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# AUDIT REPORT



HOUSING CONTINUUM, INC.  
HOMEBUYERS ASSISTANCE PROGRAM

GENEVA, ILLINOIS

2003-CH-1017

JUNE 13, 2003

OFFICE OF AUDIT, REGION V  
CHICAGO, ILLINOIS

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Issue Date	June 13, 2003
Audit Case Number	2003-CH-1017

TO: Ray E. Willis, Acting Director of Community Planning and Development,  
Chicago Regional Office

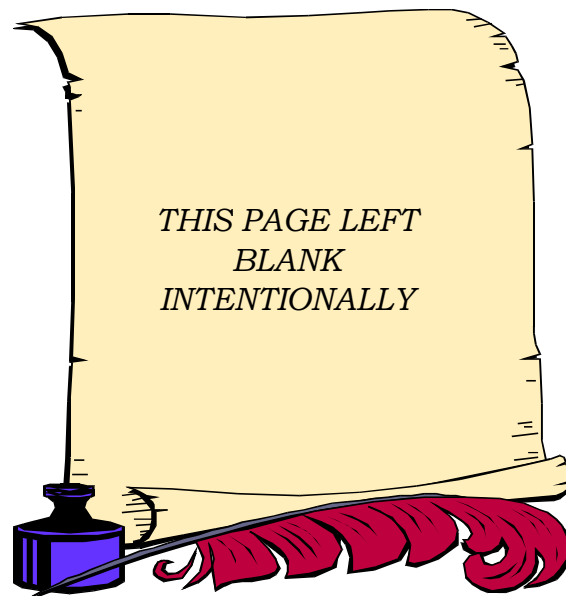
FROM:   
Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Housing Continuum, Inc.  
Homebuyers Assistance Program  
Geneva, Illinois

We completed an audit of Housing Continuum, Inc.'s Homebuyers Assistance Program. The audit resulted from a citizen complaint to Speaker of the United States House of Representatives Dennis Hastert. The complainant alleged Housing Continuum did not ensure that rehabilitated homes met HUD's requirements. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed. HUD's HOME Investment Partnerships Program funded Housing Continuum's Homebuyers Assistance Program. The audit resulted in three findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ronald Huritz, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2675 or me at (312) 353-7832.



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# Executive Summary

We completed an audit of Housing Continuum, Inc.'s Homebuyers Assistance Program. The audit resulted from a citizen complaint to Speaker of the United States House of Representatives Dennis Hastert. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed. The complainant alleged Housing Continuum did not ensure that rehabilitated homes met HUD's requirements. HUD's HOME Investment Partnerships Program funded Housing Continuum's Homebuyers Assistance Program.

We found that Housing Continuum did not ensure that rehabilitated homes met HUD's Housing Quality Standards and/or the State of Illinois' requirements. Specifically, Housing Continuum failed to sufficiently document the required cost analysis and did not assess the reasonableness of the contract price. We determined that housing rehabilitation work was not authorized, not provided, or was improperly performed. Moreover, contractors did not obtain construction permits in a timely manner as required by HUD's regulation and/or the State of Illinois' requirements.

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## Housing Continuum Needs To Improve Its Contracting Process

Housing Continuum, Inc. did not maintain an effective system of controls over its contracting process. It failed to follow HUD's regulations and/or the State of Illinois' requirements regarding the procurement of housing rehabilitation services. Housing Continuum did not document the required cost analysis prior to accepting bid proposals for rehabilitation services and did not assess the reasonableness of contracts amounts.

## Units Did Not Meet HUD's Housing Quality Standards And/Or The State Of Illinois' Requirements

Housing Continuum, Inc. did not ensure that assisted houses met HUD's Housing Quality Standards and/or the State of Illinois' Home requirements. Housing Continuum inappropriately used \$15,714 in HOME Program funds to assist 10 households with rehabilitation work that was not authorized, improperly performed, or not provided. Housing Continuum's former Housing Inspector and rehabilitation contractors incorrectly certified that the rehabilitation work met HUD's Housing Quality Standards and the State's Home requirements when both sets of standards were not met.

## Construction Permits Were Not Obtained Or Obtained After The Work Began

Housing Continuum did not ensure its contractors obtained the required building permits from city building officials before rehabilitation work commenced on projects funded by HUD's HOME Investment Partnership Program.

Contractors were paid and contracts were closed out without ensuring that the required building permits were obtained and local building inspectors performed final inspections.

### Recommendations

We recommend that HUD's Acting Director of Community Planning and Development, Chicago Regional Office, assures Housing Continuum reimburses its Homebuyers Assistance Program for the inappropriate use of HUD funds and implements controls to correct the weaknesses cited in this report.

We presented our draft audit report to Housing Continuum's Executive Director and HUD's staff during the audit. We held an exit conference with Housing Continuum's Executive Director on May 8, 2003. Housing Continuum provided written comments on our draft report.

Housing Continuum disagreed that HUD's HOME Program funds were inappropriately used. We included paraphrased excerpts of Housing Continuum's comments with each finding. The complete text of their comments is in Appendix B except for a 98-page attachment that was not necessary for understanding the comments. A complete copy of Housing Continuum's comments plus the 98-page attachment was provided to HUD's Acting Director of the Chicago Regional Office of Community Planning and Development.

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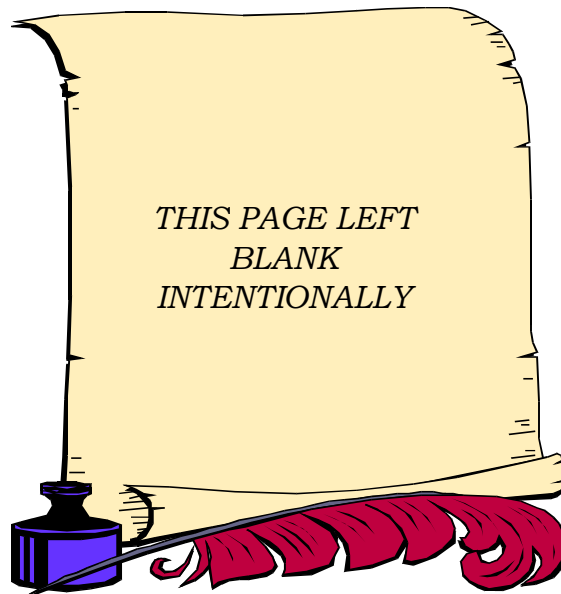
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# Introduction

Housing Continuum, Inc. was established on October 13, 1997 as a private non-profit organization with tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. It developed its Homebuyers Assistance Program to provide housing services to low-income individuals. The Homebuyers Assistance Program provides a maximum of \$35,000 per household in deferred payment forgivable loans to low-income owner-occupants of single-family dwellings. Homebuyers can borrow up to \$7,000 for a down payment to purchase their first home and \$1,500 for closing costs. The remaining \$26,500 is intended for rehabilitation assistance to upgrade homebuyers' homes to comply with HUD's Housing Quality Standards, the State of Illinois' Home requirements, and local housing code requirements.

Housing Continuum uses HOME Investment Partnership Program funds to assist future homeowners in purchasing their first home and providing rehabilitation assistance. Housing Continuum received HOME funds totaling \$300,000 in 1999 and another \$280,000 in 2001.

A 10-member Board of Directors governs Housing Continuum, Inc. The Chairman of the Board is Jeffrey L. Volkman. Housing Continuum's Executive Director is Susan M. Wohl. The executive office for Housing Continuum, Inc. is located at 1035 East State Street, Geneva, Illinois.

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## Audit Objectives

The objectives of our audit were to determine whether allegations made by a complainant and addressed to Dennis Hastert, Speaker of the United States House of Representatives, were substantiated and whether HUD's rules and regulations were properly followed.

## Audit Scope And Methodology

We conducted the audit at HUD's Chicago Regional Office and Housing Continuum's office. To accomplish our audit objectives, we interviewed: HUD's Community Planning and Development staff; the State of Illinois' HOME Program Director and staff; and building department officials from the Cities of DeKalb, Elgin, Sycamore, St. Charles, Elburn, North Aurora, Genoa, and Kane County, Illinois. We also interviewed Housing Continuum's employees and general contractors; a Residential Mortgage Specialist, Senior Loan Processor, and Regulatory Liaison for Harris Trust and Savings Bank; nine homeowners who participated in Housing Continuum's Homebuyers Assistance Program; and the complainant.

We reviewed Housing Continuum's: 1999 and 2001 Grant Agreements with the Illinois Housing Development Authority; program participant files for the projects



discussed in this audit report; resumes of its current employees; and Board meeting minutes. We also reviewed: the 1999 and 2001 Funding Approval and HOME Investment Partnership Agreements between HUD and the Illinois Housing Development Authority; the 1999 and 2001 State of Illinois' monitoring reviews of Housing Continuum's projects; the State of Illinois' HOME Program files for Housing Continuum; and documentation provided by the complainant.

We selected all nine of the homes that received rehabilitation assistance during 2001, plus the complainant's home that received rehabilitation assistance in 1999, through Housing Continuum's Homebuyers Assistance Program. Rehabilitation contracts were executed for the 10 houses. The 10 houses were selected to determine whether Housing Continuum appropriately paid for housing rehabilitation work because the complainant alleged that rehabilitation work was performed incorrectly or was not provided. Our Appraisal Construction Specialist inspected the 10 houses between April 17, 2002 and April 24, 2002.

We performed the on-site audit work between February 2002 and July 2002. The audit covered the period January 1, 2001 through January 31, 2002. This period was adjusted as necessary. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to Housing Continuum's Executive Director and HUD's Acting Director of Community Planning and Development, Chicago Regional Office.

# Housing Continuum Needs To Improve Its Contracting Process

Housing Continuum, Inc. did not maintain an effective system of controls over its contracting process. It failed to follow HUD's regulations and/or the State of Illinois' requirements for the procurement of housing rehabilitation services. Housing Continuum did not sufficiently document the required cost analysis prior to accepting bid proposals for rehabilitation services and did not assess the reasonableness of contracts amounts. The Housing Director for Housing Continuum said the costs of rehabilitating the 10 houses were reasonable because the rehabilitation contracts were awarded to the lowest bidder. However, Housing Continuum awarded five of the 10 contracts when less than three bids were received. The problems occurred because Housing Continuum's top management did not exercise their responsibility to implement effective contracting controls. As a result, HUD lacks assurance that its funds were used efficiently and effectively.

## HUD's Regulations

24 CFR Part 92.505(a) states the requirements of 24 CFR Part 85.36 are applicable to any governmental subrecipient receiving HOME funds.

24 CFR Part 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, a grantee must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost under professional, consulting, and architectural engineering services contracts. A cost analysis is necessary when adequate price competition is lacking and for sole source procurements. This includes 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 is to be used in all other instances to determine the reasonableness of the proposed contract price.

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of

a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition.

Grant Agreements

Section 8(p) of the Grant Agreements for 1999 and 2001 between the Illinois Housing Development Authority and Housing Continuum, effective February 26, 1999 and April 30, 2001, respectively, states Housing Continuum will act as construction manager with respect to the rehabilitation of each residence. This role includes rehabilitation assessments, work write-ups, and the preparation and review of bids.

Sample Selection And Review Results

We selected all of the nine homes that received rehabilitation assistance during 2001, plus the complainant's home that received rehabilitation assistance in 1999, through Housing Continuum's Homebuyers Assistance Program. We selected the 10 houses to determine whether Housing Continuum followed HUD's and the State of Illinois' procurement requirements.

We provided schedules of our review results for Housing Continuum's procurement transactions to HUD's Acting Director of Community Planning and Development, Chicago Regional Office, and to Housing Continuum's Executive Director.

Cost Analyses For Rehabilitation Contracts Were Not Performed

Housing Continuum did not follow HUD's regulations and/or its Grant Agreements with the Illinois Housing Development Authority when it awarded contracts for rehabilitation services under its Homebuyers Assistance Program. Housing Continuum's Grant Agreements with the State required it to follow HUD's regulations and perform a cost analysis prior to accepting bid proposals from contractors to ensure that a fair price was incurred for the work performed. Housing Continuum did not sufficiently document cost analyses for its rehabilitation contracts. It used the contract bids of a few contractors as the basis for establishing the general market price for rehabilitation costs instead of developing cost estimates independent of the contractors.

Housing Continuum did not maintain sufficient documentation to support the basis for how the costs were

estimated for each contract line item. Top management was more concerned that the cost of services received was within the budget for each project rather than with the actual cost of the services. Additionally, Housing Continuum awarded five of the 10 contracts we reviewed when less than three bids were received.

Housing Continuum lacked adequate controls in place to ensure that its contract procurement procedures were performed in accordance with HUD's regulations. The Housing Director for Housing Continuum said the contracts complied with HUD's regulations because they were awarded to the lowest bidder. As previously mentioned, Housing Continuum awarded five of the 10 contracts when less than three bids were received. As a result, HUD funds were not used efficiently and effectively.

Rehabilitation Costs Were  
Not Reasonable

Our Appraisal Construction Specialist determined that Housing Continuum paid \$51,827 in unreasonable costs for rehabilitation services on the 10 houses reviewed. Housing Continuum paid \$162,062 from HUD's HOME funds for the rehabilitation services; however, our Specialist estimated the services should have cost \$110,235. Housing Continuum's Housing Director said the cost of rehabilitating the 10 houses was reasonable because all of the rehabilitation contracts were awarded to the lowest bidder. However, Housing Continuum did not assess the reasonableness of the contract prices and awarded five contracts when less than three bids were received. As a result, HUD funds were not used efficiently and effectively. The following table shows the amount of excessive rehabilitation costs paid for each house.

Finding 1

<i>Property Address</i>	<i>Contract(s) Amount</i>	<i>OIG Appraiser's Estimate</i>	<i>Amount Excessively Paid</i>
33 Cypress *	\$16,710	\$14,150	\$2,560
610 Sycamore Road	22,659	14,012	8,647
329 Wood	19,794	13,489	6,305
1510 Hulmes *	17,500	15,317	2,183
212 East Arrowhead *	21,547	16,242	5,305
1120 Ridgeway	20,547	10,501	10,046
418 Grant	17,170	9,601	7,569
1842 Lucylle Court	2,525	622	1,903
200 South 7A	2,675	1,706	969
225 Genoa Street	20,935	14,595	6,340
<b>Totals</b>	<b>\$162,062</b>	<b>\$110,235</b>	<b>\$51,827</b>
<b>*No change orders were done to add/delete line items in the contract.</b>			


Auditee Comments

[Excerpts paraphrased from the comments provided by Housing Continuum’s Executive Director on our draft report follow. Appendix B, pages 33 to 40, contains the complete text of the comments for this finding.]

Housing Continuum disagrees that it failed to follow HUD’s regulations and/or the State of Illinois’ requirements for the procurement of housing rehabilitation services. Housing Continuum did perform a cost estimate on each of the properties that were listed. This cost estimate was part of the Spec Master software used at that time and is included in each of the case files that were audited.

Housing Continuum strongly disagrees that the excess cost of its projects is \$51,827. Housing Continuum believes it followed HUD’s regulations in its award of contracts. All estimates are in the client files and competitive bidding was used in all projects. Upon review of some of the estimates in the OIG report, it is clear that many of them are low and not based on local pricing. In addition to these estimates, many of the jobs audited required the use of licensed lead based paint contractors for the work performed. Housing Continuum can see no evidence where this price factor was taken into consideration by OIG. The cost of using a licensed lead paint contractor increases the cost of the jobs substantially.

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OIG Evaluation Of  
Auditee Comments

Although the project files did contain some evidence that cost estimates were made, we could not determine the basis used by Housing Continuum to arrive at the conclusion that costs for rehabilitation work was reasonable as defined by 24 CFR Part 85.36(f)(1). We also could not determine the source of cost data used by the Spec Master software or whether the software was updated recently to reflect current economic conditions in the building industry. Housing Continuum's Executive Director and Housing Program Director agreed that cost estimates were not updated to reflect price adjustments that resulted from contract modifications. In the absence of a more detailed cost analysis clearly showing the logic and calculations used, we were unable to replicate the analysis to establish that the reasonableness standard was followed.

The general guideline used to determine whether housing rehabilitation contracts are within the acceptable variance when compared to contractors bid proposals is contained in HUD's publication, "Monitoring HOME Program Performance: A Model Program Guide". This Guide states on page 38 that HOME rules incorporate requirements that a contractor's proposal be reasonable. While not regulated, a generally accepted practice is that the final bid be within 10 percent of the cost estimate. In at least one project audited, the cost differential between the bid and actual price was 32 percent. Actual costs for other projects exceeded contractors' bids between 18 and 25 percent.

As a broad measurement of cost reasonableness, the OIG's Appraisal Construction Specialist used data contained in the R.S. Means Repair and Remodeling Cost Data manual (22<sup>nd</sup> Annual Edition, copyright 2001) to determine average nationwide rates for housing rehabilitation labor and supplies. The manual contains City Cost Indexes that enables nationwide average prices to be indexed to prices in local communities throughout the State of Illinois. The use of this manual for comparison purposes is justified and valuable in that inflated contractor bids or widely disparate costs of materials would be readily apparent when considered in relation to the benchmark costs. Contractor bids solicited and awarded on a competitive basis do not assure that the lowest reasonable price will be paid for the

work. That process, if performed properly, only assures that the lowest bidder may be awarded the contract. However, the costs proposed by the lowest bidder could still vary significantly from reasonable guidelines for similar work performed elsewhere.

Housing Continuum's files did not contain documented evidence of the need for licensed lead paint contractors. In some cases, Housing Continuum may not have known in advance that lead-based paint was an issue that would have to be addressed during the rehabilitation project. However, when the issue did present itself, the contractor should have been required to rebid the work rather than incur the additional costs without a revised cost analysis, and each client file should have been documented to reflect this situation.

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Recommendations

We recommend that HUD's Acting Director of Community Planning and Development, Chicago Regional Office, ensures that Housing Continuum, Inc.:

- 1A. Reimburses its Homebuyers Assistance Program \$51,827 from non-Federal funds for the excessive rehabilitation costs cited in this finding.
- 1B. Implements procedures and controls to ensure that the procurement of housing rehabilitation services meet HUD's regulations and/or the State of Illinois' requirements.

# Units Did Not Meet HUD's Housing Quality Standards And The State Of Illinois' Home Requirements

Housing Continuum, Inc. did not follow HUD's regulations and the Illinois Housing Development Authority's Grant Agreements to ensure that assisted houses met HUD's Housing Quality Standards and the Authority's requirements. Housing Continuum inappropriately used \$15,714 in HOME Program funds to assist 10 households for work that was not provided, not properly performed, or not authorized. Housing Continuum's former Housing Inspector and rehabilitation contractors incorrectly certified that the rehabilitation services met HUD's Housing Quality Standards and the Authority's requirements when they did not. The problems occurred because Housing Continuum lacked adequate controls to ensure houses met the necessary standards after they received housing rehabilitation assistance. As a result, HUD funds were not used efficiently and effectively. HUD also lacks assurance that the houses met the State's requirements and HUD's Housing Quality Standards after they received rehabilitation assistance.

## HUD's Regulation

24 CFR Part 92.251(a)(1) requires housing rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

## Grant Agreements

Exhibit B(5)(b) of the Grant Agreements for 1999 and 2001 between the Illinois Housing Development Authority and Housing Continuum, effective February 26, 1999 and April 30, 2001, respectively, require projects to comply with all local codes, ordinances, zoning ordinances, the authority's rehabilitation standards (for any project involving rehabilitation), and the Housing Quality Standards set forth in the Grant Agreement and the regulations.

Section (8)(m) required Housing Continuum to ensure that for each project, the homebuyers and contractors obtained and complied with all Federal, State, and local government approvals required by law.

## Sample Selection And Inspection Results

We selected all nine of the homes that received rehabilitation assistance during 2001, plus the complainant's home that received rehabilitation assistance in 1999, through Housing Continuum's Homebuyers Assistance Program. Rehabilitation contracts were executed for the 10 houses.



The 10 houses were selected to determine whether Housing Continuum appropriately paid for housing rehabilitation work because the complainant alleged that rehabilitation work was performed incorrectly or was not provided. Our Appraisal Construction Specialist inspected the 10 houses between April 17, 2002 and April 24, 2002.

We provided the inspection results to HUD’s Acting Director of Community Planning and Development, Chicago Regional Office, and to Housing Continuum’s Executive Director.

HOME Funds Were Used To Pay For Rehabilitation Work That Was Not Provided, Improperly Performed, Or Not Authorized

Housing Continuum used \$15,714 of HOME funds to pay for housing rehabilitation work that was not provided (\$4,810), improperly performed (\$5,883), or not authorized (\$5,021). The work that was not provided, not properly performed, and not authorized, occurred in nine of the 10 houses we inspected. The following table shows the amount of work not provided, improperly performed, or not authorized.

<i>Property Address</i>	<i>Work Not Provided</i>	<i>Work Improperly Performed</i>	<i>Work Not Authorized</i>
33 Cypress, Elgin	\$ 551	\$1,520	\$5,021
610 Sycamore Road, DeKalb	1,212	353	0
329 Wood, DeKalb	919	101	0
1510 Hulmes, DeKalb	0	1,502	0
212 East Arrowhead, Aurora	912	0	0
1120 Ridgeway, North Aurora	364	1,314	0
418 Grant, Sycamore	393	52	0
200 South 7A, Elburn	0	819	0
225 Genoa Street, Genoa	<u>459</u>	<u>222</u>	<u>0</u>
<b><i>Totals</i></b>	<b><u>\$4,810</u></b>	<b><u>\$5,883</u></b>	<b><u>\$5,021</u></b>

Housing Continuum established its Homebuyers Assistance Program to provide housing assistance to low-income individuals. The Homebuyers Assistance Program provides a maximum of \$35,000 per household in deferred payment forgivable loans to low-income owner-occupants of single-family dwellings. Potential homeowners can borrow up to \$7,000 for a down payment to purchase their first home and \$1,500 for closing costs. The remaining \$26,500 is intended for rehabilitation assistance to upgrade their homes to comply with HUD’s Housing Quality Standards,

the Authority's requirements, and local governmental code requirements. Housing Continuum was responsible for assuring that the housing rehabilitation work was provided in accordance with the rehabilitation contract, and that the work met HUD's Housing Quality Standards, the Authority's requirements, and local governmental code requirements.

Our Appraisal Construction Specialist determined that Housing Continuum's former Housing Inspector and rehabilitation contractors did not assure that the housing rehabilitation work was performed correctly, was authorized by contract, or was even provided. The work that was not provided, improperly performed, or not authorized related to the following: windows not replaced; bathroom windows replaced without opaque privacy glass; bedroom ceiling lights not installed; smoke detectors not hard-wired to a separate circuit breaker; patio doors that did not lock and were not sealed; and electrical wiring that was not run through conduit boxes. The following pictures show examples of housing rehabilitation work that was not provided or improperly performed.

Broken basement windows were not replaced at 1120 Ridgeway.



## Finding 2

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The bathroom window at 329 Wood Street was improperly replaced without opaque privacy glass.



Electrical wiring in the basement at 418 Grant was not installed in conduit.



The kitchen patio door at 610 Sycamore did not lock and was not sealed at the door frame.



Inspector And Contractors Incorrectly Certified That Standards Were Met

Housing Continuum's former Housing Inspector and rehabilitation contractors were responsible for performing the housing rehabilitation inspections. Housing Continuum's Executive Director did not know if these same conditions existed at the time of the Housing Inspector's final inspection. The former Housing Inspector and rehabilitation contractors incorrectly certified that the housing rehabilitation services provided to the nine houses through the Homebuyers Assistance Program met HUD's Housing Quality Standards and the Authority's requirements when they did not.

Violations Of Standards Cited By OIG Appraisal Construction Specialist

We included in the following tables specific violations of the Illinois Home Rehabilitation Standards and/or HUD's Housing Quality Standards cited by our Appraisal Construction Specialist during his inspections of the houses discussed in this report. The purpose of these tables is to assist Housing Continuum to understand the violations and to take appropriate corrective action to assure all rehabilitation projects meet the applicable standards.

Finding 2

<i>Address of House</i>	<i>Items Needing Correction</i>
33 Cypress	<ol style="list-style-type: none"> <li>1. A new kitchen vent hood was not installed. The wall needs repairing where the previous vent hood was installed.</li> <li>2. The first floor half-bath entry door needs privacy locking hardware.</li> <li>3. The first floor half-bath vent fan is inoperable. It needs repairing or replacing.</li> <li>4. The basement smoke detector was not installed in close proximity to the gas furnace and water heater.</li> </ol>
610 Sycamore Road	<ol style="list-style-type: none"> <li>1. A defective hand railing at the front stoop needs to be repaired, properly secured, and painted.</li> <li>2. Cable-type wiring should have been used under the kitchen sink to the disposal to provide protection from sharp objects penetrating the wire.</li> <li>3. A broken pane in the basement window is hazardous and needs to be replaced.</li> <li>4. The wood canopy over the exterior entrance to the basement is rotten and needs to be replaced. The current condition is hazardous.</li> <li>5. A handrail needs installing on the exterior entrance stairs to the basement.</li> </ol>
329 Wood	<ol style="list-style-type: none"> <li>1. Holes around the interior window trim need to be filled.</li> <li>2. Hole in the bathroom wall at the tub area needs to be repaired.</li> <li>3. The heat duct vent cover in the bathroom needs securing to the wall.</li> <li>4. The hole in the heat duct in the basement needs to be repaired or replaced.</li> <li>5. The wood sill at the front door needs to be replaced and sealed.</li> </ol>
1510 Hulmes	<ol style="list-style-type: none"> <li>1. Furnace and water heater closet walls and ceilings need to be covered with fire-rated drywall.</li> <li>2. Pipes through the floor in the furnace and water heater closet need sealing.</li> <li>3. The family room ceiling is missing tiles and needs to be finished.</li> </ol>
212 East Arrowhead	<ol style="list-style-type: none"> <li>1. A baseboard is needed to seal the large gap where the wall meets the carpet.</li> <li>2. An electrical wall outlet in the rear bedroom needs a cover plate and is partially filled with paint creating a safety hazard.</li> <li>3. The front middle bedroom entry door needs latching hardware so the door can be securely closed to provide adequate privacy.</li> <li>4. The rear electrical outlet needs to be Ground Fault Circuit Interrupter protected.</li> <li>5. The wall switch above the electrical breaker box needs a cover plate.</li> <li>6. The walkway to the front entry door needs to be sloped so surface water will drain from the foundation and walkway.</li> <li>7. A tripping hazard exists where the walkway meets the driveway.</li> <li>8. The exterior faucet drips and needs to be repaired.</li> <li>9. The doors drag on the new carpet in the hallway.</li> </ol>
1120 Ridgeway	<ol style="list-style-type: none"> <li>1. The hole around the kitchen sink drainpipe needs to be sealed.</li> <li>2. The bathroom doors need privacy door locks.</li> <li>3. The bathroom ceiling's fixture is controlled by a pull chain rather than a wall switch and is a safety hazard.</li> <li>4. An exterior type door needs to be installed between the kitchen (heated space) and the basement (unheated space).</li> <li>5. Broken panes in the basement window need replacing along with the window sash that is in poor condition.</li> <li>6. Paint is peeling and chipping off the exterior wood surfaces. It appears to be lead-based paint and poses a hazard.</li> </ol>

<i>Address of House</i>	<i>Items Needing Correction (Continued)</i>
418 Grant	<ol style="list-style-type: none"> <li>1. The bathroom needs to have ventilation in the form of either an exhaust fan vented to the exterior or an operable window.</li> <li>2. The second floor rear room needs at least one electrical outlet.</li> <li>3. The basement drain needs a cover for safety.</li> </ol>
225 Genoa Street	<ol style="list-style-type: none"> <li>1. The driveway concrete is broken on the left side of the house.</li> <li>2. A handrail needs to be installed for the rear porch stairs leading to the rear exterior door.</li> <li>3. A handrail needs to be installed for the basement stairs.</li> <li>4. The water discharge line for the hot water heater safety relief valve does not extend to at least six inches from the floor.</li> <li>5. Several slot covers are needed where breaker switches are not installed in the basement electrical box.</li> <li>6. Wiring to the electrical box is installed in a hazardous manner.</li> <li>7. A cover is needed for an electrical junction box in the basement.</li> </ol>

Housing Continuum had the necessary HUD funds to ensure that items needing correction to meet HUD’s Housing Quality Standards and/or the Authority’s Rehabilitation Standards were completed. The Executive Director agreed that the properties had some deficiencies that needed to be addressed immediately, and indicated the appropriate actions would be taken to correct them. By the date of the exit conference, we determined a number of these corrections had been made. For the items remaining uncorrected, HUD lacked assurance that houses met HUD’s Housing Quality Standards and/or the Authority’s Rehabilitation Standards after receiving rehabilitation assistance.

**Auditee Comments**

[Excerpts paraphrased from the comments provided by Housing Continuum’s Executive Director on our draft report follow. Appendix B, pages 33 to 40, contains the complete text of the comments for this finding.]

Housing Continuum disagrees, in part, with the finding that it did not meet the State’s Standards and HUD’s Housing Quality Standards. Many of the items, such as broken glass, chipping paint, outlet covers, etc., may well be issues that developed after the work was performed and finalized. Housing Continuum disagrees that \$15,714 of HUD funds used to pay for housing rehabilitation work was not provided, not properly performed, or not authorized.

Housing Continuum agrees with some of the findings in the OIG inspector’s report. Findings that we agree were

violations corrected. In addition, many findings that we disagreed with have also been changed to meet the OIG inspector's recommendations. Housing Continuum acknowledges that its inspector made some mistakes in assessment and documentation. These mistakes caused concerns by Housing Continuum and were addressed. The inspector involved with these projects is no longer employed by Housing Continuum. He left prior to the OIG audit. Housing Continuum's new inspector was made aware of these issues and trained appropriately.

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OIG Evaluation Of  
Auditee Comments

To assure that inspection standards are uniformly applied during the course of OIG audits, the OIG's Appraisal Construction Specialist uses HUD's Housing Quality Standards as a basis for assessing whether dwellings meet the overall objective of being decent, safe, and sanitary. The Appraisal Construction Specialist uses his expert knowledge of the Standards acquired over many years of experience with HUD, as well as his knowledge of relevant electrical, plumbing, and structural codes, to support his assessment. The deficiencies noted by our Appraisal Construction Specialist represent his assessment of workmanship or other deficiencies that violated one or more of the Standards and/or codes.

Our Appraisal Construction Specialist based his conclusions as to work not performed, performed incorrectly, or not authorized on a comparison of work scope specifications to the actual conditions found during the inspections. In order to avoid confusion or uncertainty as to when violations of the Standards may have occurred, we recommended to Housing Continuum that they take photographs of future rehabilitation projects both before and after the work is performed, and that all photographs be included in their project files.

We acknowledge the corrective actions taken by Housing Continuum to remedy a number of the deficiencies cited.

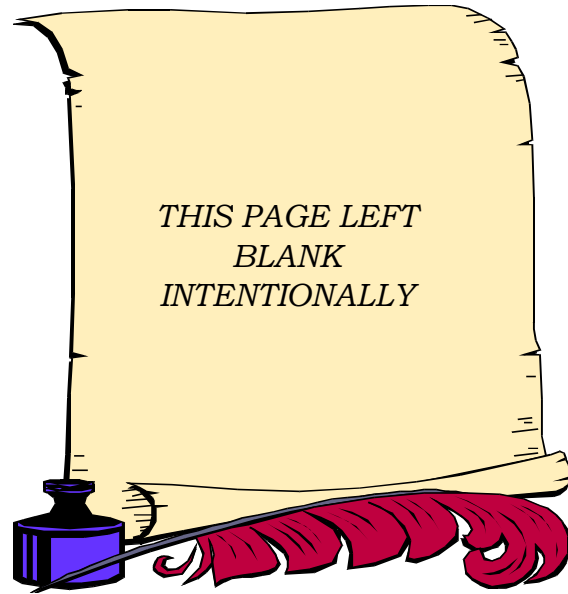
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Recommendations

We recommend that HUD's Acting Director of Community Planning and Development, Chicago Regional Office, ensures that Housing Continuum, Inc.:

- 2A. Assures the \$15,714 of housing rehabilitation work cited in this finding is completed correctly using non-Federal funds. If Housing Continuum is unable to ensure the rehabilitation work is completed, then it should reimburse its Program from non-Federal funds for the total amount of housing rehabilitation assistance that was provided to the applicable houses.
  
- 2B. Assures the rehabilitation work that was not included in the specifications for the houses discussed in this finding is completed correctly. If Housing Continuum is unable to ensure the rehabilitation work is completed, then it should reimburse its Homebuyers Assistance Program from non-Federal funds for the total amount of housing assistance that was provided to the applicable houses.
  
- 2C. Implements procedures and controls to ensure assisted houses meet the State's requirements and HUD's Housing Quality Standards after receiving housing rehabilitation assistance.





## Construction Permits Were Not Obtained Or Were Obtained After The Work Began

Housing Continuum did not ensure its contractors obtained the required construction permits from city building officials before home rehabilitation work began on projects funded by HUD's HOME Investment Partnership Program. Housing Continuum paid contractors and closed-out contracts without ensuring the required building permits were obtained and local building inspectors conducted final inspections of the work. Housing Continuum relied on the contractors and did not verify whether they obtained the necessary building permits. As a result, low-income families residing in rehabilitated properties that did not receive final inspections may be living in unsafe conditions. In addition, HUD lacked assurance that its funds were used efficiently and effectively.

### HUD's Regulation

24 CFR Part 92.251(a)(1) requires 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.

### State Of Illinois' Requirements

Exhibit B(5)(b) of the Grant Agreements for 1999 and 2001 between the Illinois Housing Development Authority and Housing Continuum, effective February 26, 1999 and April 30, 2001, respectively, requires projects to comply with all local codes, ordinances, the Authority's rehabilitation standards (for any projects involving rehabilitation), and HUD's Housing Quality Standards set forth in the Grant Agreement and the regulations.

Exhibit H, Section 8 requires the contractor to obtain all required permits and licenses, post all bonds, and pay all taxes required by law or ordinance in connection with the project.

Section (8)(m) required Housing Continuum to ensure that for each project, the homebuyers and contractors obtained and complied with all Federal, State, and local government approvals required by law.

### Local Government Building Code Requirements

The City of DeKalb's Building Code, Chapter 24, Section 107.1, requires that an application be submitted to the code official to construct or alter a structure, construct an addition, demolish or move a structure, make a change of

occupancy, install or alter any equipment that is regulated by the Code, or move a lot line which affects the existing structure. These activities cannot commence without a permit being issued in accordance with Section 108.0 of the Code.

The City of Sycamore's Municipal Code, Title 9, Chapter 1-1, states it is unlawful to construct, enlarge, alter or demolish a structure, or change the occupancy of a building or structure requiring greater strength, exit way or sanitary provisions, or to change to another use, or to install or alter any equipment for which provision is made or the installation of which is regulated by the Building Code, without first filing an application with the building official in writing, and obtaining the required permit.

The City of Elgin's Building Code, Chapter 16.04, Section 105.1, states any owner or authorized agent who intends to construct, enlarge, alter, repair, move, demolish, or change the occupancy of a building or structure, or to erect, install, enlarge, alter, repair, remove, convert or replace any electrical, gas, mechanical or plumbing system, installation of which is regulated by the Code or any other Code adopted by the City or to cause any such work to be done, will first make application to the building official and obtain the required permit.

Kane County's Building Regulations, Chapter 6, Article II, Section 6-41, states a permit is required to be obtained in advance and all other requirements of this Article are to be complied with whenever a building or structure, or parts or appurtenances thereof, such as water supply, sewage disposal, plumbing installation, electrical installation, and heating equipment regulated by this Article, is erected, installed, altered, converted, remodeled, roofed, structurally repaired, moved, or changed.

The City of St. Charles' City Code, Title 15, Administration, Enforcement, Fees, and Penalties, Section 15.101.130, states it is unlawful to construct, enlarge, alter, or demolish a structure; or change the occupancy of a building or structure requiring a greater strength, exit way, or sanitary provisions; or to change to another use; or to install or alter any equipment for which provision is made or the installation of which is regulated by this Code,

without first filing an application with the building commissioner in writing and obtaining the required permit therefore, except that ordinary repairs, as defined in Section 15.101.030, will be exempt from the provisions.

The City of Genoa's Building Code, Section 1 of the City Ordinance #96-50-3 dated July 23, 1996, which adopted the Council of American Building Officials One and Two Family Dwelling Code, Section 111, states a permit will be obtained before beginning construction, alteration, or repairs, other than ordinary repairs, using application forms furnished by the building official. Ordinary repairs are nonstructural repairs and do not include addition to, alteration of, or replacement or relocation of water supply, sewer, drainage, drain leader, gas, soil, waste, vent or similar piping, electrical wiring, or mechanical, or other work for which a permit is required by the building official.

#### Sample Selection And Review Results

We selected all nine homes that received rehabilitation assistance during 2001, plus the complainant's home that received rehabilitation assistance in 1999, through Housing Continuum's Homebuyers Assistance Program. We selected the 10 houses to determine whether building permits were required and/or obtained timely for the rehabilitation work on each property. Eight of the 10 homes that received rehabilitation assistance required building permits. We presented a copy of the approved work orders to the local building department officials for their review and comment.

We provided a detailed schedule of our review results for projects needing building permits to HUD's Acting Director of Community Planning and Development, Chicago Regional Office, and to Housing Continuum's Executive Director.

#### Construction Permits Were Not Obtained Or Were Obtained After Construction Began

Contractors did not obtain the required building permits, and/or the permits were obtained after construction work began. Eight homes that received rehabilitation assistance were required to have building permits. The eight properties are located in six Illinois municipalities: the cities of DeKalb, Sycamore, Elgin, St. Charles, and Genoa, and Kane County. Three general contractors provided work to these properties.

For the eight homes that received rehabilitation assistance, the general contractors were required to obtain 13 building

permits. According to the respective building inspection departments, permits were either not obtained or the permits were obtained after the work began. Specifically, of the 13 required building permits, five were never obtained and permits were obtained after construction began for the remaining eight. The following table shows the number of permits required for each property.

Property Address	Building Permits		
	<u>Required</u>	<u>Not Obtained</u>	<u>Obtained After Work Began</u>
33 Cypress	2	2	0
610 Sycamore	3	0	3
329 Wood	1	0	1
1120 Ridgeway	1	1	0
418 Grant	1	1	0
1510 Hulmes	3	0	3
225 Genoa Street	1	0	1
1842 Lucylle Court	1	1	0
<b>Totals</b>	<u>13</u>	<u>5</u>	<u>8</u>

The General Contractor for the property located at 610 Sycamore was assessed a fine for not obtaining the required permits from the local building department. Also, city inspections were not performed for the properties located at 610 Sycamore and 329 Wood before the contracts were closed. Housing Continuum’s Executive Director said the contracts were closed without inspections because Housing Continuum relied on the contractors and did not verify whether all required permits were obtained.

Construction permits were not obtained as required by the local building departments for the above eight houses that received rehabilitation assistance. Some contractors informed us that city building department officials advised them that building permits were not required, while other contractors said they were not familiar with city building permit requirements. Building codes for all six local government jurisdictions prohibit any work from being done to homes without first securing the necessary permits. Detailed work orders were not provided to the building inspectors in writing describing the rehabilitation work planned. Therefore, the city and/or county officials did not

know the extent of the rehabilitation work to be performed. The building inspectors were not provided correct information and may have given incorrect advice to the contractors. As a result of the contractors' failure to obtain building permits, some homeowners who acquired their properties under the Homebuyers Assistance Program may be living in unsafe homes.

### Inadequate Oversight Of Contractors

Housing Continuum was responsible for implementing effective controls for providing rehabilitation assistance under its Homebuyers Assistance Program. Housing Continuum's Executive Director said she wrongly assumed that the contractors obtained the required permits. She believed it was the contractors' responsibility to obtain permits, not Housing Continuum's responsibility. The Executive Director said she relied on what the contractors told her without verifying the information. As a result, low-income families residing in rehabilitated properties that did not receive final inspections may be living in unsafe conditions. In addition, HUD lacked assurance that its funds were used efficiently and effectively.

### Auditee Comments

[Excerpts paraphrased from the comments provided by Housing Continuum's Executive Director on our draft report follow. Appendix B, pages 33 to 40, contains the complete text of the comments for this finding.]

Housing Continuum requires that contractors obtain proper permits for all of the homes where rehabilitation is performed. Housing Continuum specifically states in its construction contract that the contractors are responsible for obtaining permits. Upon further investigation by Housing Continuum, it was determined that in three of the seven homes contractors did obtain permits but not at the start of the job. Housing Continuum feels that jobs can start without permits. It seems that there was some miscommunication between the local inspection departments and the contractors. In some cases, the response given to our contractors at the time the job was performed is different than the response given to OIG. Housing Continuum was aware of these types of inconsistencies with inspections since January 2002.

As of February 2002, a new form was implemented which needs to be signed by the local inspection departments before work begins. This form verifies that either the proper permits were obtained or that no permit is needed. Some inspection departments agreed to sign the form, but some refused to sign the form. This form will be distributed on each job and be required in all files. If the local inspection department will not sign the form, the contractors will be required to sign it stating that the inspection department refused to sign. In addition to this form, a final inspection report from the local inspection department will be required before final payment is made. This should eliminate any more confusion in regard to proper permits on rehabilitation jobs. Housing Continuum required contractors to return to the jobs cited in OIG's report and obtain any additional permits required.

Although Housing Continuum believes that contractors made efforts in most cases to provide proper documentation, it is clear that this was not done in all instances. Housing Continuum will no longer rely on the contractors' verbal verification that permits were obtained or are not necessary.

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OIG Evaluation Of  
Auditee Comments

We acknowledge the corrective actions taken by Housing Continuum to remedy the problem of permits not obtained on a timely basis. Implementation of the permit verification form will enhance Housing Continuum's controls over this function, and provide HUD with increased assurance that Housing Continuum is in compliance with local building permit and inspection requirements.

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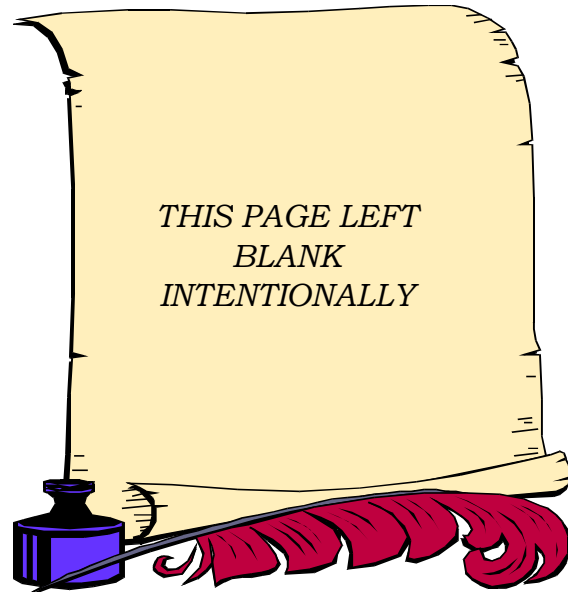
Recommendations

We recommend that HUD's Acting Director of Community Planning and Development, Chicago Regional Office, ensures that Housing Continuum, Inc.:

- 3A. Requires contractors to obtain the five building permits that were never obtained and certifies that all the rehabilitated homes meet the appropriate building code requirements.

- 3B. Provides documentation to support that permits were obtained for any rehabilitation projects not reviewed in this audit and the properties meet building code requirements.
  
- 3C. Implements procedures and controls to assure that:
  - (a) contractors and subcontractors are properly monitored for compliance with Program requirements, and
  - (b) all required building permits are obtained before future rehabilitation work begins.





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# Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of Housing Continuum's Homebuyers Assistance Program.

It is a significant weakness if management controls do not provide reasonable assurance that the processes for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

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

- Program Operations

Housing Continuum's Homebuyers Assistance Program was not operated according to Program requirements. Specifically, Housing Continuum did not: (1) adequately document price or cost analyses prior to awarding rehabilitation contracts; (2) maintain records sufficient to detail the significant history of the procurement of the contracts; (3) ensure houses met HUD's Housing Quality Standards and the State of Illinois's requirements after they received housing rehabilitation assistance; and (4) ensure contractors obtained permits before rehabilitation work began (see Findings 1, 2, and 3).

- Compliance with Laws and Regulations

Housing Continuum did not follow HUD's regulations regarding: (1) adequately documenting price or cost analyses prior to awarding rehabilitation contracts; (2) maintaining records sufficient to detail the significant history of the procurement of the contracts; (3) ensure houses met HUD's Housing Quality Standards after they received housing rehabilitation assistance; and (4) ensure contractors obtained permits before rehabilitation work began (see Findings 1, 2, and 3).

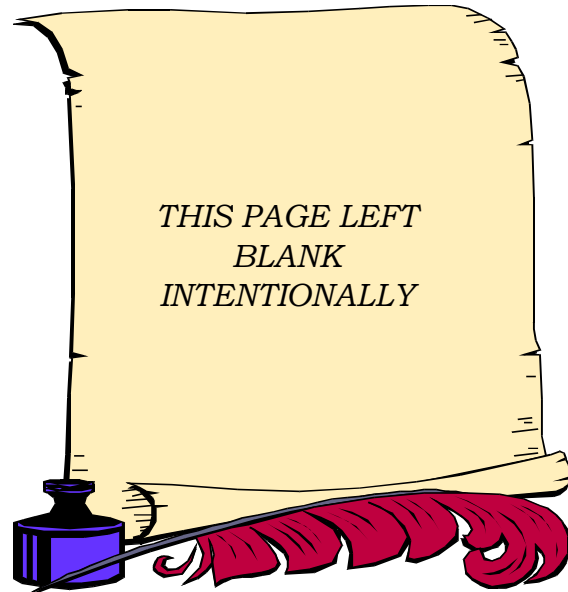
- Safeguarding Resources

Housing Continuum inappropriately used \$67,541 of its Program funds to pay for: excessive rehabilitation costs (\$51,827) and rehabilitation assistance (\$15,714) for unauthorized work, work not provided, or work improperly performed (see Findings 1 and 2).

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# Follow Up On Prior Audits

This is the first audit of Housing Continuum, Inc.'s Homebuyers Assistance Program by HUD's Office of Inspector General. Housing Continuum was not required to have an audit performed under the Single Audit Act.

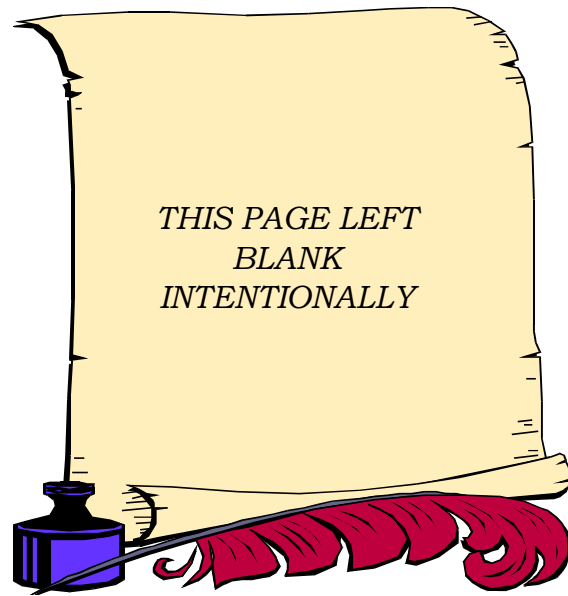


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## Schedule Of Ineligible Costs

<u>Recommendation</u> <u>Number</u>	<u>Ineligible Costs</u> <u>1/</u>
1A	\$51,827
2A	<u>15,714</u>
Total	<u>\$67,541</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.



# Auditee Comments



HUD - OIG  
OFFICE OF AUDIT  
CHICAGO, ILLINOIS

2003 APR 16 PM 3: 54

April 10, 2003

"Making homeownership a reality" **RECEIVED**

Ronald F. Huritz  
Assistant Regional Inspector General for Audit  
Department of Housing and Urban Development  
Office of Inspector General  
77 West Jackson Boulevard, Room 2646  
Chicago, Illinois 60604

Subject: OIG's Audit of Housing Continuum, Inc.'s Homebuyer Assistance Program

**OFFICERS:**

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Cari Zwick

**EXECUTIVE  
DIRECTOR:**

Susan M. Wohl

**MEMBER BANKS:**

Guaranty Bank  
Harris Bank, Batavia, NA  
Harris Bank of St. Charles  
National City Bank  
Old Second National Bank  
Regency Savings Bank

Dear Mr. Huritz:

This is in response to your Draft Audit Report resulting from your review of Housing Continuum, Inc.'s Homebuyer Assistance Program.

Housing Continuum, Inc. (HCI) is a relatively young organization that was formed in 1997 as a 501c3 corporation to respond to the critical affordable housing needs of Kane and Dekalb counties. As a newly certified Community Housing Development Organization (CHDO) we applied for and received our first Homebuyer Assistance grant in that same year. Since that time we have assisted 36 households, at 80% of median income or below, attain the dream of homeownership.

The need to provide affordable homeownership in our two county area is constantly at the top of needs assessments and surveys in our service area as well as being the topic of community forums and many newspaper articles locally. As HCI's mission was to address this growing problem we sought out grant and funding opportunities to address the obvious need. We found that the problem of affordability touches many local households—renters who lack savings to afford a downpayment, parents whose children cannot afford to live nearby when they start their own families, and persons who commute long distances because they cannot live near their place of employment.

We did research and found out that there was just the help we needed, by the name of the Homebuyer Assistance Program, funded by the federal HOME program. We applied and were approved for 5 grants to date. (The grant that was audited was our third year grant.) To say that there was a steep learning curve for us to be able to administer this grant is an understatement. However we pride ourselves in constantly learning and improving our program administration abilities as a result of working with our funders and receiving their training and technical assistance.

You can imagine our surprise when a complaint from a homebuyer called up a 5 month stay from two auditors who were unable to let us in on their findings until the end of the process despite using one of our offices and being here daily for all that time. We were especially concerned with this "gotch ya" mentality especially since we had always had positive, yet instructive monitoring from our funding representatives.

We feel that our program is a success and that our homebuyers and the local community are the benefactors. The program has helped to stabilize neighborhoods, stimulated job growth and provided many other indirect benefits to the local community. We believe the program complies with federal law and regulations as well as our training manuals, and we respectfully take exception to significant aspects of all three findings contained in the report.



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EQUAL OPPORTUNITY EMPLOYER



**Finding #1:** Housing Continuum needs to improve it's contracting process.

While we are always interested in improving our procedures, we are unable to understand how our contracting process fails to meet procurement standards. We most certainly do perform a cost estimate of each home prior to accepting bid proposals for rehabilitation services and do assess the reasonableness of the contract price. To do this we utilize estimating software and continually update it's database with information on local prices. Each of the homes reviewed has in it's client file a copy of this cost estimate as well as the actual bids received. Each of these houses had at least two and sometimes three competing bids to choose from, and in each case the lowest bid was selected.

We do not understand how this process fails to meet standards and respectfully request the opportunity to ask your Construction Specialist for the price list he uses and what local contractors we could approach to do this work for less. We require a lot from our contractors, insurance, training, workers compensation coverage, and lead based paint certification to name just some of our requirements. We regularly put out press releases to solicit additional contractors and would appreciate getting help in finding any he knows who meet our standards and are willing to work for his estimates.

**Finding #2:** Units did not meet the state's standards and HUD's Housing Quality Standards.

This finding is best addressed on a house by house basis and we will do this in the following Auditee Comments section of our reply, However our general response to this finding is threefold:

1) It is the intention of Housing Continuum to provide quality rehabilitation. This important goal is the underlying objective of all of our program procedures. From taking advantage of any and all staff training that is offered, to requiring our contractors get additional training and certifications, to providing on-site oversite and final inspections before signing off on projects, we attempt to control and authorize only quality workmanship.

Having said this we also have to acknowledge that this is an evolving process. We certainly know more now than we did 5 years ago when we began this work and are constantly becoming more knowledgeable through training and conferences made available to us as well as networking with peer organizations who provide like services throughout the state.

To say that we didn't make any mistakes would be foolish and simply untrue. But to imply that we did nothing to insure that the rehabilitation work was authorized, done properly or even performed is a blatant overstatement that our comment section will address specific to each house reviewed. After our verbal review with our onsite auditors each home in our 2001 grant was revisited and a complete review performed. Where we saw a problem or agreed with their comments we immediately corrected the situation. But in many of the houses, as we will show in the following pages, we didn't agree with the reviewer and will state why we disagree. (ie.time-lapse degradation of work issues, local code requirements, client requests or choices, etc.) Yet every attempt was made to implement auditors recommendations even when we disagreed as long as the homeowners allowed it.

2) Where the audit found issues that we had to agree with we fully acknowledged our mistakes or oversights and used this guidance as an opportunity to train our new staff person. The Assessor/Inspector who was responsible for homes that were involved in the 1999-2001 programs is no longer with us. He left our employment in January of 2002 about a month before the audit began.

**Finding#3:** Construction permits were not obtained or were obtained after the work began.

Housing Continuum has always required that contractors obtain proper permits for all of the homes where rehabilitation is performed. Our contract states quite clearly that contractors are responsible for obtaining permits. At times in the past there seems to have been some miscommunication between the local code departments and the contractors. At an HCI contractors meeting in January of 2002 this problem was discussed. As a result of that discussion a form was generated that has been used for all homes since that ask code departments to sign off on all permits for each job, even when they say that one is not needed. This change was made to tighten up our procedures BEFORE the audit even began. All permits for the homes cited in the audit are currently in the files or properly accounted for. This is another example of our interest in constantly improving and enhancing our program procedures to provide more accountability and quality workmanship. The results of our detailed review of this issue is provided in the Auditee Comments section of our response.

The primary objective of the HOME program is "to expand the supply of decent, safe, sanitary and affordable housing for low income persons and families". Housing Continuum feels that it's Homebuyer Assistance Program is successful in this regard. As a small, community based organization we have attempted to build the credibility and capacity in the last five years to be able to administer this complex federal program to respond to local need. To write and administer grants that bring back our federal tax dollars to the local community takes a lot of research, hard work, determination, training and the willingness to accept responsibility and risk. We have asked ourselves lately, "Doesn't the federal government want to see these programs administered by small town volunteer boards?" Having to respond to this lengthy audit process as a result of one complaint has been difficult for our board and staff to understand. Why it couldn't be handled locally is still upsetting. Yet as we continue to grow in our understanding of regulations and compliance issues we feel our efforts are well worth it. Making homeownership a reality is our mission. The Kane and Dekalb county communities that we serve need this help and we intend to do our best to continually improve, refine and enhance our program and grant management abilities to be able to be a valuable local resource for affordable housing, today and into the future.

Please contact me if you have any questions concerning this response.

Sincerely,



Susan M. Wohl  
Executive Director  
Housing Continuum, Inc.

Attachments

FINDING 1:

HOUSING CONTINUUM NEEDS TO IMPROVE ITS CONTRACTING PROCESS

HOUSING CONTINUUM RESPONSE:

Housing Continuum disagrees with the report that it failed to follow HUD regulations and/or the State of Illinois requirements for the procurement of housing rehabilitation services.

Housing Continuum did perform a cost estimate on each of the properties that were listed. This cost estimate was part of the Spec Master software used at that time and is included in each of the case files that were audited. 24 CFR Part 85.36(f)1 states that a cost analysis must be performed when adequate price competition is lacking, and for sole source procurements. Housing Continuum does not sole source and all rehabilitation projects are awarded from the result of competitive bidding. A minimum of two bids are required on each project and many times three or more bids are received from a list of pre-qualified contractors. All of the projects audited by the Office of Inspector General (OIG) met this criteria. 24CFR Part 85.36(d)(2) states that the procurement by sealed bid method is the preferred method for procuring construction. 24CFR Part 85.36(d)(c) states that the procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price. Housing Continuum uses a pre-qualified competitive bidding procedure for all its rehabilitation projects. Housing Continuum also maintains records of all bidding activities in each case file. A bid log form is prepared for each project. Contractors and bid totals are listed on this form and attached to the actual bids submitted. All pre qualified contractors are notified of bid walk throughs and allowed to bid on eligible projects. At no time does Housing Continuum limit the number of pre-qualified contractors on its list. Press releases are sent out periodically for the recruitment of new contractors for its list. Please reference attached bidding procedure form which outlines Housing Continuums bidding procedure.

Housing Continuum strongly disagrees that the excess cost of its projects is \$51,827. Housing Continuum believes it followed regulations in its procurement of contracts. All estimates are in the client files and competitive bidding was used in all projects. OIG has not provided any reference material on how they based their analysis. Housing Continuum would like to know what local contractors were used in their cost analysis. Housing Continuum requests that OIG provide their list of local qualified contractors so that they can be encouraged to perform work in our program and increase the competitive bidding process. Upon review of some of the estimates in the OIG report it is clear that many of them are low and not based on local pricing. It is also not known if the estimates are based on the use of a general contractor or individual subcontractors. In addition to these estimates many of the jobs audited required the use of licensed lead based paint contractors for the work performed. Housing Continuum can see no evidence where this price factor was taken into consideration by OIG. The cost of using a licensed lead paint contractor increases the cost of the jobs substantially.

Housing Continuum agrees that management is very concerned that the total costs of its rehabilitation services are within program guidelines. A determination of whether a project can be performed within the program guidelines is a critical step in the process. It is just one of

many factors taken into consideration before a project is undertaken. Contractor price history is one of the factors used in the estimating process. The use of as many as ten contractor histories is more than just a few contractors. All of the rehabilitation training that staff has attended recommends the incorporation of local contractor pricing into the estimating process. In the early stages of the program the cost estimating came from the software program itself. It was clear that some of the costs were not accurate for the local area. Costs associated with the estimating process are frequently updated to provide accurate estimates. The Housing Director believed that after following the rules of procurement that awarding the contract to the lowest bidder was appropriate.

In conclusion Housing Continuum believes it followed the rules of procurement and that funds were used efficiently and effectively. It also believes that improvement in procedures and policies is always the goal of this organization.

FINDING 2:

UNITS DID NOT MEET THE STATE'S STANDARDS AND HUD'S HOUSING QUALITY STANDARDS

HOUSING CONTINUUM RESPONSE:

Housing Continuum disagrees, in part, with the finding that it did not meet the state standard and HUD housing quality standards. Housing Continuum has conducted its own internal review of the properties audited by the Office of Inspector General (OIG). Each of the homes assisted in 2001 program year was re-inspected by Housing Continuum beginning immediately after the exit conference from OIG between 7/22/02 - 9/30/02. A copy of this report is attached and included in our response. Housing Continuum disagrees with most of the findings by the OIG inspector. To summarize, Housing Continuum found many items reported as code violations were not in fact violations. The OIG inspector repeatedly stated that ground fault circuit interrupter (GFCI) are required to be grounded and describes the installation of these circuits as work not performed correctly. The National Electric Code (NEC) states in section 406.3(D)(3)(b) where no grounding means exists in the receptacle enclosure, a GFCI receptacle can replace the old receptacle. In other instances many of the violations could not be determined to have existed at the time of final inspection. The grant states that HUD's Housing Quality Standards are to be met upon completion of the project. Housing Continuum is not required to perform annual HQS inspections on completed projects. Many of the items such as broken glass, chipping paint, outlet covers etc., may well be issues that developed after the work was performed and finalized. Housing Continuum found all windows that were paid for as part of the contract were in fact installed on the homes. Some window locations were changed, but if a contractor was paid to install a quantity of windows they were installed. Housing Continuum found that some issues mentioned as violations actually involved work done by the homeowners themselves after our completed scope of work. Several homeowners stated that they tried to explain this to the OIG inspector but were told they were not interested in explanations. Several examples of this are listed in the Housing Continuum Report. Housing Continuum disagrees that \$15,714 of HUD funds used to pay for housing rehabilitation work was not provided, not properly performed, or not authorized and has listed these items individually in the report. Housing Continuum agrees with some of the findings in the OIG inspectors report. Findings that we agree were violations have been corrected by Housing Continuum. In addition, many findings that we disagreed with have also been changed to meet the OIG inspectors recommendations. We acknowledge that the Housing Continuum inspector made some mistakes in assessment and documentation. These mistakes caused concern by Housing Continuum and have been addressed. The inspector involved with these projects is no longer employed by Housing Continuum. He left prior to the OIG audit. Our new inspector has been made aware of these issues and trained appropriately. In conclusion the report that follows represents a fair accounting of Housing Continuum's findings upon re-inspection of the properties. Housing Continuum agrees that some mistakes were made during the rehabilitation process and has addressed those issues. Housing Continuum disagrees with the quantity of the violations and strongly disagrees that any of the clients were put in unsafe living conditions. It is always the goal of Housing Continuum to improve its rehabilitation process. This report will help us accomplish that goal.

## FINDING 3:

CONSTRUCTION PERMITS WERE NOT OBTAINED OR WERE OBTAINED AFTER THE WORK BEGAN.

## HOUSING CONTINUUM RESPONSE:

Housing Continuum requires that contractors obtain proper permits for all of the homes where rehabilitation is performed. During our meeting with OIG it was brought to our attention that in seven out of nine homes proper permits were not obtained by our contractors. Housing Continuum specifically states in its construction contract that the contractors are responsible for obtaining permits. Upon further investigation by Housing Continuum it was determined that in three of the seven homes contractors did obtain permits but not at the start of the job. Housing Continuum feels that jobs can start without permits. Items within the work scope that do not require permits should be allowed to begin. If a contractor is installing an item that does not require a permit this work should be allowed to proceed. Typically contractors do not have local inspection departments review their work if no permit is required. On two referenced jobs the contractor said that they pursued getting a permit but were told that a permit was not needed by the local inspection department. In the remaining two jobs the contractors failed to inquire about permits. The first job was a furnace replacement in which no permit was obtained and in the second job a pull down attic stairs was installed with no permit. It seems that there has been some miscommunication between the local inspection departments and the contractors. In some cases the response given to our contractors at the time the job was performed is different than the response given to OIG. This is confirmed by the fact that in one job the OIG was told that the work on the house did not require a permit when indeed a permit was required. OIG has now added this particular home as one that has a permit problem, stating a permit obtained after work starting. Housing Continuum has been aware of these types of inconsistencies with inspections since January 2002. At a contractors meeting in January 2002, permit issues were discussed and including ways to document the permit issue. As of mid February 2002 a new form was implemented which needs to be signed by the local inspection departments before work begins. This form (attached) verifies that either the proper permits have been obtained or that no permit is needed. In the time since, some inspection departments have agreed to sign the form, but some have refused to sign the form. This form will be distributed on each job and be required in all files. If the local inspection department will not sign the form the contractors will be required to sign it stating that the inspection department refused to sign. In addition to this form a final inspection report from the local inspection department will be required before a final payment is made. This should eliminate any more confusion in regard to proper permits on rehabilitation jobs. Housing Continuum has required contractors to return to the jobs in the report and obtain any additional permits required. Housing Continuum has spoken with the general contractor who performed the work at 610 Sycamore. The contractor has stated that no fine was assessed against him. Final inspections by local code officials have also been performed on the homes (see attached). At one job where a permit was required the inspection department has verbally excused the permit with the assurance that on future jobs the contractors will obtain a permit.

Housing Continuum is confident this will be done with the implementation of its permit verification letter. Although we believe that contractors made efforts in most cases to provide proper documentation it is clear that this was not done in all instances. Housing Continuum will no longer rely on the contractors verbal verification that permits have been obtained or are not necessary. Housing Continuum had discussed this issue with the contractors and implemented a new procedure and form prior to the OIG audit. The code departments that we have worked with since the implementation of the new procedure have either complied with signing the form or have stamped the work scope and reviewed by their department.