



U.S. Department of Housing and Urban Development
New England Office of District Inspector General
for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

Audit Memorandum

No: 2001-BO-1006

August 29, 2001

MEMORANDUM FOR: Mary Ellen Morgan, Director, Office of Community Planning and Development, 1ED

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

SUBJECT: State of Connecticut
HOME Investment Partnerships Program
Hartford, Connecticut

We performed a review of the State of Connecticut's HUD HOME Investment Partnerships Program (HOME program) administered by the Department of Economic and Community Development (DECD). Our objective was to determine whether the DECD is administering its HOME program in compliance with HUD requirements and program objectives.

Our review disclosed that DECD used HOME funds in accordance with HOME program objectives and requirements pertaining to the selection, cost eligibility, and resale/recapture provisions. However, we determined that annual performance reviews are not consistently performed. We observed that tenant file records for one project were not in accordance with HOME requirements; one project was not completed in a timely manner in accordance with the written HOME assistance agreement; and one project was occupied in May of 1999, however, no annual performance monitoring reviews have been performed. HUD identified monitoring concerns in their previous monitoring reports dating back to 1999, and DECD concurred with our results. Consequently, there may be instances where decent, safe, sanitary, and affordable housing, with primary attention to rental housing, for very low-income and low-income families may be limited.

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

Should you or your staff have any questions, please contact our office at (617) 565-5259.

Background

The HUD HOME Investment Partnerships Program (HOME Program) was established under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990. The primary objective of the program is 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. Each year over \$1 billion is allocated among the States and hundreds of localities nationwide. As a housing block grant, the HOME Program provides participating jurisdictions flexibility and discretion over which housing activities to pursue. These activities may include acquisition, rehabilitation, new construction, and resident-based rental assistance. In addition, participating jurisdictions may provide assistance in a number of eligible forms including loans, advances, equity investments, and interest subsidies. Up to ten percent of the HOME funds received by a participating jurisdiction may be used for HOME Program administrative purposes.

The Department of Economic and Community Development (DECD) administers the State of Connecticut's HOME Program. As of April 12, 2001, the total amount of HOME grant funds authorized for grant years 1992 through 2000 is \$75,474,000. A breakdown of the grants awarded by grant year is as follows:

Grant Year	Authorized Amount
1992	\$ 8,759,000
1993	6,044,000
1994	6,788,000
1995	7,896,000
1996	8,575,000
1997	8,318,000
1998	9,290,000
1999	10,007,000
2000	9,797,000
Total	\$75,474,000

As of April 12, 2001, DECD disbursed over \$41 million or 55 percent of the authorized HOME funds. DECD disbursed over \$5 million for administrative purposes and over \$36 million for HOME projects. DECD has funded 205 projects and 2,368 units with HOME funds under the six activity types scheduled in HUD's Integrated Disbursement and Information System (IDIS). A breakdown of the activities and the number of projects funded are as follows:

Activity (Project) Type	Project Count	Count Percentage	Drawn Amount	Total Units	HOME Units
Rehabilitation	18	8.78%	\$ 2,355,684	586	479
Acquisition Only	46	22.44%	919,877	64	64
New Construction	18	8.78%	6,857,979	265	227
Acquisition And Rehabilitation	46	22.44%	7,997,665	758	510
Tenant-Based Rental Assistance	49	23.90%	3,782,852	n/a	379
Acquisition And New Construction	28	13.66%	14,281,582	849	709
TOTALS	205	100.00%	\$36,195,639	2522	2368

The State of Connecticut disbursed a total of \$20,892,775 in HOME funds for administrative purposes and HOME projects during our audit period of July 1, 1998, through December 31, 2000.

Scope and Methodology

To achieve our objective, we identified DECD's planned HOME activities and goals as well as their program accomplishments and progress as reported to HUD. We obtained and reviewed HUD monitoring reviews. We held discussions with the appropriate personnel in the Office of Community Planning and Development in the HUD Connecticut State Office (CSO) and DECD staff. We identified and assessed DECD's procedures to: commit, expend and draw down HOME funds; ensure HOME assisted projects meet eligibility, affordability, and income targeting requirements; ensure contractors and grantees are monitored; and ensure that all HOME assisted housing is decent, safe and sanitary. We judgmentally selected a sample of draw downs from the IDIS report dated February 22, 2001, and reviewed them for timeliness, supporting documentation, and eligibility of cost. We identified DECD's use of HOME funds applied to the various types of activities and projects. We judgmentally selected a sample of three HOME projects to review in their entirety for compliance with HOME program objectives, written agreements, and HUD requirements including selection, affordability, cost eligibility, tenant/income eligibility, resale/recapture provisions, property inspections, monitoring, and closeout. We also conducted site inspections for a sample of HOME projects to ascertain existence and assess appearance. We chose judgmental sampling over statistical sampling due to the size of the universe.

The three DECD projects selected had \$3,624,333 in HOME funds committed and disbursed. The amount of funds disbursed for these three projects represents 10 percent of the total HOME funds disbursed as of April 12, 2001 (\$3,624,333 / \$36,195,638).

Two of the three projects reviewed (Sheldon Oak Cooperative II and Parcel 10C Abbott Terrace) are listed under the "Acquisition and New Construction" activity in IDIS and represent 11 percent of the total HOME funds disbursed for this particular IDIS activity as of April 12, 2001 (\$1,566,803 / \$14,281,582). The third project we reviewed (55 Grove Street) is listed as an "Acquisition and Rehabilitation" activity and represents 26 percent of the total HOME funds disbursed for this particular IDIS activity as of April 12, 2001 (\$2,057,529 / \$7,997,665).

Work was performed between March 2001 and June 2001. The audit period covered July 1, 1998 through December 31, 2000. Where appropriate, the review was extended to include other periods.

Review Results

Our review disclosed that DECD is using HOME funds in accordance with HOME program objectives and HUD requirements regarding the selection, cost eligibility, and resale/recapture provisions. However, our review disclosed concerns with other HOME requirements. Specifically, we found concerns with the rental housing monitoring requirements that ensures HOME funds are used in compliance with HOME program requirements including written agreements, rent affordability, tenant income eligibility, utility allowances, and property inspection standards. HUD identified monitoring concerns in their previous monitoring reports

dating back to 1999, and DECD concurred with our results. Consequently, there may be instances where decent, safe, sanitary, and affordable housing, with primary attention to rental housing, for very low-income and low-income families may be limited.

According to 24 CFR Part 92.504, the performance of each contractor and subrecipient must be reviewed at least annually. In addition, on-site inspections must be performed periodically for the applicable period specified by HUD during the period of affordability. The purposes of performance monitoring reviews are to ensure that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. Performance monitoring regulations are required for all HOME activities, whether it is acquisition, rehabilitation, new construction, etc.

We found that annual performance reviews were not consistently performed for all three of the projects reviewed. We observed that tenant file records for one project (55 Grove Street) were not in accordance with HOME requirements, and one project (Parcel 10C Abbott Terrace) has not been completed in a timely manner in accordance with the written HOME assistance agreement. In addition, we observed that one project (Sheldon Oak Cooperative II) has been occupied since May of 1999; however, no annual performance monitoring reviews have been performed and the project potentially may not comply with HOME requirements and written agreements regarding affordability, income targeting, and tenant eligibility.

Specifically, our review disclosed the following for each project reviewed:

55 Grove Street (Grove Street Mutual Housing)

The IDIS project completion date was February 7, 1997, which is the beginning of the affordability period for this project and continues for 15 years. We found documentation for only one annual desk review and on-site inspection of owner certification reports submitted by the Grove Street Mutual Housing project manager (both were performed in 1999). The only on-site inspection was completed in December of 1999, nearly three years after project completion, and four annual performance desk reviews should have been completed by February 7, 2001.

The 1999 DECD annual desk review and inspection reports indicate that the project complied with HOME regulations; however, in August 2000, the project came under a new project management agent. We reviewed the tenant files maintained by the new project management agent and we observed: 1) the calculation of the utility allowances is not documented in accordance with 24 CFR Part 92.252; 2) source documentation on initial income certification is not documented in accordance with 24 CFR Part 92.203; and 3) annual or periodic re-inspections of units have not been performed in accordance with 24 CFR Part 92.251.

Parcel 10C Abbott Terrace (Grace Congregate Care)

The project has not been completed timely in accordance with the timetable specified in the written HOME Assistance Agreement between DECD and the City of Waterbury. According to the Agreement, all HOME funds were to be drawn down and the project completed by February 21, 2000, and failure to comply with the timetable shall be considered a material breach of the HOME Assistance Agreement unless written extensions were granted. All HOME funds for this project were drawn down by September 27, 1999; however, the project was only 94.5 percent complete as of May 24, 2001. No granted extensions from DECD and no written extension requests from the City of Waterbury were executed. We found documentation for only one on-site inspection of the City of Waterbury's administration of the State funded HOME program, performed on June 23, 1999. In addition, we found no documentation on any further correspondence between the City of Waterbury and DECD since a last request from DECD for an Annual Report on May 27, 2000, which has not been submitted by the City of Waterbury despite two previous requests.

Sheldon Oak II Cooperative

The project is complete and the final payment request was processed in March 2001. The project has been occupied since May 1999; however, no annual performance monitoring reviews have been performed. Based on the available documentation and discussions with DECD staff, we determined that HOME funds were used in accordance with HOME program objectives. However, we were unable to determine if HOME funds were used in accordance with HUD requirements including affordability, tenant eligibility, and property inspections. Potentially, the project may not comply with HOME requirements and written agreements regarding affordability and income targeting and eligibility provisions.

HUD has previously identified these monitoring concerns. In a monitoring report on the State of Connecticut HOME Program dated September 2, 1999, the HUD CSO disclosed that on-site inspections were not being performed and State recipients had not submitted annual performance reports as required. In a response to the HUD report, dated May 10, 2000, DECD advised that on-site inspections would be performed and State recipients would be notified and required to submit yearly status reports. In a HUD CSO monitoring report dated June 28, 2001, the CSO again issued a finding regarding untimely on-site inspections and a concern with yearly monitoring of State Block Grant grantees.

In concurring with the results provided in our draft audit memorandum, DECD advised that they are aware of the monitoring deficiencies, and are taking steps to address the deficiencies accordingly. In their response to the draft audit memorandum, DECD advised that their HOME development monitoring and closeout guidelines were revised to assure that project closeouts are completed in a timely manner. DECD believes that with the timely closeout of the projects once the development phase is completed, DECD's Audit and Asset Management Division will have

all the information necessary to conduct timely on site inspections of the assets once occupied. To smooth the transaction from the development phase to the asset management phase, DECD plans to use a Construction Closeout Documentation Checklist as a vehicle. DECD also advised that the Audit and Asset Management Division would be involved earlier in the process, including the pre-occupancy stage, ensuring that 100 percent of the tenant files are reviewed by the time of project completion.

We believe DECD further needs to consider how they will ensure compliance with annual performance monitoring and on-site inspection. DECD's response addresses the need to complete timely project closeouts, so the Audit and Asset Management Division can perform initial rent and occupancy monitoring. However, DECD does not provide written guidance or assurances that performance monitoring and on-site inspection will be conducted annually on projects that have previously been closed.

Recommendations

We recommend that your office require DECD to:

- A. Identify all HOME projects in which annual performance monitoring and on-site inspection is outstanding.
- B. Develop and implement a plan to complete outstanding monitoring reviews, including estimated dates for completion on each project.
- C. Develop written procedures to ensure annual performance monitoring and on-site inspections are conducted in accordance with HUD regulations.

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