. Ensure that the families who purchased the four projects cited in this report were income eligible.

Program Income Not Accounted For

The Holyoke/Chicopee Consortium (Consortium) did not properly account for income generated from the use of its HOME funds. Specifically, the Consortium does not identify expenditures of program income generated by payments of interest and/or principal on HOME loans with specific HOME activities. As a result, actual HOME fund expenditures/ assistance is underreported to HUD. The Consortium advised that while they were aware of the HOME reporting requirements, they made a conscious decision not to comply due to what they consider the burdensome reporting requirements of the HOME Program.

HOME Assistance

HOME assistance includes funds made available through allocations and reallocations, plus program income (24 CFR Part 92.2).

Program Income

Program income was defined for the first time in the September 16, 1996, HOME Final Rule. However, program income requirements are not new and have a statutory basis. Program income is the repayment, interest and return on the HOME investment. HOME regulations define Program Income as follows:

> *"Program income means gross income received by the Participating Jurisdiction, subrecipient or State recipient which is directly generated from the use of HOME funds. This includes, but is not limited to: Payments of principal and interest on loans made using HOME funds or matching contributions" (24 CFR Part 92.2).*

Payments of Principal and Interest on HOME Loans

The City of Chicopee provides HOME funds in both loans and grants. Loans must be repaid, while grants do not. Our audit disclosed that a total of $79,784 in payments of principal and/or interest were made on three HOME loans. According to City of Chicopee staff, the $79,784 in HOME program income was deposited into a Housing Rehabilitation account with the Bank of Boston. This account is a revolving loan fund account that includes Community Development Block Grant program income.

Program Income Not Identified

The City of Chicopee contends that this income was and is utilized on housing activities that qualify as HOME eligible. However, the City of Chicopee does not attribute expenditures from this account to the HOME Program. As such, there is no assurance that the HOME Program Income was used in accordance with HOME regulations and for HOME eligible activities.

HOME regulations provide that a Participating Jurisdiction must be able to identify which projects generated program income and which projects received program income, including the amount (CPD Notice 97-9(III)(B): HOME Program Income, Recaptured Funds, Repayments and CHDO Proceeds).

HUD's Integrated Disbursement and Information System (IDIS) is designed to record the receipt and use of HOME program income (CPD Notice 97-9(N)). However, the Consortium chose not to enter the receipt or expenditure of program income into IDIS.

HOME Program Impact Understated

A lack of accurate reporting of HOME Program income and its use results in significantly understating the actual impact that the HOME Program has in the Holyoke and Chicopee area. Accurate and complete reporting of such income and its use is not only required, but also serves to reinforce the need of such housing programs and the accomplishments resulting from them.

Auditee Comments

The Consortium agreed that better accounting and management of HOME program income should be established and has initiated corrective actions to accomplish such.

Recommendations

We recommend that you instruct the Consortium to:

2A. Properly identify and account for its program income generated from all activities in accordance with HOME regulations.

Management Controls

In planning and performing our audit, we considered the management controls of the Holyoke/Chicopee Consortium (Consortium) that were relevant to our audit, in order to determine our audit procedures and not to provide assurances on internal controls.

Management controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Relevant Management Controls

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

- Guidelines for evaluating HOME-assisted projects to ensure that no more than the necessary amount of HOME funds are invested in any one project to provide affordable housing;

- Policies and procedures to ensure that HOME funds benefited eligible families;

- Monitoring of sub-recipient and contractor performance to ensure compliance with program requirements and written agreements;

- Properly accounting for the receipt and expenditure of Program Income; and

- Policies and procedures to ensure that recovery (resale vs. recapture provisions) of funds was in compliance with HOME regulations.

Assessment Results

A significant weakness exists if management controls do not give reasonable assurances that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Significant Weaknesses

Our review identified significant weaknesses over the Consortium's management the home-ownership segment of its HOME Program and in its accounting of HOME Program income. Specific weaknesses were identified in all the management controls areas disclosed above. These weaknesses are described in the findings section of this report.

•

Ineligible Costs

	Ineligible Home Assistance 1)
Finding 1 ■ HOME Assistance Expended on Projects That do Not Meet HOME Program Affordability Requirements	$330,782
Total	$330,782

1) Ineligible amounts obviously violated law, contract, HUD or local agency policies or regulations, such as affordability period requirements.

Auditee Comments

HON. DANIEL J. SZOSTKIEWICZ
MAYOR, CITY OF HOLYOKE

THE CITY OF HOLYOKE

OFFICE FOR COMMUNITY DEVELOPMENT
WILLIAM MURPHY
ADMINISTRATOR

August 27, 1999

Mr. William D. Hartnett
District Inspector General, Office of Audit
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

Dear Mr. Hartnett:

This letter and the attachments respond to the undated draft report regarding the Holyoke/Chicopee Consortium and the management of the HOME Program there under.

The Holyoke/ Chicopee Consortium was formed for the purpose of participating in the HOME Program. The City of Holyoke, pursuant to HUD regulations and the Mutual Cooperation Agreement between the City of Holyoke and the City of Chicopee, agreed to act in a representative capacity for both communities for the purposes of the HOME Program. The Mutual Cooperation Agreement also provides that each City shall be responsible for ensuring that the allocation and expenditure of its portion of the HOME allocation conforms in all respects to the requirements of the program and related federal regulations. Your draft report, while acknowledging the existence of the member cities, unnecessarily presents much of the analyses, findings, and recommendations in a blended fashion for the Consortium as a whole. Your audit report would be easier to understand, comment on and lead to appropriate corrective actions if it were to be presented separately for each city. This would facilitate any actions that might be required of the Consortium in addressing any deficiencies in program management by either member city.

The Consortium has reviewed your draft report with appropriate staff of each member city. The following is a summary of each city's response to your draft report as viewed by that City. At such point as there is a final determination on the issues you have raised, the Consortium will take all available and appropriate actions to ensure compliance by each participating city, and the Consortium as a whole, with all HOME Program regulations.

1. Did not adequately document the necessity of the Home investment.
   City of Holyoke does not concur.
   City of Chicopee does not concur.

BIRTHPLACE OF VOLLEYBALL 1895

CITY HALL ANNEX • ROOM 400 • 20 KOREAN VETERANS PLAZA
HOLYOKE, MASSACHUSETTS • 01040-5036 • PHONE: (413) 534-2230 • FAX: (413) 534-2231

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2. Home ownership projects did not have necessary restrictions to ensure long term affordability.
   City of Holyoke does not concur.
   City of Chicopee concurs in part.
3. Income eligibility of purchasers of HOME units is not sufficiently documented
   City of Holyoke does not concur.
   City of Chicopee does not concur.
4. Generation and use of program income not properly accounted for.
   Not applicable to the City of Holyoke.
   City of Chicopee concurs and has made necessary changes.

I appreciate the opportunity you provided to offer comment on your audit report before it is finalized. Attached to this letter are the responses of the two participating cities to your report. I also appreciate your offer to meet regarding the draft report. I would be happy to meet with you at your convenience to discuss these issues and bring this matter to a mutually agreeable closure.

Respectfully,

William H. Murphy
Administrator, Office for Community Development, Holyoke
On behalf of the Holyoke/Chicopee Consortium

City of Holyoke
Response to draft audit report

In evaluating the draft audit report, it was determined that the Project Completion Reports for the subject properties contained errors. The forms have been revised and entered into IDIS as such on 8/19/99. Copies of these amended forms are attached hereto following Table3.

THE CITY DID NOT ADEQUATELY DOCUMENT THE NECESSITY OF THE HOME INVESTMENT
The audit examined the construction of two duplex homes located at 87-89 and 83-85 Center Street. In each, one unit was to be sold to an income eligible household and the second rented to an income eligible household. The proposal for this project was submitted to the City in January of 1997. The submission included information on the size of the units and the income group targeted. It included a detailed development cost budget, and the proposed sources and uses of funds. The total projected cost for the four units was $332,637, $166,319 each. The proposed sale price of each duplex was $74,900. These costs were compared with the costs experienced in similar projects in the past and were found to be reasonable. The recent typical costs have been between $157,000 to $201,000, with sales averaging $74,900. Upon completion of the layering analysis, the file was completed with a letter to the proponent, referencing the Mayor's declaration regarding the amount of HOME funds being no more than necessary. All the foregoing, except for the actual reviewers notes which were misplaced, were available to, and reviewed by, the auditors.

Agreements and contracts were executed. The site for the duplexes was originally to have been cleared by the City of Holyoke. This did not occur in a timely fashion and the developer was allowed to undertake the demolition as part of the project in order not to delay the development. This added $66,000 to the project cost and was paid for out of other funds available to the developer.

The City received bills for all HOME fund disbursements and monitored withdrawals from The Ward I Revolved Fund account. At the conclusion of the project the City reported the completion cost as $454,966 in IDIS using figures submitted by the developer on the total project cost as submitted by the developer. This figure was subsequently determined to be incorrect. In reviewing the activity within the Ward I Revolved Fund with HOME draws and a review of all bills in connection with the project, it was found that the cost of demolition had been included twice on the completion reports. The cost of $33,000 had been shown in parenthesis above a second figure in order to show the part thereof which was for the demolition. Instead it was added. The correct total is $401,837, which less the $66,000, is $335,837. This compares well with the original projected cost of $332.637 included within the RFP.

THE DEVELOPMENT COSTS FOR 85-87 & 83-85 CENTER STREET WERE EXCESSIVE AND THAT THE CITY COULD HAVE CHOSEN TO FUND MORE ECONOMICALLY FEASIBLE PROJECTS.
This opinion appears to be based primarily on a comparison of project cost with project value. The total development cost for these units and the components thereof, were reviewed prior to the allocation of HOME funds to determine if they were necessary and reasonable and if the amount of HOME funds requested was not more than necessary to provide affordable housing. The actual final costs were calculated and the amount and use of funds was consistent with the original proposal. The City believes that the development costs are reasonable.

In low income communities, housing values are commonly depressed. This often means that the cost to build or renovate a housing unit is greater than the unit is worth. See Table Holyoke 1. This is one reason for the disinvestment that plagues older neighborhoods. This is also why HUD and others become involved; to make investments in neighborhoods, housing and people that the private sector passes by. The field auditors could never quite see this disparity as anything other than a problem the City could correct if it chose to. .

Table Holyoke 2 shows per unit costs of the homeownership and rental projects reviewed by the field auditors, as well as comparable information for two other local projects. It is apparent that the lowest cost per unit is experienced in new construction of units for homebuyers, the Center Street units. And this, the least expensive of all approaches covered, is lowest before counting sales proceeds as a source financing for additional affordable housing projects. Consequently we take stern exception to the draft audit's conclusion regarding the City's "inefficient" use of funds for the cited projects and the inference that these would not be that undertaken by prudent persons.

Notwithstanding the foregoing discussion, we wonder where, along the way, did the local determination of housing needs and a locally conceived strategy to address those needs get replaced by a "best use means least cost" standard?

The draft audit cites other reliable sources to support the view that the two subject projects cost too much. These sources appear to be the appraisals, in particular the replacement cost calculations. These are based on $50-65 per square foot. These figures are not current or accurate. A local developer of elderly housing recently completed a 66-unit new construction project at $93 per sq. ft. A local architect provided a baseline figure of $100 per sq. ft. for new construction. At $90 per sq. ft the replacement cost of 83-85 Center Street @ 1,976 sq. ft would be $177,840, which with an additional amount for the site preparation and improvements, closely equals the actual development cost.

THE CITY FAILED TO IMPOSE PROPER MECHANISMS TO ENFORCE THE PROJECTS'LONG-TERM AFFORDABILITY IN THE EVENT OF RESALE.
The City believes that the regulations allow the affordability to be ensured by the imposition of either resale or recapture requirements, at its option. The only limitation is that if the HOME assistance is used only for the development subsidy, the resale option must be used. The development subsidy is the difference between the cost of producing the unit and the fair market value of the property. The HOME assistance that enabled the homebuyer to buy the unit is that amount that reduced the fair market value of the unit to an affordable price.

The attached Table Holyoke 3 illustrates the development costs, market value, and sale prices for eight duplex units that have been constructed in the past few years. The Table also illustrates how public funds were used as both development subsidies and as assistance that enabled the buyer to purchase the home. The draft report finds language and limitations within the regulations that require that HOME funds be provided directly to the buyer in order, presumably, to purchase the home at market value but only borrow the "affordable price". The City cannot find the requirement that the HOME assistance must pass through the hands of the buyer.

The field auditors obtained a copy of an appraisal for 83-85 Center Street that stated that the market value was $70,000. This value is at odds with typical costs and values as shown on Table Holyoke 3. That value is less than the direct cost of the modular unit ($73,050) alone without considering the value of the lot foundation and site improvements. Another appraisal was undertaken in response to the discovery of the low appraisal that indicated a value of $88,000. The City is of the opinion that the preponderance of information suggests that it is an anomaly.

THE CITY DID NOT ENSURE THAT THE FAMILIES WHO PURCHASED HOME ASSISTED HOMES WERE INCOME ELIGIBLE.

The City knows that all purchasers of HOME assisted units were income eligible. Information on buyer income, family size and ethnicity is received from all developers of HOME assisted homeowner units.

Regulation 92.504 allows the jurisdiction to enter into agreements with entities using HOME funds. Although not reliving the jurisdiction of responsibility, the agreement must include the records the entity must maintain and information or reports that must be submitted so that the jurisdiction meets its recordkeeping and reporting requirements.

The city's agreement with the non-profit developer in question specifies that an obligation of the developer is to meet the HOME requirements of Part 92.254 Qualification as Affordable Housing: Homeownership. This section includes buyer income eligibility. The developer submits the reports on the buyer profile requested by the City. Income documentation, verifications, bank statements, and other source documents are maintained at the developer's office.

The City does not believe that it is required to physically store the source documentation of HOME assisted home buyers. The City has verified the income of buyers at 83-85 and 87-89 Center Street. In addition to the annual review of tenant and homeowner certifications as the regulations require, the City has amended its HOME procedures to include an on-site review of source documentation prior to final payment on any HOME assisted homebuyer project.

THE CONSORTIUM DID NOT PROPERLY ACCOUNT FOR ITS HOME PROGRAM INCOME

It does not appear that this item refers to the City of Holyoke.

TABLE: HOLYOKE 1

DEVELOPMENT COST VS COMPLETED VALUES

	TOTAL DEVELOPMENT COST	APPRAISED VALUE	% of Dev. Cost	SALES PRICE	% of Dev. Cost	ASSESSED VALUE	% of Dev. Cost
Presentation Homes							
83-85 Center Street(1)	$ 199,477.00	$ 88,000.00	44%	$ 69,900.00	35%	Valuation Underway	
87-89 Center Street(1)	$ 202,360.00	$ 93,000.00	46%	$ 72,900.00	36%	Valuation Underway	
Center Village Homes							
62-64 Center Street	$ 200,898.00	$ 94,820.00 ((2	47%	$ 74,900.00	37%	$ 74,900.00	37%
70-72 Center Street	$ 200,898.00	$ 95,000.00	47%	$ 74,900.00	37%	$ 77,200.00	38%
Holyoke Land Trust							
252 Walnut Street	$ 146,000.00	$ 58,000.00	40%	$ 58,000.00	40%	$ 44,800.00	31%
Nueva Esperanza							
Voces de Esperanza(3)	$ 4,853,247.00	Rental - Not Required		N/A Rental		$ 809,900.00	17%
Holyoke Housing Auth.							
HOPE VI(4)	$ 8,481,842.00	Rental - Not Required		N/A Rental		Project not complete	

(1) as revised
(2) comparable
(3) reviewed by IG field auditors
(4) as on HOME Set-up form

TABLE: HOLYOKE 2

PER UNIT COSTS

COST

HOME PROJECT	TYPE	CONST.	TOTAL DEVELOPMENT COST	NUMBER OF UNITS	COST PER UNIT
Presentation Homes	Owner/	NC			
83-85 Center Street	Renter		$ 199,477.00	2	$ 99,738.50
87-89 Center Street			$ 202,360.00	2	$ 101,180.00
Holyoke Land Trust					
252 Walnut Street	Owner	Rehab	$ 140,000.00	1	$ 140,000.00
Nueva Esperanza ((1)					
Voces de Esperanza	Renter	NC and Rehab	$ 4,853,247.00	36	$ 134,812.42
Holyoke Housing Auth.					
HOPE VI	Renter	NC	$ 8,481,842.00	50	$ 169,636.84

((1) also reviewed by IG field auditors

TABLE: HOLYOKE 3

APPRAISAL COMPARISONS
NEW CONSTRUCTION - DUPLEXES

ADDRESS	SQ. FT.	TOTAL DEV. COST	MODULAR COST	APPRAISAL	SALES PRICE
48-50 Center Street	2,496	$ 162,550	$ 86,507	$ 95,000	$ 74,900
52-54 Center Street	2,496	$ 162,550	$ 86,507	$ 95,000	$ 74,900
56-58 Center Street	2,496	$ 162,550	$ 86,507	$ 95,000	$ 74,900
70-72 Center Street	2,496	$ 200,898	$ 86,507	$ 95,000	$ 74,900
83-85 Center Street (1	***1,976***	***$ 199,477***	***$ 73,050***	***$ 70,000***	***$ 69,900***
83-85 Center Street (2	***1,976***	***$ 199,477***	***$ 73,050***	***$ 88,000***	***$ 69,900***
87-89 Center Street	2,288	$ 202,360	$ 83,300	$ 93,000	$ 72,900
Walnut/Cabot (HOME)	1,986	$ 175,110 (*)	$ 93,400	$ 88,000	$ 72,900 (*)

HOME ASSISTANCE

Average Dev. Cost =	$ 177,670		
Average Appraisal =	$ 93,500	Average Dev. Subsidy =	$ 84,170
Average Sales price =	$ 74,233	Average Buyer Subsidy	$ 19,267

Calculations exclude the two different appraisals for 83-85 Center St.

((1) Appraisal done for mortgage purposes. We do not have a copy
((2) Appraisal done for OHDC in May 1999, as a result of auditor inquiry.
((*) Proposed

City of Chicopee
Office of Community Development

Jeanne M. Kidwell, Director
Telephone (413) 594-1490
Fax (413) 594-1495

City Hall Annex - 274 Front Street
Fourth Floor
Chicopee, MA 01013

August 27, 1999

Mr. William Murphy, Director
Office for Community Development
City Hall Annex, Fourth Floor
Holyoke, Massachusetts 01040

Dear Mr. Murphy:

We have completed our review of the Inspector General's Audit of the Consortium's HOME Program and would like to make the following comments:

Development Costs - Our project underwriting takes into consideration more than conventional underwriting standards and recognizes that the public sector is doing the projects that the private sector has not typically done. The role of the HOME Program or any public housing program in the marketplace is a complicated issue. Traditionally, the public sector has supplied the "gap financing" for projects in areas that the private market cannot or will not.

The per unit costs for all our HOME projects are within the 221(d)(3) limits established by HUD. We would agree that wherever possible we should, and do, try to keep costs reasonable. As a result, the City of Chicopee has cancelled our subrecipient agreement with the Chicopee Neighborhood Development Corporation because we were dissatisfied with his cost control measures for 10 Cooney Place. In addition, the City will seek to work only with developers, both private and non-profit, who maintain the highest standards of project management.

At this point we are investigating other means of developing affordable housing which may include working directly with private developers and property owners to keep the development costs more reasonable. However, renovations, by their nature, are inherently more expensive than new construction.

In summary, our housing projects:

- are competitively bid and reflect the free and open marketplace;
- respect historic standards as in the case of 10 Cooney Place located within an historic district;
- follow prevailing wage rate regulations where mandated;
- are reviewed by the Commonwealth and deemed reasonable in cases of jointly funded projects;
- undertake extensive renovations to entire building systems to keep decent and safe throughout the period of affordability, up to 30 years in the case of the Maple Street properties;
- and accommodate neighborhood concerns, improving conditions, attitudes and perceptions of the neighborhood.

Documentation for Total Project Costs - The HOME funds only reimbursed expenses already incurred and documented by the developer. The City has copies of checks and invoices showing payment of expenses prior to distribution of HOME funds. All requests for payment require an inspection and sign-off by the project architect and/or rehabilitation specialist.

24 CFR 85.20(b)(2) states that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income. Nowhere does it state that the participating jurisdiction must maintain records of other sources, as the IG has suggested. This is further supported in 24 CFR 92.205(a)(3). We have supporting documentation in the form of invoices and checks to vendors.

We do not maintain records of other funding or financial sources but work cooperatively with the Massachusetts Department of Housing and Community Development, the Massachusetts Housing Partnership, the Massachusetts Housing Investment Corporation, and private lending institutions on projects. As a grantee we are required to maintain detailed records pertaining to our funding. We were unaware that this must be done for other funding sources which maintain their own project documentation.

Resale versus Recapture Provisions - Both Chicopee homeownership projects included development subsidies and homebuyer subsidies. It is our understanding that the grantee may choose either a resale or recapture provision in cases where both a development and a homebuyer subsidy are provided. The City of Chicopee has chosen to use the recapture provision.

Massachusetts has recently revised its deed rider for homeownership projects to give it the right of first refusal or to find a qualified buyer within 45 days from notice of the homeowner's intent to sell. We will use this as a model for those housing projects the City participates in with the Commonwealth.

Upon Valley Opportunity Council's (VOC) acquisition of the property at 51-55 Maple Street, an affordable housing restriction was placed on the property and recorded at the Registry of Deeds. Unfortunately, neither the City, VOC nor the Commonwealth has been successful in placing a deed rider on the properties due to a legal dispute with the homebuyer. Monies ($55,000) from the sales proceeds have been placed in escrow until such time as the matter has been resolved.

The City will continue to press for a resolution and will approach other agencies for their assistance in settling the matter. In addition, we are in the process of conducting a market analysis and demographic survey of the neighborhood to demonstrate that the housing in these neighborhoods will remain available and affordable to a reasonable range of low income buyers for the average period of affordability.

Documentation of Income Eligibility - The City does not maintain duplicate records of information available from the subrecipient's project files. Annually, the City reviews the subrecipient's files to verify income certifications for renters and homebuyers. The burden of income determinations was placed on the subrecepients at the beginning of each project and annually monitored. As a Community Action Agency, Valley Opportunity Council's sole mission is provide services that benefit the lowest income persons and families.

Program Income - The City of Chicopee does maintain records of receipt and disbursement of HOME program income. Program income is deposited to our Housing Rehabilitation Revolving Loan Fund and disbursed from that account.

The City has been receiving HOME program income since August 1993 and using the IDIS since November 1996. Further, the City of Holyoke is the lead agency in the HOME Consortium and has been using IDIS since November 1997. The problem, which we acknowledge, is the recording of HOME program income in the IDIS. We will endeavor to utilize the IDIS to the limits of its systemic capabilities to correct this deficiency. Henceforth, any time Chicopee requests a HOME draw, it will simultaneously report on the HOME program income on hand at the time of the drawdown request. Such program income amounts shall be used before additional HOME funds are drawn for Chicopee.

In conclusion, we are taking immediate steps to correct those deficiencies identified in the IG's Audit and within our capacity to address. Our goal, as always, is to use our HOME funds efficiently and effectively to expand housing opportunities for low and moderate income persons and to that end we will continue to evaluate and strive to improve our program.

Sincerely,

Jeanne M. Kidwell

Jeanne M. Kidwell
Director

Distribution

Deputy Secretary, SD, Room 10100 (1)
Chief of Staff, S, Room 10000 (1)
Special Assistant to the Deputy Secretary for project Management, SD, Room 10100 (1)
Acting Assistant Secretary for Administration, S, Room 10110 (1)
Assistant Secretary for Congressional and Intergovernmental Relations, J., Room 10120 (1)
Senior Advisor to the Secretary, Office of Public Affairs, S, Room 10132 (1)
Director of Scheduling and Advance, AL, 10158 (1)
Counselor to the Secretary, S, 10234 (1)
Deputy Chief of Staff, S, Room 10226 (1)
Deputy Chief of Staff for Operations, S, 10226 (1)
Deputy Chief of staff for Programs and Policy, S, Room 10226 (1)
Deputy Assistant Secretary for Public Affairs, W, Room 10222 (1)
Special Assistant for Inter-Faith Community Outreach, S, 10222
Executive Office for Administrative Operations and Management, S, Room 10220 (1)
Senior Advisor to the Secretary for Pine Ridge Project, W, 10216 (1)
General Counsel, C, Room 10214 (1)
Director, Office of Federal Housing Enterprise Oversight, O, 9th Floor Mailroom (1)
Assistant Secretary for Housing/Federal Housing Commissioner, H, Room 9100 (1)
Office of Policy Development and research, R, Room 8100 (1)
Inspector General, G, Room 8256 (1)
Assistant Secretary for Community Planning and Development, D, Room 7100 (1)
Government National Mortgage Association, T, Room 6100 (1)
Assistant Secretary for Fair Housing and Equal Opportunity, E, Room 5100 (1)
Chief Procurement Officer, N, Room 5184 (1)
Assistant Secretary for Public and Indian Housing, P, Room 4100 (1)
Chief Information Officer, Q, Room 3152 (1)
Director, Office of Departmental Operations and Coordination, I, Room 2124 (1)
Chief Financial Officer, F, Room 2202 (1)
Director, Enforcement Center, V, 200 Portals Building (1)
Director, X, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building (1)
Secretary’s Representative (2)
Assistant Deputy Secretary for Field Policy and Management, SDF, Room 7108 (2)
Deputy Chief Financial Officer for Finance, EF, Room 2202 (1)
Director, Office of Budget, FO, Room 3270 (1)
Primary Field Audit Liaison Officer, 3AFI, (2)
Headquarters Audit Liaison Officer, DOT, (2)
Departmental Audit Liaison Officer, FM, Room 2206 (2)
Acquisitions Librarian, Library, AS, Room 8141 (1)
Assistant Inspector General for Audit, GA, Room 8286 (1)
Deputy Assistant Inspector General for Audit, GA, Room 8286 (1)
Assistant Inspector General for Investigation, GI, Room 8274 (1)
Special Agent-In-Charge, 1AGI, (1)

Director, Program Research and Planning Division, GAP, Room 8180 (1)
Director, Financial Audits Division, GAF, Room 8286 (1)
Director, Information Systems Audit Division, GAA, Room 8172 (1)
Counsel to the Inspector General, GC, Room 8260 (1)
Central Records, GF, Room 8256 (4)
Semi-Annual Report Coordinator, GF, Room 8254 (1)
Office of Inspector General Webmanager - Electronic Format (1)
Public Affairs Officer, G, Room 8256 (1)
Auditee (2)

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373 Rayburn House Office Bldg., Washington, DC 20515 (1)

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510 (1)

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510 (1)

Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515 (1)

Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515 (1)

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neill House Office Building, Washington, DC 20515 (1)

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC 20548 (Attention: Judy England-Joseph) (1)

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503 (1)