



Issue Date April 10, 2007
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Audit Report Number 2007-LA-1009
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TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The City of Chula Vista, California, Generally Administered Its HOME Investment Partnerships Program in Accordance with HUD Requirements.

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of Chula Vista (City) in response to an auditability survey and risk analysis completed by our office. The analysis showed that the City fell into a high-risk category, based on the fact that the City spent more than 50 percent of its grant funds on rental activities and its staffing level was inadequate. Additionally, HUD's 2005 on-site monitoring review of the City reported nine findings and one concern. The most significant findings were related to the untimely commitment of funds, untimely expenditure of funds, and lack of documentation to show that match funds had been provided as required.

Our audit objective was to determine whether the City administered its HOME Investment Partnerships Program (HOME) in accordance with HUD requirements. We wanted to determine whether the City's (1) internal controls and financial management system were adequate, (2) expenditures were eligible and adequately supported, (3) matching funds were eligible and supported, and (4) monitoring and housing quality standards were adequate.

## **What We Found**

All findings identified in the HUD monitoring report had been addressed and corrected by the City, and the City was generally administering its HOME program in accordance with HUD requirements.

## **Auditee's Response**

We provided the auditee the final report on April 10, 2007.

## TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: The City Generally Administered Its HOME Program in Accordance with HUD Requirements	5
Scope and Methodology	7
Internal Controls	8

## **BACKGROUND AND OBJECTIVES**

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The HOME Investment Partnerships Program (HOME) is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act. The program is designed exclusively to create affordable housing for low-income households. Each year, approximately \$2 billion is allocated among the states and hundreds of localities nationwide. Under the program, the U.S. Department of Housing and Urban Development (HUD) allocates funds by formula among eligible state and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing, with primary attention to rental housing for very low-income and low-income families. Generally, HOME funds must be matched by nonfederal resources. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, and new construction of housing and tenant-based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies, and other forms of investment that HUD approves. Additionally, up to 10 percent of the participating jurisdiction's annual allocation may be used for program planning and administration.

The City of Chula Vista's (City) Community Development Department is responsible for a wide range of community revitalization and economic development projects, programs, and activities implemented through four major divisions, which include Redevelopment, Housing, Economic Development, and Planning and Environmental Services.

The City's Housing Division is responsible for implementing a variety of proactive and innovative affordable housing projects and programs as well as managing the Community Development Block Grant and HOME programs. The division staffs the Housing Advisory Commission and Mobile Home Rent Review Commission and acts as liaison to the Regional Housing Task Force, Fair Housing Resource Board, Federal Emergency Management Agency Board, Regional Community Development Block Grant Administrator's Board, and San Diego Housing Federation.

## RESULTS OF AUDIT

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### Finding 1: The City Generally Administered Its HOME Program in Accordance with HUD Requirements

The City generally administered its HOME program in accordance with HUD requirements. Specifically, the City's (1) internal controls and financial management system were adequate, (2) expenditures were eligible and adequately supported, (3) matching funds were eligible and supported, and (4) monitoring and housing quality standards were adequate.

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#### **The City's Internal Controls and Financial Management System Were Adequate**

The City's Accounting Department was a separate entity from the Community Development Department, which had an adequate segregation of duties regarding HOME funding approval and drawdown requests. All invoices submitted to the Community Development Department for reimbursement were reviewed by community development staff initially and then sent to the Accounting Department for additional review. The City's accounting policies and procedures reasonably assured that program implementation was consistent with HUD laws and regulations. The City's financial management/accounting software was adequate to account for all financial transactions made by the City related to its HOME program.

#### **Program Expenditures Were Eligible and Supported with Adequate Documentation**

We selected three of the City's HOME-funded projects to determine the eligibility of the expenses. One project from each HOME program the City administered was selected for review. The three projects selected were from the following programs: (1) acquisition (first time home buyer program), (2) new construction (Seniors on Broadway), and (3) rehabilitation (Casa Nueva Vida I & II). We reviewed each project file in its entirety and found that all expenditures had appropriate supporting documentation to show that the expenses were eligible.

### **Matching Funds Were Provided as Required**

We reviewed all match documentation for fiscal years 2005 and 2006, which included the City's match log that provided details on the total amount of HOME funding expended and the match liability incurred for each fiscal year. The log showed that the City provided an amount of matching funds well above the liability incurred. We reconciled the City's match log with HUD's records to ensure that the City's data were accurate. We also reviewed the City's revenue and expenditure reports for fiscal years 2005 and 2006, which showed the source (revenue) and application (disbursement) of the funding. We determined from our review of the match log and revenue/expenditure reports provided by the City that matching funds were provided as required and the source of the funding was from nonfederal funds.

### **Program Monitoring and Housing Quality Standards Were Adequate**

We assessed the City's compliance with HUD's monitoring and housing quality standards by interviewing pertinent personnel, reviewing supporting documentation, and conducting site visits to the projects in our sample. We determined that the City monitored all projects that were in progress and contracted out the monitoring of all completed projects. We reviewed monitoring reports of both the City and its contractor. All reports showed a sufficient amount of detail, which allowed us to determine that compliance monitoring was conducted and was an adequate assessment of each project's compliance. In addition, we were able to verify that the City was in compliance with HUD's housing quality standards by conducting site visits that included visual inspections of several occupied and vacant units. We determined that the City was in compliance with both its monitoring and housing quality standards.

### **Conclusion**

The City of Chula Vista generally administered its HOME program in accordance with HUD requirements.

## SCOPE AND METHODOLOGY

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We conducted our audit work in the city of Chula Vista, California, and our audit generally covered the period July 2004 through July 2006. We expanded our scope when necessary. Our universe included those open, completed, and final draw projects with commitment dates that fell within our audit scope. We selected the three largest funded projects from our universe that expended funding on three different areas of the HOME program. The three projects were authorized a total of \$3,568,619 in funding and drew down a total of \$3,132,497. HUD's Integrated Disbursement and Information System automatically draws down funds using a first-in, first-out method, which caused funding to be drawn from the City's oldest open grants. Consequently, the draws made during our audit period were from the following HOME grants:

- M-98-MC-060505
- M-99-MC-060505
- M-00-MC-060505
- M-01-MC-060505

We reviewed the City's policies and procedures related to accounting, monitoring, and internal controls to find out whether the City was administering its grants in accordance with HUD requirements and providing adequate oversight of its funding recipients. We also conducted site visits to three project sites and reviewed accounting records and client files to find out what services were provided and whether those services and the clients served were eligible to receive HOME funds. More specifically, to accomplish the survey, we performed the following:

- Reviewed relevant HUD regulations and Office of Management and Budget circulars.
- Reviewed HUD's Community Planning and Development monitoring report and project files associated with the City's grants.
- Interviewed appropriate community planning and development personnel.
- Reviewed the City's policies and procedures associated with its HOME program.
- Interviewed appropriate City personnel to obtain an understanding of its operations and internal controls.
- Reviewed the City's revenue and expense reports and supporting documentation for the \$3,132,497 drawn down.
- Reviewed the City's match liability to determine whether the City provided the required match amounts from an eligible source of funding.
- Reviewed projects' client files to verify eligibility to participate in the HOME program.

We performed the audit work between January 10 and March 16, 2007.

We conducted our audit in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Compliance with applicable laws, regulations, and provisions of program agreements.
- Effectiveness and efficiency of program operations.
- Policies and procedures to ensure that grant expenditures were eligible and adequately supported.
- Policies and procedures to ensure that financial management and record-keeping systems were adequate.

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

We did not identify any significant weaknesses in the relevant controls identified above.