



**U. S. Department of Housing and Urban Development
Office of the Inspector General for Audit**

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MEMORANDUM NO:
2003-SE-1801

January 31, 2003

MEMORANDUM FOR: Jack Peters, Director, Office of Community Planning and Development, OAD

FROM: //Signed//
Francis E. Baca, Regional Inspector General for Audit, OAGA

SUBJECT: HOME Program and CDBG Funds Provided to the Community Resource Center in Bremerton, WA

INTRODUCTION

At the request of the Office of Investigation we reviewed the flow of Departmental funds to the Community Resource Center (CRC), a Community Housing Development Organization (CHDO). The Purpose was to determine the amount of Departmental funding provided to the CRC and the disposition of those funds. Specifically, our objectives were to determine: (1) the amount of Departmental funding provided to the CRC either through Kitsap County (County) or the City of Bremerton (City), and (2) the CRC's disposition of HUD funding received from the County or the City.

This report does not have any recommendations and does not require a response. If you have any questions, please contact Ron Jilg at 206-220-5360.

METHODOLOGY AND SCOPE

To achieve the review objectives, we first interviewed Departmental, County and City staff to obtain information on funding to the CRC and the documentation available for review. Next, we reviewed the grant agreements and related financial records of the Department, County and the City to identify the Departmental funding provided to the CRC and the reported disposition of that funding. Finally, we reviewed the CRC's records to confirm receipt of the Departmental funding and determine the disposition of those funds. We reported the results of our review to the Office of Investigation and they requested no additional work.

Our assistance to the Office of Investigation covered the period January 1, 1999 through September 30, 2001. We performed the work from August 2, 2002 through October 16, 2002.

BACKGROUND

We identified two HUD programs that provided funding to the CRC through the County or the City:

- HOME Investment Partnership Program (HOME) created under Title II of the Cranston Gonzalez National Affordable Housing Act of 1990. HOME helps expand the supply of decent and affordable housing to low income citizens and reinforces important community development principles including extending and strengthening partnerships among all levels of government and the private sector in the development of affordable housing. The program requires that 15 percent of a grantee's annual allocation be set aside and used by non-profit CHDO.
- Community Development Block Grant (CDBG) program authorized by Title I of the Housing and Community Development Act of 1974, as amended. The CDBG program provides annual grants on a formula basis to entitled metropolitan cities and urban counties to implement a wide variety of community and economic development activities directed toward neighborhood revitalization, economic development and the provision of improved community facilities and services.

The CRC entered its first contract for HOME funds with the City in 1997 to operate as a CHDO with contracts through 2000 totaling \$321,647. As a CHDO, the CRC was to provide loans for homeownership opportunities for first time homebuyers through rehabilitation, construction, or down payment assistance. Additionally, we noted that the CRC received \$7,600 of CDGB funds during late 1999 and early 2000.

The CRC was slow at starting the program and the first HOME funds were not requested and received until 1999. In July 2000 the County and City reviewed the operations of the CRC and identified a lack of documentation supporting program operations. In 2001 the County and City again reviewed the operations of CRC and determined program requirements were not being met. Subsequent to that review HOME funding was suspended and the County authorized a grant to CRC to hire Common Ground a contractor to help resolve the perceived lack of administrative capacity.

Common Ground staff began their work and identified indicators of fraud. Common Ground then met with the County, the CRC interim Executive Director, and the CRC Chairman to notify them of the fraud indicators. In response, the CRC board contacted the County prosecutor, resulting in a County investigation. In June 2002 the County and City contacted HUD-OIG for assistance.

RESULTS OF REVIEW

We found that HUD provided the CRC \$317,823 in HOME Program and CDBG funds through the County and City between January 1999 and September 2001. Home funds provided to CRC during that period totaled \$310,223 and CDBG funds totaled \$7,600.

Available CRC documents and bank records indicate that the CRC spent more than \$317,823 to benefit program participants, however the available supporting documentation is neither

adequate nor complete (for example, checks to contractors for work on participant dwellings do not always have matching invoices and wire transfers to title companies for down payment assistance have no corresponding evidence that the participant bought a house). Accordingly, we could not determine the amount of eligible expenditures. In addition, the CRC's records were inadequate to review program income. In general, the CRC's records show its financial management system does not meet federal requirements.

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