



Issue Date September 30, 2007
Audit Report Number 2007-SE-1004

TO: Jack Peters, Director, Region X, Office of Community Planning and Development, OAD

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: The Tacoma Consortium, Tacoma, Washington, Did not Properly Administer Its HOME Investment Partnerships Program Grants

HIGHLIGHTS

What We Audited and Why

We audited the Tacoma Consortium (Consortium) HOME Investment Partnerships Program (HOME) grants as a result of a risk assessment performed by the U.S. Department of Housing and Urban Development's (HUD) Region IX Office of Inspector General (OIG). The audit objective was to determine whether the Consortium complied with HOME requirements, laws, and regulations. Specifically, we wanted to determine whether the Consortium (1) complied with the homeowner rehabilitation program requirements with regard to (a) homeowner eligibility, (b) the completion of code-required repairs, and (c) its own written rehabilitation standards and (2) complied with HUD procurement regulations.

What We Found

The Consortium generally administered HOME in accordance with HUD requirements. However, it violated HOME regulations when it drew down funds of (1) \$71,594 for a homeowner who was not low income, (2) \$48,916 for a homeowner whose income was not adequately documented, (3) \$97,465 for projects that were not completed to code, (4) \$18,340 for luxury improvements, and (5) \$263,458 for rehabilitation activities that were

not compliant with HUD requirements or its own written rehabilitation standards. In addition, contrary to HUD procurement regulations, it did not perform an independent estimate or cost analysis to determine whether \$199,298 in contract change orders was reasonable.

What We Recommend

We recommend that HUD require the Consortium to repay HOME from nonfederal funds \$71,594 in grant funds expended for a homeowner who was not low income, \$18,340 for luxury improvements and \$97,465 for homeowner rehabilitation projects that did not meet all applicable local codes and rehabilitation standards at the time of project completion. In addition, we recommend that HUD require the Consortium to provide supporting documentation to ensure that HOME funds were not used for an ineligible applicant or repay from nonfederal funds the \$48,916 expended for the project. We also recommend that HUD require the Consortium to provide independent cost estimates and analyses performed before receipt of change order proposals or repay HUD from nonfederal funds \$199,298 for change orders that were not supported with the required cost analyses. Further, HUD should require the Consortium to implement policies and procedures so that its grant activities are carried out in accordance with applicable laws, regulations, and Consortium rehabilitation standards. This would put \$263,458 in homeowner rehabilitation funds to better use over the next year.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the findings with the Consortium and HUD officials during the audit. We provided a copy of the draft report to auditee officials on September 12, 2007, and held an exit conference on September 18, 2007. The Consortium generally disagreed with our audit findings.

The auditee provided its written comments to our draft report on September 26, 2007. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. However, the exhibits it provided with its response are too voluminous to include in the report, but are available upon request.

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BACKGROUND AND OBJECTIVES

HOME Investment Partnerships Program

The HOME Investment Partnerships Program (HOME) was created by Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR [*Code of Federal Regulations*] Part 92. HOME funds are awarded annually as formula grants to participating jurisdictions. The purpose of HOME is to expand the supply of decent, safe, and affordable housing for very low-income and low-income persons and to strengthen public-private partnerships in the production and operation of such housing. HOME gives participating jurisdictions discretion over which activities to pursue. Eligible activities include acquisition, rehabilitation, new construction, and tenant-based rental assistance. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

Tacoma Consortium

The Tacoma Consortium, a HOME participating jurisdiction, is comprised of the cities of Tacoma and Lakewood, Washington. Tacoma, through the Tacoma Community Redevelopment Authority (Authority), serves as the lead fiscal and reporting agency for the Tacoma/Lakewood HOME Consortium. The Authority is a municipal corporation and consists of a board of directors and two full-time employees. It is otherwise staffed by the Housing and Development Divisions of Tacoma's Economic Development Department. The staff liaison for the board is the Tacoma Housing Division's program manager.

Tacoma and Lakewood have their own policies and procedures. While the policies and procedures are similar, they do have differences, which will be discussed in other sections of the report.

The Consortium receives approximately \$2 million per year in HOME funds. More than half of the HOME grants awarded to the Consortium are loaned to nonprofit developers for affordable housing activities. The remaining grant funds are used for rehabilitation of single-family homes and tenant-based rental assistance. Lakewood receives approximately \$500,000 per year through Tacoma for its HOME program activities.

Our overall audit objective was to determine whether the Consortium administered its homeowner rehabilitation program activities in accordance with applicable HOME regulations and requirements. Our specific objectives were to determine whether the Consortium

- (1) Complied with the homeowner rehabilitation program requirements with regard to
 - (a) homeowner eligibility,
 - (b) the completion of all code-required items, and
 - (c) its own written rehabilitation standards and
- (2) Complied with HUD procurement regulations.

RESULTS OF AUDIT

Finding 1: The Consortium Did Not Always Comply with Homeowner Rehabilitation Program Requirements

The Consortium did not always comply with homeowner rehabilitation program regulations when it funded (1) a rehabilitation project for a homeowner who was not low income, (2) homeowner rehabilitation projects that did not meet all applicable local codes and rehabilitation standards at the time of project completion, and (3) homeowner rehabilitation activities that did not comply with Consortium written rehabilitation standards. This condition occurred because the Consortium failed to ensure that it understood and complied with HOME requirements. It also failed to implement adequate procedures. As a result, these funds were not available for eligible HOME projects and activities

The Consortium Did Not Always Determine Income as Required by HUD

Federal regulations at 24 CFR [*Code of Federal Regulations*] Part 92 define low-income families as “families whose annual incomes do not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families...” Participating jurisdictions must calculate the income of the family by projecting the current rate of income of the family. Annual income must include income from all family members. The participating jurisdiction is not required to reexamine the family’s income at the time the HOME assistance is provided unless more than six months has elapsed since the participating jurisdiction determined that the family qualified as income eligible.

The Consortium did not always

- Obtain income information for all family members including young adults considered part of the household and
- Reexamine the family’s income at the time the HOME assistance was provided when more than six months had elapsed since the Consortium determined that the family qualified as income eligible.

HOME Funds Were Provided to a Homeowner Who Was Not Low Income

Lakewood provided \$71,594 in homeowner rehabilitation assistance to an applicant whose income exceeded 80 percent of the median income. During the application process for HUD project number 1076, a 21-year-old college student was added to the

household because he was a dependent on the applicant's income tax return. However he had income that was not considered. Consequently, the homeowner's income exceeded the HUD limit for the area and household size. In addition, if the student was not a member of the household, the income would still exceed the limit and the family would still not be eligible for assistance.

The Consortium Did Not Always Obtain Income Information for All Family Members

The Consortium did not always obtain income information for all family members as required. According to HUD guidance, applications should be submitted for all household members who are 18 years old or older. The Consortium did not obtain applications or income documentation for all household members for three projects as follows:

- In project number 1076 (discussed above), the Consortium should have determined if he lived in the home or required income information because he was over 18 years old.
- For project number 882, the Consortium did not obtain an application or any income information for a 20-year-old household member. Therefore, we could not determine whether \$48,916 in HOME funds was used for an eligible applicant.
- There was a note in the file for project number 1189 stating that two family members were full-time students, but the file did not include documentation to support the note. However, since the other adults in the household did not have any taxable income, the family would probably still be eligible with or without the income of the full-time students.

The Consortium Did Not Always Reexamine Income as Required by HOME

The Consortium did not always reexamine the family's income at the time the HOME assistance was provided, even when more than six months had elapsed since the participating jurisdiction determined that the family qualified as income eligible. The Consortium did not reexamine income for at least 12 of the project applications. In other cases, there was a note in the file stating that income was reexamined, but the file did not include any documentation to support the statement.

Code Requirements and Rehabilitation Standards Were Not Always Met at Project Completion

To be eligible for HOME funding, homeowner rehabilitation projects must meet all applicable local codes and rehabilitation standards at the time of project completion. Six projects violated these requirements. Specifically,

- One project file did not contain sufficient evidence that the work was completed to code. An in-process roof repair inspection was not conducted as required. The roof continued to leak for more than a year after project completion in spite of continued attempts by the contractor to fix the roof (project number 968).
- One project was never completed due to a dispute between the homeowner and two different contractors. The homeowner refused to allow the project to be completed. As a result, all of the code-required repairs were not completed, and a final inspection was not conducted (project number 865).
- Two projects were canceled after the contract date but before significant rehabilitation. The Consortium charged these preliminary expenses to HOME, but because the projects were canceled, the required code violation corrections were not made (project numbers 1206 and 1281).
- One project funded with HOME funds was not a full rehabilitation and did not ensure that all code-required repairs were completed. According to file information, the Consortium was going to use Tacoma’s minor home repair fund to pay for the repairs, but HOME funds were inappropriately used instead (project number 871).
- Code-required repairs were deleted from the bid specifications for one project because the initial bids were higher than the available loan amount. This project had yet to be started so as a result of our discussions, Lakewood agreed to modify the contract bid specifications so that all code-required repairs would be completed (project number 1303).

Grant year	Project number	City	Reason project ineligible	Ineligible amount
2002	865	Tacoma	Project not completed - dispute with homeowner	\$32,736
2002	871	Tacoma	Not a full rehabilitation project	\$6,567
2001	968	Lakewood	Required inspections not conducted, roof repair leaks	\$46,773
2004	1206	Lakewood	Project canceled before completion	\$4,922
2005	1281	Tacoma	Project canceled before completion	\$6,467
2006	1303	Lakewood	Code violations deleted (project in process*)	\$69,000
Total ineligible				\$97,465

** Not included in total amount because project had not been completed.*

Homeowner Rehabilitation Activities Were Not Always Compliant with HOME Requirements and Consortium Written Rehabilitation Standards

HOME requirements stipulate that participating jurisdictions must have written rehabilitation standards to ensure that projects are decent, safe, and affordable and only allow amenities of a nonluxury nature. HOME funds may be used to bring housing up to local codes and standards, to repair or replace major housing systems, and for general property improvements of a nonluxury nature. Amenities in HOME-assisted housing should be comparable to amenities in the area's unassisted housing as long as they do not constitute luxury items. Within these broad guidelines, a participating jurisdiction should determine what nonluxury amenities are suitable for its area. It must also have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and affordable. In addition, its standards should ensure that HOME-assisted units meet local codes and standards.

The Consortium's Written Rehabilitation Standards Only Contained Minimum Requirements

The Consortium's written rehabilitation standards contained the minimum requirements to meet local housing codes and standards. However, these standards did not define what nonluxury amenities were suitable for the area. Instead, the Consortium used a percentage limit for the total general property improvements allowed for projects. These general property improvements were also referred to as modernization, desires, or wants. Both Lakewood and Tacoma limited these types of repairs to 20 percent¹ of the total contract price.

The Consortium Did Not Have Adequate Controls to Ensure Compliance with Its Requirements

Although both Tacoma and Lakewood limited general property improvements to 20 percent, they had no controls in place to ensure that the limit was not exceeded. After the Consortium inspected the property, a housing specialist prepared a minimum housing inspection code form. The form included cost estimates for code-required repairs, recommended repairs, and general property improvements but did not include any percentage calculations. Following the inspection, the housing specialist and owner

¹ In Tacoma's policy, dated in June 1994, it raised its limit for general property improvements to 40 percent. The limit was 20 percent when new guidelines were issued in June of 2006. However, the summary of changes did not mention the change from 40 percent to 20 percent, and Tacoma staff were unable to provide evidence of when the change was made. In addition, the housing manager stated that even though the limit was 40 percent, he could not think "of any instances when we exceeded the 20percent." Therefore, since the limit was 20 percent, Tacoma staff told us they never exceeded 20 percent, and there was no documentation to show exactly when the limit was lowered, we used 20 percent for our entire audit period.

together determined the total scope of the work as detailed in the bid specifications. The total costs in the bid specifications were all most always higher than on the inspection form. However, no one verified that the general property improvements were within the limit.

In addition, the Consortium allowed a contingency fee of up to 10 percent of the contract price for correction of deficiencies discovered after construction commencement. However, the fee was often used for general property improvements if it was not needed for correction of deficiencies. The percentage limit was not considered when additional general property improvements were allowed using this contingency fee.

Nine projects exceeded the general property improvements limit by \$38,698. In addition, \$84,776 in contingency fees were spent on general property improvements. To comply with its policy, the Consortium should have used these HOME funds for required repairs rather than general property improvements.

The Consortium Did Not Have Any Controls to Ensure That Repairs Were of a Nonluxury Nature

The Consortium's limit on general property improvements did not ensure that only items of a nonluxury nature were provided to HOME projects. For project number 1189, funds were provided for amenities that were not comparable to amenities in the area's unassisted housing and could be construed as luxury items. The project received excessive general property improvements including \$6,000 for a marble tile countertop; \$4,019 for custom ordered solid wood double entry doors that were originally scheduled to be repaired, not replaced; and \$6,421 for a heat pump to supplement the existing furnace. Further, due to the addition of the heat pump, a new \$1,900 service panel was required. The total value of these improvements was \$18,340. Considering the minimum requirements in the property standards and the quality of amenities provided for unassisted housing in the area, the items would be considered a luxury.



Marble tile countertops and special order doors



Exterior of home²

Lakewood Made Additions and Reconfigured Walls Contrary to Its Own Policy

Lakewood’s policy states that adding an addition or reconfiguring walls is ineligible unless it is due to handicap accessibility issues. However, on two projects, Lakewood made an addition or reconfigured a room. However, these applicants did not require handicap accessibility.

On project number 975, a poorly constructed enclosed patio that was used for storage was removed due to major structural problems. Rather than just repairing the exterior, the roofline was restructured, the ceiling reconfigured, and the room was again enclosed and finished. The Authority approved funds in addition to the initial loan so that the reconfiguration could be completed. The funds would have been better used for another homeowner rehabilitation project, rather than to reconfigure a room for a household size of one. The homeowner did not need the room due to accessibility issues. Based on the bid specifications, we estimate that \$26,800 was expended for the reconfiguration to the home.



Enclosed porch before and during demolition

² Lakewood obtained an after-rehabilitation appraisal for the home, and it came in just below HOME guidelines. However, when Lakewood requested the appraisal, it told the appraiser, “Need an appraisal AS SOON AS POSSIBLE to demonstrate that the ‘after-rehabilitation’ value does not exceed \$288,700 after completion of the proposed scope of work.” This statement could have influenced the result of the appraisal.



Inside before demolition and during reconstruction



Inside and outside finished (before painting)

A major addition was made to a home for handicap accessibility for the applicant for project number 1214. According to file documents, there was no immediate need for the home to be handicap accessible. This documentation stated that the applicant “may need some handicap accessibility items” due to arthritic changes in her arms and legs. “This will affect her mobility in the future.”

The housing coordinator included a note in the file discussing construction needs. It stated that the current bathroom was “too small to convert to an ADA [Americans with Disabilities Act] approved bathroom.” However none of the file documents indicated that the applicant needed an “ADA approved bathroom” at the current time. According to a statement signed by two of her doctors, within the next five to ten years, she would require increasing assistance in performing common household activities. She also “will eventually find herself on a walker, and, ultimately a wheelchair.” However, the doctors’ statements said that as her condition became more severe, she might have to be relocated to an assisted-living facility, rather than staying in the home. Therefore, an addition to the home was not necessary for the applicant at that time. Based on the bid specifications, we estimate that \$44,184 was expended for the addition to the home.



Before rehabilitation



After rehabilitation (Deck was not paid for with HOME funds.)

Tacoma's Monitoring of Lakewood Was Not Adequate

Tacoma, as lead agency, was required to monitor Lakewood's grant activities. On October 14, 2005, the Seattle Office of Community Planning and Development conducted a monitoring review of the Consortium. In that review, it reported that Tacoma had not monitored Lakewood annually as required by 24 CFR [*Code of Federal Regulations*] 2.504(a).

On August 14, 2006, Tacoma issued a monitoring report on Lakewood. The report did not mention any issues related to income documentation, although project number 1076, which included the ineligible applicant discussed above, was selected for review. The Tacoma program auditor noted that the income documents were complete, although there was a note in the project file that stated, "Please provide proof of income for all adults (age 18 + over) living in the home" and there was no documentation in the file that addressed the income for the young adult in the home. In addition, one of the questions

on the checklist stated, “Is the work write-up consistent with the PJ’s [participating jurisdiction] written rehabilitation standard?” The program auditor responded, “Do you have written rehabilitation standards.” There was no followup noted on the checklist or anything in the report concerning rehabilitation standards.

Conclusion

While the Consortium had written rehabilitation standards, management controls were not adequate to ensure compliance with those standards. Tacoma, as lead agency, needs to implement adequate controls over documenting compliance and monitoring of HOME activities. Properly documenting compliance and monitoring will ensure that HOME funds are used for eligible activities and are adequately supported.

Recommendations

We recommend that the director of the Region X Office of Community Planning and Development require the Consortium to

- 1A. Repay from nonfederal funds \$71,594 expended for an ineligible applicant, \$97,465 for projects not completed to code, and \$18,340 for luxury improvements.
- 1B. Provide supporting documentation to ensure that HOME funds were not used for an ineligible applicant or repay from nonfederal funds the \$48,916 expended for the project.
- 1C. Establish and implement adequate procedures to ensure that its HOME rehabilitation program activities are carried out in accordance with program regulations and requirements to make \$69,000 available for eligible projects.
- 1D. Consider clarifying its written rehabilitation standards and implementing controls to make \$123,474 available in the next year for code-required repairs and anticipated violations to ensure that the home is decent, safe, and sanitary, rather than spending it on excessive general property improvements desired by the homeowner.
- 1E. Establish and implement adequate procedures so that inappropriate building additions are not made. This should make \$70,984 available for allowable rehabilitation projects in the next year.
- 1F. Establish and implement adequate procedures so that ineligible applicants are not approved for the program.
- 1G. Improve the monitoring of the Lakewood homeowner rehabilitation activities.

Finding 2: The Consortium Did Not Perform Independent Cost Analyses for Change Orders

The Consortium did not perform a written independent cost analysis for change orders as required by HUD procurement standards. This condition occurred because the Consortium failed to ensure that it understood and complied with procurement regulations. It also failed to establish and implement adequate procedures. As a result, there is no assurance that \$232,868 in change orders was reasonable (see appendix D for a listing of change order amounts questioned by project).

HUD Requires an Independent Cost Analysis for Change Orders

HUD procurement regulations in 24 CFR [*Code of Federal Regulations*] 85.36 require that grantees perform a cost or price analysis in connection with every procurement action including contract modifications. The regulations state that "... as a starting point, grantees must make independent estimates before receiving bids or proposals to determine the reasonableness of the proposed change order." HUD guidance specifies that "The rehabilitation contract should not allow for changes in the work write-up without an authorized change order signed by the homeowner, contractor and rehabilitation specialist. ... The specialist must verify cost changes as reasonable." Grantees are required to maintain records to detail the independent estimate. The procurement standards state that grantees "will maintain records sufficient to detail the significant history of a procurement."

The Consortium Did Not Perform Independent Cost Analyses

There was no evidence in the homeowner rehabilitation project files that independent cost estimates were performed before change order proposals were received. We reviewed 44 completed project files to determine the amount of the change orders. The Consortium had change orders for 95 percent of its projects. None of the \$232,868³ in change orders had the required independent cost estimate or analysis.

³ The total amount of change orders represents additions to the contract bid specifications. This is the amount that requires an independent cost estimate and analysis. We did not offset the amounts for contract deletions. The difference between total change orders without cost estimates and the amount in the recommendations is due to the duplication of questioned costs within a project. See appendix D.

The Consortium did not have written policies and procedures for determining the reasonableness of the change orders, only for issuing them. The contractors submitted change order proposals for the additional required work. The Consortium then prepared a form that stated, “The Tacoma Community Redevelopment Authority, with the consent and agreement of the owner and contractor, does hereby issue this change order...” This form described the changes in the repair specifications. The Tacoma change orders were signed by the homeowner, contractor, and housing director. However, contrary to HUD guidance, the Lakewood change orders were only signed by the homeowner and contractor.

Tacoma’s housing manager stated that “in 4(f)(1) where it states that ‘*there must be a price or cost analysis in connection with every procurement action including contract modification,*’ does not state that there will be ‘written’ bids and analysis for every minor change; simply that there will be an analysis performed. ... Given the years of experience by our rehab staff, including the division manager, I believe that there is a very conscientious review and analysis of every change order that is executed.”

We asked Lakewood if it had any independent cost estimates for the change orders we reviewed. Lakewood stated, “In response to your request to review the performance of a cost/price analysis in connection with change orders, an intellectual analysis is performed based upon the knowledge and construction experience of our Housing Repair Coordinator in determining a reasonable cost.”

While Tacoma and Lakewood staff may have had significant experience, an independent review of the cost estimate and analysis by management and auditors cannot be performed unless it is in writing. Since change orders are sole source procurements, it is imperative that they be reviewed for reasonableness; the review should be documented.

Conclusion

The Consortium did not have adequate procedures and management controls to ensure that sole source procurements were performed in compliance with HUD procurement standards. Tacoma, as lead agency, needs to implement adequate controls to properly monitor and ensure that its procurement policies are followed, including maintaining records sufficient to detail the significant history of a procurement activity. Effective procurement policies will ensure that services are obtained at the lowest price.

Recommendations

We recommend that the director of the Region X Office of Community Planning and Development require the Consortium to

2A Provide supporting documentation for the \$199,298⁴ in unsupported costs including the establishment of the reasonableness of costs and, if support can not be obtained, repay the HOME program from nonfederal funds.

2B. Establish and implement adequate procedures to ensure that its HOME change orders are carried out in accordance with HUD regulations and requirements.

⁴ The difference between cost identified in the body of the finding and recommendations is due to the duplication of questioned costs within a project. See appendix D.

SCOPE AND METHODOLOGY

We performed the audit between January and August 2007 at the offices of the cities of Tacoma and Lakewood, Washington, and the offices of HUD's Region X Community Planning and Development Department and Inspector General in Seattle, Washington. The audit covered homeowner rehabilitation projects with status dates in HUD's Integrated Disbursement Information System from July 2004 through February of 2007. We reviewed all 49 homeowner rehabilitation project files from this period valued at \$2,353,419. See appendix E for details.

To accomplish our audit objectives, we reviewed applicable laws, regulations, and other HUD program requirements including guidance applicable to the HOME program. We analyzed the Consortium's action plans, funding agreements, project files, and progress reports. We also reviewed independent public accountant reports, monitoring reviews, and Authority resolutions. In addition, we interviewed staff from Tacoma and Lakewood, the Tacoma Community Redevelopment Authority, and HUD.

We obtained background information from HUD's Integrated Disbursement and Information System regarding the commitment and expenditure of HOME funds related to program activities. Based upon information obtained from this system, we selected homeowner rehabilitation activities to determine whether they were administered in compliance with program requirements. We tested activities related to homeowner, property, and rehabilitation eligibility and contract procurement.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures in place to ensure that grant expenditures are eligible and adequately supported.
- Policies and procedures in place to ensure that HOME grants are carried out in accordance with applicable laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

The Consortium did not have

- Policies and procedures in place to ensure that HOME grant expenditures were eligible and adequately supported (findings 1 and 2) and
- Policies and procedures in place to ensure that its HOME activities were carried out in accordance with applicable laws and regulations (findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$187,399		
1B		\$48,916	
1C			\$69,000
1D			\$123,474
1E			\$70,984
2A		\$199,298	
Total	\$187,399	\$248,214	\$263,458

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures, and any other savings which are specifically identified. In this instance, if the Consortium implements our recommendations, it will more effectively expend \$263,458 in HOME funds. Our estimate reflects only the initial year of this recurring benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



City of Tacoma
Community and Economic Development Department

September 26, 2007

Joan S. Hobbs, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General, Region X
Federal Office Building, Suite 126
909 First Avenue
Seattle WA 98104-1000

Dear Ms. Hobbs:

We have reviewed the recently completed draft review of the HOME Investment Partnership program for the Tacoma Consortium.

The Consortium strongly disagrees with the Audit conclusion that the projects noted herein are, as a whole, ineligible projects. We also disagree with the statement that "This condition occurred because the Consortium failed to ensure that it understood and complied with HOME requirements" and that "independent costs analyses were not completed."

Enclosed are the Consortium's responses to each of the Findings and Recommendations of the Audit. The Consortium has followed HOME regulations and requirements, and does not find that it is responsible to repay any funds from non-federal sources nor redirect any future funding for eligible HOME projects. The HOME funds have been used responsibly on eligible projects.

The Consortium has knowledgeable staff, well trained in both construction trade and HOME regulations. Several of our staff are certified with various construction-related accomplishments. Our loan and administration staff have also attended Building HOME training. In addition, several have received the designation "Certified HOME Program Specialist: Regulations".

Sincerely,

Ryan Petty
Director

Enclosures

cc: Jack Peters, Director, Region X, Office of Community Planning & Development, OAD
Alice Bush, City Clerk, City of Lakewood

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Tacoma Consortium Response to IG Audit

Finding 1: The Consortium Did Not Always Comply with Homeowner Rehabilitation Program Requirements.

The Consortium did not always comply with homeowner rehabilitation program regulations when it funded (1) a rehabilitation project for a homeowner who was not low income, (2) homeowner rehabilitation projects that did not meet all applicable local codes and rehabilitation standards and the time of project completion, and (3) homeowner rehabilitation activities that did not comply with Consortium written rehabilitation standards. This condition occurred because the Consortium failed to ensure that it understood and complied with HOME requirements. It also failed to implement adequate procedures. As a result, these funds were not available for eligible HOME projects and activities.

The Consortium Did Not Always Determine Income as Required by HUD

HOME Funds Were Provided to a Homeowner Who Was Not Low Income

Lakewood provided \$71,594 in homeowner rehabilitation assistance to an applicant whose income exceeded 80 percent of the median income. During the application process for HUD project number 1076, a 21-year old college student was added to the household because he was a dependent on the applicant's income tax return. However, he had income that was not considered. Consequently, the homeowner's income exceeded the HUD limit for the area and household size. In addition, if the student was not a member of the household, the income would still exceed the limit and the family would still not be eligible for assistance. (IG Audit Recommendation 1A)

HOME Consortium's Response – Project #1076

Comment 1

Comment 2

At the time of #1076 application, February 1, 2004, the homeowners reported that their household consisted of 5 family members (2 married adults, and 3 children) and that (1) the 19 and 21 year old children were attending college and not working and that (2) the eldest was living in an apartment while attending school (Exhibit 1). The applicant had crossed out the 21 year old dependent on their application and noted "21 year old is dependent for college but no longer lives in the home – shares apt. with friend." This is comparable to a dependent college student living in on-campus housing, fraternity or sorority while attending college. College students who live outside of the household and receive 50% or more of their support from their parents are generally claimed as dependents on their parents' tax returns, as was the case for #1076. The applicants were asked to provide proof of income for all adults (age 18 and over) living in the home (Exhibit 2). The applicant advised City staff that their two college student family members were not working while attending college; therefore, there was no "proof of income" provided. The applicant further indicated that they did claim the 21 year old on their 2003 federal income tax return as a dependent. The family home was still the student's permanent address and the student was considered part of the household. In

Comment 3

accordance with 24 CFR 5.403, the 21 year old child was counted as a member of the family, at that time.

Comment 4

Six months had elapsed since application was filed and the initial determination that the family had qualified. In accordance with 24 CFR § 92.203(d)(1) and (d)(2), in September 2004, the family's income was re-examined which included a financial projection of the prevailing rate of income of the household. Pay stubs and VA Retiree Account Statements were used as source documents in estimating projected income. The applicant indicated that there had been no change in the status of their three children. Attached is a statement from the applicant certifying that at the time of application (2/1/04) and at the time of the re-verification of the household status and income (September 2004), the two college students in the household had no income (Exhibit 2A). Based on this information, the anticipated income for this household of five for the next 12 months was estimated (emphasis) at \$53,437, below the \$53,650 maximum allowable limit for a family size of 5. The estimated income was derived using the methods described in HUD's Technical Guide for Determining Income. The Tacoma Community Redevelopment Authority (TCRA), the approving body for HOME Consortium loans, approved the loan on September 23, 2004.

Comment 5

During the course of the IG audit, the auditor stated in an email of 5-10-07 (Exhibit 3) with regard to the 21 year old college student that "...while the student is a member of the family, the student was not a member of the household..." In order to provide the additional verification requested by the IG Auditor, in May 2007, the applicant was requested to provide 2003 and 2004 federal income tax forms to corroborate their actual household income. Also, the eldest living in the apartment filed a newly prepared form called "Income Certification form" (Exhibit 4). At that time, the eldest reported that he did receive some income while attending school in 2004, and subsequently provided a 2004 tax return. The applicants' 2003 and 2004 tax returned showed the following actual adjusted gross income:

Comment 6

2003 IRS 1040 showed \$43,820.31 in taxable income (80% HUD median income was \$52,000 for a household of 5); the return filed was a Joint return (2 taxpayers) with 3 dependent children. (Exhibit 5)

Comment 7

2004 IRS 1040 showed \$43,448.10 in taxable income (80% HUD median income was \$49,700 for a household of 4); the return filed was a Joint return (2 taxpayers) with 2 dependent children. (Exhibit 6)

2004 IRS 1040 for the eldest 21 year old student showed \$14,380 in taxable income; the return filed was a Single return (1 taxpayer) listing his parent's home address on the return even though he physically resided at another address. (Exhibit 7)

HOME Consortium's Recommendation – Project #1076

Comment 8

The HOME Consortium operated in good faith and intentions in determining household size and income eligibility to comply with 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR § 92.203 (d)(2) and 24 CFR § 5.403. Pursuant to 24 CFR § 5.403, the 21 year old child was counted as part of the family at the time of application. There was no malicious malfeasance on the part of City of Lakewood staff to deliberately "add a dependent who didn't live in the household in order to qualify the applicant." At the time of the initial application (2/1/04), the family was determined to be eligible for assistance based on income verification documents and information provided by the applicant. Based on that information, the eldest 21 year old college student living away from home was counted as part of the household while receiving support from his family. In

Comment 9

Comment 10

September 2004, income verification documents were re-examined and the applicant re-affirmed that there had been no change in household composition or income circumstances.

The HOME Consortium followed its procedures for determining income eligibility in accordance with its Income Determination Procedures. These procedures follow CPD's guidebook, *Technical Guide for Determining Income*. The HOME Consortium has established and is now using a newly created "Certification of No Income" form for members of the household to certify that they received no income. Our review of HUD regulations, in addition to various training manuals and guidebooks, failed to locate any documentation requirements or guidelines for verifying no income by specific household members. We were also unable to locate clear guidelines with regard to temporary absences from a household for schooling, medical or other purposes.

Staff operated on the information provided in good faith. Based on the information provided at the 6-month review, the household continued to be a 5-person household and fell below the 80% AMI threshold. If the CPD Director concurs with the IG Auditor finding that the 21-year old student was not a member of the household due to his status as a student, the HOME Consortium contends that, as verified by the information gathered as a result of this Audit, this now 4-member household remained below the 80% AMI threshold and was eligible to receive HOME assistance. The HOME Consortium recommends that the Director of Region X CPD accept the Consortium's explanation that it complied with the regulations and operated in good faith in determining income eligibility in accordance with 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR § 92.203 (d)(2) and 24 CFR § 5.403, and not accept the IG recommendation to repay \$71,594 from non-federal funds as the applicant was eligible for assistance. (*IG Audit Recommendation 1A*)

* * * * *

The Consortium Did Not Always Obtain Income Information for All Family Members

- In project number 1076 (discussed above), the Consortium should have determined if he lived in the home or required income information because he was over 18 years old. *(IG Audit Recommendation 1A)*
- For project number 882, the Consortium did not obtain an application or any income information for a 20-year-old household member. Therefore, we could not determine whether \$48,916 in HOME funds was used for an eligible applicant. *(IG Audit Recommendation 1B)*

HOME Consortium's Response - Projects #1076 and 882

Regarding #882, as stated above relative to #1076, the HOME Consortium operated in good faith and intentions in determining income eligibility to comply with 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR§ 92.203(d)(2) and 24 CFR § 5.403. Pursuant to 24 CFR § 5.403, the 20 year old child was counted as part of the family at the time of application and counted as a household member.

At the time of the initial application (8/30/2000), the family was determined to be eligible for assistance based on income verification documents and information provided by the applicant. Based on that information, the eldest (then 18) year old college student living in the home did not have an income. At the time of the loan and contract, the family member, the borrower's son, was twenty years old. He was a household member; not a borrower or co-borrower so there was no need to have an application from him. He is shown as a dependant on the applicant's 2001 and 2002 tax returns. Additionally, the household member was a student (confirmed by student loans noted on credit report taken out in 2002) and not employed. This information was verified (verbally) and so noted in the file immediately prior to signing final loan documents in January of 2003. There was a note to that affect on the financial worksheet confirming that it was updated.

HOME Consortium Recommendation – Project #882

The HOME Consortium recommends that the Director of Region X CPD confirm that the Consortium complied with the regulations and operated in good faith in determining the income eligibility of in compliance with 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR§ 92.203(d)(2) and 24 CFR § 5.403; and that the Director of Region X CPD disallow the IG Finding in the amount of \$48,916. *(IG Audit Recommendation 1B)*

Comment 11

Comment 12

There was a note in the file for project number 1189 stating that two family members were full-time students, but the file did not include documentation to support the note. However, since the other adults in the household did not have any taxable income, the family would probably still be eligible with or without the income of the full-time students.

HOME Consortium's Response – Project #1189

Documentation of the two full-time students was in the file for project #1189 and consisted of a statement of no income and a Clover Park Technical College student schedule dated 5/16/05 stating that one of the students was enrolled in a class at CPTC. (Exhibit 8). For the second student household member, a statement from the Washington State University in Pullman, WA dated 6/9/04 stated that he was enrolled for six semester credit hours as a full-time student at WSU (Exhibit 9). The same letter also stated that the student had been enrolled since the Fall 2002 semester and had an anticipated graduation date of Fall 2006. Additionally, there was a Financial Aid Award Notification dated 6/9/05 listing the financial aid awards to the student for Fall 2005 and Spring 2006 semesters. The two dependent college students indicated that they received no income, and were counted as part of the 4-member #1189 household which met the 80% AMI threshold. The IG audit makes the assumption that "since the other adults in the household did not have any taxable income, the family would probably still be eligible with or without the income of the full-time students." The auditor's reasoning and method for determining income eligibility for #1189 is inconsistent with the reasoning applied for the previous two projects. In #1076, the audit claims that because the Consortium did not have verifiable documentation of no income for the 21-year college student who was not living in the applicant's home, he was not part of the household. But then for project #1189, one of the college students who were attending WSU in Pullman and not living in the family's home can be counted as part of the household. Also, it is assumed that with or without verifiable documentation of income for the college students in #1189, the household qualifies.

As mentioned earlier, in our review of HUD regulations, in addition to various training manuals and guidebooks, we could not locate any documentation requirements or guidelines for verifying no income by specific household members. We were also unable to locate clear guidelines with regards to temporary absences from a household for schooling, medical or other purposes.

Again, similar to #1076 and #882, the HOME Consortium followed the CPD's guidebook, *Technical Guide for Determining Income* procedures and operated in good faith in carrying out the provisions of 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR§ 92.203(d)(2) and 24 CFR § 5.403 in determining income eligibility.

HOME Consortium Recommendation – Project #1189

The HOME Consortium recommends that the Director of Region X CPD accept the Consortium's explanation that it operated in good faith in determining income eligibility for project #1189 in accordance with 24 CFR Part 92, 24 CFR § 92.203(d)(1), 24 CFR§ 92.203(d)(2) and 24 CFR § 5.403, and that project #1189 remains eligible for HOME assistance.

Comment 14

The Consortium Did Not Always Reexamine Income as required by HOME

The Consortium did not always reexamine the family's income at the time the HOME assistance was provided, even when more than six months had elapsed since the participating jurisdiction determined that the family qualified as income eligible. The Consortium did not reexamine income for at least 12 of the project applications. In other cases, there was a note in the file stating that income was reexamined, but the file did not include any documentation to support the statement.

HOME Consortium's Response – Income Reexamination

The Tacoma/Lakewood HOME Consortium was formed on July 1, 2000. Unfortunately, it was not until Fall of 2005 that basic HOME training was offered, either locally or nationally. The Consortium (Tacoma) attended the HOME training offered in Colorado and Texas. Additionally, during a Community Development Block Grant (CDBG) monitoring review of Lakewood's housing programs in late August 2005, a concern was identified recommending that incomes be re-verified after a six month period to appropriately document the continued income eligibility of the client being served. Following the review, staff took corrective action and implemented new procedures for its housing programs funded with CDBG and HOME funds. Additionally, in November of 2006, the Consortium sent three staff members (Tacoma and Lakewood) to the Certified HOME Program Specialist: Regulations training. All three staff members passed the test and received certifications.

The auditor's note that "The Consortium did not reexamine income for at least 12 of the project applications" is ambiguous and we are unable to reply to any specific instances. We believe, however, that the 12 projects are likely to be projects completed prior to late August 2005.

HOME Consortium's Recommendation – Income Reexamination

The HOME Consortium believes that we have addressed and corrected this matter. We are amenable to work with CPD towards reviewing and making any improvements necessary in our underwriting process.

Code Requirements and Rehabilitation Standards Were Not Always Met at Project Completion

To be eligible for HOME funding, homeowner rehabilitation projects must meet all applicable local codes and rehabilitation standards at the time of project completion. Eight projects violated these requirements. Specifically, two projects had change orders that deleted code-required bid specifications without any explanation in the file as to why the code-required work was not completed. The Consortium did not provide any verifiable information to change our audit position (project numbers 974 and 1136). (IG Recommendation 1A)

HOME Consortium's Response

The Consortium is compliant with 24 CFR § 92.251(a)(1) which states: "Housing that is constructed or rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion... The participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary..."

In accordance with 24 CFR § 92.251(a)(1), the HOME Consortium established written standards for rehabilitation, called the Housing Rehabilitation Policies and Guidelines, to ensure that HOME-assisted housing is decent, safe, and sanitary.

Both the City of Lakewood and the City of Tacoma have adopted the International Building Codes, as required by State law, effective as of July 1, 2004. This includes the International Residential Code, International Mechanical Code, International Fire Code, Uniform Building Code, electrical code and others. Prior to July 1, 2004, both jurisdictions were operating under the Uniform Building and Construction Codes adopted by their respective City Councils.

The International Residential Code, Section R104, describes the duties and powers of the Building Official, issuance of permits (R105), inspections (R109) and applicability (existing structures) (R102) (Exhibit 10). The Building Official is the sole authority to direct and enforce the provisions of the building codes, issue all necessary notices or orders to ensure compliance with the building codes, authorize to make all of the required inspections or shall have the authority to accept reports of inspections by approved agencies or individuals, approve alternative material, design or method of construction that complies with the intent of the provisions of the building codes and conducts and approves final building inspections after the permitted work is completed.

Building inspection is a highly complex skill that requires extensive knowledge of construction practices and procedures, specialized training, certification and years of experience in conducting inspections. The highly complex nature of construction codes and code requirements is a skill that takes many years to become fully proficient in, as such, these are skills that a lay person may not have or may not fully comprehend. Due to the complex nature of building inspections and procedures, we initially believe it important to clarify the process and procedures that are conducted by a Building Inspector and by the Building Department during the inspection of a federally funded HOME rehabilitation project.

A building inspection has a specific order in which items must be inspected and approved prior to inspection of further items; and further inspections are contingent upon the progression of successive inspections (see attached IRC Inspection Section R109). It is this progression that is documented on the building, plumbing, and mechanical inspection cards. The inspection process begins at the top of the card and moves toward the bottom of the card with the final acceptance at the bottom of the card. With the final acceptance at the bottom of the card it is logically assumed that all previous items and inspections were completed and all intermediate work met all applicable code requirements. If deficiencies in construction were noted at any time during the inspection process, they are noted on what is called a "Correction Notice" and all items on this notice are required to be corrected prior to any further inspections. Once items are corrected on the notice, further building, plumbing or mechanical inspections may proceed where left off. If further inspections are conducted after a Correction Notice is issued it is assumed that all items were corrected and approved by the building inspector. With the final acceptance of the appropriate mechanical, plumbing and electrical permits, a Final Building Inspection Report may be signed off as complete, and as such, it can therefore be assumed that all required inspection items have been inspected and made to meet current building, plumbing, mechanical and electrical codes accordingly. (See attached Building Official's inspection procedures (Exhibit 11).

For our HOME rehabilitation projects, all of our bid specifications are reviewed by the Building Official prior to the letting of bids and all specifications are attached to the appropriate plumbing, mechanical, electrical and building inspection cards for the building inspector to use when inspecting a project. All bid specifications are fully and completely inspected by the building inspector at the appropriate stages and are inspected to ensure complete code compliance prior to passing final building inspection.

Comment 15

A Building Inspection card is issued by the Building Division of the Community Development Department and used throughout the construction of the project for recording progress inspections and monitoring the disposition of the work through completion. The Building Inspector, Housing Repair Coordinator, and homeowner are involved in the rehab from start to finish, beginning with the preparation and approval of the bid specifications, review of Change Orders and approval of Contractor draws for work completed at 33 1/3%, 66 2/3% and 100% intervals and Final Inspection. In accordance with the Housing Rehab policies and guidelines, the Housing Repair Coordinator conducts ongoing monitoring visits and inspections for each housing rehab project through its completion and serves as the liaison between homeowner and contractor.

* * * * *

HOME Consortium's Response – Project #974

Comment 16

In order to respond to the IG Audit finding to explain the reasons for the Change Orders for the eight projects in question and how the applicable local codes and rehabilitation standards were met at the time of completion, the Consortium must refer back to the IG Audit Finding Outline. Starting with project #974, the IG Audit Finding Outline states:

IG Audit Finding Outline: #974 - \$24,878 - Project not completed to code. Separate circuits not run. The bid specifications for the project stated "Install GFI outlets on new separate circuits in both bathrooms and the kitchen; one (1) in each bathroom and two (2) in the kitchen." According to bid specifications, the electrical work was all code related. However, change order two stated "Credit back for circuits not run." Written on the change order was "(No separate circuits in kitchen + bath, used existing)". The auditee was unable to provide any verifiable information for why the separate circuits were not run.

The house was built in 1985. When an initial inspection of a home is done, it is checked for structural issues, plumbing system, electrical system, roofing, siding, windows, doors, HVAC systems, exterior lot and conditions, outbuildings or connected buildings (if any), any conditions that may adversely affect the health or welfare of residents and the overall general condition of the residence as a whole. During the inspection, the Housing Repair Coordinator also looks for symptoms that could become potentially greater problems and uses his construction knowledge and experience to determine the source of the problem(s) which are based upon a set of visible or otherwise apparent signs or symptoms.

For instance, if there was a rotten floor where a bathroom and laundry share an adjoining wall, there are three possible and most common causes: the laundry drain line is undersized and/or leaking, the toilet wax ring may have failed or the shower/tub drain line may be leaking. Next, an inspection underneath the residence where the floor is rotten is made to see if there are signs of where or what is leaking. Typically, the problem is narrowed down to a specific drain line or section of line, but if an exact location cannot be pinpointed, an experienced judgment is made and a bid specification is written for the replacement of what a typical repair would have entailed for similar repairs in the past. If needed, a change order may be required to address the problem after further exploration is done by the contractor when flooring or walls are removed.

Comment 17

Electrical repairs are done similar to plumbing repairs. Since all the wiring is already fully enclosed in the walls of a residence behind sheetrock, it is impossible to fully trace and locate every possible outlet, light or appliance that may or may not be on a circuit. Each circuit could be tested to identify most of the outlets, lights and appliances that are on a circuit, but typically it is a very tedious process that should be completed and verified by a licensed electrician. As a result, based on the knowledge and experience of the Housing Repair Coordinator, he determines what a typical repair would have entailed for similar repairs in the past.

The NEC requires that GFI protected outlets be installed in all bathrooms, garages, crawl spaces, outdoors, unfinished basements, kitchens, wet bar sinks and boathouses (NEC 210.8). The NEC also requires that all bathrooms shall have at least one 20-amp branch circuit and such circuits shall have no other outlets (NEC 210.11(C)(3)); and that a kitchen shall have two or more 20-amp small-appliance branch circuits and the circuits

shall have no other outlets (NEC 210.52(B)(1) & (B)(2). See attached NEC file (Exhibit 12).

Most residences inspected (unless they were built post 1990) commonly do not have code required GFI protected outlets in required locations such as in bathrooms, kitchens, garages, crawl spaces, unfinished basements and on the exterior of the residence. Furthermore, the circuits that the residences do have in those locations, most typically are not code required dedicated circuits specific to areas such as individual bathrooms and kitchens. As such, for all projects, the bid would specify that all bathroom and kitchens have new GFIs on separate dedicated circuits installed to meet the current electrical codes required by the Department of Labor and Industries or the appropriate electrical purveyor (for the City of Lakewood, it does not inspect any electrical work completed; all inspections are either done by the electrical purveyor or Labor and Industries and are independent of any City inspections). Since it is difficult to fully determine if a bathroom and/or kitchen circuit is a fully dedicated circuit, it is assumed that it is not and the project progresses under that presumption. If it tests out to be a non-dedicated circuit, the wiring is corrected. If it turns out to be an existing dedicated circuit, no correction is required and a Change Order is issued.

Once the electrical work is specified and commenced by a licensed electrician, all the circuits to a house are fully tested and traced to determine if all the existing circuits meet current code requirements. This is where the bathroom and kitchen circuits are tested to determine if they are in fact dedicated circuits or if further modification is necessary to make them fully dedicated circuits. If they are not dedicated, new wiring is run to the locations and the existing wiring is disconnected making them dedicated circuits; if the circuit is already dedicated, no wiring is required and a change order is issued to credit the amount bid to run new dedicated circuits.

For project #974 this is exactly what happened and why a credit was issued for "circuits not run". When the licensed electrician tested all the circuits, the kitchen and one bathroom were already on dedicated circuits so the installation of new dedicated circuits were not required as they were already existing dedicated circuits, and as such, met current electrical code requirements. Both the general contractor and the Housing Repair Coordinator were present at the time the circuits were tested to verify the circuit testing results. The only circuit that had to be modified was to one of the bathrooms to make it a dedicated circuit to meet electrical code requirements. The other two circuits (kitchen and one bathroom) did not require any modification since they already conformed to the electrical code requirements so a change order was issued for the work that was not required to be done.

Below is the Bid Specification for the Electrical repair on project #974:

7. <u>ELECTRICAL</u>	EP L&I	\$
CM SEC. 2500-1-2-3-6-7-13-14-15		
Install GFI outlets on new separate circuits in both bathrooms and the kitchen; one (1) in each bathroom and two (2) in the kitchen. Repair all damage resulting from this work.		

The project passed final electrical inspection by the Department of Labor and Industries electrical inspector on 1-13-04 (Exhibit 13). The project passed final building inspection on 2-9-04 by the Building Official (Exhibit 14).

In summary, the HOME Consortium complied with 1) the International Building Code (IBC) and International Residential Code (IRC) as adopted by the City of Lakewood, 2) the current NEC, 3) the requirements of 24 CFR § 92.251 (a)(1) with a Final Building

Inspection approved by a certified City of Lakewood Building Inspector at the time of completion (2/9/04); and 4) its Housing Rehab Policies and Guidelines. The Building Inspector is the City's authority in determining whether or not City building codes are met. The Building Inspector is under the Community Development Department, a separate department from the General Services Department, CDBG & HOME Division, where housing rehab projects are administered. See copies of the Final Building Inspection report for #974 approved by the Building Inspector and final Electrical Inspection approved by the Department of Labor and Industries (Exhibit 13 and 14). Also attached is a certification from the contractor verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion is attached. (See Exhibit 15).

HOME Consortium's Recommendation – Project #974:

Comment 18

The HOME Consortium recommends that the Region X Director of CPD accept the Consortium's explanation that it complied with 24 CFR 92.251 (a)(1) and met all applicable local codes and rehabilitation standards as provided in the Final Electrical Inspection report approved and signed by Department of Labor and Industries and the Final Building Inspection report approved and signed by the City's Building Inspector verifying that building codes were met for #974 at the time of completion. Also the Consortium recommends that HUD CPD accept the certification from the contractor verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion as shown in (Exhibit 15). Furthermore, the HOME Consortium recommends that the Region X Director of CPD not accept the IG recommendation to repay \$24,878 from non-federal funds. (*IG Audit Recommendation 1A*)

Comment 19

HOME Consortium's Response – Project #1136

Again, in order for the Consortium to respond to the IG Audit finding to explain the reasons for the Change Orders for the eight projects in question and how the applicable local codes and rehabilitation standards were met at the time of completion, the Consortium must refer back to the IG Audit Finding Outline, for project #1136. (IG Audit Recommendation 1A)

IG Audit Finding Outline: #1136 - \$53,642 - Project not completed to code. Vent pipe. The bid specifications for the project stated "Replace existing 1 ½" kitchen/bathroom vent line with new 3" vent line." Our review of the auditee's contractor's manual indicates that the 1 ½" vent pipe was not up to code for the sewer line. In change order number one the installation of the vent line was deleted. There was no documentation in the file explaining why the item was deleted. Lakewood responded stating "When the bathroom wall was removed, it revealed that the vent line was unusually configured, however, it met code. Therefore, this item was credited by Change Order #1." However, Lakewood did not provide any verifiable documentation for this statement.

During the initial inspection of this residence, it was noted that the plumbing in the bathroom was having problems with its drainage and with what seemed to be a vacuum or other problem with the vent line. The drainage line in the kitchen, that was attached downstream to the same 3" drain line the bathroom was on, worked correctly so it was ruled out that the drainage line was the source of the problem. The problem was narrowed down to the vent line but it was uncertain if the problem was the size of the vent line, the condition of the vent line (line had substantial corrosion to galvanized vent line), or if it was an improper vent connection to the drain line. As the plumbing was completely behind framing and enclosed by sheetrock, it wasn't visible to see what exactly was causing the problem, so the Housing Repair Coordinator used his best professional expertise and judgment, to determine what would be the most appropriate solution for this problem and wrote the bid specification #12 shown below. When the plumbing was later exposed and the lines inspected by the Building Inspector, it was confirmed that the vent line was correctly sized and installed and was not the cause of the problem. A Change Order 1 was issued to delete the installation of a vent line (Bid Spec #12) for a \$200 credit. (Exhibit 15A). It was discovered by the Building Inspector that the washing machine line was installed incorrectly and was causing the plumbing problems, so that line was corrected.

The Bid Specification for plumbing repair for project #1136 read as follows:

12. PLUMBING	PP	\$
CM SEC. 2700-1-2-3-4-17		
Install new single control faucet, shower head, pop up waste and spout to bathtub. Replace existing 1-1/2" kitchen/bathroom vent line with new 3" ABS vent line; including neoprene roof jack. Repair all damage resulting from this work.		

Again, it is important to note that all work items must be finalized on a project before a City of Lakewood Building Inspector signs off on a project as complete and meeting building codes. This includes work performed on all plumbing, mechanical and/or electrical permits before passing final inspection. This project was finalized on 10/7/05 by Lakewood's Building Inspector. All of the specifications were addressed and the plumbing system met the plumbing codes.

All of the permits that are issued for housing rehabilitation projects include a copy of the complete scope of work for the Building Inspector to inspect including anything the Inspector may deem incorrect or requiring correction when he conducts an inspection on a rehab job. Lakewood Building Inspectors not only inspect the work as described in our bid specifications, they also inspect the residence as completely as possible when they are on a job site, including site conditions, setbacks, outbuildings, plumbing conditions, mechanical conditions and electrical conditions. If a Building Inspector sees anything that does not meet code or may become a code violation in the near future, it is brought to the Housing Repair Coordinator's immediate attention and the condition is required to be corrected before a building final is approved. It is not uncommon for Lakewood inspectors to require extra work as conditions are uncovered and the work is in progress.

As the work progressed on this project, Lakewood's Building Inspector was called out to the job site to inspect the plumbing when the walls were opened in the bathroom to ascertain if the repairs were completed correctly and what, if any, additional work was required. When the wall was opened in the bathroom to view the plumbing vent line's size and connection in the presence of the Building Inspector, the contractor and the Housing Repair Coordinator, it revealed that the vent line was routed over and around two sections of blocking where the framing required bracing but that the vent line was correctly sized and installed for the number of fixture units vented.

Again, for any permitted work, the final building inspection, final mechanical inspection, final electrical inspection and the final plumbing inspection as issued by the Building Division of the Community Development Department and signed by the Building Inspector, serve as the City's official document that the work has met City building codes. Bid specifications for each housing rehab project are reviewed and approved by the Building Inspector prior to commencement of the work and are fully inspected in order to pass final inspection. With regard to bid specification item #12, an approved Final plumbing inspection is verifiable evidence that the plumbing system met code upon completion of the work; and subsequently, the approved Final building inspection verifying that all work was completed to code.

When a building inspector inspects plumbing, his inspection does not state that all burrs were fully reamed to remove obstructions, that all pipes were glued with the appropriate glue, that lines were properly supported, that approved fittings and connections were used, that all vent and waste lines were installed correctly and met proper slope requirements and that vent terminations met proper clearance from the roof and dwelling penetrations. UNLESS OTHERWISE NOTED, ALL OF THOSE ITEMS ARE IMPLIED TO BE CORRECT AS THE CODE REQUIRES THEM TO BE CORRECT IN ORDER TO PASS FINAL INSPECTION. A final plumbing inspection in and of itself IS IN FACT "VERIFIABLE DOCUMENTATION" that a plumbing system meets code requirements.

It is evident that the IG Auditor does not have a clear understanding of plumbing code requirements as exhibited in an e-mail on June 13, 2007 which stated, "The bid specification references the applicable section of the contractor's manual. In this case it was 2700-170, page 95. It states "Re-vent piping shall be at least 1/2 of the diameter of the drain to which it is connected or be a minimum of 1-1/4 inches in diameter" (see attached e-mail Exhibit 16). (Name of employee deleted/Housing Repair Coordinator) stated that the pipe a three inch pipe was needed and he is your expert in the field. For him to put the repair in the bid specifications, he must have verified that the drain pipe the vent pipe connected to was 6 inches. Therefore the 3" pipe was required."

The vent line replacement was included in the bid specifications (#12), because it was what the Housing Repair Coordinator, in his best professional judgment, deemed was

Comment 20

the most appropriate solution to the drainage problem based upon what he could physically see and inspect, NOT "because he must have verified that the drain pipe the vent pipe connected to was 6 inches". With the vent line inside an enclosed wall it was impossible to "see" to determine exactly what was causing the problem. When the wall was removed and the vent line exposed, it revealed something different than what was first thought. Therefore, an appropriate change order was issued, the problem was corrected and the final plumbing inspection and Final Building Inspection were approved on 10/7/05 by the Building Inspector.

The 2003 Uniform Plumbing Code Section 904.0 Size of Vents states: "The size of vent piping shall be determined from its length and the total number of fixture units connected thereto, as set forth in Table 7-5. The diameter of an individual vent shall not be less than one and one-fourth (1-1/4) inches (32mm) nor less than one-half (1/2) the diameter of the drain to which it is connected" (see attached UPC Code section Exhibit 17). In the construction industry, it is common knowledge that a residential main drain line is a 4" line, not a 6" line; in fact no residential drainage line would ever have anything larger than a 4" drain line. A typical use of a 6" drain line would be something more closely associated with a large commercial manufacturing building or a very large multifamily apartment complex, not a single-family residence.

To infer that the Housing Repair Coordinator "must have verified that the drain pipe the vent pipe connected to was 6 inches" demonstrates the lack of knowledge and experience of plumbing codes and common construction practices; and to conclude that because of this, project #1136 did not meet 24 CFR § 92.251(a)(1) when a Final Plumbing Inspection and Final Building Inspection was approved by the Building Inspector, the official authority in determining that this project met the City's building codes at the time of completion is unfounded.

In summary, the HOME Consortium complied with meeting 1) the International Building Codes (IBC) and the Uniform Plumbing Code (UPC) as adopted by the City of Lakewood, and 2) the requirements of 24 CFR § 92.251(a)(1) with a Final Plumbing Code Inspection and a Final Building Inspection approved by a certified City of Lakewood Building Inspector at the time of completion. The Building Inspector is the City's authority in determining whether or not City building codes are met. The Building Inspector is under the Community Development Department, a separate department from the General Services Department, CDBG & HOME Division, where housing rehab projects are administered. Attached are copies of the Final Plumbing Inspection report (Exhibit 18) and the Final Building Inspection report (Exhibit 19) for #1136. Also attached is a certification from the contractor verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion is attached. (See Exhibit 20).

HOME Consortium's Recommendation – Project #1136

The HOME Consortium recommends that the Region X Director of CPD accept the Consortium's explanation that it complied with 24 CFR 92.251 (a)(1) and met all applicable local codes and rehabilitation standards relative to the vent line as approved and provided for in the Final Plumbing and Final Building Inspection reports signed by the City's Building Inspector verifying that building codes were met for project #1136, at the time of completion. Also, the Consortium recommends that HUD CPD accept the certification from the contractor verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion as shown in (Exhibit 20). Furthermore, the HOME Consortium recommends

that the Region X Director of CPD not accept the IG recommendation to repay \$53,642 from non-federal funds. *(IG Audit Recommendation 1A)*

HOME Consortium's Response – Project #968

One project file did not contain sufficient evidence that the work was completed to code. The required electrical inspections were never conducted. In addition, an in-process roof repair inspection was not conducted as required. The roof continued to leak for more than a year after project completion in spite of continued attempts by the contractor to fix the roof (project number 968). (IG Audit Recommendation 1A)

Again, in order for the Consortium to respond to the IG Audit finding to explain how the rehab work met local building codes and rehabilitation standards at the time of completion and how construction progress inspections are completed, the Consortium must refer back to the specific code repairs in question for project #968 as described in the IG Audit Finding Outline as follows:

IG Audit Finding Outline: #968 - \$46,773 - Project not completed to code. Inspections not done as required. There was no evidence in the file that all of the work completed was completed to code. The City's inspector determined that there were "Violations of the Adopted Ordinances of the City of Lakewood" including no in process inspections of roof repair and pre-installation of window replacement. The inspector also stated that there were no inspections of the significant electrical work that was done. Without in process inspections there is not adequate assurance that the work was done to code. In addition, the inspector noted that the sill height of one of the windows was too high and the chimney flashing wasn't installed properly causing the roof to leak badly. There was nothing in the file that stated the bedroom window height had been repaired. The City's final inspection report stated that the auditee's Housing Repair Coordinator will perform the final interior and exterior inspection. However, this employee was not a licensed inspector. More than a year after the project was completed, the roof around the chimney was still leaking. Lakewood did not provide any verifiable documentation that would change our audit position.

A "Violations of the Adopted Ordinances of the City of Lakewood" is called a "Correction Notice." A Correction Notice was issued on January 30, 2004 by the City of Lakewood's Building Inspector for work to be corrected for the roof repair, window replacement, electrical inspection, roof flashing and smoke detectors. In order for a building to pass final inspection all items listed on the Correction Notice are required to be completed and accepted by the Building Division, of the Community Development Department, prior to signing-off on a final inspection. As evidenced by the approval of the Final Building Inspection, all the items on the Correction Notice were corrected and approved on February 9, 2004, by the same Building Inspector that issued the Correction Notice.

The Correction Notice of January 30, 2004 did state that "no inspections of significant electrical work that was done" because the electrical work had yet to be inspected. In the City of Lakewood, all electrical inspections are under the authority of and completed by the electrical purveyor or the Department of Labor and Industries and are independent of any City inspections. The electrical work was fully inspected and approved (Exhibit 21), and the Final Building Inspection was approved on February 9, 2004 (See Exhibit 22). Also, a certification from the contractor verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion is attached. (See Exhibit 21A).

Comment 22

Comment 23

The City's Housing Repair Coordinator monitors and inspects the work of the Contractor regularly throughout the construction from initial application through final completion to ensure that the work and corrections are progressing and being completed and followed in accordance to rehabilitation standards. He also serves as the mediator for settling disputes between contractor and homeowner.

Comment 24

For project #968 monitoring inspections, meetings and/or consultations by the Housing Repair Coordinator were conducted on 7/14/03, 7/29/03, 8/15/03, 8/21/03, 9/10/03, 9/18/03, 10/28/03, 11/7/03, 11/18/03, 11/19/03, 12/1/03, 12/5/03, 12/19/03, 2/17/04 and 3/12/04 with the homeowner, contractors, sub-contractors, building inspectors and lead inspectors, as applicable.

Comment 25

The IG Finding Audit Outline stated that "The City's final inspection report stated that the auditee's Housing Repair Coordinator will perform the final interior and exterior inspection. However, this employee was not a licensed inspector." The City's final inspection report did not state that (See Exhibit 22). The inspection report actually stated that "The interior and exterior paints (emphasis added) to be inspected by (employee name removed, i.e. the Housing Repair Coordinator.) The other non-permit upgrades shall be inspected and approved by (employee name removed, i.e. the Housing Repair Coordinator)." The dropping of the word "paints" leads one to believe that the Home Repair Coordinator was acting unethically and exerting authority as a Building Inspector, where he has no authority. This is not what happened and the audit conclusion is absolutely erroneous.

Comment 26

The IG audit supposition that "More than a year after the project was completed, the roof around the chimney was still leaking." was derived from a handwritten notation in a phone log noting that the homeowner called over a year later, after the warranty period had expired, and complained that the roof was still leaking. Although the warranty period had expired and the Contractor had no further obligation, the Contractor did make the repairs and the roof is no longer leaking. Although it is now 3 years and 7 months later, a statement from the homeowner verifying that the chimney/roof repairs were made and is still not leaking is attached in order to provide supporting documentation in response to a note in the phone log. (See Exhibit 23).

In summary, the HOME Consortium complied with 1) the International Building Codes (IBC) as adopted by the City of Lakewood, 2) the requirements of 24 CFR § 92.251 (a)(1) with a Final Building Inspection approved by a certified City of Lakewood Building Inspector at the time of completion (2/9/04), and 3) its Housing Rehabilitation Policies and Guidelines.

HOME Consortium's Recommendation- Project #968

Comment 27

The HOME Consortium recommends that the Region X Director of CPD confirm that the Consortium complied with 24 CFR 92.251 (a)(1) and met all applicable local codes and rehabilitation standards relative to the electrical work, chimney/roof repairs and other repairs as provided for in the signed Final Electrical Inspection Report and Final Building Inspection reports verifying that local building codes were met for #968, at the time of completion. The Consortium also recommends that HUD CPD accept the Contractor's

certification verifying that the electrical, building, plumbing and mechanical repairs were made in accordance to code requirements at the time of completion as shown in (Exhibit 21A). Furthermore, that the Region X Director of CPD accept the homeowner's certification that the repairs to the chimney/roof have been completed and it no longer leaks. The HOME Consortium recommends that the Region X Director of CPD not accept the IG recommendation to repay \$46,773 from non-federal funds. (*IG Audit Recommendation 1A*)

HOME Consortium's Response – Project 865

One project was never completed due to a dispute between the homeowner and two different contractors. The homeowner refused to allow the project to be completed. As a result, all of the code-required repairs were not completed, and a final inspection was not conducted (project number 865)
(IG Audit Recommendation 1A)

Comment 28

Over the course of 4 years, the Consortium attempted to work with a homeowner with regards to her rehabilitation project. During the course of that time, the homeowner filed a compliant with HUD against the Consortium. The compliant was reviewed by a Senior Community & Planning Development Representative. Following the investigation of the compliant, in October 2003, CPD instructed us to make another attempt to complete the work and if unable to do so, to close of the loan. Following HUD's direction, we attempted to get the project completed, but the homeowner was not cooperative, so we were unable to do so. In January of 2004, the Consortium closed out this project with the homeowner.

Comment 29

In a conversation with our HUD CPD representative, it was recommended that the funding source be converted to CDBG funds. It was our intention to make that conversion, but that did not happen; the result of an oversight due to an oversight and lack of understanding with regards to CDBG vs. HOME regulatory requirements within Tacoma's accounting section as well as the extended medical leave of the Housing Loan Specialist.

HOME Consortium's Recommendations – Project #865

Comment 30

The HOME Consortium has taken steps to correct the accounting oversight in converting this project to a CDBG-funded activity as was intended at the time of project closeout. These funds are being repaid to the US Treasury, as of the date of this response. Once HUD has credited our line of credit for the funds, we will cancel the project in the Integrated Disbursement and Information System (IDIS). The HOME Consortium recommends that the Region X Director of CPD rescind the IG Auditor's recommendation to repay \$32,736 from non-federal funds and instead, allow the Consortium to substitute CDBG funds as the loan source as was its intention at the conclusion of this transaction. *(IG Audit Recommendation 1A)*

HOME Consortium's Response – Projects 1206 and 1281

Two projects were canceled after the contract date but before significant rehabilitation. The Consortium charged these preliminary expenses to HOME, but because the projects were canceled, the required code violation corrections were not made (project numbers 1206 and 1281). (IG Audit Recommendation 1A)

Comment 31

The homeowner in project #1206 opted to cancel her rehabilitation project. At that time costs had accrued from underwriting soft costs (credit, pest, lead, etc.), title and recording costs, staff time and a pre-ordered window. In total, \$4,992.16 was disbursed in HOME funds. The homeowner repaid the Consortium \$3,392.18 towards the window, soft costs and title/recording fees. At that time the Accounting Staff was directed to repay the recaptured HOME funds to the US Treasury and charge the remaining balance against the HOME Administrative activity. It now appears that the funds were incorrectly returned to Program Income, as that is where the original funds were drawn from.

Comment 32

The Consortium has taken action to correct this accounting error. Funds are in the process of being repaid to the US Treasury, as of this response. Once HUD has credited those funds to our line of credit, we will cancel the project in CPD's Integrated Disbursement and Information System (IDIS).

With Project # 1281, the homeowner died shortly after the contractor began work on her home. The contractor was paid for his work. Costs for the title, credit, and pest inspection were also paid; all these funds were paid by HOME Program Income. The Homeowner's son applied to assume the loan; this request was in process of being considered. While under consideration, the son failed to make loan payments to the underlying mortgage resulting in a foreclosure on the estate. Funds were repaid to the TCRA from the foreclosure sale.

Comment 33

The HOME Consortium was aware, prior to the start of the IG Audit, that this activity had become ineligible for HOME funds due to the death of the Homeowner and the inability to complete the project as originally intended. We have, in good faith, made additional efforts to continue the assistance as an eligible activity through the Homeowners son, and then to recapture the funds in accordance with HUD regulatory requirements. The HOME Consortium has returned the recaptured funds to the US Treasury. Following the repayment, the Consortium worked with HUD's IDIS Technical Assistance Unit (TAU) to determine the best way to reverse these costs given the complication of funding from Program Income rather than Entitlement funds. This process was completed and the project has been cancelled in the Integrated Disbursement and Information System.

HOME Consortium's Response – Projects 1206 and 1281

Comment 34

The Consortium has taken steps to correct the accounting oversight with regards to Project 1206. These funds are being repaid to the US Treasury. Once the Treasury and HUD have completed their process, we will cancel this project. This process has been completed for project 1281 and it is now canceled in IDIS. We believe the inclusion of project 1281 in this report is merely a result of the audit timing. The HOME Consortium recommends that the Region X Director of CPD disallow the IG Auditor's claim of a finding on projects 1206 and 1281. (IG Audit Recommendation 1A).

HOME Consortium's Response – Project #871

One project funded with HOME funds was not a full rehabilitation and did not ensure that all code-required repairs were completed. According to file information, the Consortium was going to use Tacoma's minor home repair fund to pay for the repairs, but HOME funds were inappropriately used instead (project number 871). (IG Audit Recommendation 1A)

This home had been rehabilitated through our NPP program in 2000, only two years earlier. It was brought completely into compliance with the Minimum Housing Code at that time. A visual inspection of the home was done at the time of the new loan. That inspection determined that the home was still in compliance with the housing code; no other work was necessary to bring it into compliance. Due to the results of the initial inspection, a full HQS inspection was not deemed necessary. This should not result in the need for repaying the funds which we used to correct the failing siding.

HOME Consortium's Recommendation – Project #871

The HOME Consortium recommends that the Region X Director of CPD not accept the IG Auditor's recommendation to repay \$6,567 from non-federal funds and instead, allow the Consortium to allow the use of HOME funds since the house was in compliance with the minimum housing code at the completion of the work, or substitute CDBG funds as the loan source. (IG Audit Recommendation 1A)

Comment 35

Code-required repairs were deleted from bid specifications for one project because the initial bids were higher than the available loan amount. This project had yet to be started so as a result of our discussions, Lakewood agreed to modify the contract bid specifications so that all code-required repairs would be completed (project number 1303). (IG Audit Recommendation 1C)

HOME Consortium's Response – Project #1303 / Code Violations

NOTE: Project #1303 was underway when this project was audited.

The Housing Rehab Policies and Guidelines allow for homeowners to make some of their repairs as authorized. The policy states: "If in the judgment of the Housing Repair Coordinator, the homeowner is qualified to perform said rehabilitation, the Housing Repair Coordinator could recommend that the homeowner be allowed to rehab the home. In those circumstances, the General Services Director could authorize the loan for the purchase of necessary materials and supplies to accomplish said rehabilitation."

Project #1303 homeowner is a construction contractor by trade. As a result of the project not being started and the fluid nature of a construction project, certain files and documents were not available to be inspected by the auditor at the time the audit was conducted, as such, the Consortium believes that this finding is unsubstantiated.

Comment 36

This project, as the auditor confirmed, had yet to be started by the contractor at the time of the audit. The reasons for delay in starting the project were two-fold; first, because of the specific requirements of the scope of work and the fact that the successful contractor was still working on completing another project awarded to them earlier. Work on this project could not be started until mid-July; and secondly, because the homeowner agreed to complete ALL of the bid specifications that were deleted from the contractor's agreement dated January 31, 2007. The homeowner agreed, when he signed the LPA bid estimates and results of the contractors' bids, dated November 9, 2006, that he would complete the deleted bid specifications #6- Exterior Guardrail, #9- bathroom Vanity Package, #10- Bathroom Basin, #12- Shower Enclosure, #18- Interior Door and #19- Flooring-Vinyl and have them inspected and certified by the City of Lakewood Building Department that these items met current code requirements prior to the City of Lakewood issuing a Notice to Proceed to the prospective contractor (see attached homeowner statement, Exhibit 24). Bid specification #11- Bathroom Accessories ("desirable" improvement) was to be deleted from the contract completely. The City of Lakewood, as a result of this agreement with the homeowner, was not allowing federal funds to be spent until all of the code-required specifications the homeowner agreed to complete were, in fact, inspected and final approved by the Building Department that they met current code requirements. Until this provision of the homeowner agreement was met, the contractor would not be issued a Notice to Proceed to commence project #1303.

Comment 37

In early July, the homeowner contacted the City of Lakewood and stated he was not able to complete all of the code-required repairs he had previously agreed to complete due to family issues and requirements placed upon him at work (see homeowner statement, Exhibit 24). As a result of this conversation with the homeowner, not as a result of a discussion with the auditor as stated, a Homeowner Construction Agreement was executed with the homeowner on July 24, 2007 to complete some of the repairs. (Exhibit 24).

Comment 38

Due to unforeseen changes in the homeowner's schedule, the original agreement made with the homeowner on November 9, 2006 was required to be changed as he was unable to complete all of the deleted code-required bid specifications. The homeowner was able to complete bid specifications #9- bathroom Vanity Package, #10- Bathroom Basin, #12- Shower Enclosure, #18- Interior Door and have them inspected and certified as meeting current code requirements, but was unable to complete bid specifications #6- Exterior Guardrail and #19- Flooring-Vinyl. A Final Plumbing Inspection report approving the code repairs completed by the homeowner was signed by the Building Inspector on 7/27/07 (Exhibit 26) The two remaining specifications, #6 and #19, were then added to the contract with the contractor via Change Order #1, dated August 23, 2007 (see attached Change Order, Exhibit 27).

At the time of the audit review of the files, the aforementioned Homeowner Construction Agreement and Change Order #1 were not in the file simply because they did not exist. Also, the changes that transpired in this project were unforeseen by the contractor, the homeowner and certainly by the City of Lakewood. Once Lakewood was made aware of the changes by the homeowner in July, the appropriate actions to include bid specifications #6 and #19 into the contract agreement between the contractor and homeowner were made via Change Order #1.

Due to the fluid nature of a construction project and the many changes and problems associated with the complete rehabilitation of a home, unforeseen changes are to be expected. As a result of the complex nature of a housing rehab, conducting an audit while a project is underway and then conclude to a finding that it will not meet federal and local codes and housing rehabilitations standards is somewhat premature. The Consortium will continue to conduct this project in accordance with program regulations.

HOME Consortium's Recommendation – Project #1303 / Code Violations

Comment 39

The HOME Consortium recommends that the Region X Director of CPD accept the Consortium's explanation that it is complying with 24 CFR 92.251 (a)(1) and following applicable local building codes and rehabilitation standards, and its Housing Rehab policies and guidelines. The Consortium recommends that HUD CPD allow the Consortium to continue to complete the much needed repairs for homeowner #1303 and not accept the IG recommendation to make \$69,000 available in the next year and recurring years for only code-required repairs and anticipated violations and no general property improvements. (*IG Audit Recommendation 1C*)

Homeowner Rehabilitation Activities Were Not Always Compliant With Home Requirements and Consortium Written Rehabilitation Standards

The Consortium's Written Rehabilitation Standards Only Contained Minimum Requirements

The Consortium's written rehabilitation standards contained the minimum requirements to meet local housing codes and standards. However, these standards did not define what nonluxury amenities were suitable for the area. Instead, the Consortium used a percentage for the total general property improvements allowed for projects. These general property improvements were also referred to as modernization, desires or wants. Both Lakewood and Tacoma limited these types of repairs to 20 percent of the total contract price. (IG Audit Recommendation 1D)

HOME Consortium's Response – Written Standards

24 CFR 92.205 a.1 states that "HOME funds may be used by a participating jurisdiction to provide incentives to develop and support affordable rental housing and homeownership affordability through the ... rehabilitation of non-luxury housing with suitable amenities..."

HOME Regulations, 24 CFR § 92.205, allow Participating Jurisdictions to develop incentives and support affordable housing through the rehabilitation of non-luxury housing with suitable amenities. The regulations do not define suitable amenities; the Consortium was unable to locate a definition of suitable amenities in any of the training manuals or guidebooks available through CPD. Similarly, the regulations and training materials do not define non-luxury or luxury items. The Consortium maintains that housing valued at or below the FHA 203(b) limit is considered by HUD as housing with suitable amenities.

Comment 40

The Consortium does have a Housing Rehabilitation Policy and Guidelines which defines non-essential and luxury items as "area rugs, furniture, fencing, unattached garages and non-essential appliances." (Exhibit 27A) The Consortium has also developed a rehabilitation Contractor's Manual that lists acceptable standard-grade products and lists standard acceptable construction procedures that shall be followed for rehabilitation projects.

Comment 41

Without finding a HUD definition of "suitable amenities," the HOME Consortium's Housing Rehab Guideline established that 80% of the housing rehab improvements would be for code-related improvements and 20% for general property improvements to establish controls to focus the majority of its HOME funds for code-related and incipient violations (80%) and (20%) for general property improvements. The 80/20 ratio is a GUIDELINE. Staff works diligently to stay within the guidelines throughout the course of the work. Although a rehab might start of with an 80/20 ratio, there are unforeseen damages or repairs that must be fixed or circumstances that arise beyond the control of City staff. Construction costs are fluid, change orders may occur, and the 80/20 ratio often changes throughout the course of construction.

The HOME Consortium believes that the intent of the federal laws was not only to ensure that federal funds were being used for essential code-related repairs, but to also ensure that the people who are living in these homes are provided with some general property improvements or "suitable amenities" as identified in 24 CFR 92.205(a) (1), to

Comment 42

help them keep their homes safe, decent and sanitary. Over a majority of our rehab homeowners are low-income elderly and/or disabled, and all of the rehabs are repayable loans which are then applied to rehab more housing for low-income citizens. We do not believe Congress set-up these regulations to place strict limitations on improvements and allow for only a "cookie cutter" standard set of improvements. Limiting the HOME Consortium housing rehab program to address only code-related and incipient violations and provide for no general improvements as recommended in the IG audit restricts the Consortium's ability to carry out the provisions and intent of 24 CFR 92.205a.1 and 24CFR 92.206(a)(2) in providing its citizens with the ability to sustain and provide for decent, safe and sanitary housing.

HOME Consortium's Recommendation – Written Standards

Comment 43

The Consortium recommends that the Region X Director of CPD accept the intent and practice of the Consortium's Housing Rehab Policies and Guidelines in applying the provisions of 24CFR 92.205(a)(1), as explained above. The Consortium will continue its efforts to ensure that only allowable HOME rehabilitation activities are carried out, and the Consortium is amenable to working with HUD CPD to develop different procedures and controls. *(IG Audit Recommendation 1D)*

The Consortium Did Not Have Adequate Controls to Ensure Compliance with Its Requirements.

Although both Tacoma and Lakewood limited general property improvements to 20 percent, they had no controls in place to ensure that the limit was not exceeded. After the Consortium inspected the property, a housing specialist prepared a minimum housing inspection code form. The form included cost estimates for code-required repairs, recommended repairs, and general property improvements but did not include any percentage calculations. Following the inspection, the housing specialist and owner together determined the total scope of the work as detailed in the bid specifications. The total costs in the bid specifications were all most always higher than on the inspection form. However, no one verified that the general property improvements were within the limit.

In addition the Consortium allowed a contingency fee of up to 10 percent of the contract for correction of deficiencies discovered after construction commencement. However, the fee was often used for general property improvements if it was not needed for correction of deficiencies. The percentage limit was not considered when additional general property improvements were allowed using this contingency fee.

Nine projects exceeded the general property improvements limit by \$38,698. In addition \$84,776 in contingency fees were spent on general property improvements. To comply with its policy, the Consortium should have used these HOME funds for required repairs rather than general property improvements. *(IG Audit Recommendation 1D)*

HOME Consortium's Response – Adequate Controls

HOME Regulations, 24 CFR § 92.205 (a)(1), states that "HOME funds may be used by a participating jurisdictions to provide incentives and support affordable rental housing and homeownership affordability through the rehabilitation of non-luxury housing with suitable amenities..." The regulations do not define suitable amenities; the Consortium was unable to locate a definition of suitable amenities in any of the training manuals or guidebooks available through CPD. Similarly, the regulations and training materials do not define non-luxury or luxury items.

The Consortium has developed a guideline of utilizing 20% of the total loan amount for general property improvements as desired by the homeowner. This incentive allows for the Consortium to address code-related items, which are often times unseen by the homeowners, while providing the homeowner with a desired, non-luxury improvement. The Consortium's Housing Rehabilitation Policy and Guideline does define non-essential and luxury items as "area rugs, furniture, fencing, unattached garages and non-essential appliances." In addition, the Consortium has developed a Rehabilitation Contractor's Manual that lists acceptable standard-grade products and lists standard acceptable construction procedures that shall be followed for rehabilitation projects.

The Consortium's interpretation of "non-luxury housing" is housing that is valued, after rehab by an independent appraiser, at or below the FHA 203(b) limits. Without finding a HUD definition of "suitable amenities", the Consortium's established a guideline that 80% of the housing rehab improvements would be for code-related improvements, with 20%

Comment 44

allows for general property improvements to establish controls to focus the majority of its HOME funds for code-related and incipient violations (Exhibit 27B). The Consortium does not have a policy limitation of 20% for general property improvements; it has a *guideline* of 20%. It is a guideline as it is an incentive for using our programs; additionally, some houses need the full amount available under the program just to meet code-required items. If the 20% set-aside was a policy rather than a guideline, we would be unable to assist these homeowners with the needed repairs to make their home decent, safe and sanitary.

This guideline is used when developing specifications for project(s), not in determining the final dollar allowance available for general property improvements. Staff works diligently to stay within the guidelines throughout the course of the work. Although a rehab might start with an 80/20 ratio, there are often unforeseen damages or repairs that must be addressed. Construction costs and work, however, is fluid with a variety of potential changes in any given project, and the 80/20 ratio often changes throughout the course of construction. If following the repair of all code-required items and the repair of any insipient violations that may currently meet code requirements but are nearing the end of their life expectancy (i.e. a roof that will need to be replaced in 2 to 3 years), the remaining funds available in the contingency account may be used for additional general property improvements.

HOME Consortium's Recommendation – Adequate Controls

Comment 45

The Consortium recommends that the Region X Director of CPD accept the intent and practice of the Consortium's Housing Rehab Policies and Guidelines in applying the provisions of 24CFR 92.205(a)(1), as explained above. The Consortium will continue its efforts to ensure that only allowable HOME rehabilitation activities are carried out, and the Consortium is amendable to working with HUD CPD to develop different procedures and controls. Furthermore, the Consortium recommends that the Region X Director of CPD not accept the IG recommendation to make \$123,474 available in the next year for only code-required repairs and anticipated violations and no general property improvements. (*IG Audit Recommendation 1D*)

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The Consortium Did Not Have Any Controls to Ensure that Repairs Were of a Nonluxury Nature

The Consortium's limit on general property improvements did not ensure that only items of a nonluxury nature were provided to HOME projects. For project number 1189, funds were provided for amenities that were not comparable to amenities in the area's unassisted housing and could be construed as luxury items. The project received excessive general property improvements including \$6,000 for a marble tile countertop; \$4,019 for custom ordered solid wood double entry doors that were originally scheduled to be repaired, not replaced; and \$6,421 for a heat pump to supplement the existing furnace. Further, due to the addition of the heat pump, a new \$1,900 service panel was required. The total value of the improvements was \$18,340. Considering the minimum requirements of the property standards and the quality of amenities provided for unassisted housing in the area, the items would be considered a luxury. (IG Audit Recommendation 1A)

Photo footnote (#2): Lakewood obtained an after-rehabilitation appraisal for the home, and it came in just below HOME guidelines. However, when Lakewood requested the appraisal, it told the appraiser, "Need an appraisal AS SOON AS POSSIBLE to demonstrate that the 'after-rehabilitation' value does not exceed \$288,700 after completion of the proposed scope of work." This statement could have influenced the result of the appraisal.

HOME Consortium's Response – Project #1189 / Non luxury Items

As stated earlier, the HOME Consortium's Housing Rehab Policies and Guidelines define non-essential or luxury improvements as "area rugs, furniture, fencing, unattached garages and non-essential appliances."

The HOME Consortium followed its Housing Rehabilitation Policies and Guidelines for repairs relative to the tile countertop, heat pump, entry door and electric service panel. These items do not fall under the Consortium's definition of luxury or non-essential.

Comment 46

Marble tile countertop: The existing ceramic tile countertops were replaced due to dry rot that was discovered to the countertops and cabinets because of improper installation and support of the kitchen garden window. The dry rot and improper installation and support of the kitchen window were code required changes and as such had to be changed to meet the current building codes. The existing countertop was a ceramic tile countertop so the replacement of marble tile or ceramic tile was "like for like." The cost for the "marble" countertop was comparable to "ceramic" tile, so while the countertops were "marble" the cost was nothing more than would have been for "ceramic" tile. The contractor itemized the entire kitchen countertop Change Order at a cost of \$1,942.00 and the tile portion of the change order at \$500.00 not \$6,000. (See attached change order, Exhibit 28). "Luxury" items infers that the items were procured for the resident at a much greater cost than what was existing. This was not the case with this countertop installation.

Comment 47

Service Panel: In correspondence with the auditor on 5/16/07, it was pointed out that the service panel was replaced when the Department of Labor and Industries electrical inspector required the unit to be changed as the breakers in the old panel were unsafe and not "due to the addition of a heat pump" as reported. (See attached

correspondence on 5/16/07, Exhibit 29.) The change was a code required change initiated by the Department of Labor and Industries, one of the authorities responsible for electrical inspections in the City of Lakewood.

Comment 48

Entry doors: The entry door was replaced because of the existing door's poor condition; the fact that the door lockset and deadbolt would not work properly and the exterior of the door had numerous cracks that needed to be filled. The contractor was not able to warranty the refinishing of the existing door because of the substandard condition it was in. It was determined that it would be best to replace the door with a fiberglass door that had a lifetime warranty and that would lock properly. The door was replaced at the exact same dimensions of the existing door. (See attached correspondence on 5/16/07 (Exhibit 29).

Comment 49

Heat pump: The heat pump was installed because the existing heat system failed to meet code because it was not sized properly to heat the entire residence. The code required that a furnace be sized to heat a residence to 70-degrees 3 feet above floor. The furnace in this residence would not heat the back rooms to this temperature as it was undersized for the residence. The furnace could have either been replaced or a heat pump could be installed to augment the system to meet code requirements. The cost for an energy-efficient heat pump was comparable to the installation of a new furnace. (See attached correspondence on 5/16/07 Exhibit 29).

Furthermore, 24CFR 92.206(a)(2) state that HOME funds may be used to pay the following eligible costs: "For rehabilitation, costs: (i) To meet the property standards in 92.251; (ii) To make essential improvements, including energy-related repairs or improvements, improvements necessary to permit use by persons with disabilities, and the abatement of lead-based paint hazards, as required by 92.355, and to repair major housing systems in danger of failure; and"

Comment 50

After-rehab appraisals: The IG Audit Finding states that "...when Lakewood requested the appraisal (for #1189), it told the appraiser 'Need an appraisal AS SOON AS POSSIBLE to demonstrate that the "after-rehabilitation" value does not exceed \$288,700 after completion of the proposed scope of work.' This statement could have influenced the result of the appraisal."

This statement is purely speculative and implies that there was coercion. There is no coercion, explicit or implicit, in requests for an appraisal. When an appraisal is requested for a purchase transaction as an example, the appraiser is given a copy of the purchase and sale agreement, on which is shown the proposed purchase price. If the appraiser does not locate comparable sales that support that price, a competent and ethical appraiser will complete the appraisal and indicate a value that is supported by comparable sales, regardless of the proposed purchase price. Similarly, our "after-rehab value" appraisals are ordered from a professional appraiser that determines the "after-rehab value" based on recent comparable sales and the estimated value added by the proposed scope of work. #1189 was the first rehab in which Lakewood began using the appraisal method for determining after-rehab value. Subsequently, a standard request form for appraisals was and is being used today. Below is a timeline relative to the appraisal for #1189:

- 6-25-04 Initial application from #1189 - Assessed property value = \$195,000
Appraisal submitted with file = \$205,000 value in 6-10-03
- 11-17-05 Appraisal ordered to determine "after rehab value"
Assessed property value at that time = \$208,100
- 11-18-05 After-rehab appraised value by independent appraiser = \$266,000
- 11-18-05 FHA 203(b) loan limit = \$288,700

Even if the assessed value of 11-17-05 of \$208,100 was added to the total amount of rehabilitation funds to be spent on the property (\$42,190) that would have amounted to \$250,290. In the real estate industry, cost does not equal value. If you spend \$42,190 on repairs to a property you do not necessarily increase the value by \$42,190.

ICF International (an organization that provides training to HUD and partners) has just recently provided a HOME Program Property Value Limit Worksheet to document the after-rehabilitation value of a property:
http://www.icfi.com/Markets/Community_Development/cd-resources.asp
 Using this worksheet, item #1 is the property value and item #2 is the rehabilitation value, which they define as "estimate rehabilitation value if property value under #1 above does not include value of proposed rehabilitation". If this form had been available and allowed by HUD at the time of the #1189 loan, the after-rehab value would have amounted to \$250,290, still below the actual after-rehab appraisal and FHA 203(b) limits.

Furthermore, 24 CFR 92.205 a.1 states that "HOME funds may be used by a participating jurisdiction to provide incentives to develop and support affordable rental housing and homeownership affordability through the ... rehabilitation of non-luxury housing with suitable amenities..." The HOME Consortium's interpretation of "non-luxury housing" is to be housing that is assessed at or below the FHA 203b limits and that their after rehab value appraised by an independent appraiser are below the FHA 203b limits for the area. Project #1189 was below the FHA203b limits and eligible for assistance.

HOME Consortium's Recommendation – Project #1189 / Non Luxury Items

The HOME Consortium recommends that the Region X Director of CPD accept 1) that the Consortium operated in good faith, 2) the Consortium complied with 24 CFR 92.205 (a)(1) and 24CFR 92.206(a)(2), and 3) that it followed its Housing Rehab Policies and Guidelines definition of non-essential and luxury items, and that the tile countertop, entry doors, heat pump and service panel did not meet the Consortium's definition of luxury improvements. The Consortium further recommends that the Region X Director of CPD accept the Consortium's explanation in determining that the heat pump and service panel repairs were code required, the entry door was a recommended repair and the \$500 marble top was a "desirable" repair. The Consortium is amenable to working with HUD CPD in improving its guidelines for defining non-essential repairs. Furthermore, the Consortium recommends that the Director of Region X Office of CPD not accept the IG recommendation to repay \$18,340 in non-federal funds. (*IG Audit Recommendation 1A*)

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Comment 51

Lakewood Made Additions and Reconfigured Walls Contrary to Its Own Policy

Lakewood's policy states that adding an addition or reconfiguring walls is ineligible unless it is due to handicap accessibility issues. However, on two projects, Lakewood made an addition when the applicants did not require handicap accessibility.

On project number 975, a poorly constructed enclosed patio that was used for storage was removed due to major structural problems. Rather than just repairing the exterior, the roofline was reconfigured, and the room was again enclosed and refinished, which added an entire new room to the home. The Authority approved funds in addition to the initial loan so that the addition could be completed. The funds would have been better used for another homeowner rehabilitation project, rather than add a room for a household size of one. The homeowner did not need the room due to accessibility issues. Based on the bid specifications, we estimate that \$26,800 was expended for the addition to the home. (IG Audit Recommendation 1E)

HOME Consortium's Response – Project # 975 / Addition

The 2003 International Residential Code, Section R202, defines an "addition" as "an extension or increase in floor area or height of a building structure" (Exhibit 30). Therefore, construction on a residence is an "addition" only if there is a change in the footprint of a building or extension of building that increases the floor area or the height of a building structure.

The 2003 International Residential Code, Section R 202, defines "height, building" as "the vertical distance from grade plane to the average height of the highest roof surface" (Exhibit 30). Therefore to be considered an "addition" the average highest roof surface requires to be raised. If a roof surface lower than the highest surface is raised and it is raised to be lower than the average highest roof surface, there is no addition as the highest average roof surface remained unchanged.

The 2003 International Residential Code, Section R 202, defines "ceiling height" as "the clear vertical distance from the finished floor to the finished ceiling" (Exhibit 30).

For project #975, the footprint of the building prior to and after rehab construction was EXACTLY the same dimensions; the building was not an extension, nor an increase in floor area or height of the existing building. It was not an addition.

Clearly, the ceiling height and the building height are not the same surfaces, as the building height is measured on the exterior of the building and is measured at the top of the roof surface itself (the top of the roofing material), while the ceiling height is measured on the interior of the building and is measured at the finished ceiling. Above the finished ceiling is the framing, insulation, attic space, roof sheathing and the roofing itself, all of which are added into the height of a building. One cannot measure the height of a building from an interior ceiling finish height as it is not the "average highest roof surface" which happens to be the highest roof surface on the exterior of a building.

To look at the interior rafters/truss system of a house and make the claim that the roof surface has been raised, since the interior surface has been raised, as the audit claims

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is unfounded and demonstrates a clear misunderstanding of what constitutes the actual height of a building. The interior framing may be one of many framing styles, scissor rafters/trusses, gambrel rafters/truss, dormer rafters/trusses, high heel energy trusses, standard trusses, all of which will provide varying interior ceiling heights and a consistent and unchanging roof height. The roof height and the ceiling height are two completely different issues and cannot be used interchangeably. You can raise or lower the interior ceiling height without changing the roof height as the interior and exterior framing heights are separate framing members.

The structure that was rebuilt for project #975 simply extended the existing roof lines that were present on either side of the structure to cover what was the old flat roof structure of the family room (see before and after photos of Exhibit 31). The interior ceiling height was changed to a gambrel style ceiling rather than a standard flat ceiling, but the exterior roof line was unchanged from the existing roof lines that flanked the roof on either side. Both of the roof lines that were used and continued were clearly lower than the highest roofline of the residence; therefore, the "average highest roof surface" was not changed (see Exhibit 31 that clearly shows the highest roof surface remained unchanged and clearly above the new roof line). Therefore, the "height" of the building was not changed, and as such, the changes clearly did not constitute an "addition." The increase of the interior "ceiling height" cannot be misconstrued as an increase in the "building height" as they are unmistakably distinct and unrelated heights, one on the interior and one on the exterior.

During the audit, questions about why the building structure was changed; what it was used for; what materials were used in the original structure; the condition of the structure; or any of the change orders were not discussed with the Housing Repair Coordinator. How the audit concluded that this structure was "an enclosed patio that was used as a storeroom" is unfounded, when it started as a family room. The photos in the file were not a complete depiction of the construction process from start to finish. There are no pictures of the alleged "storeroom" before demolition. The pictures shown in the audit report show construction materials and various household items that were stored in the room and it may have appeared to look like it was a storeroom. However, it was originally a family room, and was called such in the original bid specifications.

The IG audit also states, "Rather than just repairing the exterior, the roof line was reconfigured and the room was again enclosed and finished, which added an entirely new room to the home. ... The homeowner did not need the room due to accessibility issues." Had there been a discussion about this project during the audit, it would have been revealed that the family room was originally a covered porch that was framed in the mid '60's; the flat roof was improperly attached to the residence and had leaked for years causing extensive dry rot to the framing that required replacement; the existing foundation was discovered to be nothing more than a layer of bricks covered with 3" of concrete with no footings or foundation wall; the interior walls had lead based paint that required abatement; the wiring was completely spliced together without proper junction boxes or connections and the service turned out to be a non-grounded service. In all, the entire framing, roof, foundation and electrical system were in complete violation of the building and electrical codes which required complete replacement. The room was not rehabilitated to meet "accessibility issues" as stated in the IG audit. The room was re-constructed to meet code requirements without changing the building footprint, square footage or to raise the roof height of the existing structure. It was not an addition to the building.

The use of selective photos as supporting evidence to prove this project was a violation is misleading. Attached (Exhibit 31) are before and after pictures of the building that CLEARLY show that the footprint and the height of the structure was not changed.

The room before construction was used a family room that was flanked on the east by a bathroom and on the west by the master bedroom. The room when completed was not "an entirely new room to the home" as reported in the audit. The existing structure was rebuilt to meet code violations using the exact same footprint and roof lines that were present on either side of the structure that was repaired.

HOME Consortium's Recommendation – Project #975 / Addition

The HOME Consortium recommends that the Region X CPD Director accept the Consortium's explanation that it complied with 24CFR 92.251(a)(1) and met its local building codes and Housing Rehab Policies and Guidelines. Also, the Consortium recommends that the Region X CPD Director accept the Consortium's explanation that there was no ADDITION made to the property at #975 because 1) the building footprint remained unchanged, 2) the square footage was not increased, 3) the height of the building was not increased as the highest average roof line remained unchanged, regardless of the raising of the ceiling height; and 4) that the rehab was of an existing family room that did not meet current code requirements, and that the enclosure was constructed to correct a code-related deficiency and not because of accessibility issues that the audit claims the homeowner did not need. Furthermore, the Consortium recommends that the Region X Director of CPD not accept the IG recommendation to make \$26,800 available in the next year and recurring years for only code-required repairs and anticipated violations and no general property improvements. (*IG Audit Recommendation 1E*)

The Consortium will continue its efforts to ensure that only allowable HOME rehabilitation activities are carried out. The Consortium is amenable to working with HUD CPD to develop improved procedures and controls.

Comment 54

A major addition was made to a home for handicap accessibility for the applicant for project number 1214. According to file documents, there was no immediate need for the home to be handicap accessible. This documentation stated that the applicant “may need some handicap accessibility items” due to arthritic changes in her arms and legs. “This will affect her mobility in the future.”

The housing coordinator included a note in the file discussing construction needs. It stated that the current bathroom was “too small to convert to an ADA (Americans with Disabilities Act) approved bathroom.” However none of the file documents indicated that the applicant needed an “ADA approved bathroom” since she was not currently in a wheelchair. According to a statement signed by two of her doctors, within the next five to ten years, she would require increasing assistance in performing common household activities. She also “will eventually find herself on a walker, and ultimately a wheelchair.” However, the doctors’ statements said that as her condition become more severe, she might have to be relocated to an assisted-living facility, rather than staying in the home. Therefore, an addition to the home was not necessary for the applicant at that time. Based on the bid specifications, we estimate that \$44,184 was expended for the addition to the home. (IG Audit Recommendation 1E)

HOME Consortium’s Response – Project #1214 / Addition

The HOME Consortium followed its Housing Rehab Policies and Guidelines in providing an eligible low-income disabled homeowner with an addition to her property to make her home handicapped accessible.

The HOME Housing Rehabilitation Program Policies and Guidelines lists Ineligible Rehabilitation Work as:

- A. Non-essential or luxury improvements such as area rugs, furniture, fencing, unattached garages, and non-essential appliances.
- B. Adding an addition to the property, unless due to handicap accessibility issues.
- C. Reconfiguration of interior walls, unless due to handicap accessibility issues.
- D. Work done as cosmetic improvements only; this includes landscaping and removal of garbage/debris, unless required to eliminate structural and/or health related issues.

CFR 8.3 defines “*Individuals with handicaps* means any person who has a physical or mental impairment that substantially limits one or more major life activities; has a record of such an impairment; or is regarded as having such an impairment...”

Further, CFR 8.3 (b) defines “*Major life activities* means functions such as caring for one’s self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working.

CFR 8.3 define “Accessible, when used with respect to the design, construction or alternation of an individual dwelling unit, means that the unit is located on an accessible

route and when designed, constructed, altered or adapted can be approached, entered and used by individuals with physical handicaps....

CFR 92.2 defines "Person with disabilities means a household composed of one or more persons, at least one of whom is an adult, who has a disability. (1) A person is considered to have a disability if the person has a physical, mental, or emotional impairment that: (i) Is expected to be of long-continued and indefinite duration; (ii) Substantially impedes his or her ability to live independently; and (iii) Is of such a nature that such ability could be improved by more suitable housing conditions."

24CFR 92.206(a)(2) state that HOME funds may be used to pay the following eligible costs: "For rehabilitation, costs: (i) To meet the property standards in 92.251; (ii) To make essential improvements, including energy-related repairs or improvements, improvements necessary to permit use by persons with disabilities, and the abatement of lead-based paint hazards, as required by 92.355, and to repair major housing systems in danger of failure; "

Based on the homeowner's condition, as verified by two physicians, the homeowner met the definition of handicap and had an immediate need for making the home handicap accessible. The homeowner's traumatology and rheumatology physicians provided a letter date 1/10/06 (Exhibit 32) verifying "...the many health challenges the homeowner now faces, and will, in coming years, as a result of complex medical history, mainly; multiple allergies, Hypothyroidism, Fibromyalgia, and complications resulting from her automobile accident of April 18, 2003." The physicians further state that, "Without getting into too much detail, (name of homeowner withheld) will, without a doubt, suffer hardships of mobility; requiring easy access to the normal functions of day-to-day life. Within the next five to ten years, she will require increasing assistance performing common household activities, such as personal care and grooming, housekeeping, laundry, cooking, and shopping; activities she needs some assistance with now." This further supports that the homeowner needs the assistance now while requiring increasing assistance performing personal care and grooming, housekeeping and normal functions of day-to-day life.

Further, the physicians indicate, "As a result of advancing arthritis, and complexities of Fibromyalgia, she will continue to require furthering assistance until she will need either live-in assistance, or will have to be relocated to an assisted-living institution. (Name of homeowner withheld) will eventually find herself on a walker, and, ultimately, in a wheelchair. It in my opinion that, for her enhanced physical and mental health, she continue living as independently as possible for the maximum amount of time achievable..."

Comment 55

At the time of application, the homeowner was not working, was using a walker and not able to walk or stand for lengths of time. She was being cared for by her mother and father who lived next door, and by her sister who helps with various daily activities. She was unable to use her existing shower/tub due to the restrictive high sides of the tub and by the small size of the existing bathroom. The bathroom was roughly 5x7 and as such was too small for the owner to access it with her walker as the configuration would not allow the door to open or close with a walker inside the bathroom, thus the door was removed by the owner's father.

Due to the size constraints of the existing bathroom, there was not sufficient room to install a shower unit that would be large enough to accommodate her walker and shower chair due to the location and close proximity of the sink and toilet. As a result of the size

limitation of the existing bathroom and the inability to relocate fixtures to meet code requirements, a new bathroom was the best and only solution.

Comment 56

The ADA improvement to the residence consisted of converting an existing garage into living space and adding a 195 SF connection to the front of the home that provided the required ADA access (see attached drawings of before and after Exhibit 33).

The existing residence, a two bedroom one bathroom residence and the way the rooms were configured, and the homeowner's need to have the second bedroom for caregivers (family) to stay and care for her, provided a challenge. Thus, the then existing second bedroom was not able to be reconfigured into an ADA bathroom and the appropriate ADA improvements were made to the existing garage accordingly. The conversion of the garage and the access addition provided the owner with a new ADA bathroom complete with a 60" shower unit, ADA toilet and roll under vanity/sink combo, proper ADA clearances between fixtures, and a bedroom directly adjacent the new bathroom allowing the owner immediate access to the ADA bathroom.

Comment 57

Use of selective photos in the IG audit showing the construction of an addition of a deck as part of the rehab work is misleading. This deck was not part of the housing rehab project and was not funded by HOME. Again, the use of selective photos to depict that an addition was made to the home is very misleading.

Home Consortium's Recommendation – Project #1214 / Addition

Comment 58

The HOME Consortium recommends that the Region X Director of CPD accept the Consortium's explanation and action that it carried out its activities in accordance with its Housing Rehab Policies and Guidelines to provide handicap bathroom accessibility and complied with the definitions and requirements of 24 CFR 8.3 and 24 CFR 92.2; and that the homeowner met the definition of an individual with a handicap and was qualified to receive handicap accessibility assistance, which was substantiated by a letter from two physicians (1/10/06) verifying the physical limitations and medical complications the homeowner was experiencing now and will be increasing in the future. Furthermore, 24 CFR 92.206 (a) (2) state that HOME funds may be used for rehabilitation costs to make improvements necessary to permit use by persons with disabilities. The HOME Consortium claims that providing this homeowner with needed handicap accessibility were not "excessive general property improvements." The Consortium strongly believes that to require a person to be in a wheelchair before addressing disability issues may be a violation of federal law and extremely discriminating in nature. The Consortium recommends that the Region X CPD Director not accept the IG recommendation to make \$44,184 available in next year and recurring years for only code-required repairs and anticipated violations and no general property improvements. (*IG Audit Recommendation 1E*)

Comment 59

Establish and implement adequate procedures so that ineligible applicants are not approved for the program. (IG Audit Recommendation 1F)

HOME Consortium's Response – Adequate Procedures

The HOME Consortium has consistently followed its procedures for determining income eligibility in accordance with its Income Determination Procedures. These procedures directly follow various HUD/CPD training manuals and guidebooks, including CPD's *Technical Guide for Determining Income*. As stated previously, the Consortium could find no clear guidelines in determining (1) as not only to determine who does or who does not count as a member of a household in specific situations, such as handicapped accessibility in the Consortium's procedures in determining income eligibility, household membership and what is acceptable verifiable documentation. When questions of this type have been asked at various HOME trainings, trainees have simply been instructed to note it in the file.

HOME Consortium's Recommendation - Adequate Procedures

The Consortium has operated in good faith in following the HOME regulations 24 CFR 92 and its Housing Rehabilitation Policies and Guidelines. The Consortium is amenable to work with HUD CPD in reviewing and making any adjustments necessary to improve our procedures on rehabilitation of homes, including the development of guidelines and procedures to sustain and to determine what verification documentation would be deemed acceptable. (IG Audit Recommendation 1F)

Comment 60

Tacoma's Monitoring of Lakewood Was Not Adequate

Tacoma, as lead agency, was required to monitor Lakewood's grant activities. On October 14, 2005, the Seattle Office of Community Planning and Development conducted a monitoring review of the Consortium. In that review, it reported that Tacoma had not monitored Lakewood annually as required by 24 CFR 2.504(a).

On August 14, 2006, Tacoma issued a monitoring report on Lakewood. The report did not mention any issues related to income documentation, although project number 1076, which included the ineligible applicant discussed above, selected for review. The Tacoma program auditor noted that the income documents were complete, although there was a note in the project file that stated, "Please provide proof of income for all adults (age 18+ over) living in the home" and there was no documentation in the file that addressed the income for the young adult in the home. In addition, one of the questions on the checklist stated, "Is the work write-up consistent with the PJ's (participating jurisdiction) written rehabilitation standard?" The program auditor responded, "Do you have written rehabilitation standards." There was no followup noted on the checklist or anything in the report concerning rehabilitation standards. *(IG Audit Recommendation 1G)*

HOME Consortium's Response - Monitoring

Comment 61

Tacoma reviews each rehabilitation request prior to its loan approval. A review of Lakewood's program is conducted due to the "sub-recipient" nature of the Consortium. City staff utilizes checklists prepared and distributed by CPD as their monitoring guide. The use of these checklists is highly encouraged by CPD staff and their training consultants. The use of the checklists has historically been considered to be fulfilling the monitoring requirements under the HOME program.

HOME Consortium Recommendation – Monitoring

Comment 62

Tacoma is amenable to work with HUD CPD in improving housing rehab monitoring procedures for monitoring Lakewood's housing rehabilitation program. *(IG Audit Recommendation 1G)*

Finding 2: The Consortium Did Not Perform Independent Cost Analyses for Change Orders

The Consortium did not perform a written independent cost analysis for change orders as required by HUD procurement standards. This condition occurred because the Consortium failed to ensure that it understood and complied with procurement regulations. It also failed to establish and implement adequate procedures. As a result, there is no assurance that \$232,868 in change orders was reasonable (see appendix D for a listing of change order amounts questioned by project).

HUD Requires an Independent Cost Analysis for Change Orders

HUD procurement regulations in 24 CFR (Code of Federal Regulations) 85.36 require that grantees perform a price or cost analysis in connection with every procurement action including contract modifications. The regulations state that "... as a starting point, grantees must make independent estimates before receiving bids or proposals to determine the reasonableness of the proposed change order." HUD guidance specifies that "The rehabilitation contract should not allow for changes in the work write-up without an authorized change order signed by the homeowner, contractor and rehabilitation specialist. ... The specialist must verify cost changes as reasonable." Grantees are required to maintain records to detail the independent estimate. The procurement standards state that grantees "will maintain records sufficient to detail the significant history of a procurement." (IG Audit Recommendation 2A)

The Consortium Did Not Perform Independent Cost Analysis

There was no evidence in the homeowner rehabilitation project files that independent costs estimates were performed before change order proposals were received. We reviewed 44 completed project files to determine the amount of the change orders. The Consortium had change orders for 95 percent of its projects. None of the \$232,868 in change orders had the required independent cost estimate or analysis. (IG Audit Recommendation 2A)

HOME Consortium's Response – Cost Analysis / Change Orders

The HOME Consortium maintains that the procedures used by staff meet or exceed the industry standards for identifying and determining reasonable costs. The housing rehabilitation activity is very fluid and dynamic; not lending itself well to delays. The houses that we rehab are often more than 50, 75 or even 100 years old. They may have unknown, hidden deterioration that will never be known until the work begins. Prior to the specifications being prepared and cost estimates developed, our rehab specialist does a visual inspection and talks with the homeowner to get the best understanding he can of the house and its problems, but typically he is unable to access the crawl space and attic. In many cases there are other areas of the home that are also inaccessible due to the homeowner's furniture and other objects. We have a pest inspection done on every total rehab project if there is a crawl space, but even those inspectors are often unable to access all areas of older homes.

This Audit has commented on the number of Change Orders, which sometimes may seem excessive. Please remember the age and condition of the homes we are working on and the fact that we are attempting to make all the code related repairs, keep our clients satisfied and remain in compliance with HUD guidelines.

The HOME Consortium takes great pride in the homes we rehabilitate and the way we work with the homeowners to provide them with the best product for their money when the job is done. It is our responsibility, and one we take very seriously, to make these homes safe and comfortable, as well as an asset to the community.

Guidance in § 85.36 state that localities may follow their own processes. The process for approving Change Orders is spelled out in our NPP Procedures Guide on page 22:

If deficiencies are discovered that were not a part of the original scope of work, or if the homeowner desires that general property improvements be included that were not part of the original scope of work, the Rehabilitation Specialist will coordinate with the contractor and homeowner, determine the feasibility of adding to the scope of work, to include funding. A Change Order is prepared and executed by the contractor, homeowner, rehabilitation specialist, and housing supervisor. Only after the Change Order has been fully executed, and the loan security documents adjusted to reflect the new loan amount (if the loan amount is increased), will the contractor be authorized to proceed.

When determining the most appropriate approach in preparing a change order, consideration of the general condition of the entire residence and the tendencies and/or abilities of the homeowner to maintain the residence must be carefully weighed. Experience and judgment must also play a part in determining what is an appropriate approach and cost for each individual change. For instance, if a residence is completely dirty and full of stuff (hoarding disorder for instance) one must go to further extremes to help/allow a homeowner to maintain their residence. For instance, if a shower unit was showing signs of poor maintenance and it was a tile shower, installation of FRP paneling or laminate over tile due to its ease of maintenance is recommended. If in that residence it was noticed that the carpeting was incredibly filthy and had probably never been vacuumed, it would be recommended that the carpeting to be replaced with new carpeting or better yet, with a hard surface floor that was easier to clean; and using one's best judgment and experience would lead to health issues and recommend its replacement as such.

Comment 63

When inspecting a residence due to a change order requested by a contractor, building inspector or homeowner, the entire condition of a residence must be considered, in addition to what type of work is being completed and what, if any, ramifications the requested change order is going to have on the house as a whole and the remaining project schedule and costs. If the residence is in poor condition and the owner does not conduct proper maintenance the effect on the cost of a change order must be considered to raise the cost above what would otherwise be an average cost; likewise, if the home is properly maintained and the residence is clean and easily accessible, the cost effect on a change order would be to lower the average cost for a similar repair. When an inspection is conducted to ascertain what an appropriate cost for a change order may be, the auditee uses previous work history, experience, type of change order, the time required to complete the work, the general condition of the residence, what equipment and/or tools and supplies are required to complete the work, and what affect the change order will have on the project as a whole. All of these considerations are completed

Comment 64

Comment 65

immediately on a job site by the auditee's Housing Repair Coordinator/Housing Rehab Specialist and an average price is determined based upon previous experience and similar situations. It is this cost analysis that is then compared with what the contractor believes the cost to be, if the cost is appropriate, the change order is accepted, if not, the change order price is negotiated until a mutually agreeable cost to both parties is reached and an official change order is issued.

24 CFR 85.36(f)(1) states, "Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price."

As provided in 24 CFR 85.36 (f)(1), each and every time a change order is requested, a cost analysis is performed by the auditee's Housing Repair Coordinator/Housing Rehab Specialist before a change order is issued. This cost analysis is "performed" using an understanding of the current building codes, specific requirements due to certain building materials and conditions, building practices and materials, the current condition and maintenance of the residence, advances in construction techniques and/or products, the general condition the residence, the age of the home, construction scheduling, lead-based paint regulations and how they affect a project, based on experiences with similar situations to determine an appropriate change order cost/price, and that cost/price is then documented on the Change Order. The regulations do not state that the "performance of the analysis" must be documented, simply that an analysis must be performed. The performance of that analysis culminates into a price/cost which is documented in the Change Order.

HOME Consortium's Recommendation – Cost Analysis / Change Orders

The HOME Consortium recommends that the Region X Director of CPD accept the Consortium's explanation as complying with 24 CFR 85.36 (f)(1) and that the Consortium performed a price or cost analysis with each of its Change Order. The HOME Consortium maintains that the procedures used by staff meet or exceed the industry standards for identifying and determining reasonable costs. The Consortium recommends CPD rescind the \$232,868 in costs being questioned. *(IG Audit Recommendation 2A)*

Establish and implement adequate procedures to ensure that its HOME change orders are carried out in accordance with HUD regulations and requirements. (IG Audit Recommendation 2B)

HOME Consortium's Response - Change Order Procedures

As noted above, the HOME Consortium maintains that the procedures used by staff meet or exceed the industry standards for identifying and determining reasonable costs. The HOME Consortium requests that HUD provide additional guidelines as to what is an acceptable documentation practice to demonstrate that an analysis of price reasonableness was "performed."

HOME Consortium's Recommendation – Change Orders Procedures

The Consortium is amenable to working with HUD CPD in developing improved procedures for change orders, including the demonstration and documentation of price reasonableness. (IG Audit Recommendation 2B)

Comment 66

Exhibits

1	#1076	Application – Personal Financial Statement
2	#1076	Verification of Income
2A	#1076	Verification of no income for applicant's college students.
3	#1076	5-10-07 e-mail
4	#1076	Income Certification Form – 21 year old college student
5	#1076	2003 IRS 1040 (applicant)
6	#1076	2004 IRS 1040 (applicant_
7	#1076	2004 IRS 1040 – 21 year old college student
8	#1189	Clover Park Technical College student schedule
9	#1189	Washington State University, Pullman, statement
10		International Residential Code Section R104, R105, R109 and R102
11		Building Official Inspection procedures (Lakewood)j
12	#974	National Electrical Code (NEC) electrical codes
13	#974	Final Electrical Inspection – Dept of Labor & Industries
14	#974	Final Building Inspection
15	#974	Contractor's Certification
15A	#974	Change Order 1 (credit)
16	#1136	E-mail
17	#1136	Uniform Plumbing Code section
18	#1136	Final Plumbing Inspection
19	#1136	Final Building Inspection
20	#1136	Contractor's Certification
21	#968	Final Electrical Inspection
22	#968	Final Building Inspection
21A	#968	Contractor's Certification
23	#968	Homeowner's statement
24	#1303	Homeowner statement
25	#1303	Homeowner construction agreement 7/24/07
26	#1303	Final Plumbing Inspection
27	#1303	Change Order #1
27A		Housing Rehab Guidelines and Policies X.B. 80/20 ratio
28	#1189	Change Order
29	#1189	5/16/07 e-mail excerpt
30	#975	International Residential Code R202
31	#975	Photographs
32	#975	Physicians letter
33	#975	Drawings of ADA access

OIG Evaluation of Auditee Comments

- Comment 1** The exhibits are not included in the report. They will be provided upon request.
- Comment 2** The student is not "...away at school." He lives near the college in South Tacoma. The parents live in Lakewood, less than 15 miles from the college.
- Comment 3** 24 CFR 5.403 does not contain any information on whether or not college students should be included in determining the size of a household.
- Comment 4** The HOME regulations at 24 CFR 92.203(a) require that participating jurisdictions determine income eligibility of HOME applicants by examining source documents (such as wage statements or interest statements) as evidence of annual income.
- Comment 5** According to HUD's Technical Guide for Determining Income and Allowances for the HOME Program, an applicant certification does not provide adequate source documentation for the HOME Program. The participating jurisdictions must use third party verification or review of documents. Lakewood should have obtained income documentation for verification directly from the adult student.
- Comment 6** Lakewood did not provide us with the eldest student's 2004 tax return until it was submitted with this response. Lakewood should have obtained payroll information for verification of the student's income in September of 2004.
- Comment 7** While the tax returns provide the adjusted gross income for tax purposes, it can not be used to project anticipated income. The HOME regulations at 24 CFR 92.203(d)(1) require that, for the purpose of determining eligibility for HOME assistance, a participating jurisdiction must project a household's income in the future. The household's current circumstances are used to project future income.
- Comment 8** HOME regulations at 24 CFR 92.203(d)(1) require that the household's income be projected in the future. Lakewood can not use the applicant's 2004 year end income to qualify the applicant, since the applicant was accepted into the program in September of 2004. The projected household income as of September 2004 was \$53,437 well over the \$49,700 limit for a family of four. The applicant was not eligible so the HOME funds must be repaid with non-federal funds.
- Comment 9** According to the applicant's monthly statement of revenue and expenses, the applicant did not have enough excess funds available to provide any significant support. The applicant barely had enough income to cover expenses.
- Comment 10** The HOME regulations at 24 CFR 92.203(a) require that participating jurisdictions determine income eligibility of HOME applicants by examining source documents (such as wage statements or interest statements) as evidence of annual income. The Consortium should have contacted the college student

directly to verify whether or not he had income. The fact that the student lived in an apartment indicated that he probably had some income.

- Comment 11** The determination of income is for HOME program eligibility, not for underwriting. In order to be eligible the family must be very low income or low income. Eligibility for the program must be determined prior to underwriting the loan.
- Comment 12** No information was provided to change our audit recommendation.
- Comment 13** Lakewood provided us with sufficient documentation to change our audit opinion. We removed this project from the audit report.
- Comment 14** The Consortium is responsible for ensuring that it is compliant with HOME regulations which state, "The participating jurisdiction is not required to re-examine the family's income at the time the HOME assistance is provided, unless more than six months has elapsed since the participating jurisdiction determined that the family qualified as income eligible."
- Comment 15** The Lakewood project files contained a pest inspection however there was no evidence in the files that a licensed building inspector assisted in the preparation and approval of the bid specifications or change orders. These documents did not contain any signature or initials of the building inspector. However, Tacoma's project files did contain evidence of review by the building inspector.
- Comment 16** After the draft report was issued, Lakewood provided us with sufficient documentation to change our audit opinion. We removed this project from the audit report.
- Comment 17** The Consortium's contractor's manual section 2500.200 states "It is the intent of these specifications and the Work Schedules that each of the following existing items be inspected by a licensed electrician and that any defective items either be repaired or replaced as required by local codes." Lakewood's housing repair coordinator prepares the bid specifications, however he is not a qualified electrician so can not determine if there are any defective items. Therefore, if there are no electrical bid specifications, a licensed electrician would not inspect the items required by the contractor's manual.
- Comment 18** After the draft report was issued, Lakewood provided us with sufficient documentation to change our audit opinion. We removed this project from the audit report.
- Comment 19** After the draft report was issued, Lakewood provided us with sufficient documentation to change our audit opinion. We removed this project from the audit report.

- Comment 20** The Consortium does not appear to understand the audit process. E-mails and discussions were used to obtain information for the audit. Our final audit position is based on documentation in the file and verifiable information provided during the audit. This project was removed from the audit report when the Consortium provided us with the information needed to change our audit position.
- Comment 21** After the draft report was issued, Lakewood provided us with sufficient documentation to change our audit opinion. We removed this project from the audit report.
- Comment 22** The correction notice stated "In fact no sign off [on] any electrical work done."
- Comment 23** After the draft report was issued, Lakewood provided us with the electrical inspection for this project. We corrected the report accordingly.
- Comment 24** There is nothing in the project file to support the building inspectors' attendance at these meetings and/or consultations.
- Comment 25** As shown in Exhibit 22, the words were deleted because they were in small print and/or overwritten and could not be read. This statement was included in a draft finding outline, but was not included in the audit report.
- Comment 26** The note in the file dated January 5, 2006 stated " ... she is having trouble with her roof leaking near the chimney again. Job was completed in April 2004 so warranty was up in April 2005. She's very disappointed in the quality of the work, as she had to call [the contractor] ... several times after work was completed to come back + repair things (siding falling off + roof leaking)." Bid specification 2 states "All surfaces shall be inspected by the City of Lakewood Building Inspector before covering." The building inspector correction notice stated "No inspection done on roof repair and cover with comp new roofing / no inspection of SB sheath nailing." The contractor did not comply with the bid specification. The certification did not provide us with any additional information that would change our audit opinion.
- Comment 27** Lakewood did not provide us with any new information that would change our audit position. It is unacceptable to expect a homeowner to deal with a leaking roof for over a year after the project was completed, despite continued attempts by the contractor to fix the problem. If the interim inspection had been done the roof may not have leaked.
- Comment 28** Tacoma decided not to enforce the loan agreement. The agreement states "The entire principal of the Note, and any other amounts secured by the Deed of Trust, shall become due and payable, at the option of the Authority, upon the Borrower's breach of, or failure to comply with, any covenant, agreement, term or condition contained in this Agreement." or any of the Loan Documents or upon the occurrence of any of the following: ... (2) Failure to complete the Work within a

reasonable time as determined by the Authority." To be eligible for HOME funding, a project must be brought up to code. Therefore, Tacoma should have required the homeowner to complete the project, including all code required repairs, or repay the loan.

Comment 29 There was no documentation of this conversation.

Comment 30 Ineligible projects must be repaid with non-federal funds.

Comment 31 The Consortium discussed the accounting for this project in August 2006. An e-mail from Lakewood to Tacoma stated that the project costs would be charged to HOME administration, however the project was closed on November 16, 2006 with no adjustment to HOME administration.

Comment 32 The Consortium's proposed resolution is responsive to our recommendation.

Comment 33 Tacoma made a draw down of funds even though it knew that the project was not eligible. In an August 24, 2006 memo, the Tacoma program auditor stated that due to the death of the owner "rehabilitation work was not completed to code, a requirement of the HOME program." On November 15, 2006 Tacoma committed HOME funds for the project even though the project was ineligible. It was not until July 5, 2007 that it stated that it would return the money to HUD.

Comment 34 Project 1206 was included in our report because the project was closed in November of 2006. On June 4, 2007 we obtained updated funding records. The costs were still charged to the project. Project 1281 was included in our report because Tacoma should never have committed and drawn down the HOME funds since Tacoma had already determined that the project was not eligible.

Comment 35 In an August 20, 2007 e-mail, the housing division manager stated "Yes, we inadvertently used HOME funds for the follow-up repairs without performing a full Housing Quality Standards inspection. This work should have been funded with CDBG funds." Tacoma did not perform any of the required procedures for an eligible HOME project including, but not limited to, an inspection, a verification of income, and an after rehabilitation valuation of the residence. Ineligible projects must be repaid with non-federal funds.

Comment 36 There is no information in the file to support the assertion that the homeowner was going to complete some of the repairs. In a May 31, 2007 e-mail, the Lakewood general services director/city clerk stated "A Notice to Proceed has yet to be issued on this project and will be reviewing the file and meeting with homeowner." The notice to proceed was not issued earlier because the contractor was working on other jobs. According to the award letter, the performance bond was due on February 27, 2007. However, according to a May 2, 2007 note in the file, "Work has not started because we have not received Performance Bond yet. Contractor has to finish another job before a bond will be issued."

- Comment 37** The letter in Exhibit 24 states that the owner was not able to complete any of the work. He stated that within a few weeks after signing the documents, his sister moved from Seattle to Lakewood. He contacted Lakewood to ask if he could have the repairs that he agreed to do rolled into the loan. However this letter was dated on September 17, 2007. Lakewood's files did not include documentation that the owner had agreed to complete the bid specification deletions.
- Comment 38** The November 9, 2006 agreement was not in the project file and was not mentioned in response to our May 31, 2007 e-mail, even though we asked "Please let us know how you intend on correcting this project so that it can be funded with HOME."
- Comment 39** We are not recommending any repayment and we never implied that repairs should not be completed. However, the Consortium needs to improve its project documentation for its code required deletions so that it is clear that the project was brought up to code.
- Comment 40** The definition provided is for ineligible improvements, not non-essential and luxury items. The contractor's manual ensures that construction complies with minimum requirements but also states "unless otherwise specified." This allows for the bid specifications to exceed the "acceptable standard-grade products."
- Comment 41** Tacoma's guidelines state "All defective code related conditions must be addressed. Any remaining loan funds up to the maximum amount approved can be utilized by the homeowner(s) to complete needed modernization work. However, this portion, also known as general property improvements or 'wants', cannot exceed 20% of the total estimated cost."
- Comment 42** Repairs to ensure that the home is decent, safe and sanitary should be included in code required or recommended repairs, not general property improvements. In addition, general property improvements should not include luxury items.
- Comment 43** The Consortium's response adequately addresses the recommendation.
- Comment 44** Tacoma policy states that "All loans shall include a 10% contingency which may be used for correction of deficiencies after construction has commenced. All administrative or contingency funds determined not to be required will be used to reduce the principal amount of the loan." This policy was approved by the Tacoma Community Redevelopment Authority.
- Comment 45** The recommendation states that the Consortium should not allow excessive general property improvements, not "no general property improvements." However, the Consortium's response adequately addresses the recommendation.

Comment 46 The bid specification number 10 was for new plastic laminate kitchen countertops at a cost of \$3,222. It was an owner desired item. Change order number 3 deleted out bid specification 11, kitchen cabinetry and added a new tile counter at a cost of \$3,580. However, bid specification 10 for the Formica countertops was not deleted. Therefore, the total cost of the countertop was over \$6,000.

Comment 47 The exhibit is an email from Lakewood to HUD-OIG, not documentation to support their assertions.

Comment 48 There was nothing in the file to support this assertion. On the contrary, bid specification number 12 for the doors was wanted by the homeowner as a general property improvement. It was not code required or recommended.

Comment 49 Lakewood was unable to provide us with any support stating that the furnace was undersized or that the cost of a new furnace was comparable to cost of the heat pump. Furthermore, in other HOME assisted projects, electric forced air wall heaters were used to heat rooms the furnace did not adequately heat.

Comment 50 The appraisal is supposed to be an independent estimate. Stating the value needed could affect the independence of the appraisal.

Comment 51 Lakewood did not provide us with any new information that would change our audit position.

Comment 52 Based on the information provided, we agree that the rehabilitation was not an addition as defined in the 2003 International Residential Code. However, the roof was restructured with a non-standard ceiling and was considered a reconfiguration of the home. The \$26,800 spent on the rehabilitation of the enclosed porch exceeded the benefit received. We changed the audit report to show this was a reconfiguration and not an addition.

Comment 53 All of the pictures of this project can be provided upon request. Lakewood provided us with a picture of the room that appears to have been taken prior to demolition of the room.



Comment 62 The Consortium's response adequately addresses the recommendation.

Comment 63 Lakewood does not use any standardized method of preparing its cost estimates or maintain any work history to assist in determining a reasonable cost. The bid specification estimates prepared by Lakewood's housing repair coordinator were sometimes significantly different than the contractor bids. For project number 968 there was only one bid and it was \$10,000 or 36 percent over Lakewood's estimate. In addition, individual cost items were significantly different. For example, Lakewood estimated that the gutter repair would cost \$500 but the bid came in at \$2,975. There was no explanation in the file for the large difference. The Consortium needs to improve their cost estimating procedures.

Comment 64 The reasonableness of change orders needs to be documented and reviewed by management. The change orders for project number 975 appear to duplicate costs in the initial bid specifications as follows:

- Bid specification three was for a metal shingle roof and included striping down the south side of the roof, installation of new sheathing (where damaged) and new felt and metal shingles. The owner selected the color (indicating that the entire roof was to be replaced.) Change Order 4 was for a new 30-yr Architectural laminate roof and included tearing off and disposing of entire roof. The initial bid specification called for 1/2 inch sheathing in compliance with Lakewood's Contractor's Manual, while the change order calls for 7/16" sheathing. Sheathing that is 3/8 inch is allowable if it is over existing sheathing. It is not clear from the change order if the sheathing was removed or not. In addition, the Bid Analysis for this item shows that the winning bid was lower than the LPA estimate but considerably higher than the other two bids. Total cost for the new roof was over \$11,000, \$7,500 in the bid specification and \$4,272 in the change order.
- Bid specification six is for the repair of structural items noted during the pest inspection at a cost of \$1,942. It states "Replace all rotted, deteriorated and damaged materials throughout the house." Change orders two and three, item 2 are also for replacement or repair of rotted, deteriorated and bug damaged materials. These change orders total \$7,230. In addition, the winning bid amount for the pest inspection was considerably less than Lakewood's estimate of \$3,250. The other contractor estimates were also higher than the winning bid, ranging from \$2,604 to \$4,500.

In addition, for project number 1189 another apparent duplication of costs was noted. The bid specification number 10 was for new plastic laminate kitchen countertops at a cost of \$3,222. The specification stated "Remove and dispose of existing kitchen countertops. Install new 3/4" plywood on top of all new base cabinets. Install Formica brand plastic laminate, or pre-approved equal, on all base cabinet tops, including garden window. Countertops to include new oak edge and 4" minimum back splash to match existing cabinetry." Change order 3 was

added to the contract. It stated, "Owner selected to replace kitchen tile countertops with new tile countertops. Installation to include re-leveling of all countertops, installation of 3/4" plywood..."

Comment 65 Community Planning and Development's HOME Model Program for Owner-Occupied Rehabilitation states that the specialist must verify cost changes as reasonable. "The rehabilitation contract should not allow for changes in the work write-up without an authorized change order signed by the homeowner, contractor and rehabilitation specialist...The specialist must verify cost changes as reasonable." Not only is there no reasonableness documentation, no one from Lakewood signed the change orders. In addition, Community Planning and Development's HOME Monitoring guide for Recordkeeping states: "PJs [participating jurisdictions] must establish and maintain complete written records to document that HOME requirements have been met." The Consortium did not document the change order cost analysis.

Comment 66 The Consortium did not demonstrate that price or cost analyses were performed. Therefore, the recommendation should stand.

Appendix C

CRITERIA

- A. **Regulations at 24 CFR [Code of Federal Regulations] Part 92, Definitions**, state, “*Low-income families* means families whose annual incomes do not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families ...”
- B. **Regulations at 24 CFR [Code of Federal Regulations] 92.203 d.1** state, “The participating jurisdiction must calculate the annual income of the family by projecting the prevailing rate of income of the family at the time the participating jurisdiction determines that the family is income eligible. Annual income shall include income from all family members.”
- C. **Regulations at 24 CFR [Code of Federal Regulations] 92.203 d.2** state, “The participating jurisdiction is not required to re-examine the family’s income at the time the HOME assistance is provided, unless more than six months has elapsed since the participating jurisdiction determined that the family qualified as income eligible.”
- D. **Regulations at 24 CFR [Code of Federal Regulations] 92.205 a.1.** state, “HOME funds may be used by a participating jurisdiction to provide incentives to develop and support affordable rental housing and homeownership affordability through the ... rehabilitation of non-luxury housing with suitable amenities ...”
- E. **Regulations at 24 CFR [Code of Federal Regulations] 92.251.a.1** state, “Housing that is constructed or rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion ... The participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary.”
- F. **Regulations at 24 CFR [Code of Federal Regulations] 85.36.f.1** state, “Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.”

Appendix D

SCHEDULE OF QUESTIONED COSTS BY RECOMMENDATION AND INTEGRATED DISBURSEMENT AND INFORMATION SYSTEM NUMBER

Grant year	Project number	Committed amount	Recommendation number(s)	Ineligible	Unsupported	Funds to be put to better use
2000	775	\$53,398	2A		\$4,600	
2000	780	\$49,353	2A		\$4,780	
2000	786	\$62,750	2A		\$4,819	
2000	873	\$21,106	2A		\$1,894	
2000	881	\$53,351	2A		\$3,770	
2000	883	\$52,997	2A		\$6,911	
2000	887	\$27,587	2A		\$1,890	
Total 2000 questioned costs					\$28,664	
2001	882	\$48,916	1B 2A ⁵		\$48,916 \$6,293	
2001	893	\$63,523	2A		\$1,908	
2001	968	\$46,773	1A 2A	\$ 46,773	\$8,392	
2001	988	\$34,156	2A		\$1,020	
2001	1004	\$35,154	2A		\$4,450	
2001	1005	\$65,385	2A		\$4,753	
2001	1006	\$18,229	2A		\$4,400	
2001	1072	\$60,903	2A		\$8,750	
2001	1076	\$71,594	1A 2A	\$71,594	\$10,105	
Total 2001 questioned costs				\$118,367	\$74,197	
2002	865	\$32,736	1A 2A	\$32,736	\$2,700	
2002	870	\$32,884	2A		\$6,667	
2002	871	\$6,567	1A	\$6,567		
2002	886	\$34,211	2A		\$7,792	
2002	901	\$23,490	2A		\$1,976	
2002	1090	\$64,249	2A		\$4,952	
2002	1101	\$48,142	2A		\$3,700	
2002	1113	\$65,818	2A		\$4,235	
Total 2002 questioned costs				\$39,303	\$29,332	

⁵ Amounts in *italics* represent the duplication of costs within a project. Since we are questioning some of the projects in their entirety, the questioning of these change orders would result in a duplication of questioned costs.

Grant year	Project number	Committed amount	Recommendation number(s)	Ineligible	Unsupported	Funds to be put to better use
2003	974	\$24,878	2A		\$5,348	
2003	975	\$84,449	1E 2A		\$25,860	\$26,800
2003	978	\$56,399	2A		\$4,019	
2003	981	\$60,581	2A		\$4,115	
2003	1111	\$52,044	2A		\$4,535	
2003	1112	\$59,651	2A		\$7,460	
Total 2003 questioned costs					\$51,337	\$26,800
2004	1093	\$64,447	2A		\$9,901	
2004	1136	\$53,642	2A		\$3,900	
2004	1177	\$63,924	2A		\$4,898	
2004	1189	\$65,000	1A 2A	\$18,340	\$6,080	
2004	1190	\$69,000	2A		\$5,200	
2004	1206	\$4,922	1A	\$4,922		
Total 2004 questioned costs				\$23,262	\$23,899	
2005	1179	\$34,797	2A		\$4,615	
2005	1181	\$51,327	2A		\$2,420	
2005	1187	\$62,762	2A		\$3,515	
2005	1213	\$35,000	2A		\$2,100	
2005	1214	\$74,300	1E			\$44,184
2005	1261	\$44,500	2A		\$5,290	
2005	1281	\$6,467	1A	\$6,467		
Total 2005 questioned costs				\$6,467	\$17,940	\$44,184
2006	1292	\$47,000	2A		\$7,200	
2006	1293	\$55,000	2A		\$4,315	
2006	1300	\$70,000	2A		\$11,340	
2006	1303	\$69,000	1C			\$69,000
Total 2006 questioned costs					\$22,855	\$69,000
Total recommendation ⁶			1D			\$123,474
Appendix A total				\$187,399	\$248,214	\$263,458

⁶ We did not provide details by project for this recommendation because we are not recommending any repayment.

Appendix E

SCHEDULE OF HOMEOWNER REHABILITATION PROJECTS FUNDED BY INTEGRATED DISBURSEMENT AND INFORMATION SYSTEM NUMBER

Grant year	Project number	City	Commitment date	Committed amount	Drawn amount	Status ⁷	Status date ⁸
2000	775	Lakewood	June 12, 2002	\$ 53,398	\$ 53,398	Complete	Nov. 3, 2004
2000	780	Lakewood	July 2, 2002	\$ 49,353	\$ 49,353	Complete	Sept 19, 2005
2000	786	Lakewood	July 25, 2002	\$ 62,750	\$ 62,750	Complete	Nov 3, 2004
2000	873	Lakewood	March 4, 2003	\$ 21,106	\$ 21,106	Complete	Nov 3, 2004
2000	881	Tacoma	May 6, 2003	\$ 53,351	\$ 53,351	Complete	Nov 4, 2004
2000	883	Lakewood	May 7, 2003	\$ 52,997	\$ 52,997	Complete	Nov 4, 2004
2000	887	Lakewood	June 11, 2003	\$ 27,587	\$ 27,587	Complete	Nov 4, 2004
	Total 2000			\$ 320,542	\$ 320,542		
2001	882	Tacoma	May 6, 2003	\$ 48,916	\$ 48,916	Complete	Nov 4, 2004
2001	893	Tacoma	July 23, 2003	\$ 63,523	\$ 63,523	Complete	Nov 4, 2004
2001	968	Lakewood	Oct 23, 2003	\$ 46,773	\$ 46,773	Complete	Sept 26, 2005
2001	988	Lakewood	May 18, 2004	\$ 34,156	\$ 34,156	Complete	May 9, 2006
2001	1004	Lakewood	July 16, 2004	\$ 35,154	\$ 35,154	Complete	Sept 26, 2005
2001	1005	Lakewood	July 16, 2004	\$ 65,385	\$ 65,385	Complete	Dec 14, 2006
2001	1006	Lakewood	July 16, 2004	\$ 18,229	\$ 18,229	Complete	Sept 26, 2005
2001	1071	Lakewood	Oct 1, 2004	\$ 16,056	\$ 16,056	Complete	May 9, 2006
2001	1072	Lakewood	Oct 1, 2004	\$ 60,903	\$ 60,903	Complete	May 9, 2006
2001	1076	Lakewood	Oct 19, 2004	\$ 71,594	\$ 71,594	Complete	May 9, 2006
	Total 2001			\$ 460,689	\$ 460,689		
2002	865	Tacoma	Dec 9, 2002	\$ 32,736	\$ 32,736	Complete	Nov 3, 2004
2002	870	Tacoma	Feb 18, 2003	\$ 32,884	\$ 32,884	Complete	Nov 3, 2004
2002	871	Tacoma	Feb 18, 2003	\$ 6,567	\$ 6,567	Complete	Nov 3, 2004
2002	886	Tacoma	June 6, 2003	\$ 34,211	\$ 34,211	Complete	Sept 2, 2005
2002	901	Tacoma	Aug 29, 2003	\$ 23,490	\$ 23,490	Complete	Nov 4, 2004
2002	1090	Lakewood	Dec 21, 2004	\$ 64,249	\$ 64,249	Complete	May 9, 2006
2002	1101	Lakewood	Feb 15, 2005	\$ 48,142	\$ 48,142	Complete	May 9, 2006
2002	1113	Lakewood	June 29, 2005	\$ 65,818	\$ 65,818	Complete	Sept 11, 2006
	Total 2002			\$ 308,097	\$ 308,097		
2003	974	Lakewood	Feb 21, 2004	\$ 24,878	\$ 24,878	Complete	Sept 26, 2005
2003	975	Lakewood	Dec 23, 2003	\$ 84,449	\$ 84,449	Complete	Sept 26, 2005
2003	978	Lakewood	Feb 10, 2004	\$ 56,399	\$ 56,399	Complete	May 10, 2006
2003	981	Lakewood	Feb 23, 2004	\$ 60,581	\$ 60,581	Complete	May 9, 2006
2003	1111	Lakewood	Apr 22, 2005	\$ 52,044	\$ 52,044	Complete	May 9, 2006
2003	1112	Lakewood	June 29, 2005	\$ 59,651	\$ 59,651	Complete	Sept 11, 2006
	Total 2003			\$ 338,022	\$ 338,022		

⁷ We downloaded the data from the Integrated Disbursement and Information System in March of 2007. The status is the current status as of March of 2007.

⁸ The status date is the latest date that information in the system was updated for that project number.

Grant year	Project number	City	Commitment date	Committed amount	Drawn amount	Status	Status date
2004	1093	Tacoma	Feb 10, 2005	\$ 64,447	\$ 64,447	Complete	Aug 21, 2006
2004	1136	Lakewood	July 28, 2005	\$ 53,642	\$ 53,642	Complete	May 10, 2006
2004	1177	Lakewood	Aug 11, 2005	\$ 63,924	\$ 63,924	Complete	Sept 13, 2006
2004	1189	Lakewood	Nov 14, 2005	\$ 65,000	\$ 45,837	Complete	Feb 12, 2007
2004	1190	Lakewood	Nov 14, 2005	\$ 69,000	\$ 68,907	Complete	Nov 27, 2006
2004	1206	Lakewood	March 7, 2006	\$ 4,922	\$ 4,922	Complete	Nov 16, 2006
	Total 2004			\$ 320,935	\$ 301,679		
2005	1179	Tacoma	Aug 16, 2005	\$ 34,797	\$ 34,797	Complete	May 9, 2006
2005	1181	Tacoma	Aug 16, 2005	\$ 51,327	\$ 51,327	Complete	May 9, 2006
2005	1187	Tacoma	Oct 6, 2005	\$ 62,762	\$ 62,762	Complete	Nov 16, 2006
2005	1213	Lakewood	July 3, 2006	\$ 35,000	\$ 28,798	Complete	Dec 19, 2006
2005	1214	Lakewood	July 3, 2006	\$ 74,300	\$ 73,652	Underway	Feb 12, 2007
2005	1261	Lakewood	July 22, 2006	\$ 44,500	\$ 27,710	Complete	Jan 24, 2007
2005	1281	Tacoma	Nov 15, 2006	\$ 6,467	\$ 6,467	Complete	Nov 16, 2006
	Total 2005			\$ 309,153	\$ 285,513		
2006	1292	Lakewood	Oct 27, 2006	\$ 47,000	\$ 3,401	Underway	Jan 24, 2007
2006	1293	Lakewood	Oct 27, 2006	\$ 55,000	\$ 471	Underway	Jan 24, 2007
2006	1300	Lakewood	Nov 20, 2006	\$ 70,000	\$ 2,952	Underway	Dec 19, 2006
2006	1302	Lakewood	Jan 16, 2007	\$ 55,000	\$ 1,793	Underway	Jan 24, 2007
2006	1303	Lakewood	Feb 19, 2007	\$ 69,000	\$ -	Budgeted	Feb 9, 2007
	Total 2006			\$ 296,000	\$ 8,617		
	Total Audited			\$2,353,418	\$2,023,139		