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Audit Case Number	00-BO-255-1002

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

FROM: Stephen D. King, Acting District Inspector General, Office of Audit, 1AGA

SUBJECT: HOME Program
North Suburban Consortium
Malden, Massachusetts

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

We believe that the NSC utilized its HOME funds in an efficient and effective manner, however, we did find problems with NSC's administration of the program. This report contains four findings: 1) NSC does not have adequate support for administrative and project delivery costs charged to the program, 2) NSC is not inputting activity completion reports and program income data into the Integrated Disbursement and Information System, 3) NSC is not performing required monitoring to ensure that program requirements are met, and 4) NSC needs to improve its administration over program operations.

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 North Suburban Consortium's (NSC) HOME Program. Our audit objectives were to evaluate the NSC's compliance with HUD program regulations and whether HOME funds were efficiently and effectively used to expand the supply of decent, safe, and affordable housing for very low-income and low-income people.

Our audit disclosed that NSC did use its funds in an efficient and effective manner. However, we believe that NSC needs to take action to correct the following administrative deficiencies.

Administration and Project Delivery Costs Were Not Supported

The NSC did not maintain adequate records to support \$626,225 of costs for overall program management and \$424,677 for staff costs directly related to carrying out specific projects. In addition, we consider \$179,206 of administrative costs to be ineligible for reimbursement as the costs were charged twice to the Federal government. The methods used by the NSC to determine amounts charged resulted in duplicate and unreasonable costs. NSC agreed that its methods could be improved but believed that the costs charged were reasonable. We recommend that you require the NSC to take the following actions:

- Develop reasonable allocation plans supported by studies of actual time spent on the various programs managed by the Cities. The plans should be updated annually or more often if programs are added or deleted.
- Base future administrative and project delivery costs on actual costs supported by time cards and purchase orders.
- Require NSC to provide documentation supporting its statements that only \$105,617 of the \$179,206 in administrative cost is ineligible.
- Document the eligibility of \$626,225 of administrative and \$424,677 of project delivery cost.

IDIS Not Properly Maintained

The NSC did not input information regarding project completion and program income into HUD's Integrated Disbursement and Information System (IDIS). As a result, IDIS cannot be used to effectively monitor the status of

program operations. NSC officials stated that due to a lack of time, they did not input the required data. NSC intends to input the data on a timely basis in the future.

NSC Needs to monitor its Member Cities

The NSC needs to monitor its member cities program operations. The NSC could not demonstrate that it had performed required monitoring to ensure compliance with program requirements. As a consequence, the NSC has limited assurance that loans met HOME eligibility requirements, persons receiving assistance were eligible, and housing quality standards were met. NSC officials agreed to perform required monitoring.

Administration of HOME Program Operations Needs Improvement

NSC management needs to be more involved in the administration of the HOME program. We noted instances where NSC was not complying with HUD regulations or contract agreements. NSC needs to take corrective action on the following issues:

Independent Audits: There has been no outside audit of approximately \$11 million of HOME program expenditures since program inception in 1992. NSC officials believed the HOME program had been audited during the City of Malden's annual single audit. Our review of the single audit reports disclosed that the HOME program had not been included in the audit scope, therefore, the requirements for obtaining audits had not been met. NSC has scheduled audits for fiscal years ended June 30 1997 and June 30, 1998. As the regulations require an audit for all years, we recommend that independent audits be performed for the years since program inception.

Loan Records: An accurate listing of outstanding loans amounts, terms, and conditions was not maintained by NSC. We compared NSC loan records to the actual loan documents and found numerous errors and differences in loan amounts. In addition, the loan records did not contain repayment terms and conditions. Without a detailed and accurate list of loans, there is an increased risk that repayment requirements will not be met. NSC officials agreed that an accurate list should be created.

Contractor MHP: The NSC entered into an agreement with the Massachusetts Housing Partnership Fund Board (MHP) to assist first-time home-buyers. NSC provides funds for interest

subsidies and loan loss reserve for second mortgage loans made by a participating bank. According to the agreement, NSC is to receive a summary from MHP of all of its outstanding subsidy loans and loan loss reserve, within 30 days of the end of the calendar year. As of April 1999, NSC had not received a summary for the year ended December 31, 1998. NSC agreed to contact MHP and obtain and review the summary.

In addition, NSC needs to place liens against property for mortgage assistance it provided through MHP. According to MHP's records, through April 20, 1999, MHP had provided assistance to 20 families with HOME funds. MHP maintains the loan documents (Subsidy Note, Mortgage, and Settlement Statement) and is the registered lien holder. As NSC provided the funds, it should be the registered lien holder on the county records. This will ensure that program and recaptured income generated by MHP managed loans will be returned to NSC. Currently, NSC is in an inferior position to be aware that program or recaptured income is being generated as all correspondences on such matters would be between MHP and the lender. The NSC did not agree with our position stating that MHP has a system in place to ensure that loans are repaid and NSC notified accordingly.

Findings and
Recommendations
Discussed

We discussed the findings in this report with NSC's staff during the course of our audit. We issued a draft audit report to NSC on September 2, 1999. The NSC issued a written response to the draft on October 29, 1999. The NSC did not agree with the content of the report in regards to the findings on ineligible and unsupported administrative and project delivery costs; obtaining independent audits for fiscal years 1992 - 1996; and placing liens in NSC's name for loans managed by MHP. Appropriate revisions were made where deemed necessary. We included the NSC's pertinent comments in the Findings section of the report. The NSC's full response is included in Appendix B.

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Introduction

The North Suburban Consortium (NSC) receives funding under HUD's HOME Investment Partnerships Program (HOME). Communities that do not qualify for an individual allocation under the HOME Grant 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 NSC was approved by the Secretary as a consortium and receives its funding under this method.

The NSC is made up of seven cities (Malden, Medford, Arlington, Melrose, Revere, Chelsea, Everett) of which the City of Malden is the lead or representative city. The City of Malden is acting by and through the Malden Redevelopment Authority (MRA) to administer the HOME program. Stephen Wishoski is the Executive Director of the MRA.

Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 created the HOME program. In general, the purpose of the HOME program is twofold: 1) to expand the supply of decent, safe, and affordable housing for very low-income and low-income Americans, and 2) to strengthen public-private partnerships in the production and operation of such housing. As a housing block grant, the HOME program gives participating jurisdictions discretion over which housing activities to pursue. These activities may include acquisition, rehabilitation, new construction, and resident-based rental assistance. In addition, participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, and interest subsidies. Up to ten percent of the HOME funds received by a participating jurisdiction may be used to administer the program.

The Home Investment Trust Fund account established in the United States Treasury is managed through a computerized disbursement and information system known as HUD's Integrated Disbursement and Information System (IDIS). There are two key objectives of the IDIS: to manage and account for disbursements of HOME funds to participating jurisdictions; and to collect, consolidate and report information regarding HOME Program performance. The participating jurisdiction is responsible for reporting data on its HOME Program into IDIS.

During Fiscal Years 1992-1998, the NSC was allocated HOME program funds totaling \$15,808,345. HUD's reporting system for the HOME program showed that \$11,040,632 of this total had been drawn down as of February 1999. A following table shows the annual allocations and drawdowns.

Fiscal Year	Allocations	Drawdowns	Balance
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Fiscal Year	Allocations	Drawdowns	Balance
1992	\$ 2,027,000	\$ 2,027,000	\$ 0
1992 Mass. Home	\$ 160,000	\$ 160,000	\$ 0
1993 Mass. Home	\$ 500,000	\$ 500,000	\$ 0
1993	\$ 1,715,000	\$ 1,715,000	\$ 0
1994	\$ 1,821,000	\$ 1,815,850	\$ 5,150
1995	\$ 1,967,000	\$ 1,961,429	\$ 5,571
1996	\$ 1,911,000	\$ 1,707,536	\$ 203,464
1997	\$ 1,861,000	\$ 528,684	\$1,332,316
1997 Mass Home	\$ 1,502,145	\$ 531,029	\$ 971,116
1998 Mass. Home	\$ 339,200	\$ 0	\$ 339,200
1998	\$ 2,005,000	\$ 94,104	\$1,910,896
Total	\$15,808,345	\$11,040,632	\$4,767,713

The NSC uses HOME funds to provide loans for its Rental Property Rehabilitation Program, Homeowner Rehabilitation Program, First-Time Homebuyer Program and for New Construction of Rental Property. According to MRA’s records, as of February 1999, the Consortium has expended a total of \$12,212,688 (HUD drawdowns plus program income) HOME funds on 378 activities and the administration of the HOME program.

Activity	Total Expenditure	Number of Loans
Substantial Rehabilitation	\$ 5,261,400	29
Moderate Rehabilitation	\$ 2,990,353	79
First-Time Home-buyer *	\$ 1,991,222	266
New Construction	\$ 1,000,930	4
Administration	\$ 968,783	-
Total:	\$12,212,688	378
* One loan for acquisition of rental housing		

The majority of NSC records are maintained at the MRA Located at 200 Pleasant Street, Malden, Massachusetts. Each of the member cities and the larger developments have tenant and housing inspection information on file. In addition, the Massachusetts Housing Partnership maintains loan information on First-Time Home-buyers.

Audit Objectives

The purpose of our audit was to evaluate the NSC’s administration of HOME funds including a review of compliance with HUD program regulations. Specifically, our review was to determine whether the NSC efficiently and effectively used HOME funds to expand the supply of decent, safe, and

affordable housing for very low-income and low-income people and adequately monitored its member cities and sub-recipients.

Audit Scope and
Methodology

To accomplish our audit objectives we performed the following:

- Reviewed applicable HUD regulations to gain an understanding of HOME program requirements;
- Interviewed the Massachusetts HUD State Office of Community and Planning and Development staff who oversee the Consortium's HOME Program for information regarding the administration of the program and HUD monitoring performed;
- Examined records, plans, performance evaluations and Integrated Disbursement and Information System reports maintained by the Massachusetts State HUD Office of Community Planning and Development to obtain information on the use of HOME Program funds;
- Interviewed NSC managers and staff who administer the HOME program to gain an understanding of the structure of NSC's HOME program and to identify procedures and controls over the program;
- Reviewed five of the highest funded completed HOME activities to determine whether the Consortium efficiently used HOME funds to provide affordable rental housing to income eligible participants at a reasonable cost. Specifically reviewed adherence to HUD's affordability, maximum unit cost limit, and property standard requirements. Activities reviewed totaled \$1,449,000. Two of the activities were administered by Community Housing Development Organizations;
- Reviewed five First-Time Home-buyer files to assess whether the Consortium effectively used HOME funds to provide loans to income eligible First-Time Home-buyers. Specifically reviewed adherence to HUD's affordability, property value limit, and property standard requirements. Reviewed an additional ten First-time

Home-buyer files to determine whether liquid assets are within a reasonable range for providing assistance. In addition, determined whether twenty First-Time Home-buyers still inhabit residence as required under HUD's affordability restrictions.

- Assured that twenty-nine Home-buyer mortgages were properly registered and had not been discharged.
- Examined HOME receipts and disbursements to determine whether funds are properly accounted for and that NSC has adequate controls to safeguard HOME funds. Specifically reviewed the following areas: Homeowner and rental income limits; Administration Limits; CHDO's Reserve; Matching Funds Contribution; Program Income and Project Delivery Costs. Also reviewed to ensure that accounting records are maintained in accordance with HUD requirements;
- Determined whether NSC procedures are in place to adequately monitor member cities and sub-recipient activities;
- Evaluated whether the NSC is maintaining IDIS in accordance with program requirements.

We conducted the audit from January 1999 to August 1999. The audit covered the NSC's HOME operations from program inception in 1992 to January 31, 1999. We expanded the scope of our review as necessary.

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

Administrative and Project Delivery Costs Were Not Supported

The NSC's seven member Cities charged both administrative and project delivery costs to the HOME Program which are an eligible use of funds. However, we determined that \$179,206 of administrative costs were ineligible for reimbursement and the NSC did not maintain adequate records to support \$626,225 of costs for overall program management and \$424,677 for staff costs directly related to carrying out specific projects. Without maintaining adequate records there is no assurance that the NSC's member Cities have not been reimbursed twice for the same staff costs or the charges to the HOME program are reasonable.

Costs Must be Supported

HUD regulation 24 CFR 92.207 states that participating jurisdictions such as NSC may expend 10 percent of HOME program yearly funding amounts for payment of reasonable administrative and planning costs. In addition, 24 CFR 92.207b. states that NSC can charge individual activities for staff and overhead effort directly associated with carrying out that activity (project delivery). Project delivery efforts include; work specifications preparation, loan processing, inspections, and other services related to assisting potential owners, tenants, and home-buyers.

Costs charged to the HOME Program by NSC must meet the requirements of OMB Circular A-87 (A-87). A-87 establishes principles and standards to provide a uniform approach for determining costs. The following A-87 criteria apply to the HOME Program:

Attachment C, provides that to be allowable under Federal awards, costs must meet the following general criteria:

- 1.h. "Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or prior period..."
- 1.j. "Be adequately documented."
- 3.b. "All activities which benefit from the governmental unit's indirect cost, including unallowable activities and

services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect cost.”

- 3.d. “Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required”

Maximum Allowable
Administrative Costs Were
Claimed

NSC’s seven member cities entered into a written agreement to allocate 10 percent of the annual HOME funding among the cities for administrative costs. Each city received approximately 1.1 percent of annual funding except for the City of Malden which received 3.3 percent because it was the NSC’s lead city. The written agreement also specifies that each city will document its staff time and expenses for administrative and project delivery costs. Member cities obtain the administrative amounts agreed to by submitting invoices to the NSC at various intervals.

\$626,255 of Administration
Costs Not Supported

Our review disclosed that none of the member cities met the agreement requirements to document staff time spent on the program. The member cities had no documentary support such as time cards or purchase orders for \$626,225 of invoiced costs. Discussion with persons who prepared the invoices for each of the cities disclosed that hours worked listed on the invoices were backed into in order to achieve the agreed to percentage amounts. Officials for the cities believed that the cities were entitled to the administrative costs that had been claimed. The officials believed that actual administrative costs did not have to be accounted for because the HOME program regulations allowed them to charge up to 10 percent of program costs on administration and that the 10 percent amount had not been exceeded. In addition, the officials believed that actual costs to administer the program exceeded the amounts claimed.

Allocation Methods Were
Not Reasonable

We reviewed the accounting records of the City of Malden and the City of Revere to determine where administrative costs listed on invoices submitted to the NSC were charged. We found that costs billed to the HOME program were charged to different programs on the books of record, and support for the cities’ departmental allocation plans were not adequate.

City of Malden

The City of Malden invoices listed five employees as having worked on the HOME program. Only one of the five employee's salary was allocated to the HOME program on the accounting records. Two of the other four employee's salary had been charged in full to other Federal grant programs administered by the city. Therefore, administrative costs of \$179,206 for the two employees were reimbursed twice to the City of Malden, once by the HOME program and once by the other Federal grant programs. Charging the same expense to separate Federal programs is unreasonable and in noncompliance with OMB Circular A-87, Attachment C, 1.h. Therefore, the costs are ineligible for reimbursement. For the remaining two employees, we found that their salaries were charged to other Federal and city programs. No allocation was made to the HOME program which indicates that invoices for the three employees should not have been submitted to the HOME program.

Malden city officials agreed that the four employee's time had been not been charged on the books of record correctly but stated that the employees had worked on the HOME program and the invoiced amounts were reasonable. As discussed above, the City of Malden had no basis to determine what were reasonable amounts.

City of Revere

The hours for four employees listed on the City of Revere's invoices were not supported by time cards or other documentation. City officials stated that it was the city's policy to invoice for the entire amount of administrative funds made available through the annual agreement. To achieve this amount, the city "backed into the hours listed on the invoices". The city officials believed that this was reasonable as they believed that the actual time worked on the HOME program was greater than the amount of time billed to the NSC.

We reviewed the accounting records to determine what programs the four employees salaries were charged to. One employee was not charged to the HOME program on the accounting records. Two of the employees were charged 100 percent to a general ledger account set up to record all Federal and state grant income and administrative costs, which includes the HOME Program. The fourth employee had 25 percent of his time charged to the Federal and state grant account and 75

percent of his time to city programs. The city department responsible for administering the HOME program was the City Planning Department. In addition to managing city planning, the department also administered other Federal, state and local programs. The department had no support for its allocation plan. We noted that the city did require its staff to prepare time cards but that charges on the time cards were not used as a basis for determining allocations or for direct charging purposes. As a result, there was no means of determining if the administrative costs allocated to the various programs it operated were reasonable.

We compared Federal and state grant income received, which included HOME administration and project delivery costs, to expenses allocated to the account for the period July 1, 1995 to June 30, 1999 and found that income exceeded expenses by approximately \$233,000. This indicates that the City of Revere was over reimbursed for the cost of managing its Federal and state programs. As income and expenses were combined into one general ledger account, we had no way to determine if income exceeded actual costs on a program by program basis.

\$424,677 of Project Delivery Costs Were Based on Estimates Amounts

The NSC had no written policies and procedures regarding project delivery costs. Project delivery costs were predetermined by an NSC official. The official stated that he relied on his experience in running programs similar to the HOME program to develop what he thought project delivery costs should be. The official indicated that he did not maintain written records of how he calculated or estimated the project delivery costs. The official stated he estimated project delivery costs in his head and told the member cities what project delivery costs it could charge for each activity.

At the completion of each activity, the member cities prepared invoices to bill project delivery costs. As with administrative costs, the persons who prepared the invoices disclosed that hours worked listed on the invoices were backed into in order to achieve the predetermined project delivery cost. Member city officials believed that actual project delivery costs did not have to be accounted for as the amounts were pre-determined by the NSC official.

Charges Should Be Based on Actual Time Worked

The duplicate and unreasonable charges could have been avoided had the NSC's member cities charged salary and

overhead costs based on actual time spent on the programs. We note that all the member cities require its employees to record daily time charges. Therefore, it would not be difficult for the cities to track the actual cost of managing all of its programs. We believe that NSC management needs to change its opinion that the NSC is entitled to take the maximum amount of administrative funds available under program regulations and seek ways to reduce management costs so as to provide additional funds for program goals.

Auditee Comments

The NSC agreed that documentation supporting administrative and project delivery costs were not adequate in all cases. Beginning July 1, 1999, NSC will require member cities to develop adequate cost allocation plans. In addition, the member cities will be required to base charges for project delivery cost on actual costs supported by time cards and/or purchase orders. Malden, as representative city, will review the allocation plans and support documentation for adequacy on an annual basis.

In regards to the \$179,206 of ineligible administrative costs, NSC reviewed its accounting records and determined that the amount actually overcharged was \$105,617. NSC stated that it had reimbursed the Federal CDBG program \$70,000 and had found that an additional \$35,617 of eligible administrative costs had not been billed to the HOME program. NSC intends to offset the \$35,617 against the overcharged amount. NSC provided no documentation to support the above.

NSC's response did not address the eligibility of \$626,225 of administrative costs and \$424,677 of project delivery other than to state that it believed the costs were reasonable.

OIG Evaluation of Auditee Comments

NSC's proposed actions, if properly implemented, will correct the problem from July 1, 1999 forward. For the period prior to July 1, 1999, NSC provided no documentation to support its contention that its administrative and project delivery costs were reasonable and necessary for the operation of the HOME program.

Recommendations

We recommend that you require the NSC to:

- 1A . Develop reasonable allocation plans supported by studies of actual time spent on the various programs managed by Cities. The plans should be updated annually or more often if programs are added or deleted.
- 1B. Base future project delivery costs on actual costs supported by time cards and purchase orders.
- 1C. Require NSC to provide documentation supporting its statements that only \$105,617 of administrative cost is ineligible. In addition, you should review NSC's accounting records to ensure that \$70,000 was reimbursed to the CDBG program from non-Federal funds. Also you should review NSC documentation regarding the additional cost of \$35,617.
- 1D. Document the eligibility of \$626,225 of administrative and \$424,677 of project delivery costs. We recommend that you choose a representative year and require that NSC provide the following documentation to support administrative and project delivery costs for that year:
 - A listing of all Federal, State, and local programs administered by City departments responsible for the HOME program.
 - The salary and overhead allocation plans for the City departments responsible for administration of the HOME Program for the year selected;
 - Documentation supporting actual payroll charges of the departments to the various program general ledgers;
 - Income received from Federal and State programs for Administration Purposes for the year selected; and,

- Invoices submitted by the seven member Cities supporting project delivery costs.

If the documentation for the year reviewed supports amounts charged, then no further action should be required. However, if the documentation indicates that costs are not eligible, then all years should be reviewed.

Required Information Was Not Input Into IDIS

The North Suburban Consortium (NSC) did not input information regarding project completion and program income into HUD’s Integrated Disbursement and Information System (IDIS) as required. As a result, IDIS cannot be used to effectively monitor the current status or performance of HOME activities.

Completion and Income Information is Required

HUD regulations at 24 CFR 92.502d.1. states that project completion information must be entered into the IDIS within 120 days of the final project draw down. If satisfactory project completion information is not provided, HUD may suspend further project set-ups or take other corrective actions including recommitting the funds to other activities. HUD requires a participating jurisdiction to report program and recaptured income in IDIS as soon as the income is received (CPD Directive Number 97-9).

Project Completion Information Not Reported

Our review of NSC’s records at April 1, 1999, disclosed that 110 completed activities had not been reported as completed in the IDIS. Several of the activities had been closed for up to three years. The following distribution table displays the number of completed activities that exceed 120 days after the final disbursement date, and the HUD fund balance:

Completed Activities Not Closed Out of IDIS as of April 1, 1999		
Number of Activities	Number of Days that exceed 120 day close	
	out period	HOME Fund Balance
55	0-200	\$ 267,386
44	201-400	\$ 248,152
7	401-600	\$ 30,990
1	601-800	\$ 13,615
3	801-1234	\$ 108,714
110		\$ 668,857

Out of the 110 activities, 50 have a zero LOCCS balance, and the remaining 60 have an aggregate LOCCS balance of \$668,857. The \$668,857 represents HUD funding obligated under the 60 activities. No harm resulted as NSC had

additional funds available to start and complete other activities. However, it could have an adverse effect in the future should the amount of funds available be reduced.

Program and Recaptured
Income Not Reported

The NSC has not reported in IDIS \$313,668 of program and recaptured income received from January 1, 1998 to April 30, 1999. Therefore, the financial data used by HUD for planning and analysis purposes is not accurate.

Auditee Comments

NSC stated that since the IG auditors have left the office, 104 activities have been closed out and NSC will close out activities on a timely basis in the future. NSC states that it has now entered all program income into the IDIS and will keep the system current in the future.

OIG Evaluation of
Auditee Comments

The NSC's proposed actions, if properly implemented, will correct the condition.

Recommendations

We recommend that you instruct the NSC to:

- 2A. Timely input project completion reports in the future.
- 2B. Input program and recaptured income received into IDIS on a timely basis.

NSC Needs To Monitor Its Member Cities

The NSC needs to strengthen its monitoring over six of its seven member cities. The NSC could not demonstrate that it had performed required monitoring to ensure compliance with program requirements. As a consequence, the NSC has limited assurance that: loans met HOME eligibility requirements; persons receiving assistance were eligible; and, housing quality standards were met.

Monitoring Required

According to HUD regulation 24 CFR 92.504, the participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. Under the Mutual Consortium Agreement, the Representative Member, the City of Malden, acting by and through the MRA, was designated to assume overall responsibility for ensuring that the seven member cities are complying with HUD regulations.

Improved Monitoring Needed Over Six Member Cities

The NSC did not perform required monitoring over six of the seven member cities to assure HOME activities are in compliance with HOME regulations. The NSC did perform required monitoring of the City of Malden. The NSC had no written policies and procedures pertaining to monitoring its member cities' activities. According to NSC officials, NSC performed no monitoring or testing of six of its member cities (Arlington, Chelsea, Everett, Medford, Melrose, and Revere) to ensure compliance with HUD regulations. The official stated that compliance with the regulations was the responsibility of each member. The NSC did receive and file an eligibility checklist from each of its member cities but never tested to determine if the data on the checklists was accurate. As a consequence, the NSC has limited assurance that: loans met HOME eligibility requirements, persons receiving assistance were eligible, and housing quality standards were met.

Finding 3

The NSC agreed to perform the required monitoring on an annual basis. NSC is developing procedures for monitoring and NSC's staff have attended HUD Monitoring workshops to improve their skills.

OIG Evaluation of
Auditee Comments

The NSC's proposed actions, if properly implemented, will correct the condition.

Recommendation

We recommend that you require the NSC to:

- 3A. Submit its monitoring procedures for your review.
- 3B. Review its member cities in compliance with HUD regulations on an annual basis.

NSC Needs to Improve Its Administration Over HOME Program Operations

NSC management needs to be more involved in the administration of the HOME program. During our review, we discussed many issues with NSC management. Our overall conclusion is that management put a great deal of effort into creating activities but expended minimal effort in performing the administrative tasks required to maintain program operations in conformance with HUD requirements. We noted instances where NSC was not complying with HUD regulations or contract agreements. NSC needs to take corrective action on the following issues:

Independent Audits Not Obtained

There has been no outside audit of the HOME program since program inception in 1992. Approximately \$11 million has been expended without proper independent review. HUD regulations at 24 CFR parts 44 and 45 require participating jurisdictions to obtain independent audits on an annual basis. NSC officials stated that they believed the HOME program had been audited during the City of Malden's annual single audit. Our review of the single audit reports disclosed that the HOME program had not been included in the audit scope, therefore, the requirements for obtaining audits had not been met. NSC agreed and scheduled audits for Fiscal Years 1997 and 1998. However, Fiscal Years 1992 through 1996 audits have not been scheduled. NSC officials believe that audits of 1992 through 1996 operations would not be useful because of the extent of time that has past. We disagree and recommend that audits of all years be performed by an independent public accounting firm.

Loan Records Not Maintained

An accurate listing of outstanding loan amounts, terms, and conditions was not maintained by NSC. We compared NSC loan records to the actual loan documents and found numerous errors and differences in loan amounts. In addition, the loan records did not contain repayment terms and conditions. Without a detailed and accurate list of loans, there is an increased risk that repayment requirements would not be met. NSC officials agreed that an accurate list should be created.

Controls Over Contractor MHP Need Improvement

Our review disclosed that NSC did not receive a required yearly statement of activity from one of its contractors and that

lien titles for property purchased with HOME funds were not properly recorded in the County records. The NSC entered into an agreement with the Massachusetts Housing Partnership Fund Board (MHP) to assist first-time home-buyers. NSC provides funds for interest subsidies and loan loss reserve for second mortgage loans made by a participating bank. According to the agreement, NSC is to receive a summary from MHP of all of their outstanding subsidy loans and loan loss reserve, within 30 days of the end of the calendar year. As of April 1999, NSC had not received a summary for the year ended December 31, 1998. NSC agreed to contact MHP and obtain and review the summary.

The NSC needs to place liens against property for mortgage assistance it provided through MHP. According to MHP's records, through April 20, 1999, MHP had provided assistance to 20 families with HOME funds. MHP maintains the loan documents (Subsidy Note, Mortgage, and Settlement Statement) and is the registered lien holder. As NSC provided the funds, it should be the registered lien holder on the County records. This will ensure that program and recaptured income generated by MHP managed loans will be returned to NSC. Currently, NSC is in an inferior position to be aware that program or recaptured income is being generated as all correspondences on such matters would be between MHP and the lender. The NSC did not agree with our position stating that MHP has a system in place to ensure that loans are repaid and has repaid its loans in the past. Again, the NSC is relying on MHP to repay the loans. If liens are placed on the properties in NSC's name, NSC will not have to rely on MHP.

Auditee Comments

As discussed above, NSC agreed with the findings and recommendations, except for requiring that liens made by MHP be registered in NSC's name and that independent audit be performed for the year 1992 - 1996.

We continue to recommend the NSC require that liens be placed in NSC's name and that independent audits be obtained for all years.

Recommendations

We recommend you require the NSC to:

- 4A. Obtain independent audits of the HOME program on an annual basis for future years and to obtain independent audits for the years 1992 through 1998.
- 4B. Maintain a list of outstanding loans that includes accurate loan amounts and all loan terms and conditions.
- 4C. Require MHP to provide a yearly summary of loan activity as required by the contract agreement, and
- 4D. Require MHP to list NSC as the lien holder on property subsidies with HOME funds.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. We considered the North Suburban Consortium's (NSC) control systems to determine our auditing procedures and not to provide assurance on management controls. Management controls include the organization plan and the methods and procedures adopted to ensure that HUD and NSC's goals are met. Management controls include the process for planning, organizing, directing and controlling program operations. They include the systems for measuring, reporting and monitoring the NSC's operations.

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;
- Policies and procedures regarding administrative and project delivery costs; and
- Policies and procedures for the Integrated Disbursement and Information System (IDIS).

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 in management controls and are discussed in the Findings section of the report. These weaknesses are:

- Policies and procedures regarding administrative and project delivery costs;
- Policies and procedures for the IDIS; and
- Monitoring of sub-recipient and contractor's performance to ensure compliance with program requirements and written agreements.

Ineligible and Unsupported Costs

Finding 1	Ineligible Costs 1	Unsupported Costs 2
HOME Assistance expended on administration that was charged to other Federal programs	\$179,206	\$ -0-
HOME Assistance expended on administration that was not supported by documentation such as time cards or purchase orders	\$ -0-	\$ 626,225
HOME Assistance expended on project delivery that was not supported by documentation such as time cards or purchase orders	\$ -0-	\$ 424,677
Total	\$179,206	\$1,050,902

1. Ineligible Costs are costs charged to a HUD-financed activity that the auditor believes are not allowable by law, contract, Federal, State or local policies or regulations.
2. Unsupported Costs do not obviously violate law, contract, policy or regulations but warrant being contested for various reasons, such as, a lack of satisfactory documentation to support eligibility and HUD approval.

Auditee Comments



Robert D. Rotondi
Chairman
 Jeffrey A. Abber
 Diana Jeong
 Edward J. Norton
 Dick Barricelli

Stephen M. Wishoski
Executive Director

Malden Redevelopment Authority

Government Center
 200 Pleasant Street • Malden, MA 02148 • (781) 324-5720 • Fax (781) 322-3734
 Lead Abatement/Rehab Office
 175 Maplewood Street • Malden, MA 02148 • (781) 397-1940 • Fax (781) 397-0273

October 29, 1999

Mr. William D. Hartnett
 District Inspector General
 Office of Audit
 U. S. Department of Housing & Urban Development
 Thomas P. O'Neill, Jr. Federal Building
 Room 370
 10 Causeway Street
 Boston, Massachusetts 02222-1092

Re: HOME Program Audit FFY 92-98 Response

Dear Mr. Hartnett:

We have reviewed the administrative findings for the above-referenced fiscal years. NSC is proud of its accomplishments over the last seven years and is pleased with the observation by the HUD Inspector General (IG) that "NSC utilized its HOME funds in an efficient and effective manner...". Considering the complexity and requirements of the new HOME Program and the expenditure of more than \$11 million of HOME Program funds for the repair and/or creation of more than 800 affordable dwelling units within our seven community jurisdiction, the fact that some administrative and programmatic deficiencies were identified in the audit is disappointing, but repairable. We offer the following responses:

Statement of Condition: NSC does not have adequate support for administrative and project delivery costs charged to the program.

Costs Must Be Supported

Response: The blanket IG statement "that none of the member cities met the agreement requirements to document staff time spent on the program" is incorrect. Malden requires its staff to complete time sheets allocating time spent on various programs including the HOME Program. These time sheets were viewed by IG auditors. Other member communities such as Chelsea and Arlington have similar documentation.

While we do not entirely agree that all member communities were not keeping adequate time sheets (Malden, Chelsea, Arlington were), the statement as it relates to time sheets is substantially correct for the other members of the Consortium.

However, all member communities believed that actual costs to administer the HOME Program exceeded the amounts claimed in all cases. Some communities believed that the time spent did not have to be documented due to the mistaken belief that the 10% was a given and that documentation was not a necessity to gain the \$12-15,000 annually to administer and plan for the program. Starting with the new fiscal year beginning 7/1/99, NSC will be instituting the following changes:

- 1) Each NSC member will be required to develop documentation and an allocation plan to support all future administrative cost invoices. Malden, the representative member, will review and approve these allocation plans.
- 2) This backup documentation will be reviewed during the annual monitoring by Malden, the representative member.
- 3) Invoices will be based on actual costs incurred.

NSC's Procedures Result in Unreasonable Charges

Response: Despite our attempts to explain to the IG auditing team the differences between HOME Administrative Costs (the 10%) and Project Delivery Costs, we believe that they remain confused. The IG explanation of unreasonable costs in this paragraph misses the point because:

Administrative Costs are not directly related to specific activities. This funding is used for meetings, planning and reporting expenditures concerning the program as a whole.

Project Delivery Costs are always related to specific activities.

Arlington and Melrose were reimbursed \$77,790 and \$82,834 for administrative costs and \$2,492 and \$10,079 for project delivery costs respectively over a seven year period. Their administrative costs, about \$11-12,000 annually, were used for reimbursements for staff who: 1) contributed to the HUD Consolidated Plan and the Consolidated Annual Performance and Evaluation Report (CAPER) and associated advertisement requirements, 2) attended more than 85 NSC meetings over a seven year period and 3) coordinated outreach efforts to market and educate their residents about NSC's Housing Rehab and First Time Home Buyer Programs funded through the HOME Program in their communities. Real estate in the City of Melrose and the Town of Arlington is very expensive making it very difficult for a household at or below 80% median family income to purchase in those communities. In addition, because of the cost of residential properties, it has been extremely difficult to make the numbers work for the development of affordable housing by either private developers or affordable housing organizations. What was accomplished with administrative costs was allowable by HOME Program regulations.

The IG audit analysis combined both administrative costs and project delivery costs categories and divided the sum by the total project costs, resulting in a very misleading ratio. One cannot and should not mix **both** categories, identify a number of activities and compute a ratio.

A truer representation of Project Delivery Cost would be to compute a ratio by dividing **actual project delivery cost** by the amount of **actual project cost**. If we use the same examples cited in the IG audit report, the calculations and results should be as follows:

	<u>Actual Projects Cost</u>	<u>Actual Projects Delivery Cost</u>	<u>Correct Del. Cost %</u>
Arlington	\$62,000	\$2,492	4%
Melrose	\$172,649	\$10,079	6%

The IG report combined Administration and Project Delivery Costs and then stated that these costs represented 129% and 54% of actual project costs when costs to deliver specific activities were actually 4% and 6% respectively.

City of Malden

The IG audit states that \$179,206 was reimbursed twice to the City of Malden and that the "allocation methods were not reasonable". In fact, Malden had a proper payroll distribution plan in place for the five employees contributing to the HOME Program. However, the allocation plan for 2 of the 5 employees was not implemented properly due to a clerical error resulting with an apparent dual charge of time to two Federal programs. Malden acknowledges this fact and this error has been corrected. However, funds drawn from the HOME Program for FY'93 (\$21,420), FY'94 (\$25,774) and FY'95 (\$26,395) were correctly reimbursed to the CDBG Program for these two employees making the amount of overcharge \$105,617, not \$179,206 as the audit claims.

To further reduce this figure, \$70,000 in non-CDBG funds was reimbursed to the CDBG account on June 30, 1999, leaving a \$35,617 deficit. In addition, Malden has unbilled HOME Program expenditures totaling \$54,829 paid from non-federal funds which Malden intends to submit to the HOME Program for reimbursement. An amount of \$35,617 of this draw down will be transferred to the CDBG account to complete the correction of prior billing errors.

Project Delivery Costs Were Based on Estimated Amounts

Allocations for project delivery costs were estimated at 10% for most projects but were used for "Project Set-Up" purposes only. Project delivery costs were paid on invoices submitted by the member communities to Malden, the representative member, which assumed that proper backup documentation was kept on-file at each member community. In the future, backup documentation will be reviewed during an annual monitoring visit of each member community by Malden, the representative member.

Statement of Condition: NSC is not inputting activity completion reports and program income data into the IDIS system.

NSC, while learning the IDIS system, fell behind on completion reports. Since the IG auditors have left the office, 104 activities have been closed out. After fifteen more activities are closed out, we will be current and will continue to submit completion reports on a timely basis.

NSC went on-line with IDIS on 12/1/97, about halfway through FY'98. Program income (PI) for that year was properly expended in a timely manner and because of the novelty of the system, PI was not always entered. However, since July 1, 1998 and throughout FY'99, all Program Income was entered into the system and continues to be recorded in IDIS in FY 2000.

Statement of Condition: NSC is not performing required monitoring to ensure that program requirements are being met.

Malden, although the representative member, did not treat NSC member communities as sub-recipients because all NSC activities are approved by the Board as a whole at monthly meetings. In addition, HOME Program draw downs were done only in Malden and no money passed through any member community departments. Since the audit, it has come to our attention that although the member communities are not considered sub-recipients, they are to be treated as such.

Malden, as the representative member, will perform an annual review of the member communities' department responsible for the monitoring and record-keeping of HOME Projects. NSC has participated in a recent HUD HOME Monitoring workshop and is developing procedures for monitorings.

Statement of Condition: NSC needs to improve its administration over program operations.

Independent Audits Not Obtained

For various reasons, independent audits were not performed. NSC, after conferencing with HUD, has had performed audits for FY'97 and FY'98 which we will forward to the HUD Boston Field Office. Similar to the IG Executive Summary, these audits have identified administrative deficiencies and do not question program costs. FY'99 will be audited with other federal programs before the end of the current fiscal year. NSC intends to discuss with HUD the need for audits for prior years. This IG review notes that "NSC utilized its HOME funds in an efficient and effective manner" and has not questioned any project costs. IG findings are concentrated on "administrative deficiencies". With this in mind, NSC questions the need to perform audits for prior fiscal years in which either no expenditures occurred or a year in which only one voucher was paid.

Loan Records Not Maintained

NSC has improved and updated its loan inventory list and has corrected errors. We will continue to improve and expand the NSC loan data base.


Controls Over Contractor MHP Need Improvement

NSC agrees that Massachusetts Housing Partnership (MHP) should be producing an annual report as delineated in Attachment B of the "MHP Fund Soft Second Loan Program Agreement with Participating Jurisdiction" (the Agreement). We have contacted MHP and they have prepared the report in the agreed to contractual format. This report now on file at the MRA gives NSC an additional control measure to ensure that recaptured soft second funding will be returned to NSC.

NSC has reservations about requiring MHP to list NSC as the lien holder on soft second subsidies with HOME funds. We disagree that NSC, as stated in the IG's Executive Summary, is in an "inferior position to be aware that recaptured income is being generated, because all correspondence on such matters is between MHP and the lenders." The Agreement, which was made available to IG auditors, clearly safeguards against this occurrence in Attachment B (Recapture, and apportioning of Recaptured Funds). MHP's General Counsel has assured NSC that although no loans have been repaid to date, repayments of loans funded by other funding sources have been repaid in accordance with the agreement to other communities or agencies such as the Federal Home Loan Bank. MHP believes, citing the above example, and NSC concurs that it has systems in place to track these funds and make sure that they are disbursed properly – in our case within eight (8) days of repayment to MHP. Additionally, we are seeking some assurance concerning NSC's position from our legal counsel. If necessary, we will take further action to protect NSC's investment.

While we appreciate the thorough analysis the representatives of the HUD Inspector General's Office completed over the past seven months for this relatively new program, we feel that some of the issues could have been resolved prior to the draft audit being issued on September 2 if a promised exit conference had taken place. If you need further clarification of these responses, please call me.

Sincerely,



Stephen M. Wishoski
Executive Director

cc: Mayor Richard Howard
All NSC Consortium Members

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Chief of Staff, S, Room 10000 (1)
Special Assistant to the Deputy Secretary for project Management, SD, Room 10100 (1)
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Assistant Secretary for Congressional and Intergovernmental Relations, J., Room 10120 (1)
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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)

