Issue Date
August 10, 2007
Audit Report Number
2007-DE-1006

TO: Guadalupe M. Herrera, Director, Office of Community Planning and Development, 8AD

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The State of Utah Did Not Comply with HOME Investment Partnerships Program Requirements

HIGHLIGHTS

What We Audited and Why

We audited the State of Utah's (State) HOME Investment Partnerships Program (HOME). We selected the State's HOME program for audit because it received more than $12 million in entitlement funds from 2004 to 2006 and the Office of Inspector General had not performed an audit of the State's HOME program.

Our objectives were to determine whether the Utah Department of Community and Culture, Division of Housing and Community Development (Division), properly used and recorded HOME program income in compliance with U. S. Department of Housing and Urban Development (HUD) requirements; established and completed HOME projects within the required periods; properly performed the required monitoring of the HOME projects; and, ensured that HOME funds were used for HOME activities.

What We Found

The Division incorrectly used more than $1 million in HOME funds when program income funds were available for use and did not make timely program income data entries in HUD's Integrated Disbursement and Information System (System). Division management did not have policies and procedures in place to ensure compliance with HUD's program income requirements. As a result, the Division's entitlement and program income accounts were out of balance in the System and could not be corrected. The Division and HUD lacked assurance that the program income entered into the System was current.

The Division generates so much program income that it does not effectively expend its entitlement funds. This is occurring because the Olene Walker Housing Loan Fund board's goal is in direct conflict with its overall objective and with HUD's time requirements. As a result, the Division is in jeopardy of losing at least $4 million in entitlement funds.

The Division did not adequately monitor its contract recipients' HOME activities or the HOME projects it established. The Division director did not provide sufficient oversight and management of the HOME functions. Therefore, the Division and HUD lacked assurance that all HOME projects were properly established and completed, that HOME funds were properly controlled, and that the intended program benefits were realized.

The Division used HOME funds to pay expenses for the Utah Capacity Building Collaborative without substantiating that the expenses were for HOME-related activities. The Division director did not provide sufficient oversight and management of the HOME functions. Therefore, the Division and HUD lacked assurance that more than $300,000 in administrative costs were necessary.

What We Recommend

We recommend that HUD require the Division to establish and implement effective written policies and procedures for its HOME functions, and the Olene Walker Housing Loan Fund board to bring its goals into agreement with its objective and with HUD HOME requirements. We also recommend that HUD determine whether the questionable costs were necessary and require the Division to repay any unnecessary costs. In addition, we recommend that HUD monitor the Division's HOME activities and provide technical assistance.

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 provided the draft report to Division officials on June 27, 2007 and received their written response on July 16, 2007. The Division officials indicated general concurrence with the findings and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The U. S. Department of Housing and Urban Development (HUD) designated the State of Utah (State) as a participating jurisdiction to receive annual Office of Community Planning and Development funding. HUD began allocating HOME Investment Partnerships Program (HOME) funds to the State in 1992.

The Utah State Legislature created a housing trust fund in 1987. The State restructured the fund a few times and established the current Olene Walker Housing Loan Fund (Fund) in 2001. The mission of the Fund was to "support quality affordable housing options that meet the needs of Utah's individuals and families while maximizing all resources." The objective of the Fund was to develop housing that is affordable to very low-, low- and moderate-income persons. A 12-member board, chaired by the governor of Utah, governs the Fund.

The State also restructured the office administering the Fund and established the current Division of Housing and Community Development (Division) in 2004. The State further restructured and made the Division part of the Utah Department of Community and Culture in 2005. The Division's mission was "to help local governments, organizations, and individuals to create and maintain public infrastructure, facilities, services and housing and economic development to enhance the quality of life for all Utahans." A director manages the daily operations of the Division, which maintains its records at 324 South State Street, Suite 500, Salt Lake City, Utah.

The State of Utah divided the state into seven geographic regions called associations of government (associations) in 1970. The purpose was "to assist the state and local governments with multi-county planning, program integration, and optimization of economies of scale." The Division contracted with five associations of governments to perform HOME functions.

HUD and the Division signed an annual contract titled Funding Approval and HOME Investment Partnerships Agreement, which established the annual funding and its terms. HUD allocated to the Division HOME funds of more than $4.5 million for 2004, $4.1 million for 2005, and $3.8 million for 2006.

Our objectives were to determine whether the Division properly used and recorded HOME program income in compliance with the HUD requirements, established and completed HOME projects within the required periods, properly performed the required monitoring of the HOME projects, and used HOME funds for HOME activities.

RESULTS OF AUDIT

Finding 1: The Division Did Not Properly Use or Record Program Income

The Division incorrectly used HOME entitlement funds when program income funds were available for use. It also did not make the required timely entries of program income in HUD's Integrated Disbursement and Information System (System). Division management did not have policies and procedures in place to ensure compliance with HUD's requirements for the recording and use of program income. As a result, the Division's entitlement and program income accounts were out of balance in the System and could not be corrected. The Division and HUD also lacked assurance that the program income entered into the System was current.

Program Income Not Correctly Used or Properly Recorded

The Division did not properly use or record program income. The Division was required by 24 CFR [*Code of Federal Regulations*], Part 92 to disburse its program income funds before drawing down HUD HOME entitlement allocations.

The Division did not record any program income in the System before 2004. At that time, in response to a HUD monitoring review finding, the Division determined the cumulative program income balance and entered it into the System. It also entered into the System program income earned in 2004 for a program income total of more than $5.4 million. However, during this time, the Division requested 11 draws from the HUD HOME entitlement allocation account. The 11 draws from the wrong HOME fund totaled more than $1 million.

The Division corrected the improper procedure; however, it did not correct the improper entitlement draws. It made the last incorrect entitlement fund draw in January 2005. The cumulative total of entitlement and program income funds was correct in the System, but the balances of the two funds were not accurate. HUD officials stated that the HUD System did not allow for the changing of draws from one fund to the other, so neither HUD nor the Division could correct the fund balances in the System.

Program Income Not Entered into the System in a Timely Manner

HUD's CPD [*Community Planning and Development*] Notice 97-09 requires that available program income be determined and recorded in the System in periodic intervals not to exceed 30 days. The Division staff maintained a spreadsheet in which they recorded the newly earned program income. However, they did not enter this information into the System in the required periodic intervals. For example, the System entry dates showed that staff entered the program income earned from July through November 2006 into the System in February 2007. They did not always keep the spreadsheet current. We received the spreadsheet in February 2007 and it did not show the December 2006 and January 2007 program income. Therefore, the Division and HUD often did not have an accurate balance of program income.

Lack of Controls

The Division did not have policies and procedures in place to ensure compliance with HUD's requirements for the recording and use of program income. It did not have written procedures for the administration of program income. The Division employee responsible for requesting draws established informal procedures in 2005 to control the use of program income. However, the informal procedures did not ensure the timely recording of newly earned program income. Without effective, well-established procedures, the Division and HUD lack assurance that the Division will properly record and use program income in the future.

Conclusion

The Division incorrectly used more than $1 million in HOME funds when program income funds were available for use and did not make timely program income data entries in HUD's System. Division management did not have policies and procedures in place to ensure compliance with HUD's program income requirements. As a result, the Division's entitlement and program income accounts were out of balance in the System and could not be corrected. The Division and HUD also lacked assurance that the program income entered into the System was current.

Recommendations

We recommend that the HUD Denver Office of Community Planning and Development director

1A. Require the Division to establish and implement written policies and procedures for the program income functions sufficient to ensure the proper recording and use of program income.

1B. Monitor the Division's recording and use of program income to ensure that it does not draw down the entitlement funds when program income is available.

Finding 2: The Division Is Not Effectively Expending Its Entitlement Funds

The Division generates so much program income that it is not effectively expending its entitlement funds. This is occurring because the Olene Walker Housing Loan Fund board's (board) stated goal is in direct conflict with HUD requirements and contradicts the board's overall objective of developing housing that is affordable to very low-, low- and moderate-income persons. As a result, the Division is in jeopardy of losing at least $4 million in entitlement funds by the end of program year 2008 and the Division is not effectively meeting the needs of very low-income persons who cannot afford loans.

Division Not Effectively Expending Its HOME Funds.

The Division generates so much program income that it has not been able to expend its entitlement funds except for the required community housing development organizations and administrative costs. HUD is required by 24 CFR, Part 92 to recapture any funds not expended within five years of receiving the grant.

The Division recorded more than $10.8 million in program income from June 2004 through February 2007. Most of this program income was from repayments on loans. The following table shows the amounts of program income earned by program year:

Program Year	Amount of Program Income Earned
Initial accumulated amount*	$ 2,500,029
2004	$ 2,709,171
2005	$ 2,699,743
2006	$ 2,933,856
Total	$10,842,799

*Initial amount established in 2004 in response to a HUD monitoring review.

The Division used most of its HOME funds to provide loans. The amounts of HOME projects set up as loans were 84.4 percent in 2004, 93.8 percent in 2005, and 96.5 percent in 2006. The HOME projects established as loans consistently increased; consequently, the amount of program income earned will continue to increase proportionally.

The Division is required by 24 CFR, Part 92 to disburse all program income before expending additional entitlement funds. The Division expended $9.1 million in program income during program years 2005 and 2006. The only entitlement funds expended during this same period were for administrative and community housing development organizations costs because the System requires entitlement funds be used to fund these activities. The average amount of entitlement funds expended by the Division was just over $1.7 million for each of program years 2005 and 2006.

As of March 31, 2007, the Division had $1.4 million in program income and $15.6 million in HOME entitlement funding for a total of more than $17.1 million of available HOME funding.

Board's Goal in Direct Conflict with HUD Requirements

The board set a goal to 'grow' the Fund to $100 million. The 2006 annual report submitted by the board to the Utah State Legislature states, "the Board is committed to 'growing' the fund, and selectively allocates funds as loans rather than grants based upon each project's economics."

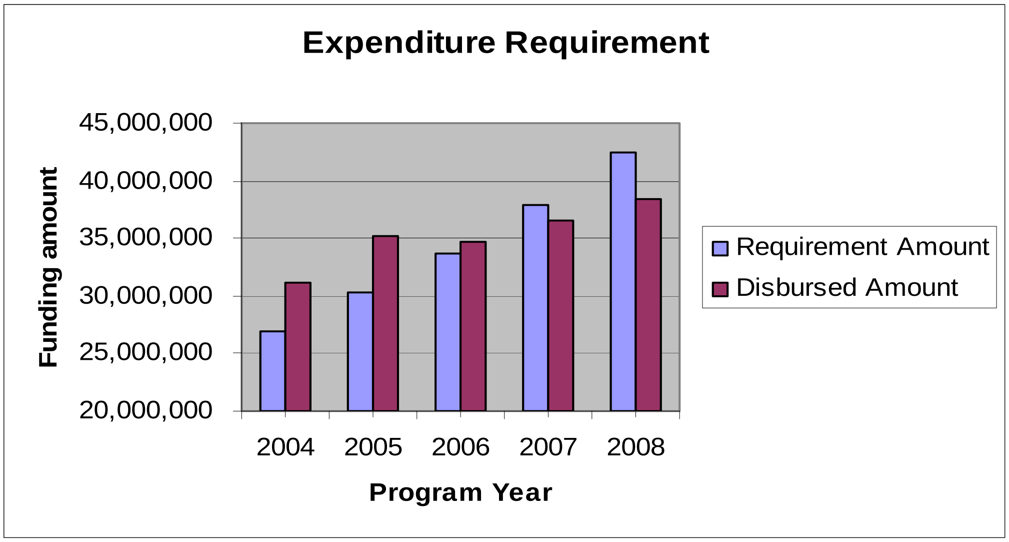
The board's goal is in direct conflict with HUD regulations that require the Division to expend the HOME funds within five years of receipt. The goal also contradicts the board's overall objective of developing housing that is affordable to very low-, low- and moderate-income persons. The policy of the board to allocate HUD funds in the form of loans restricts meeting the needs of very low-income persons who cannot qualify for or afford loans.

The Division does not have the policies and procedures in place to effectively establish and administer HOME projects to ensure compliance with HUD's expenditure requirements.

Division in Jeopardy of HUD Recapturing at Least $4 Million

To determine compliance with the expenditure requirement, HUD uses a formula that compares the cumulative totals of entitlement expenditures to entitlement allocations. Specifically, the cumulative expenditures must be greater than cumulative allocations from five years earlier. For example, the Division's cumulative expenditures at the end of program year 2006 of $34.7 million were greater than the cumulative allocations through 2002 of $33.7 million.

The expenditure requirement will be $37.8 million for the end of program year 2007 and $42.4 million for the end of program year 2008. Using the average amount of entitlement funds expended by the Division of just over $1.7 million, we estimate that the Division's cumulative entitlement expenditures will be $36.5 million at the end of program year 2007 and $38.3 million by the end of program year 2008. Therefore, the Division is in jeopardy of HUD recapturing at least $4 million ($42.4-$38.3=$4.1) by the end of program year 2008:



Conclusion

The Division generates so much program income that it is not effectively expending its entitlement funds. This is occurring because the board's stated goal is in direct conflict with HUD requirements and contradicts its overall objective of developing housing that is affordable to very low-, low-, and moderate-income persons. As a result, the Division is in jeopardy of losing at least $4 million in entitlement funds by the end of program year 2008 and the Division is not effectively meeting the needs of very low-income persons who cannot afford or qualify for a loan.

Recommendations

We recommend that the HUD Denver Office of Community Planning and Development director

2A. Require the board to bring its goal to 'grow' the fund into agreement with its objective and HUD HOME requirements.

2B. Require the Division to establish and implement written policies and procedures to effectively accomplish HOME functions to ensure compliance with HUD requirements.

2C. Provide technical assistance as needed to assist the Division in continuing to meet the five-year expenditure requirment and ensuring the $4 million that is in jeopardy is properly expended.

Finding 3: The Division Did Not Properly Monitor All HOME Activities

The Division did not adequately monitor its contract recipients' HOME activities. It also did not adequately monitor the HOME projects it established. This occurred because the Division director did not provide sufficient oversight and management of the Division's HOME functions. Therefore, the Division and HUD lacked assurance that all HOME projects were established and completed in compliance with the requirements, that HOME funds were properly controlled, and that the intended program benefits were realized.

Lack of Monitoring

The Division used different methods for the establishment of single family and multifamily HOME projects, but did not properly monitor either. The Division contracted with several entities to establish and administer single family housing projects. The State is allowed by 24 CFR, Part 92 to contract with a recipient to perform HOME functions, but is required to conduct such reviews as necessary and appropriate to ensure the recipient is in compliance with HOME requirements.

The Division set up and administered the multifamily housing projects. The State is required by 24 CFR, Part 92 to monitor the completion of the work specified in the contract and to monitor the units specified as affordable housing in the contract for the affordability period. The following sections describe the types of HOME contracts and the related monitoring deficiencies.

Associations of Governments

The Division contracted with several entities to perform the HOME functions for single family projects, but did not properly monitor the entities' activities. The State of Utah divided the state into seven geographical regions and established councils of local government officials. The state called these geographical regions and corresponding councils associations of governments (associations). The Division established HOME contracts with five of the associations. HUD regulations require that the Division conduct reviews of its recipients to determine whether the recipients committed and expended the HOME funds as required and met the eligible activities and other requirements.

The Division provided each association an allocation of HOME funds to provide loans for single family rehabilitation or reconstruction projects. The associations selected the projects, executed the contracts for the rehabilitation or reconstruction work, and prepared the loan documents. The Division and homeowner signed the loan documents. The Division and the State Finance

Department coordinated on collection of the loan payments. The associations also determined the eligibility of project contractors' requests for payment and when the contract was complete.

The Division gave full authority to the associations and did not adequately monitor their HOME functions. Therefore, the Division did not ensure that the projects were for eligible HOME activities. It also did not effectively monitor the completion of the projects. At the start of projects, the associations prepared and provided the Division the project loan documents. The loans had delayed effective dates to allow for the completion of the projects. For one project, the Division started sending payment notices on the loan after the effective date. The owner did not send payments, so the Division sent a default letter stating if payment was not received, foreclosure procedures would start. The Division then discovered that the project was not complete, but the Association did not submit a loan modification. At the time of our review, the Division and Association were working on correcting this project's documentation and status.

American Dream Downpayment Initiative Contracts

HUD started allocating American Dream Downpayment Initiative (Initiative) program funds to the Division in 2003. The Division contracted with nine recipients in 2004 to administer the Initiative. The Division provided a portion of each annual HUD Initiative allocation to each of the nine recipients. The recipients set up a local bank account, determined the persons who would receive Initiative funds, and established loans with these individuals. The loans were payable upon death, sale, or refinance of the home. The recipients deposited any loan payments in their local bank accounts and used the funds for other Initiative loans. This procedure was in violation of the HUD Initiative requirement that the Division deposit Initiative program income in its HOME bank account.

The Division did not monitor how the recipients used the Initiative program funds. In addition, it did not have record of or recapture the Initiative program income and deposit the funds in the State's HOME bank account, as required. Therefore, the Division did not have adequate controls over the Initiative funds and did not ensure compliance with the requirements.

Multifamily Projects

The Division set up and administered the multifamily housing projects involving HOME funds. It did not adequately complete the required monitoring. Division management officials stated that they hired a contractor to perform the multifamily monitoring functions. However, the Division did not provide documentation showing that the contractor properly completed this monitoring.

The Division is required by 24 CFR, Part 92 to maintain program administration records, including written agreements, applicable administrative requirements, inspections, monitoring reviews, and the resolution of any findings or concerns. We reviewed six multifamily housing project files. The files contained the written agreements and other administrative documents, but only three contained monitoring review documentation. Division staff completed these monitoring documents from October 2006 to February 2007.

Lack of Monitoring Procedures

The Division director did not establish policies and procedures to ensure that the Division performed the required monitoring. The Division had some general policies for the various HOME-related responsibilities, including monitoring, but not detailed procedures. The Division would be better able to ensure compliance with the monitoring requirements with detailed policies and procedures establishing when monitoring reviews are to be performed, what activities will be monitored, how the entity will be informed of the monitoring results, and how identified deficiencies will be resolved.

The Division also did not properly complete the monitoring requirements for the multifamily projects for which it established and administered the contracts. Division employees did not complete all required monitoring visits and did not properly document all of the monitoring that was completed.

The Division recently hired staff members whose responsibilities include monitoring the HOME projects. They were developing checklists to use for monitoring visits. They had started monitoring the multifamily projects established by the Division. However, they did not monitor the activities of the recipients.

Lack of Assurance of Program Compliance

By not performing the required monitoring of all HOME projects, the Division and HUD lacked assurance that the projects were properly established and completed. The Division did not properly control the Initiative funds, so the funds were vulnerable to misuse. The Division and HUD also lacked assurance that the HOME funds expended on the projects provided the intended benefits of the HOME program of expanding the supply of decent, safe, sanitary, and affordable housing, with primary attention to rental housing, for very low-income and low-income families.

Conclusion

The Division did not conduct the required monitoring of HOME functions, require adequate documentation to support requests for payment, or properly control HOME funds. It did not have effective policies and procedures to ensure proper administration of HOME functions. Therefore, the Division and HUD lacked assurance that all HOME projects were established and completed in compliance with the requirements and that the intended program benefits were realized.

Recommendations

We recommend that the HUD Denver Office of Community Planning and Development director

3A. Require the Division to establish and implement effective monitoring policies and procedures to ensure that it effectively administers the HOME program.

3B. Require the Division to determine the amount of Initiative program income earned from paid Initiative loans, to obtain that amount from the entities, and to deposit it into the Division's HOME bank account.

Finding 4: The Division Did Not Ensure That HOME Funds Were Used for Related HOME Activities

The Division used HOME funds to pay expenses for the Utah Capacity Building Collaborative (Collaborative) without substantiating that the expenses were for HOME-related activities. The Division director did not provide sufficient oversight and management of the Division's HOME functions. Therefore, the Division and HUD lacked assurance that more than $300,000 in administrative costs were necessary and that it realized the intended program benefits.

Questionable Use of HOME Funds

The Division used HOME funds to pay expenses for the Collaborative without substantiating that the expenses were for HOME-related activities. Allowable HOME costs are listed in 24 CFR, Part 92, which specifies that part of the allowable cost requirement is that the costs must be related to a HOME project or to carrying out the HOME program. The Collaborative contracts and cost documentation did not establish that the costs were related to HOME projects or necessary for carrying out the HOME program functions.

Utah Capacity Building Collaborative

The Division established the Utah Capacity Building Collaborative to help nonprofit entities "increase their organizational capacities and the effects of their programs on the lives of Utahns." The Division executed HOME contracts with nine entities in 2004 under the Collaborative. The HOME regulations' allowable costs did not include capacity building expenses. The only allowance for capacity building cost was restricted to capacity building for Community Housing Development Organizations during the Division's first two years of participation in the HOME program. The Division's participation began in 1992, so this provision is not applicable.

The scopes of work for the contracts were for activities that generally were allowable HOME costs, such as salary and other administrative items. The Division paid more than $300,000 for Collaborative costs (see appendix C for detailed listing). However, neither the contracts nor the payment support documentation established that the expenses related to a specific HOME project or were necessary to carry out the HOME program.

Technical Assistance Grants Not Used

The Division competitively applied for and HUD awarded three technical assistance grants totaling $196,000. The Division's grant applications showed that the intended uses were for Collaborative activities. The Division did not provide the required reports, so HUD disbursed no funding. The grants expired in 2003 and HUD recaptured the funds. The Division submitted "close out" documents in 2005 requesting payment from the grants amounts. HUD explained that the funds were no longer available. Since the Division could not use the recaptured grants funds given specifically for the Collaborative, it used HOME funds instead without establishing that the costs were for HOME-related activities.

Lack of Controls

Division management did not establish sufficient controls and procedures to ensure that the proper grant funds were used for Collaborative activities. Division management also did not have adequate controls to ensure that HOME funds were used only for clearly established HOME activities. They also did not establish and implement written policies and procedures for the administration of the HOME program functions, including determining the eligibility of costs and the proper disbursement of HOME funds.

Conclusion

The Division disbursed $306,648 in HOME funds to Collaborative recipients for questionable costs. The costs were questionable because the available documentation did not establish that the expenses were necessary for HOME-related activities. Therefore, the Division and HUD lacked assurance that these costs resulted in HOME program benefits.

Recommendations

We recommend that the HUD Denver Office of Community Planning and Development director

4A. Determine whether the $306,648 in questionable costs to the Collaborative were necessary.

4B. Require the Division to repay, from nonfederal funds, the amounts determined to be unnecessary.

SCOPE AND METHODOLOGY

Our review period was from July 1, 2004, to June 30, 2006. We expanded the period as needed to obtain historical and current information pertinent to our review. Our review was limited to HOME Program activities.

To achieve our objectives, we reviewed HUD and Division criteria and contracts, met with HUD and Division staff, and looked at HUD and Division records.

We selected a sample of 17 project files for HOME funding recipients out of 462 HOME projects administered by the Division. We received a report for each year in the audit period showing the projects funded from the HUD allocation for the year. We selected four projects from the Division's single family self help program, seven projects from its single family rehabilitation program, and five projects from the multifamily program. We selected projects that provided a cross-section of program activities. We reviewed these files to obtain an understanding of the project documentation and to determine whether the Division properly established and completed HOME projects. We used computer-generated lists to select our sample, but did not place reliance on the computer data.

The Division contracted with five associations to perform HOME functions. We selected two associations with larger contract amounts and within reasonable driving distances. We visited the associations to obtain input from pertinent staff members concerning the assistance and oversight provided by the Division and to gain an understanding of the information available for review during a Division monitoring visit.

We performed our site work from January to March 2007 at the Division's offices at 324 South State Street, Suite 500, Salt Lake City, Utah.

We performed our review 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:

- Controls over recording HOME program income earned and expended in HUD's System.
- Controls over committing and expending HOME funds and program income within the HUD-required periods.
- Controls over monitoring HOME projects and subrecipient activities.
- Controls over ensuring HOME funds are used for HOME-related activities.

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 Division did not have adequate controls over the recording of program income in the System and the use program income (finding 1).
- The Division's current procedures could result in the Division not being able to continue expending funds within the required five years (finding 2).
- The Division did not have adequate controls over the monitoring of HOME project activities (finding 3).

- The Division did not have adequate controls to ensure that expenses were for HOME-related activities (finding 4).

APPENDIXES

Appendix A

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

Recommendation number	Unreasonable or unnecessary 1/	Funds to be put to better use 2/
2C		$4,000,000
4A	$306,648	

1/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

2/ 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 noted in preaward reviews, and any other savings which are specifically identified.

In this instance, the $4 million represent funds that HUD will have to recapture if the Division does not meet the five-year expenditure requirement in the upcoming funding year. See finding 2 for a detailed explanation.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

Department of Community and Culture
Palmer DePaulis
Executive Director

Division of Housing and Community Development
Gordon D. Walker
Division Director

July 12, 2007

Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General
UMB Plaza Building
1670 Broadway, 24th Floor
Denver, Colorado 80202-4801

Dear Mr. Hosking,

Thank you for the letter and June 27, 2007 draft audit report of the State of Utah's HOME program. We appreciated the professionalism and approach exhibited by both your staff members during their audit, Todd Gagon and Beth Archibald.

When I became Division Director in November 2003, some issues were immediately evident: problems in staff capability, accountability, processes, compliance, and overall efficiency. To address these problems, I have hired more qualified and productive housing staff to replace staff that were leaving or terminated. In the past two years, there have been six changes on our nine-member housing team. I have also instituted a higher degree of division oversight by hiring an additional auditor. For the final audit report, HUD should include this context and recognize improvements and positive trends that are occurring in the State of Utah's management of the State of Utah HOME funds.

Comment 1

The draft report also expresses concern over the Olene Walker Housing Loan Fund Board's goal to provide a long-term and consistent funding stream for affordable housing by creating a $100 million perpetual fund. With this goal, the Board has naturally preferred loans to grants. But, this preference is also necessitated by the Federal Low Income Housing Tax Credits rules which do not allow grants. To meet HUD's expectations to expend funds while meeting the LIHTC matching requirements and while serving very low AMI populations, the Board has been issuing more cash flow loans. Cash flow loans and the strategic use of grants limit program income. Meanwhile our agency's marketing efforts are increasing demand for PI and entitlement funds. We do not want to place our HUD HOME funds in jeopardy by creating a large balance of program income verses entitlement funds. We are taking whatever steps are needed to avoid a loss of HOME funds.

We will forego a formal exit conference with your staff. We will anticipate the release of the final letter, and will work with the Denver HUD office to address the findings and recommendations therein. Thank you.

Sincerely,

Gordon D. Walker
Director

cc: Beth Archibald
Todd Gagon
Judy Padgett

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OIG Evaluation of Auditee Comments

The Division's response indicated general agreement with the findings and recommendations.

Comment 1 We obtained and reviewed the Low-Income Housing Tax Credits sections of the Internal Revenue Code and the Utah Code and did not find support for the statement that the rules did not allow grants. The Utah Housing Corporation is responsible for tax credits for the State of Utah. We contacted a Utah Housing Corporation official, who stated that tax credits do allow for grants, but there is a negative impact on the tax credits. The amount of the grant must be deducted from the project cost before the tax credits are calculated. He stated that he knew of low-income housing rehabilitation projects for which grants could be given with limited impact on the tax credits. He said he was willing to work with the Division and HUD to develop a rehabilitation plan.

Appendix C

UTAH CAPACITY BUILDING COLLABORATIVE DETAILS

The Division developed the Collaborative for nonprofit entities involved in housing development throughout Utah. The goal of the Collaborative is to help Utah's community-based housing organizations increase their organizational capacities and the effects of their programs on the lives of Utahans. The following table shows the entities receiving HOME grants through the Collaborative in 2004 and the use of the grants for each entity.

Entity Name	Purpose of Grant	Grant Amount
Neighborhood Nonprofit Housing Corporation	Drafting new board and personnel manual, evaluation of technology, and development of business plan	$49,000
Uintah Basin Assistance Council	To pay salary of the Executive Director, travel, training and equipment, and audit	$30,000
Ogden Housing Authority	To pay partial salary of the Administrative Assistant	$19,336
Color Country Community Housing	To pay salary of the Project Development Manager	$32,000
Coal Country Housing and Development Corporation	To pay salary of the Executive Director, the Property Management Staff, and the Financial Audit Consultant	$50,300
Multi-Ethnic Development Corporation	Hiring of staff and to provide training	$50,000
Northwest Band of Shoshone Nation	Purchase of computers and hiring of tribal members to perform a tribal needs assessment	$20,000
Rural Housing Development Corporation	To pay partial salary of the Executive Director, the Accounting Assistant, and the Development Specialist	$36,012
Navajo Utah Commission	Purchase of upgraded computer hardware and development of procedures	$20,000
	Total Amount	$306,648