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**AUDIT MEMORANDUM
99-CH-255-1803**

September 15, 1999

MEMORANDUM FOR: Lana Vacha, Director of Community Planning and Development, Ohio
State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Fairfield County
Community Housing Improvement Program
Lancaster, Ohio

We completed a review of Fairfield County's Community Housing Improvement Program. The review resulted from a citizen complaint to Congressman Christopher Shays. The objectives of our review were to determine whether the complainant's allegations were valid and whether HUD's rules and regulations were properly followed.

The complainant's specific allegations were that the County: (1) used the incorrect income limits for its HUD funded activities; (2) provided benefits to individuals who exceeded the Program's income requirements; (3) served individuals that lived outside of the County's target area; (4) provided services to individuals, but the services were not according to the Program's guidelines; and (5) did not make its rules and regulations available to Program applicants. The complainant also alleged that the County's Housing Inspector inappropriately steered the Program's participants to certain contractors.

The County was organized under the laws of the State of Ohio. A three-member Board of Commissioners is responsible for the County's day-to-day operations. The President of the County's Board is Lisa M. Kessler. The County's official records for the Community Housing Improvement Program are at 210 East Main Street, Lancaster, Ohio.

To determine whether the complainant's allegations were valid and whether HUD's rules and regulations were properly followed, we reviewed the County's: Grant Agreements with the State of Ohio for the periods of July 1, 1994 to February 29, 1996 and October 1, 1996 to September 30, 1998; Program Policies and Guidelines for Fiscal Years 1994-1995 and 1996-1997; consulting services contracts for the Program; and Program participants' files. We also reviewed HUD's and the State of Ohio's files for the County. We interviewed: HUD's staff; State officials; the County's Commissioners, employees, and its consultants' staff; and Program participants.

We found that Fairfield County inappropriately used \$169,044 of HUD funds to provide housing rehabilitation assistance that was not in accordance with HUD's regulations, the State of Ohio's requirements, and/or the County's Policies and Guidelines for the Program. The inappropriate disbursements included: \$10,201 for housing rehabilitation work that was improperly performed or not provided; \$2,716 for rehabilitation work that was excessively paid; \$106,052 in housing assistance to six households without property hazard insurance and/or without recorded mortgage liens, deed restrictions, or covenants on the assisted properties; \$33,625 to assist two households, who were not "very low-income", with housing rehabilitation services; and \$16,450 to provide rehabilitation assistance to a household that was not located in the required target area.

We also found that the County and/or its Housing Inspector: (1) did not include \$1,534 of housing rehabilitation work in the specifications for three contracts; (2) incorrectly certified that the housing rehabilitation services provided to seven houses met the State's Residential Rehabilitation Standards when they did not; (3) failed to follow HUD's regulation or the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services; and (4) did not ensure its contracting policies met HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. Since the County awarded housing rehabilitation contracts without full and open competition, we questioned the County's use of \$159,438 in HUD funds provided to 14 households. As a result, HUD funds were not used efficiently and effectively.

We presented our draft findings to the President of the County's Board of Commissioners and HUD's staff during the audit. We held an exit conference with the Board's President on May 27, 1999. The County provided written comments to our findings. The complete text of the comments are in Appendix B with the exception of 20 enclosures that were not necessary for understanding the County's comments. A complete copy of the County's responses with enclosures was provided to HUD's Director of Community Planning and Development, Ohio State Office. A copy of this memorandum was provided to the President of the County's Board of Commissioners.

Within 60 days, please provide us, for each recommendation made in this memorandum, 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 provide us copies of any correspondence or directives issued because of this review.

Should you or your staff have any questions, please contact me at (312) 353-7832.

Units Did Not Meet Residential Rehabilitation Standards After Housing Assistance

Fairfield County did not follow HUD's regulation, the State of Ohio's Grant Agreements, or the County's Community Housing Improvement Program requirements to ensure assisted houses met the State's Residential Rehabilitation Standards. The County inappropriately used \$10,201 of HUD funds (HOME and Community Development Block Grant) to pay for housing rehabilitation work that was improperly performed or that was not provided. The County also did not include \$1,534 of housing rehabilitation work in specifications for three contracts. The County's Housing Inspector incorrectly certified that the housing rehabilitation services provided to seven houses met the State's Residential Rehabilitation Standards when they did not. The problems occurred because Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, did not have adequate procedures and controls over the Program to ensure houses met the State's Standards after they received housing rehabilitation assistance. The County also did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that houses met the State's Standards after receiving housing rehabilitation assistance.

HUD's Regulations

24 CFR, Subpart F, Part 92.251 requires housing rehabilitated with HOME funds to meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

24 CFR Part 24 allows HUD to take administrative action against housing inspectors who violate HUD's requirements.

State Grant Agreements' Requirements

Page 6 of the State of Ohio's Home Investment Partnership Program Grant Agreement effective October 1, 1996 with Fairfield County states all projects and units assisted with HOME funds must meet the requirements set forth in 24 CFR Part 92 Subpart F. Page 3 of Attachment B for the Grant Agreement requires all rehabilitation work paid for with HOME funds must meet or exceed the State's Residential Rehabilitation Standards.

The State of Ohio's Small Cities Community Development Block Grant Program Grant Agreement, page 4 of Attachment B, effective October 1, 1996 with Fairfield County requires all rehabilitation work paid for with Block Grant funds to meet or exceed the State's Residential Rehabilitation Standards.

County's Policies And Guidelines

Fairfield County's Fiscal Year 1996 Community Housing Improvement Program's Policies and Guidelines, page 12, require all units assisted under the County's Private Rehabilitation Program with Community Development Block Grant funds or HOME funds to meet the State of Ohio's Residential Rehabilitation Standards after rehabilitation. Page 31 of the County's Policies and Guidelines requires only the items being repaired under the County's Home Repair Program to be brought up to the State's Residential Rehabilitation Standards.

Sample Selection And Inspection Results

We selected a sample of eight of the 25 houses that received housing rehabilitation funds through Fairfield County's Community Housing Improvement Program. We selected the eight houses to determine whether the County appropriately paid for housing rehabilitation work. The County executed the eight housing rehabilitation contracts between August 1997 and June 1998. Of the eight contracts, we selected the complainant who requested the audit plus seven homeowners. The seven homeowners indicated in their responses to our questionnaire or through interviews we conducted that their housing rehabilitation work was performed incorrectly or was not provided. The eight houses were inspected by our Inspectors between February 12, 1999 and April 21, 1999.

We provided the inspection results to HUD's Ohio State Office Director of Community Planning and Development and the President of the County's Board of Commissioners.

HUD Funds Were Used To Pay For Rehabilitation Work That Was Improperly Performed Or Not Provided

Fairfield County used \$10,201 of HUD funds to pay for housing rehabilitation work that was improperly performed (\$7,782) or that was not provided (\$2,419). The improper work or the work that was not provided occurred at all eight houses that were inspected by our Inspectors. The County provided \$126,835 in housing rehabilitation assistance to the eight houses.

The eight houses included six that were assisted under the County’s Private Rehabilitation Program and two that were assisted under the County’s Home Repair Program. These two houses are located at 12108 Sixth Street and 3360 Lakeside Drive. The incomplete work and the work not provided was eight percent of the total HUD funding for the eight houses. The County recorded property liens against seven of the eight houses for the housing rehabilitation that was incorrectly performed or not provided.

The following table shows the amount of work that was improperly performed or not provided for each house.

<i>Address of House</i>	<i>Work Improperly Performed</i>	<i>Work Not Provided</i>
5310 Blacklick-Eastern Road	\$2,610	\$1,725
240 North Company Street	2,856	0
12108 Sixth Street	800	0
8585 Lancaster-Thornville Road	675	100
2135 Carroll-Eastern Road	453	430
720 North Main Street	341	80
2170 Pleasantville Road	47	0
3360 Lakeside Drive	0	84
Totals	<u>\$7,782</u>	<u>\$2,419</u>

The County established its Community Housing Improvement Program to provide housing rehabilitation assistance to low and moderate income individuals. The housing assistance was intended to correct items that did not meet the State of Ohio’s Residential Rehabilitation Standards. The County’s Housing Inspector was responsible for assuring that the housing rehabilitation work was provided in accordance with

Finding 1

the housing rehabilitation contract and that it met the State's Standards.

Our Inspectors determined that the County's Housing Inspector did not assure that the housing rehabilitation work was performed correctly or even provided. The housing work that was performed incorrectly or that was not provided related to such items as electrical outlets not secured, electrical wiring not replaced, gutters and downspouts not installed, heating systems that lacked proper ventilation, and windows improperly installed. The following pictures show examples of housing rehabilitation work that was improperly performed or not provided.

The house at 2135 Carroll-Eastern Road was missing an electrical outlet cover plate, the outlet was not secured to the wall, and the wiring was not replaced as required.



The gutters and downspouts for the house at 5310 Blacklick-Eastern Road were not installed. At the time of our inspection, the gutters and downspouts that were paid for with HUD funds were lying in the homeowner's yard.



The County's Housing Inspector was responsible for performing the housing rehabilitation inspections and authorizing payment to the contractors. He said he must have overlooked some items when he inspected the houses. The Grant Administrator for Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, said he also inspected the houses to ensure the housing rehabilitation work was being completed. However, neither the County nor Community Development Consultants had any documentation to support the Grant Administrator's inspections.

The County did not monitor Community Development Consultants to ensure it administered the County's Community Housing Improvement Program as required. As a result, HUD funds were not efficiently and effectively used.

The County Did Not Include Housing Rehabilitation Work In Contracts' Specifications

The County did not include \$1,534 of housing rehabilitation work in specifications for three contracts. The rehabilitation work was needed to correct deficiencies and to ensure the three houses met the State of Ohio's Residential Rehabilitation Standards. The three houses were assisted under the County's

Private Rehabilitation Program. The houses are located at 720 North Main Street, 8585 Lancaster-Thornville Road, and 240 North Company Street. Our Inspector determined the housing rehabilitation work that was not included in the three contracts' specifications totaled \$1,464, \$35, and \$35, respectively. The needed rehabilitation work not in the contracts' specifications included such items as a foundation that needed to be sealed, and a chimney that needed tuck pointing. The following picture shows an example of the housing rehabilitation work that was not included in the contract specifications.

The contract specifications for the house located at 720 North Main Street did not include the sealing of the foundation.



The housing rehabilitation work that was not included in the specifications for three contracts were necessary to correct deficiencies to ensure the houses met the State's Residential Rehabilitation Standards. As previously mentioned, the three houses were assisted under the County's Private Rehabilitation Program. The County's 1996 Policies and Guidelines required that houses assisted under the Private Rehabilitation Program to meet the State's Standards after receiving assistance. Since the County did not ensure the needed rehabilitation work was provided, the three houses did not meet the State's Standards after rehabilitation.

The County's Housing Inspector said he must have missed the needed housing rehabilitation work when he

was preparing the deficiency list for the three houses. The County also did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HUD lacks assurance that houses met the State's Residential Rehabilitation Standards after receiving rehabilitation assistance.

The County's Housing Inspector Certified That Rehabilitation Work Met The State's Standards When It Did Not

The County's Housing Inspector incorrectly certified that the housing rehabilitation services provided to seven houses through the County's Community Housing Improvement Program met the State's Residential Rehabilitation Standards when they did not. The Housing Inspector certified that the housing rehabilitation services provided to the following houses met the State's Standards: (1) 240 North Company Street; (2) 12108 Sixth Street; (3) 8585 Lancaster-Thornville Road; (4) 2135 Carroll-Eastern Road; (5) 720 North Main Street; (6) 2170 Pleasantville Road; and (7) 3360 Lakeside Drive. However, as previously mentioned, our Inspector determined that housing rehabilitation work was performed incorrectly, not provided, or was not included in the contracts' specifications. The County's Housing Inspector said he believed the housing rehabilitation work met the State's Standards at the time of his certifications.

Auditee Comments

[Excerpts paraphrased from the County's comments on our draft finding follow. Appendix B, page 56, contains the complete text of the comments.]

The process of creating a deficiency list is subjective. The major deficiencies will be similar if not exactly the same. However, interpretation of all the related codes including the State of Ohio's Residential Rehabilitation Standards is a difficult and individualized task. Complicating this task are the issues of available funds and programmatic limits.

Different inspectors create different deficiency lists addressing the most necessary and required repairs. This is evident in the list presented by the Inspector

General. The Inspector General did not select or report all of the items identified and submitted by their Inspector. The inspection reports submitted by the Inspector General include items which are not included in its draft finding. Rather, they choose to report only specific issues.

Address of House	Work Improperly Performed (A)	Work Not Provided (B)	I.G. Inspection Report Total (C)	Difference (A+B)-C
5310 Blacklick-Eastern Road	\$2,610	\$1,725	\$2,050	\$560
240 North Company Street	\$2,856	\$0	\$2,891	(\$35)
8585 Lancaster-Thornville Road	\$675	\$100	\$895	(\$120)
2135 Carroll-Eastern Road	\$453	\$430	\$933	(\$50)
720 North Main Street	\$341	\$80	\$1,905	\$1,484)

OIG Evaluation of Auditee Comments

HUD’s regulation, the State Grant Agreements’ requirements, and the County’s Policies and Guidelines require all housing rehabilitation work provided under the Community Housing Improvement Program to meet the State’s Residential Rehabilitation Standards at project completion. The availability of funds and programmatic limits do not eliminate the County’s obligations for the Program.

Contrary to the County’s comments, our Inspectors’ reports for 5310 Blacklick-Eastern Road identified \$4,335 of rehabilitation work not provided or improperly provided. This is the total amount we cited in the finding.

The major differences between the inspection reports and the chart in this finding that shows work improperly performed and work not provided is primarily rehabilitation work that the County did not include in the contract specifications for three properties. The three properties include 720 North Main Street (\$1,464), 8585 Lancaster-Thornville Road (\$35), and 240 North Company Street (\$35). The work not included in the

contract specifications was included a separate section in this finding.

The finding does not include items the following amounts cited in our inspection reports: 8585 Lancaster-Thornville Road (\$85); 2135 Carroll-Eastern Road (\$50); and 720 North Main Street (\$20). Our reason for excluding these amounts was based upon our interviews with the homeowners and the minor nature of the items.

Auditee Comments

The \$1,725 payment for the material (gutters) identified as work not completed was due to the contractor walking off the job because of adverse working conditions. The payment was made to the contractor for the removal of a lien for the material left at the house. The Inspector General also identified \$2,050 in electrical work that was not provided or improperly provided. There was a continuing conflict between the homeowner, the contractor, and the Program staff. The Program staff and the contractor found it impossible to meet the demands of the homeowner and the contractor was unable to complete the work outlined in the deficiency list.

OIG Evaluation of Auditee Comments

While there may have been difficulties in completing the guttering and electrical work for the house at 5310 Blacklick-Eastern Road, the County should not have paid for the work prior to completion because the rehabilitation work did not meet the States Residential Rehabilitation Standards. HUD's regulation, the State Grant Agreements' requirements, and the County's Policies and Guidelines require all housing rehabilitation work provided under the Community Housing Improvement Program to meet the State's Residential Rehabilitation Standards at completion.

Auditee Comments

All items identified by the Auditors will be reviewed to identify existing deficiencies at the time the rehabilitation was performed. The County finds it difficult to a certain

extent to respond to the Inspector General's list of items. Specifically, the County has two reasons for this difficulty: (1) the list is not specific about which items need to be addressed; and (2) the list does not consider the passage of time. However, if an item really should have been repaired, then the County is willing to go back and correct any deficiency.

OIG Evaluation of
Auditee Comments

The inspection reports prepared by our Inspectors specifically identify the housing rehabilitation work not provided, improperly provided, or not included in the contract specifications. Our Inspectors also considered the passage of time during their inspections.

Auditee Comments

The Inspector General asserts that the County did not include \$1,534 of housing rehabilitation work in specifications for three contracts. The County disputes this assertion. The work not completed totals \$694, excluding the items for the property located at 5310 Blacklick-Eastern Road. If the State were to determine that these items must be addressed, the County has some Program income that could be utilized. However, these units were very close to the maximum amount of assistance and for any number of reasons they were not corrected as part of the Program's rehabilitation contract.

OIG Evaluation of
Auditee Comments

The \$1,534 of housing rehabilitation work not included in the three contracts' does not include the house at 5310 Blacklick-Eastern Road. The work not included in the contract specifications were for the houses at 720 North Main Street, 8585 Lancaster-Thornville Road, and 240 North Company Street.

HUD's regulation, the State Grant Agreements' requirements, and the County's Policies and Guidelines require housing that receives rehabilitation assistance with HOME funds to meet the State's Residential Rehabilitation Standards at completion. Since the County did not include the \$1,534 of rehabilitation

work in the contract specifications for the three houses, the houses did not meet the State's Standards.

Auditee Comments

The Inspector General asserts that the County did not monitor Community Development Consultants of Ohio to ensure it administered the Program as required. The County disputes this assertion. The County did play an oversight role in administering the Program. The County was responsible for issuing checks and appointed a representative who signed off on each of the final pay requests. The actions of the County satisfied the responsibilities as outlined in its Policies and Guidelines.

OIG Evaluation of Auditee Comments

The County did not provide any documentation to support its oversight of Community Development Consultants of Ohio to ensure the Consultants administered the Program correctly. The County's Housing Inspector also did not ensure rehabilitation work met the State's Standards at completion of the work as required by HUD's regulation and the States Grant Agreements' requirements.

Auditee Comments

The Inspector General asserts that the County's Housing Inspector incorrectly certified that the housing rehabilitation services provided to seven houses through the Program met the State's Residential Rehabilitation Standards when they did not. The County disputes this assertion. A review of the client files reveal that all of the homeowners signed off that their units were completed satisfactorily. Several of the homeowners indicated that there were no problems at the time of final payment.

The County has some difficulty responding to this assertion. This is largely because it involves a difference of opinion between the County's Housing Inspector and the Inspector General. Inspectors often disagree on specific rehabilitation items.

OIG Evaluation of
Auditee Comments

While the homeowners signed a completion certification that the housing rehabilitation work was completed, the County's Housing Inspector was required by HUD's regulation, the State Grant Agreements' requirements, and the County's Policies and Guidelines to ensure the rehabilitation work met the State's Standards at completion. Homeowners cannot be expected to know what the State Standards are. Our Inspectors determined that the County's Housing Inspector failed to identify housing rehabilitation work that was not provided, improperly performed, or was not included in the contract specifications for eight houses.

Auditee Comments

As to Recommendations 1A and 1B, the reimbursement of funds has never been the State's required action. The State requires that all Residential Rehabilitation Standards' violations present at the time of the rehabilitation be corrected. If not, the County is generally directed to correct such items.

As to Recommendation 1C, the County is willing to review existing procedures and controls and develop additional procedures and controls. Generally, the State has determined through its programmatic monitoring that adequate procedures and controls did exist. Recommendation 1C also involves the role fulfilled by the Housing Inspector. The County is open to reviewing this role to improve existing controls and procedures over it.

As to Recommendation 1D, the County feels that this role can be reviewed to improve existing controls and procedures. Generally, the State has determined that adequate controls did exist and found them to have protected public dollars.

OIG Evaluation of
Auditee Comments

We adjusted Recommendations 1A and 1B to include reimbursement to the County's Community Housing Improvement Program from non-Federal funds if the County is unable to ensure the housing rehabilitation

work that was not provided, improperly performed, or not included in the contracts' specifications is satisfactorily completed.

While the County did have Policies and Guidelines for the Program, the County did not have procedures and controls to ensure assisted houses met the State's Standards after receiving housing rehabilitation assistance. The County also lacked procedures and controls to assure the contractor, who administers the County's Program, follows the Program's requirements. The County's Housing Inspector did not verify that rehabilitation work met the State's standards at completion. The actions proposed by the County should correct the problems if the necessary procedures and controls are implemented and periodically reviewed.

Recommendations

We recommend that the Director of Community Planning and Development, Ohio State Office, in conjunction with officials from the State of Ohio, assure that Fairfield County:

- 1A. Ensures that the \$10,201 of housing rehabilitation work cited in this finding is completed correctly using non-Federal funds. If the County is unable to ensure the rehabilitation work is completed, the County should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and release the applicable liens against the properties.
- 1B. Ensures that the \$1,534 of housing rehabilitation work that was not included in the specifications for three contracts is performed using non-Federal funds. If the County is unable to ensure the rehabilitation work is completed, then the County should reimburse its Community Housing Improvement Program from non-

Federal funds for the total amount of housing assistance that was provided to the applicable houses.

- 1C. Establishes procedures and controls to ensure assisted houses meet the State's Residential Rehabilitation Standards after receiving housing rehabilitation assistance as required by HUD's regulation, the County's Community Housing Improvement Program's Policies and Guidelines, and the State of Ohio's Grant Agreements.
- 1D. Establishes procedures and controls to monitor the contractor, who administers the County's Community Housing Improvement Program, to ensure the contractor follows the Program's requirements.

We also recommend that the Director of Community Planning and Development, Ohio State Office:

- 1E. Takes administrative action against the County's Housing Inspector as authorized under 24 CFR Part 24 for the items cited in this finding.

The County Needs To Improve Its Contracting Process

Fairfield County did not maintain an effective system of controls over its contracting process. The County did not adequately segregate the duties of the personnel responsible for awarding housing rehabilitation contracts. The County failed to follow HUD's regulation and the State of Ohio's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services. The County's contracting policies also did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The problems occurred because the County's Board of Commissioners and top management did not exercise their responsibilities to implement effective contracting controls. The Executive Director of the County's Regional Planning Commission said he was not aware of HUD's or the State of Ohio's procurement requirements. As a result, HUD funds were not used efficiently and effectively, and the County's procurement transactions were not subject to full and open competition.

HUD's Regulation

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 to be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(2) states that procurement by sealed bids are to be publicly solicited and a firm fixed price contract awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest price. The sealed bid method is the preferred method for procuring construction services.

24 CFR Part 85.36(d)(3) also states that the technique of competitive proposals are normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. If this method is used: (i) requests for proposals will be publicized; (ii) proposals will be solicited from an adequate number of qualified sources; and (iv) awards will be made to the responsible firm

whose proposal is most advantageous to the program, with price and other factors considered.

State's Revised Code

As of June 30, 1997, Section 307.86 of the Ohio Revised Code requires anything to be reconstructed at a cost in excess of \$15,000 will be obtained through competitive bidding. Prior to June 30, 1997, the State required contracts in excess of \$10,000 be obtained through competitive bidding. Section 307.87(A) of the Code says when competitive bidding is required by Section 307.86, notice shall be published once a week, for not less than two consecutive weeks preceding the day of the opening of bids, in a newspaper of general circulation within the county.

The County Did Not Adequately Segregate The Duties For The Award Of Rehabilitation Contracts

Fairfield County did not properly segregate the duties of the staff concerning the award of housing rehabilitation contracts. The County's Housing Inspector performed various activities in awarding housing rehabilitation contracts without adequate internal checks and balances. No one person should have complete control over all phases of any significant transaction. However, the County's Housing Inspector effectively had complete control over the award of housing rehabilitation contracts.

The County's Housing Inspector performed an initial inspection of a house to determine the deficiencies that needed to be corrected under the County's Community Housing Improvement Program. If the household was eligible for housing rehabilitation assistance, the Housing Inspector prepared a Deficiency List and Contractor Proposal for prospective contractors. The Housing Inspector then held a bid meeting with the prospective contractors at the house to be rehabilitated.

After the bid meeting, contractors were requested to submit their bids to the County's Community Housing Improvement Program office. The Housing Inspector and a representative of the County were to open the bids received and award the contract to the lowest bidder; however, the opening of the bids was not open to the public. The County and Community

Development Consultants of Ohio, which the County contracted with to administer its Program, did not have any documentation to show that a County representative attended the bid openings. Therefore, the County unnecessarily increased its susceptibility to program abuses. The County had an adequate number of employees to segregate duties so that no one individual needed to have complete control of a transaction.

The Award Of Housing
Rehabilitation Contracts
Was Not Subject To Full
And Open Competition

The County did not follow HUD's regulation and the State of Ohio's requirements regarding the procurement of housing rehabilitation services. The County awarded 26 housing rehabilitation contracts for 25 households between April 1997 and June 1998. Of the 26 contracts awarded, the County used \$336,348 in HUD funds for 25 contracts and terminated one contract prior to any funds being disbursed. HUD's regulation and the State of Ohio's Grant Agreements required the County to award the housing rehabilitation contracts through full and open competition. However, the contract awards were not subject to full and open competition.

The County did not publicly advertise the 26 housing rehabilitation contracts as required by HUD's regulation. The County also did not publicly advertise 17 of the 26 housing rehabilitation contracts as required by the State of Ohio's Revised Code. Prior to June 30, 1997, the County was required by State law to publicly advertise three contracts that exceeded \$10,000. After June 30, 1997, State law required the remaining 14 contracts that exceeded \$15,000 to be publicly advertised. However, the County did not publicly advertise the housing rehabilitation contracts. While State law did not require the County to publicly advertise nine of the 26 housing contracts because the contracts fell below the State's dollar threshold requirements, HUD's regulation required the County to publicly advertise all of the housing rehabilitation contracts. The County was not aware of HUD's or the State's procurement requirements.

As previously mentioned, the County did not publicly advertise its housing rehabilitation contracts. The County's 1996 Policies and Guidelines required that homeowners be provided with a listing of the County's approved contractors to select from. For contractors to be placed on the County's approved contractor listing, they were required to provide proof of insurance and business references to the County. The County did not periodically advertise for contractors to get on the approved contractor listing. The homeowners were then to select three contractors to bid on their housing rehabilitation work and provide their selection to the County's Housing Inspector. However, this was not being done.

The County's Housing Inspector would either suggest to the homeowners which contractors to use, or brought the contractors to the homeowner's house to bid on the housing contract. The award of the contract was then made by the County's Housing Inspector and was not open to the public. The Training and Technical Assistance Supervisor for the State's Office of Housing and Community Partnerships said if the County had followed its contracting procedures, which required homeowners to select three contractors to provide bid proposals and award the housing rehabilitation contracts, the County would not have been required to follow HUD's or the State's procurement requirements. However, since the County carried out the procurement of the housing rehabilitation services, she said the County was required to publicly advertise the rehabilitation contracts.

The State of Ohio's and Community Development Consultant's procedures required the County to obtain bids from at least three contractors. However, the County did not receive three bids for 20 of the 26 contracts awarded. To determine how contractors were selected to submit bid proposals, we sent a questionnaire to or interviewed 22 of the 25 households who participated in the County's Program. We did not receive a questionnaire from or were unable to interview three households. Of the 22 households, 15

informed us that the County’s Housing Inspector either suggested the contractors to obtain bids from or brought the contractors to their house to bid on the housing contract. The County’s Housing Inspector said good contractors were hard to find to participate in the Program. The County awarded 24 of the 26 housing rehabilitation contracts to only three contractors.

In order to determine whether the amount paid to the contractors who performed housing rehabilitation services was reasonable, we obtained an Inspector to evaluate the services paid for seven of the 25 contracts. We selected the seven contracts based upon the homeowners’ responses to our questionnaire or through interviews we conducted to determine whether their housing rehabilitation work was performed correctly. Of the seven contracts, our Inspector determined that the contract amount was reasonable in all but one case.

The County excessively paid \$2,716 for roofing and guttering services at one house. The County paid \$5,000 from HUD funds for the roofing and guttering services; however, our Inspector estimated the services should have only cost \$2,284. The house was located at 3360 Lakeside Drive. As a result, HUD funds were not efficiently and effectively used.

We also reviewed the County’s use of \$159,438 in HUD funds for the 14 housing rehabilitation contracts that were not publicly advertised as required. The following table shows the housing assistance paid from HUD funds for the 14 contracts.

Address of Household	Housing Assistance
8420 Main Street	\$24,000

413 South Mill Street	21,788
2097 Main Street	21,550
329 West Jefferson Street	18,725
3285 South Bank Road	16,800
401 South Main Street	11,450
2625 Bickle-Church Road	10,625
424 South Park Street	5,250
13544 Quenn Road	5,000
13376 Laurel Drive	4,990
4480 Basil-Western Road	4,985
217 Brown Street	4,800
6505 Pleasantville Road	4,800
6050 Millersiding Road	4,675
Total	<u>\$159,438</u>

Consulting Services
Contract Was Not Properly
Procured

The County did not properly procure its contract with Community Development Consultants of Ohio. In October 1996, the County signed a \$117,000, two year contract with Community Development Consultants of Ohio to provide housing rehabilitation consulting services to individuals participating in the County’s Fiscal Years 1996-1997 Community Housing Improvement Program. The County awarded the contract to Community Development Consultants without full and open competition.

In order to determine whether the contract price was reasonable, we compared Community Development Consultants’ contract cost to cost proposals we obtained from two vendors. The vendors provided us cost proposals ranging from \$111,500 to \$120,000. The costs charged by Community Development Consultants appear to be within an acceptable range when compared to the vendors’ quotes.

The County solicited Requests for Qualifications in July 1995 from three consulting firms to evaluate their qualifications to administer the County’s Community Housing Improvement Program. The County received two qualified responses, one of which was from Community Development Consultants. Based upon the responses received, the County selected Community Development Consultants to administer the County’s

Program. However, the County did not solicit or publicize a Request for Proposal for the Program's consulting services as required by HUD's regulation or the State of Ohio's Grant Agreements.

The County should have requested both qualified contractors to provide proposals. A Request for Qualifications is used to determine whether a contractor has the necessary skills to provide the required services while a Request for Proposal is used to obtain cost estimates from contractors. The County also did not maintain records to detail the significant history of the procurement process, such as the rationale for the method of procurement or the basis for the contract price. Although the price paid to Community Development Consultants appears reasonable based upon the two vendors' quotes we obtained, the County denied the other qualified firm equal opportunity to bid on the consulting services since the County did not issue a Request for Proposal.

HUD's Requirements For
Fixed-Price Or Cost
Reimbursement Type
Contracts Were Not Met

The County's contracting policies did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The County's Fiscal Year 1996 Policies and Guidelines for the Community Housing Improvement Program did not require the County to issue Requests for Proposals regarding professional services. The 1996 Policies and Guidelines required the County to issue either a Request for Proposal or a Request for Qualifications. However, HUD's regulation requires that Requests for Proposals be solicited from an adequate number of qualified sources for either a fixed-price or cost-reimbursement contract. The County awarded Community Development Consultants a fixed-price contract for the Fiscal Years 1996-1997 Program.

Auditee Comments

[Excerpts paraphrased from the County's comments on our draft finding follow. Appendix B, page 53, contains the complete text of the comments.]

The Inspector General states the County's Housing Inspector effectively had complete control over the award of housing rehabilitation contracts. The County feels that this is not an accurate characterization of the Community Housing Improvement Program. Each of the members of the Program's staff had specific assigned duties. The Case Processor was responsible for client intake and providing assurances that the necessary forms were made part of the client's file. The Housing Inspector provided assistance in oversight to the rehabilitation projects as requested by the applicant. The County also appointed a representative from the Office of the Regional Planning Commission to participate in the bid openings and final payments.

The County followed the policies and procedures outlined in the Community Housing Improvement Program Grant Application, which became part of the Grant Agreement and the adopted Policies and Guidelines for the Program. The County realizes that more could be done to ensure the various responsibilities and duties for the award of rehabilitation contracts belong to distinct staff members. The County is certainly willing and intends to review its current process and make needed improvements.

OIG Evaluation of Auditee Comments

The County's Housing Inspector performed an initial inspection of a house to determine the deficiencies that needed to be corrected under the County's Program. The Inspector also prepared a Deficiency List and Contractor Proposal for prospective contractors, held a bid meeting with the prospective contractors, opened the bids received from the prospective contractors, and awarded the housing rehabilitation contract. Thus, the Housing Inspector effectively had complete control over the scope and award of housing rehabilitation contracts. While the County may have appointed a representative to participate in the bid openings, the County and Community Development Consultants of Ohio did not have any documentation to show that the representative attended the openings.

The County may have followed the Grant Application. However, the County did not follow HUD's regulation or the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services. The action proposed by the County to review its process and make needed improvements regarding the responsibilities and duties for the award of rehabilitation contracts should correct the problem if the County adequately segregates the duties of the personnel responsible for awarding the housing rehabilitation contracts.

Auditee Comments

The Inspector General states the County did not follow HUD's regulation or the State of Ohio's requirements regarding the procurement of Housing Rehabilitation services. The County again feels that this characterization is not accurate. The County's Policies and Guidelines indicated that the homeowner was to procure the contractor and had free choice to select the contractor. Therefore, the County was not required to follow HUD's regulation. All contracts were awarded in the manner outlined in the Program's Policies and Guidelines.

The County was not the procuring agent in the rehabilitation contracts; therefore, State and Federal procurement regulations did not apply to the selection of rehabilitation contractors. The County did use HUD funds efficiently and effectively because all clients that received assistance attempted to obtain three bids from which the lowest and best bidder was selected.

OIG Evaluation of Auditee Comments

Since the County's Housing Inspector carried out the procurement of the housing rehabilitation services, the County was required to follow HUD's regulation and the State's Revised Code. We agree that the County's Policies and Guidelines for the Program allow the homeowner to select the contractor; however, this was not done. Of the 22 households we sent a

questionnaire to or interviewed, 15 informed us that the County's Housing Inspector either suggested to the homeowners which contractors to use, or brought the contractors to the homeowner's house to bid on the housing contract.

The County did not publicly advertise the housing rehabilitation services as required by HUD's regulation and the State's Revised Code. The County awarded 26 housing rehabilitation contracts without any public advertisement. The County also did not solicit three bids for 20 of the 26 contracts awarded. Our Inspector determined that the County excessively paid \$2,716 in HUD funds for the roofing and guttering services at one house. As a result, HUD funds were not efficiently and effectively used.

Auditee Comments

The Inspector General states the County did not properly procure its contract with Community Development Consultants of Ohio. The County disputes this assertion. The County's Regional Planning Commission Office conducted the procurement for a Program consultant. As part of the procurement process, a notice was published and three consultants were directly solicited. The respondents were ranked and a recommendation was made to the Commissioners. This was followed by a resolution by the Commissioners which indicated the procurement was completed and selected a consultant. The County did advertise and solicit three Request for Proposals by direct correspondence as required by 24 CFR Part 85.36(d)(3) and the State's Handbook.

The County inquired with the State for guidance regarding the procurement of consulting services and did follow HUD's and the State's competitive proposals for Request for Qualifications.

OIG Evaluation of Auditee Comments

The County did solicit Requests for Qualifications from three consulting firms. The County received two qualified responses; however, the County did not solicit

or publicize a Request for Proposals for the Program's consulting services from the two qualified firms as required by HUD's regulation and the State's Grant Agreements.

Auditee Comments

HUD alleges that \$2,716 was overspent on roofing and guttering. The Inspector General's estimate of \$2,284 does not reflect all the work that was completed under the Program contract for \$5,000. Bids of \$4,600 and \$5,000 were received for the job. The contractor with the lower bid withdrew his bid, leaving the \$5,000 bid. The Auditor's estimate in 1999 cannot reflect the pricing and market demand pressures impacting the bidders at the time of the work in 1998. The deficiency list drafted by the Housing Inspector included replacement of roof trusses with associated ceiling beams and roof decking.

OIG Evaluation of Auditee Comments

The County paid a contractor \$5,000 for the removal of the existing roof; and installing new sheathing where needed, felt drip edge, shingles, and gutter and downspout on the complete house at 3360 Lakeside Drive. Our Inspector determined that the roofing and guttering work should have only cost \$2,284. As a result, the County excessively paid \$2,716 (\$5,000 less \$2,284) in HUD funds for the roofing and guttering work. The Deficiency List and Contractor Proposal in the County's file for the house at 3360 Lakeside Drive did not include the replacement of roof trusses and decking.

Auditee Comments

The Inspector General asserts that the County's contracting policies did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The County's position is that it was not required to meet these requirements. The State's Technical Guide for Procurement of Professional Services states if the applicant elects to procure consulting services prior to the submission of the grant application, the city/county must negotiate with the

respondent receiving the highest total score during the evaluation for the right to assist the city/county in developing the grant application.

The State of Ohio did not direct Fairfield County to follow HUD's requirements for the award of fixed-price or cost-reimbursement type contracts because the procurement for the Program was not conducted under the fixed-price or cost-reimbursement regulations.

Regarding contractor selection for the rehabilitation projects, our position is the County did not need to follow HUD's requirements for the award of fixed-price or cost-reimbursement type contracts since the homeowner selected and hired the contractor.

**OIG Evaluation of
Auditee Comments**

The County's Policies and Guidelines for the Program did not require the County to issue Requests for Proposals. Instead, the County could either issue a Request for Proposal or a Request for Qualification. The States' Grant Agreements required the County to follow HUD's procurement regulation (24 CFR Part 85); therefore, the County was required to follow HUD's regulation which requires Requests for Proposals be solicited from an adequate number of qualified sources for either a fixed-price or cost-reimbursement contract. The County's contract with Community Development Consultants of Ohio was a fixed-price contract.

Auditee Comments

As to Recommendation 2A, the County feels that this is an appropriate recommendation. The County is willing to review the duties of the personnel responsible for awarding rehabilitation contracts.

As to Recommendation 2B, the County is open to and plans to review existing procedures. The County will establish additional procedures and controls that are found to be needed to award contracts.

As to Recommendation 2C, the County is willing to

provide additional training to the Housing Inspectors and Case Processors in order to ensure that specific contractors are not recommended to homeowners in the future.

As to Recommendation 2D, the County feels that reimbursement of the \$2,716 is not appropriate. The County feels that there is a discrepancy between the Auditor's scope of work and the scope of work in the deficiency list.

As to Recommendation 2E, the County is willing to provide copies of all bids as well as the Housing Inspector's estimates to show the reasonableness of the assistance provided. The County asserts that a competitive bidding process was followed. The re-inspection of all units would be a precarious method of answering this finding and could possibly cause greater difficulties.

OIG Evaluation of Auditee Comments

The County has agreed to carry out the actions proposed in Recommendations 2A, 2B, 2C, and 2E. However, the County needs to ensure the proposed actions: adequately segregate the duties of the personnel responsible for awarding the housing rehabilitation contracts; provide for full and open competition of its Program contracts; and clearly advise staff to stop recommending which contractors to use for housing rehabilitation contracts. If the County cannot provide adequate documentation to support the reasonableness of the \$159,438 of housing rehabilitation assistance provided, the County should reimburse its Community Housing Improvement Program from non-Federal funds for the appropriate amount.

In addition, unless the County can provide sufficient contractual documentation and evidence of work completed to justify the reasonableness of the \$5,000 paid for roof and gutter repairs at 3360 Lakeside Drive, it should reimburse its Community Housing Improvement Program from non-Federal funds for the amount not deemed reasonable.

The County's comments did not address Recommendation 2F. The County needs to revise its Policies and Guidelines to ensure they meet HUD's regulation regarding the issuance of Requests for Proposals for fixed-price or cost-reimbursement type contracts.

Recommendations

We recommend that the Director of Community Planning and Development, Ohio State Office, in conjunction with officials from the State of Ohio, assure that Fairfield County:

- 2A. Segregates the duties of the personnel responsible for awarding housing rehabilitation contracts. No person should have complete control over a significant transaction. The duties should be segregated to provide checks and balances on all work.
- 2B. Establishes procedures and controls to ensure that Community Housing Improvement Program contracts are awarded in a manner providing full and open competition as required by HUD's regulation and the State of Ohio's requirements.
- 2C. Instructs staff responsible for assisting homeowners with selecting contractors to bid on housing rehabilitation services to stop recommending which contractors to use.
- 2D. Reimburses its Community Housing Improvement Program \$2,716 from non-Federal funds that were excessively paid for the roofing and guttering services cited in this finding or provide sufficient contractual documentation and evidence of work completed to justify the amount.
- 2E. Provides documentation to support the reasonableness of the \$159,438 of housing

rehabilitation assistance cited in this finding that was not publicly advertised as required by HUD's regulation and the State of Ohio's requirements. If adequate documentation cannot be provided, then the County should reimburse its Community Housing Improvement Program from non-Federal funds for the appropriate amount.

- 2F. Revises its Community Housing Improvement Program's Policies and Guidelines to ensure they meet HUD's regulation regarding the issuance of Requests for Proposals for fixed-price or cost-reimbursement type contracts.

The County Did Not Adequately Protect \$106,052 In Housing Rehabilitation Assistance

Fairfield County did not follow HUD's regulation, its Community Housing Improvement Program's policies, or the State of Ohio's requirements to adequately protect the housing rehabilitation assistance provided to households participating in the Program. The County provided \$106,052 (\$96,577 of HOME funds and \$9,475 in Community Development Block Grant funds) in housing assistance to six households without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties. The problems occurred because Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure property hazard insurance and/or mortgage liens, deed restrictions, or covenants were placed on the assisted properties. Additionally, the County did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HUD's funds were not used efficiently and effectively.

HUD's Regulation

24 CFR Part 92.504(c)(13) requires the County to provide for a means of enforcement through a written agreement with the homeowner. This means of enforcement may include liens on real property, deed restrictions, or covenants running with the land.

County's Policies And Guidelines

The Fiscal Year 1994 Community Housing Improvement Program's Policies and Guidelines, page 30, state that owners are required to have or obtain hazard insurance on their dwellings as a condition for assistance. The purpose of this is to protect the investment of public funds. The owner must purchase his/her own hazard insurance. In extreme hardship, as determined by the Program staff, hazard insurance may be purchased as part of the rehabilitation cost, but only for a one year period. Page 7 of the Policies and Guidelines also requires that when the County makes a deferred loan under the Program, the County will record a lien and obtain a mortgage note to ensure the intent of the assistance.

State’s Grant Agreement Requirements

The State of Ohio’s Home Investment Partnership Program Grant Agreement effective July 1, 1994 with Fairfield County, page 5 of Attachment B, requires the County to be able to enforce the terms of the assistance through an agreement which may include a lien on the real property, deed restrictions, or covenants on the land. In addition, the agreement must specify remedies for breach of the provisions of the agreement.

The County Did Not Adequately Protect \$106,052 In Assistance

The County did not adequately safeguard \$106,052 of its Fiscal Year 1994 housing rehabilitation assistance. The County provided \$96,577 of HOME funds and \$9,475 in Community Development Block Grant funds to six households without evidence of property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties.

The County did not ensure that three households had hazard insurance or that four households had mortgage liens, deed restrictions, or covenants recorded against the assisted properties. These omissions applied to a total of six households. These six households were:

<i>Household Address</i>	<i>Assistance Amount</i>	<i>Award Date</i>	<i>Property Hazard Insurance?</i>	<i>Lien, Restriction, or Covenant Recorded?</i>
5040 Horns Mill Road	\$19,675	2/1/95	No	Yes
7324 Sugar Grove Road	20,000	9/12/95	No	Yes
306 South Main Street	22,650	10/24/95	Yes	No
4615 Carpenter Road	14,000	10/31/95	Yes	No
2751½ Horns Mill Road	9,475	12/12/95	Yes	No
242 South Main Street	<u>20,252</u>	9/26/95	No	No
Totals	<u>\$106,052</u>		3	4

The problems occurred because Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, lacked procedures and controls over the Program to ensure hazard insurance or mortgage liens, deed restrictions, or covenants were placed on the assisted properties. The Consultants’

Grant Administrator said some of the paper work must have been overlooked. The County also did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HUD's funds were not used efficiently and effectively.

Auditee Comments

[Excerpts paraphrased from the County's comments on our draft finding follow. Appendix B, page 46, contains the complete text of the comments.]

The County does not dispute the validity that mortgages were not filed for four households and hazard insurance was not obtained for three households. However, the County does dispute the fact that procedures and controls were lacking over the Community Housing Improvement Program to ensure hazard insurance and/or mortgage liens, deed restrictions, or covenants were placed on the assisted properties.

The County had procedures in place to ensure homeowners had obtained property hazard insurance and mortgage liens were recorded. In the six cases, there was an oversight on the part of the County's administration of these projects. We did not make sure these procedures were followed completely. However, the County believes these oversights were the result of a temporary, unusual situation within the administration of the Program. Our records indicate these oversights took place during a six-week period at the end of the two-year Grant period when our Case Processor was ill. Once it became apparent the Processor would be unable to fulfill her duties, she was relieved of her duties. This problem was corrected immediately. The new Case Processor did not make the similar errors in the Fiscal Year 1996 Grant.

**OIG Evaluation of
Auditee Comments**

The County's Policies and Guidelines required homeowners to obtain property hazard insurance and mortgage liens, deed restrictions, or covenants on the land be recorded. However, the County did not have controls to ensure these requirements were followed.

The County did not have any documentation to support that participants' files were reviewed to ensure the County's Policies and Guidelines were followed.

Auditee Comments

In each of the six cases included in the finding, appropriate actions are being taken to correct the prior oversights. The following steps are now being taken: (1) a thorough review of the file for each property noted in the draft audit is being conducted; (2) for each property found not to have a valid mortgage, a new mortgage will be filed; (3) for each file which is lacking evidence of hazard insurance, the County will review the project to discover whether hazard insurance was obtained and not noted in the file; and (4) for each property that does not have valid hazard insurance, the client(s) will be reminded they are required to maintain coverage or the loan can be recalled by the County.

OIG Evaluation of Auditee Comments

The actions proposed by the County should correct the problems identified. However, the County also needs to establish procedures and controls to ensure households that receive housing rehabilitation assistance in the future meet HUD's regulation, its Program guidelines, and/or the State of Ohio's requirements regarding hazard insurance, mortgage liens, deed restrictions, or covenants on the land.

Auditee Comments

As to the draft Recommendations made by the Office of Inspector General, the County feels that Recommendations 3A, 3B, and 3C are reasonable and appropriate. The County further submits that all of the provisions contained in these recommendations have either already been implemented or are in the process of being implemented.

OIG Evaluation of Auditee Comments

While the County indicated the provisions of Recommendation 3A and 3B were implemented or are in the process of being implemented, the County did not provide any documentation to support its assertion.

Recommendation 3C in the draft finding was eliminated from this memorandum to avoid duplication. Draft Recommendation 3C is cited in this memorandum as Recommendation 1D.

Auditee Comments

As to draft Recommendation 3D, the County submits that it should not be required to pay back the funds for several reasons: First, repayment of Grant funds is not the remedy recommended by the State. Second, the County violated no Federal requirement during the implementation of the Fiscal Year 1994 Grant. Third, the funds were provided to eligible clients and were expended on eligible activities and there is no assertion to the contrary. Fourth, the oversights have not caused any known loss, ineligibility, or inappropriate expenditure of Federal funds. Fifth, the oversights and problems included in this finding can be corrected by other means. Sixth, repayment of these funds would be excessively punitive.

OIG Evaluation of Auditee Comments

Draft Recommendation 3D is now Recommendation 3C in this memorandum.

The County did not follow HUD's regulation regarding the execution of mortgage liens, deed restrictions, or covenants for the four properties cited in this finding. We adjusted our finding to include HUD's requirement. The County also did not follow its Policies and Guidelines for the Program or the State's Grant Agreement requirements to ensure assisted properties obtained hazard insurance and had a mortgage lien, deed restriction, or a covenant. Our recommended action is that the County assure the required property hazard insurance is obtained and any mortgage liens, deed restrictions, or covenants on the six assisted properties are properly recorded. If the County does not or cannot obtain this necessary documentation, it should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$106,052 of HUD funds provided to the homes lacking all required hazard insurance, mortgage liens, deed restrictions, or covenants.

Recommendations

We recommend that the Director of Community Planning and Development, Ohio State Office, in conjunction with officials from the State of Ohio, assures that Fairfield County:

- 3A. Establishes procedures and controls to ensure households that receive housing rehabilitation assistance meet HUD's regulation, Community Housing Improvement Program's guidelines, and/or the State of Ohio's requirements regarding hazard insurance, mortgage liens, deed restrictions, or covenants on the land.

- 3B. Records mortgage liens, deed restrictions, or covenants on four properties as required by HUD's regulation, Community Housing Improvement Program's Policies and Guidelines, and the State of Ohio's Grant Agreement. If the County is unable to record a mortgage lien, deed restriction, or covenant on any of the four properties, the County should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$66,377 amount.

- 3C. Requires the three properties that received housing rehabilitation assistance without property hazard insurance to obtain the necessary property hazard insurance as required by HUD's regulation, Community Housing Improvement Program's Policies and Guidelines, and the State of Ohio's Grant Agreement. If any of the three properties cannot obtain property hazard insurance, the County should reimburse its Community Housing Improvement Program from non-Federal funds for the applicable portion of the \$39,675 amount.

The County Inappropriately Used \$50,075 To Provide Housing Rehabilitation Services

Fairfield County did not follow HUD’s regulation or its Community Housing Improvement Program policies for private housing rehabilitation assistance. The County used: \$33,625 of HOME funds to assist two households, who were not “very low-income”, with housing rehabilitation services; and \$16,450 of HOME funds to provide rehabilitation assistance to a household that was not located in the required target area. The problems occurred because Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, misunderstood the County’s policies for the Program. Additionally, the County did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HOME funds were not used efficiently and effectively, and available funding assistance to eligible individuals was reduced.

HUD’s Regulation	24 CFR Part 92.504 says the participating jurisdiction is responsible for ensuring HOME funds are used in accordance with all program requirements. The use of contractors does not relieve the participating jurisdiction of this responsibility.
County’s Policies And Guidelines	<p>The Fiscal Year 1996 Community Housing Improvement Program’s Policies and Guidelines, page 4, requires the benefits of the Private Owner Rehabilitation Program will be offered to those of a very low-income household. A very low-income household is defined as a household with 50 percent of the Columbus, Ohio Metropolitan Statistical Area median income as determined by HUD. Page 3 of the Policies and Guidelines also say the rules of both the Private Owner Rehabilitation and the Homebuyer Assistance Program will apply to their appropriate portion of the combined assistance.</p> <p>Pages 2 and 3 of the Fiscal Year 1996 Community Housing Improvement Program’s Policies and Guidelines require the benefits of the Private Rehabilitation Program to be provided to the target area location. This includes the Townships of Greenfield, Liberty, Walnut, and Richland in Fairfield County.</p>

The County Inappropriately Used \$33,625 Of Home Funds For Households Whose Incomes Exceeded Income Guidelines

The County inappropriately used \$33,625 of HOME funds to assist two of 14 households that received private housing rehabilitation assistance from the Fiscal Year 1996 Community Housing Improvement Program. The County's Policies and Guidelines for the 1996 Program and its Application for Housing Rehabilitation Assistance required households that received private housing rehabilitation assistance to be very low-income. The two households' incomes exceeded the required income guideline of \$23,700 for a four person household by \$12,300 (51.9 percent) and \$12,900 (54.4 percent), respectively. The households were located at 11304 Ann Drive and 239 South Broad Street, respectively.

The County Inappropriately Provided \$16,450 To A Household Located Outside The Targeted Area

The County inappropriately provided \$16,450 of HOME funds to assist one household located outside of the targeted area. The household was located at 4660 Lake Road in Pleasant Township; however, the Program's Fiscal Year 1996 Policies and Guidelines required that only households in the County's targeted area were eligible to receive private housing rehabilitation assistance. The County's targeted areas were the Townships of Greenfield, Liberty, Walnut, and Richland.

While the County only served one household that was not located in the targeted area, the error was easily identified and is indicative of a situation that could cause more significant problems in the future if not corrected. Community Development Consultants of Ohio did not detect the problem because it lacked procedures and controls to ensure that only individuals living in the County's targeted area were assisted under the Private Rehabilitation Program. The Consultants' Grant Administrator said he believed the household was eligible to receive assistance under the Private Rehabilitation Program because it qualified for the County's Homebuyer Assistance Program which did not have a target area. However, the County's 1996 Policies and Guidelines states the rules of both Programs apply to their appropriate portion of the combined assistance.

The Consultants
Misunderstood The
County's Policies And
Guidelines

The inappropriate use of HOME funds occurred because Community Development Consultants of Ohio, which the County contracted with to administer its Community Housing Improvement Program, misunderstood the County's Policies and Guidelines for the Program. The County did not monitor Community Development Consultants to ensure it administered the Program as required. As a result, HOME funds were not used efficiently and effectively, and available funding and assistance to eligible individuals was reduced.

Auditee Comments

[Excerpts paraphrased from the County's comments on our draft finding follow. Appendix B, page 48, contains the complete text of the comments.]

The County disputes the \$33,625 was used inappropriately. Eligible projects under the Community Housing Improvement Program can generally be divided into two categories: (1) the Private Rehabilitation Program, rehabilitation of units owned by income eligible households; and (2) the Private Rehabilitation plus Homebuyer Assistance Programs, rehabilitation assistance linked with first-time homebuyer activity. The County's Program essentially provided that to be eligible for the Private Rehabilitation Program, the applicant must qualify under the very-low income category. In order to be eligible for the Private Rehabilitation plus Homebuyer Assistance Programs, the applicant must only qualify under the low-income category.

Federal requirements state in order to be eligible for assistance, a person or household must have a total household income of less than 80 percent of the Columbus Metropolitan Statistical Area median income. All clients served by the Fiscal Year 1996 Program were found to be income eligible. All households had total household incomes of less than 80 percent of the Columbus median income.

The County's Program Policies and Guidelines state: (a)

Private Rehabilitation clients must not exceed very low-income limits (50 percent or less of the Columbus median income); and (b) Private Rehabilitation clients, when combined with the Homebuyer Assistance Program, must not exceed the low-income limits (80 percent of the Columbus median income).

The County's Fiscal Year 1996 Funding Application, page 3 of Table VI, states that during the Fiscal Year 1996 Program, the County will assist at least 11 very low-income and four low-income households rehabilitate their homes to the State's Residential Rehabilitation Standards.

**OIG Evaluation of
Auditee Comments**

The County inappropriately provided \$33,625 of private housing rehabilitation assistance to two households, who were not "very low-income". The County's Policies and Guidelines for the Private Owner Rehabilitation Program required the assistance to be provided to very low-income individuals. While the County provided the two low-income households with assistance from just its Homebuyer Assistance Program, the County's Policies and Guidelines require that only very low income households receive assistance for any activity under the Private Owner Rehabilitation Program. Therefore, the County should not have provided assistance to the two households since they were not "very low-income".

Auditee Comments

The Inspector General found the County inappropriately provided \$16,450 of funds to assist one household located outside of the target area. The household was located at 4660 Lake Road in Pleasant Township. This project was clearly identified as a Private Rehabilitation and Homebuyer Assistance project. The County contends the target areas were different for the Private Rehabilitation Program versus the Private Rehabilitation plus Homebuyer Assistance Programs. The target area for the Private Rehabilitation Program was limited to Greenfield, Liberty, Walnut, and Richland Townships. The target area for the Private Rehabilitation and Homebuyer Assistance

Programs was only limited to Fairfield County, except within the City limits of Lancaster.

The County's Fiscal Year 1996 Grant Agreements state the County will provide Homebuyer Assistance to four households County-wide. The County will also provide 15 households with Private Rehabilitation assistance. Of the 15 households, 12 will be located in the northern townships target area and the other three households will be County-wide.

The County's Application, item 2, page 6 of Table VI, says in order to be eligible for the Private Rehabilitation Program, an applicant must be a very-low income owner-occupant of a dwelling in the northern townships group target area. In order to be eligible for the Private Rehabilitation plus Homebuyer Assistance Programs, an applicant must be a low-income household with pre-approval for a home mortgage loan anywhere in Fairfield County, except the City of Lancaster.

The County's Fiscal Year 1996 Policies and Guidelines, item 3 on page 3, state Private Rehabilitation assistance in combination with Homebuyer assistance will be available to four households. The assistance will be available to purchase and rehabilitate an owner-occupied dwelling unit in Fairfield County which includes all the villages, but not the City of Lancaster.

The County feels that its policy was clearly written that all clients that received only Private Rehabilitation assistance would be located in the four township target area. All clients that received Homebuyer assistance would be located in Fairfield County, but not necessarily in the four township target area.

**OIG Evaluation of
Auditee Comments**

The household received assistance through the County's Private Owner and Homebuyer Assistance Programs. The County's Policies and Guidelines Program clearly state that the rules of both the Private Owner Rehabilitation and the Homebuyer Assistance Program will apply to their appropriate portion of the combined assistance. The target area for the Private Rehabilitation Program was the Townships of Greenfield, Liberty, Walnut, and Richland in Fairfield County. Since the household was located in Pleasant Township, the County should not have provided assistance to the household through the Private Rehabilitation Program.

Auditee Comments

The County feels the draft Recommendations 4A and 4B are reasonable and appropriate. However, the county feels that recommendation 4C is entirely inappropriate. The County does not feel that housing rehabilitation assistance was inappropriately provided to the three households. The County feels that the repayment of Grant funds seems extremely excessive.

**OIG Evaluation of
Auditee Comments**

Recommendation 4C in the draft finding is now Recommendation 4B in this memorandum.

We believe the County should reimburse its Community Housing Improvement Program \$50,075 from non-Federal fund because the County did not follow its Policies and Guidelines for private housing rehabilitation. The County inappropriately provided housing rehabilitation assistance to two households, that were not "very low-income" and one household that was not located in the County's target area. As a result other households that met the County's Policies and Guidelines were not provided assistance.

Recommendations

We recommend that the Director of Community Planning and Development, Ohio State Office, in conjunction with officials from the State of Ohio, assures that Fairfield County:

- 4A. Establishes procedures and controls to ensure households that receive housing rehabilitation assistance meet Community Housing Improvement Program's income guidelines and are located in the County's target area.

- 4B. Reimburses its Community Housing Improvement Program \$50,075 from non-Federal funds for the housing rehabilitation assistance that was inappropriately provided to the two households that were not very low-income and the one household located outside of the County's target area.

Schedule of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
1A	\$ 10,201	
2D	2,716	
2E		\$159,438
3B		66,377
3C		39,675
4B	<u>50,075</u>	<u> </u>
Total	<u>\$ 62,992</u>	<u>\$265,490</u>

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

2/ Unsupported costs are costs charged to a HUD program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

Auditee Comments

May 21, 1999

Heath Wolfe, Senior Auditor
Department of Housing and
Urban Development
Office of Inspector General for Audit
77 West Jackson Blvd.
Chicago, IL 60604

Dear Mr. Wolfe:

Please regard this letter as the official response of the Fairfield County Board of Commissioners to the two draft audit findings issued by the Office of Inspector General for Audit, Department of Housing and Urban Development, on April 20, 1999. As counsel for the Board of Commissioners, I have been asked to respond on their behalf. I have reviewed the draft findings and my response is intended to clarify our program policies and also inform your office of the appropriate corrective actions which have been taken and will be taken in the future.

**RESPONSE TO THE FINDING OF THE OFFICE OF INSPECTOR GENERAL
THAT THE COUNTY DID NOT ADEQUATELY PROTECT \$106,052.00 IN
HOUSING REHABILITATION ASSISTANCE**

The Inspector General has found that mortgages were not filed for four households and that hazard insurance was not obtained for three households. The finding also states that the fiscal year 1994 CHIP grant “lacked procedures and controls over the program to ensure property hazard insurance and/or mortgage liens, deed restrictions, or covenants, were placed on the assisted properties.” The county does not dispute the veracity of the first part of this finding. However the county does dispute the second part of this finding. I believe it would be helpful to examine the circumstances which existed at the time of the fiscal year 1994 grant to explain how and why these failures occurred.

The county had procedures in place to insure that home owners had obtained property hazard insurance and that mortgage liens were recorded. (See the Policies and Guidelines Manual and Rehabilitation Manual) In these six cases, there was an oversight on the part of the county’s administration of these projects and we did not make sure that these procedures were followed completely. However, the county believes that these oversights were the result of a temporary, unusual situation within the administration of the CHIP Program. Our records indicate that these oversights took place during a six week period at the end of the two year grant period. During this time, our case processor was ill and emotionally unstable. When this fact was discovered and it became apparent that she would be unable to fulfill her duties, she was relieved of those duties. This problem was corrected immediately. The new case

processor who was hired to replace her did not make any similar errors in the fiscal year 1996 grant. Through the training and administrative assistance of the new case processor, we were able to eliminate this oversight problem.

Furthermore, in each of the six cases included in the finding, appropriate actions are being taken to correct the prior oversights. The following steps are now being taken:

1. A thorough review of the file for each property noted in the draft audit is being conducted;
2. For each property found to not have a valid mortgage a new mortgage will be filed;
3. For each file which is lacking evidence of hazard insurance, the county will review the project to discover whether hazard insurance was obtained and not noted in the file;
4. For each property found that does not have valid hazard insurance the client(s) will be reminded that they are required to maintain coverage or the loan can be recalled by the county.

The county believes it is important to note that all mortgage and insurance deficiencies were found in the administration of the FY 94 program. Although we understand that this finding deals only with the FY 94 grant, we feel the lack of subsequent oversights of this nature indicates that the problem was a result of these temporary, unusual circumstances. No such deficiencies were found nor do any exist in the FY 96 program. This demonstrates that the deficiencies did not represent a continuous or reckless lack of compliance controls on behalf of the county. Rather, it demonstrates that there was a six week lapse during which some existing procedures were not followed due to negligence.

Moreover, Fairfield County and its CHIP consultant are always receptive to improving the processes and practices related to the Community Housing Improvement Program. In that spirit, the County will review oversight and compliance procedures as noted in recommendations A and B. The County will correct any deficiencies found and take any steps necessary to insure future compliance.

As to the recommendations made by the Office of Inspector General, the county feels that recommendations (A), (B), and (C) are reasonable and appropriate. The county further submits that all of the provisions contained in these recommendations have either already been implemented or are in the process of being implemented. As to recommendation (D), the county submits that it should not be required to pay back the funds for several reasons: First, repayment of grant funds is not the remedy recommended by the State Department of Development. Second, the County violated no Federal requirement during the implementation of the FY 94 CHIP grant. Third, these funds were provided to eligible clients and were expended on eligible activities and there is no assertion to the contrary. Third, these oversights have not caused any known loss, ineligibility, or inappropriate expenditure of federal funds. Fifth, the oversights and problems included in this finding can be corrected by other means as

illustrated above by the county. Sixth, repayment of these funds would be excessively punitive.

RESPONSE TO THE FINDING OF THE INSPECTOR GENERAL THAT THE COUNTY INAPPROPRIATELY USED \$50,075.00 TO PROVIDE HOUSING REHABILITATION SERVICES

There are two separate parts to this finding. First, the Inspector General has found that the county used \$33,625.00 of funds to assist two households which are not very-low income. Second, the Inspector General has found that the county inappropriately provided \$16,450.00 of funds to assist one household located outside of the targeted area.

As to the first part of this finding, the county disputes that the \$33,625.00 was used inappropriately. In order to develop the County’s response, it is necessary to review the details of the program. Eligible projects under the CHIP program can generally be divided into two categories: 1) the rehabilitation of units owned by income eligible households; and 2) rehabilitation linked with first-time home buyer activity. The County’s CHIP program essentially provided that to be eligible for the former category, the Private Rehab program, the applicant must qualify under the very-low income category. In order to be eligible for the latter category, the Owner/Rehab program, the applicant must only qualify under the low-income category. The reasons for this assertion are discussed below.

Federal requirements state that in order to be eligible for assistance, a person or household must have a total household income of less than 80% of Columbus Metropolitan Statistical Area Median Income. All clients served by the FY 96 community housing and improvement program were found to be income eligible. That is, all households had total household incomes of less than 80% of the Columbus Metropolitan Statistical Area of median income. Additionally, the Fairfield County Rehabilitation Policy states:

- a) Private rehabilitation clients must not exceed very low-income limits (50% or less of Columbus MSA Median Income)
- b) Private Rehabilitation clients, when combined with home-buyer assistance must not exceed low income limits (80% of Columbus MSA Median income).

The Fairfield County FY 96 funding application states on Table VI, page three, item (b): “during the FY 96 CHIP Program period, using deferred loans (forgivable)(see finance mechanism), the county will assist at least eleven very low-income (50% or less of Columbus MSA Median income) and four low income (80% or less of Columbus MSA Median income) households rehabilitate their owner occupied homes to OHCP-RRS standard.”

The two households which the Inspector General’s finding claims were not eligible were located at 11304 Ann Drive, and 239 South Broad Street. These households had a size of four persons and incomes of \$36,000.00 and \$36,600.00, respectively. The following table appears on page three of the application and page four of the policies and guidelines:

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UPPER INCOME LIMITS FOR:		
Household Size	Private Owner Rehabilitation Very Low Income Household (50% of Columbus MSA Median Income)	Combined Private Owner Rehabilitation and Home buyer Lower Income Household (80% of Columbus MSA Median Income)
1 Person	\$16,150	\$22,850
2 Persons	\$18,500	\$29,550
3 Persons	\$20,800	\$33,250
4 Persons	\$23,100	\$36,950
5 Persons	\$24,950	\$39,900
6 Persons	\$26,800	\$42,850
7 Persons	\$28,650	\$45,850
8 Persons	\$30,500	\$49,800

Given this information, it is the county's position that the households at 11304 Ann Drive and 239 South Broad Street did qualify for Owner/Rehab assistance. These two clients qualified as low-income rather than very low-income households. As stated above, both the CHIP Grant application and the county's policies and guidelines indicated that four low-income households would receive deferred loans to help rehabilitate their owner occupied homes to OHCP-RRS standards. For a household size of four persons, the low income household maximum is \$36,950.00. Clearly, both of these households meet this standard at \$36,000.00 and \$36,600.00. The county understands that the combination of two categories of rehabilitation with separate income requirements may not be clear as possible. However, we do believe that the county did indicate their intentions for the eligibility requirements for each category.

In the second part of this finding, the Inspector General found that the county inappropriately provided \$16,450.00 of funds to assist one household located outside of the target area. The household was located at 4660 Lake Road in Pleasant Township. Further, this project was clearly identified as an Owner/Rehab project. The County contends that the target areas were different for the Private Rehab program and the Owner/Rehab program. The target area for the Private Rehab program was limited to Greenfield, Liberty, Walnut and Richland Townships. The target area for the Owner/Rehab program, however, was only limited to Fairfield County except within the City limits of Lancaster. The reasons for this assertion are discussed below.

The Fairfield County FY 96 grant agreements project description states: "Fairfield

County will provide home buyer assistance to four households county-wide. The County will also provide 15 households with owner rehab, 12 households in the northern townships target area and the other three households county-wide.”

The application states on Table VI, page 6, item 2, “Income Eligibility Guideline, (1) type of applicant: in order to be eligible for the private rehab activity an applicant must be a very low income owner-occupant of a dwelling in the northern townships group target area. In order to be eligible for the owner/rehab activity an applicant must be a low income household with pre-approval for a home mortgage loan anywhere in Fairfield County except the City of Lancaster.”

Further, the Fairfield County FY 96 CHIP policies and guidelines, page three, item #3, Combined Assistance: Private Rehab plus Home-buyer states: “rehabilitation assistance in combination with home buyer assistance will be available to four households. This assistance will be available to purchase and rehabilitate an owner-occupied dwelling unit in Fairfield County includes all village but excluding the City of Lancaster.”

The county feels that its policy was clearly articulated: that all clients that received only private rehabilitation assistance would be located in the four township target area. All clients that received home-buyer assistance would be located in Fairfield County but not necessarily in the four township target area.

As to the recommendations of the finding of the Inspector General, the county feels that recommendations (A) and (B) are reasonable and appropriate. However, the county feels that recommendation (C) is entirely inappropriate. The county does not feel that housing rehabilitation assistance was inappropriately provided to these three households. For the reasons stated above as such county feels that the repayment of grant funds seems extremely excessive.

In conclusion, I would like to state that the Board of Commissioners feels that these programs are of tremendous value to Fairfield County. The Board attempted to implement a very technical and complicated grant opportunity for the benefit of the county residents. While the Board understands that the program is not flawless, it does feel that the problems which did occur were short-lived and caused by the extenuating circumstances which were discussed above. Moreover, the Board is committed to correcting any and all deficiencies in its CHIP program and our corrective actions in the past demonstrate this commitment.

Very truly yours,

Todd M. Venie
Assistant Prosecuting Attorney

TMV/r/c

cc: Ronald Farrell

Lisa Kessler
Alan Reid
Judy Shupe
David Landefeld
Roy Hart
Gregg Marx

June 21, 1999

Heath Wolfe, Senior Auditor
Department of Housing and
Urban Development
Office of Inspector General for Audit
77 West Jackson Boulevard
Chicago, Illinois 60604

Dear Mr. Wolfe:

Please regard this letter as the official response of the Fairfield County Board of Commissioners to the two draft findings issued by the Office of Inspector General for Audit, Department of Housing and Urban Development on April 20, 1999. As counsel for the Board of Commissioners, I have been asked to respond on their behalf. I have reviewed the draft findings and my response is intended to clarify our program policies and also inform your office of the appropriate corrective actions which have been taken and will be taken in the future. I have responded to the findings and the assertions of the Inspector General in the order in which they were presented to us.

**RESPONSE TO THE FINDING OF THE OFFICE OF INSPECTOR
GENERAL THAT THE COUNTY NEEDS TO IMPROVE ITS CONTRACTING
PROCESS**

This finding includes a number of factual assertions by the Inspector General's Office. As stated above, I will list them and respond to them in the order in which they were presented to use.

The County did not adequately segregate the duties for the reward of rehabilitation contracts.

The Inspector General states that the County's Housing Inspector effectively had complete control over the award of housing rehabilitation contracts. The County feels that this is not an accurate characterization of the program. Each of the members of the Community Housing Improvement Program staff had specific assigned duties. There was a Case Processor who was responsible for client intake and providing assurances that the necessary forms were made part of the client file. The Housing Inspector provided assistance in oversight to the rehabilitation projects as requested by the applicant. Further, the County appointed a representative from the Office of the Regional Planning Commission to participate in bid-openings and final payments. The responsibilities of this representative are described in the Policies and Guidelines manual adopted by the Commissioners. (Page 50, please find

attached).

Moreover, the County followed the policies and procedures outlined in the Community Housing Improvement Program Grant Application, which became part of the Grant Agreement and the adopted policies and guidelines. The method utilized in operating this Community Housing Improvement Program Grant has been taught at numerous State Training Seminars. Additionally, these same processes are you utilized State-wide.

However, the County realizes that more could be done to insure that the various responsibilities and duties for the award of rehabilitation contracts belong to distinct staff members. The County is certainly willing and intends to review its current process and make needed improvements.

The award of Housing Rehabilitation Contracts was not subject to full and open competition.

The Inspector General states that the County did not follow HUD's regulation or the State of Ohio's requirements regarding the procurement of Housing Rehabilitation services. The County again feels that this characterization is not accurate. The County's policies and guidelines clearly indicated the homeowner was to procure the contractor and had free choice to select the contractor of their choice. Therefore, the County was not required to follow HUD's regulations. This process is described in Section 9, pages 45, and 46 in the Policies and Guidelines manual. (Please find attached). It is also implemented through Rehab Forms E, G, Q, (please find attached) R, S, T, U, X, Y, Z, DD, and EE. (From the Fiscal Year 96 Rehab manual). These forms are described briefly above. All contracts were awarded in the manner outlined in the CHIP policies and guidelines and in these forms.

The Inspector General alleges that, "Fairfield County did not maintain an effective system of controls over its contracting process. As a result, HUD funds were not used efficiently and effectively and the County's procurement transactions were not subject to full and open competition." This finding refers to two specific events. The two events are: 1) the procurement of consulting services to administer the Community Housing Improvement Program Grants; and 2) the procurement of contractors to complete rehabilitation contracts for eligible clients.

The County did inquire with the State for guidance regarding procurement of consulting services and did follow the HUD's and the State's competitive proposals RFQ Policies. The County was not the procuring agent in the rehabilitation contracts and therefore State and Federal procurement regulations did not apply to the selection of rehabilitation contractors (CFR 36.A, please find attached). The County did use HUD funds efficiently and effectively because all clients that received assistance attempted to obtain three bids from which the lowest and best bidder was selected. Further, the Auditor's draft reports states, "the cost charged by Community Development Consultants appeared within an acceptable range when compared to the vendor's quotes." These issues are discussed in more detail below.

The County made every effort to understand and comply with the requirements of procuring housing rehabilitation contractors and consulting services. The procurement processes and records were reviewed during programmatic monitorings by the State of Ohio on February 6 and 7, 1996 (FY 94 Grant Numbers B-C-94-022-1 and B-C-94-022-2) and September 17 and 18, 1998 (FY 96 Grant Numbers B-C-96-022-1 and B-C-96-022-2) and were found to be in compliance.

HUD alleges that \$2,716.00 was overspent on roofing and guttering. The Inspector General's estimate of \$2,284.00 does not reflect all work that was completed under the CHIP contract for \$5,000.00. Bids of \$4,600.00 and \$5,000.00 were received for the job. The Contractor with the lower bid withdrew his bid, leaving the \$5,000.00 bid. The Auditor's estimate in 1999 cannot reflect the pricing and market demand pressures impacting the bidders at the time of the work in 1998. The deficiency list drafted by the CHIP Housing Inspector included replacement of roof trusses with associated ceiling beams and roof decking. A preconstruction discussion held with the contractors helped to more fully explain the job.

As evidence of full and open competition, one homeowner did take advantage of the use of the contractors outside the approved list. This was the homeowner at 5310 Blacklick-Eastern Road. In fact, this homeowner received bids from a large number of contractors outside of the approved list. This contractor was extended extra time to submit the information required by the CHIP Program and was awarded the contract.

The consulting services contract was not properly procured.

The Inspector General states that the County did not properly procure its contract with Community Development Consultants of Ohio. The County disputes this assertion. The Fairfield County Regional Planning Commission Office conducted the procurement for a CHIP consultant. As part of the procurement process, a notice was published and three consultants were directly solicited. (Please find attached notice). The respondents were ranked and a recommendation was made to the Commissioners. This was followed by a resolution by the Commissioners which indicated procurement was completed and selected a consultant. The County did advertise and, in addition, did solicit three RFP's by direct correspondence as is required under 24 CFR Part 85.36(d)(3) and State Policies Handbook 12.30.1-Competitive Negotiation. (Please find attached)

The County's procurement transactions allowed for full and open competition. The County published a notice (FY 94 Publication attached; similar advertisement published in 1996 procurement process) and sent letters to specific consultants (three consultants were directly solicited) announcing their intention to seek Community Housing Improvement Program services. The County followed procurement procedures as outlined in the State of Ohio Department of Development CDBG Policy Book, Section 12, Page 20, reference 12.30. (Please find attached). The handbook states that, "Administrators must be procured either by competitive negotiation or designation." County procurement procedures contained the

required elements as outlined on Page 21. This process falls under 24 CFR 85.36(d)(3) Procurement by Competitive Proposals. The Administrator was procured prior to grant award.

HUD's requirements for fixed-price or cost-reimbursement type contracts were not met.

The Inspector General asserts that the County's contracting policies did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The County's position is that it was not required to meet these requirements. The State of Ohio Technical Guide for Procurement of Professional Services states, "If the applicant elects to procure consulting services prior to submission of the grant application, the city/county must negotiate with the respondent receiving the highest total scored during the evaluation for the right to assist the city/county in developing the grant application." The State of Ohio did not direct Fairfield County to follow HUD's requirements for the award of fixed-price or cost-reimbursement type contracts because procurement for the CHIP was not conducted under fixed-price or cost-reimbursement regulations. Procurement by the County for consulting services was conducted under HUD requirements in 24 CFR 85.36(d)(3) Procurement by Competitive Proposals as is required by the State of Ohio. Regarding contractor selection for rehabilitation projects, our position is the County did not need to follow HUD's requirements for the award of fixed-price or cost-reimbursement type contracts since the homeowner selected and hired the contractor. The State of Ohio recognizes this process as an appropriate method of contractor procurement.

The County did have adequate policies and procedures in place to protect public dollars. The duties of the CHIP Grant were divided among personnel of the County and personnel of the Consultants. Contractors were required to sign Affidavits concerning non-collusion. The homeowners were made aware at several different points of their need to select qualified contractors. (Please see attached form of Rehabilitation Manual) The County did take steps to insure that the Federal and State regulations regarding contracting process were followed, by:

- 1) becoming aware of procurement processes and following them;
- 2) adopting detailed policies and guidelines in a rehabilitation manual and implementing them;
- 3) by assigning a county representative with oversight responsibilities; and
- 4) allowing the State of Ohio to monitor the entire program.

The State of Ohio found Fairfield County to be in compliance at both of its FY 94 and FY 96 programmatic monitorings

Recommendations.

The Inspector General has made a number of recommendations regarding this finding.

The following are the County's responses to these recommendations.

As to Recommendation A, the County feels that this is an appropriate recommendation. The County is willing to review the duties of the personnel responsible for awarding rehabilitation contracts. Furthermore, the County's position is that the system followed was approved by the State of Ohio Office of Housing and Community Partnerships (OHCP). Therefore, the County feels that additional review with the State will be of the utmost value. The County is open to addressing this issue and implementing such changes as are necessary.

As to Recommendation B, the County is open to and plans to review existing procedures and establish additional procedures and controls that are found to be needed to award contracts.

As to Recommendation C, the County is willing to provide additional training to the Housing Inspectors and Case Processors in order to insure that specific contractors are not recommended to homeowners in the future. Additionally, Housing Inspectors are aware of this issue and it has been discussed at previous trainings.

As to Recommendation D, the County feels that reimbursement of the \$2,716.00 is not appropriate. The County feels that there is a discrepancy between the auditor's scope of work and the scope of work in the deficiency list.

As to Recommendation E, the County is willing to provide copies of all bids as well as Housing Inspector estimates to show the reasonableness of the assistance provided. The County further asserts that a competitive bidding process was followed. Re-inspection of all units would be a precarious method of answering this finding and could possibly cause greater difficulties.

**RESPONSE TO THE FINDING OF THE OFFICE OF INSPECTOR
GENERAL THAT UNITS DID NOT MEET RESIDENTIAL REHABILITATION
STANDARDS AFTER HOUSING ASSISTANCE**

As with the prior finding, the Inspector General makes a number of assertions regarding this finding. I will respond to these assertions in the order in which they were presented to us.

The Inspector General alleges, "the Fairfield County did not follow HUD's regulations, the State of Ohio's grant agreements, or the County's Community Housing Improvement Program requirements to ensure assisted houses met the State's Residential Rehabilitation Standards. As a result, HUD funds were not efficiently and effectively used." The audit report identifies eight units that were found to have improper work or work not provided.

The process of creating a deficiency list is subjective. The major deficiencies will be similar if not exactly the same. However, interpretation of all the related codes including the Office of Housing and Community Partnerships-Residential Rehabilitation Standards is a difficult

and individualized task complicating this task are the issues of available funds and programmatic limits. In general, Inspectors do not like to exercise walk-a-way policies unless it is absolutely necessary. Therefore, I would expect different inspectors to create different deficiency lists addressing the most necessary and required repairs. This is evident in the list presented by the Inspector General (see difference column below). The Inspector General did not select or report all of the items identified and submitted by their Inspector. The inspection reports submitted by the Inspector General include items which are not included in its draft finding. Rather, they choose to report only specific issues.

Address of House	A Work Improperly Performed	B Work Not Provided	C I.G. Inspection Report Total	Difference (A+B)-C
5310 Blacklick-Eastern Road	\$2,610	\$1,725	\$2050	\$560
240 North Company Street	\$2,856	\$0	\$2891	(\$35)
12108 Sixth Street	\$800	\$0	\$800	\$0
8585 Lancaster-Thornville Road	\$675	\$100	\$895.5	(\$121)
2135 Carroll-Eastern Road	\$453	\$430	\$933	(\$50)
720 North Main Street	\$341	\$80	\$1905	(\$1,484)
2170 Pleasantville Road	\$47	\$0	\$47	\$0
3360 Lakeside Drive	\$0	\$84	\$84	\$0

Presently, there are several steps that are being taken to investigate the items identified by the Auditors. The original deficiency list are being reviewed and compared to the Auditor's inspectors list. Contractors who still have a warranty obligation will be contacted to address items from the original deficiency lists. Several of the owners did not identify any punch-list items, indicating there were no problems with their rehabilitation projects, and signed for release of the 30-day withholding.

Some rehabilitation items that have been identified by the Auditor's Inspector may require attention. These items fall into two categories: 1) items identified in the original deficiency list and not completed; and 2) items not identified in the original deficiency list. The

first step is to determine the circumstances regarding each of the rehabilitation's. A few of the homes are still within the warranty periods. If the items are in the original deficiency list, then our standard operating procedure is to have the Housing Inspector contact the contractor and request that they visit the house to determine if the items were within the scope of their contract, to determine corrective course of action or immediately repair the item. Further action may include negotiating with the contractor to cure deficient items that were in the original deficiency list. Finally, the County does have some limited funds with which some items outside warranty might be corrected. As part of this process, the State of Ohio and an outside CHIP Housing Inspector may be engaged. We are committed to make every effort to remedy issues as required by the residential rehabilitation standards.

Deficiencies that are identified by the Auditor but are not in the original deficiency list will require another remedy. The CHIP Housing Inspector did not identify some of the deficiencies identified by the Auditor's inspector. This mainly relates to the "work not provided" items. Items identified by the Auditor but not included in the original deficiency list will require further investigation to determine: 1) was the item a deficiency under the residential rehabilitation standards utilized in the FY 96 Grant; 2) was that item a deficiency at the time of the original work; 3) if it was a deficiency at the time of the work, why was it overlooked (i.e. were funds available, was it a minor deficiency that was purposely not addressed because of lack of funds, was it human error; and 4) what is the appropriate course of action.

Furthermore, the County has faith in the decisions made by its Housing Inspector. Mr. Brooks has attended numerous training sessions conducted by the Office of Housing and Community Partnerships on the residential rehabilitation standards. He has been conducting housing inspections under the RRS for over ten years. The Office of Housing and Community Partnerships monitored each of these grants. Mr. Brooks received specialized training through OHCP monitoring and technical assistance visits.

HUD funds were used to pay for rehabilitation work that was improperly performed or not provided.

There are a number of issues that come into consideration concerning rehabilitation work that may not have been completed properly or not provided. These issues include:

- 1) the scope of the entire project (i.e. the initial deficiency list);
- 2) the maximum amount of funds available;
- 3) the amount of time that elapsed between job completion and the present time;
- 4) activities of the owner after rehabilitation was completed; and
- 5) the perspective of each Housing Inspector.

All of the units identified above in this Section by the Inspector General were at or close to the maximum level of assistance. Inspectors work toward eliminating as many deficiencies as possible, beginning with the most critical health and safety issues.

The property located at 5310 Blacklick-Eastern Road was a particularly difficult dwelling for which to complete the rehabilitation as noted in the deficiency list. A deficiency list was created by Mr. Brooks. From this deficiency list a contractor was engaged to complete the work. The Contractor was unable to start work due to conflicts with the home owner and withdrew from the project. At the direction of a conflict resolution committee, the house was reinspected and a Housing Inspector from outside the program was brought in to review the initial deficiency list. The second Housing Inspector concurred with the existing deficiency list created by Mr. Brooks. A contractor was again engaged to do the work outlined but was unable to finish the work due to conflicts with the homeowner. Moreover, even though an extension was granted, this contractor was unable to complete the work required before the CHIP Program ended. The \$1,725.00 payment for materials (gutters) identified as work not completed was due to the contractor walking off the job because of adverse working conditions. These materials are still present at the house. The payment was made to contractor for removal of a lien for materials left at the house. The second general contractor was unable to complete the deficiency list. Work was not completed at the house. The Inspector General identified \$2,050.00 in electrical work. There was a continuing conflict between the homeowner, the contractor, and the CHIP. The CHIP and the contractor found it to be impossible to meet the demands of the homeowner and the contractor was unable to complete the work outlined on the deficiency list.

The Auditors identified \$7,782.00 worth of improperly performed work. The largest item, excluding the items at 5310 Blacklick-Eastern Road, is the windows at 240 North Company Street. The contract on this house was for \$21,940.00 (maximum \$22,000.00). The homeowner signed off that all work was completed satisfactorily with no items on the punch list (see attached).

All items identified by the Auditors will be reviewed to identify existing deficiencies at the time the rehabilitation was performed. The County finds it difficult to a certain extent to respond to the Inspector General's list of items. Specifically, the County has two reasons for this difficulty: 1) the list is not specific about which items need to be addressed and 2) the list does not consider the passage of time. However, if an item really should have been repaired, then the County is willing to go back and correct any deficiency.

The County did not include housing rehabilitation work in contract specifications.

The Inspector General asserts that the County did not include \$1,534.00 of housing rehabilitation work in specifications for three contracts. The County disputes this assertion. The work not completed totals \$694.00, excluding the items for the property located at 5310 Blacklick-Eastern Road. If the State were to determine that these items must be addressed, the County has some program income that could be utilized, however, as noted above, these units were very close to the maximum amount of assistance and for any number of reasons they were not corrected as part of the Community Housing Improvement Program Rehabilitation Contract.

The Inspector General further asserts that the County did not monitor CDC of Ohio to insure it administered the program as required. The County disputes this assertion, the County did play an oversight rule in administering the CHIP. The County was responsible for issuing checks. The County did appoint a representative who signed off on each of the final pay requests. When required, building another inspector certified the work. The actions of the County satisfied the responsibilities of the County as outlined in the Policies and Guidelines Manual. (Page 50, please find attached).

The County's Housing Inspector certified that rehabilitation work met the State standards when it did not.

The Inspector General asserts that the County's Housing Inspector incorrectly certified that the housing rehabilitation services provided to seven houses through the CHIP met the State's Residential Rehabilitation Standards when they did not. The County disputes this assertion. A review of the client files reveal that all of homeowners signed off that their units were completed satisfactorily. Several of the homeowners indicated that there were not problems at the time of final payment. These homeowners are those for: 240 North Company Street; 720 North Main Street; 2170 Pleasantville Road; 12108 Sixth Street; and 8585 Lancaster-Thornville Road.

Again, the County has some difficulty responding to this assertion. This is largely because it involves a difference of opinion because the County's Housing Inspector and the Inspector General. Inspectors often disagree on specific rehabilitation items. Mr. Brooks, the County's Housing Inspector, has been performing inspections for many years, and has been monitored by Office and Housing of Community Partnerships numerous times. Moreover, he is generally regarded as a very good inspector.

A letter written by the Ohio Department of Development, dated May 14, 1999, in support of Fairfield County regarding the Inspector General's audit contains the following statement: "The Ohio Department of Development conducted a programmatic monitoring of the FY 94 Fairfield County CHIP Grant Number B-C-94-022-1, B-C-94-022-3, and C-94-022-1 on February 6 and 7, 1996. Additionally, a financial monitoring was conducted on February 5, 1999 by OHCP Fiscal staff to view the financial records. During the programmatic monitoring, files were randomly selected by OHCP from a list of households assisted and were reviewed for compliance with OHCP/Home requirements. Four private owner rehabilitation files were reviewed and cite visits were conducted to each of these units to assure compliance with OHCP Residential Rehabilitation Standards (RRS). The County was required to correct several minor rehabilitation deficiencies and OHCP monitoring report included several advisory concerns including the need for more detailed specifications. Overall, the rehabilitation work and case file documentation were found to meet OHCP RRS and record keeping requirements." This demonstrates Mr. Brooks' competence. Mr. Brooks was the Housing Inspector for the FY 94 Grants discussed in the above text.

The State also conducted a programmatic monitoring on September 17 and 18, 1998, of CHIP Grant Numbers B-C-96-022-01 and B-C-96-022-02. Approximately four site visits were conducted and the units were found to be in compliance with OHCP RRS.

The Inspector General makes several recommendations regarding this finding. The County's responses are as follows:

As to Recommendations A and B, the reimbursement of funds has never been the OHCP's required action. The OHCP requires that all RRS violations present at the time of the rehabilitation be corrected. If not, the County is generally directed to correct such items. The County is willing and open to review existing procedures and establishing additional procedures and controls that are found to be needed to award contracts.

As to Recommendation C, the County is willing to review existing procedures and controls to develop additional procedures and controls. Generally, the OHCP has determined through its programmatic monitorings that adequate procedures and controls did exist. Recommendation C also involves the role fulfilled by the Housing Inspector. The County is open to reviewing this role to improve existing controls and procedures over it.

As to Recommendation D the County also feels that this role can be reviewed to improve existing controls and procedures. Generally the OHCP has determined that adequate controls did exist and found them to have protected public dollars.

Recommendation E is directed to the HUD Community Planning and Developing Office.

In Conclusion, I would like to reiterate that the Board of Commissioners feels that this program is of tremendous value to Fairfield County. While the Board understands that the program is not flawless and that continued improvement is necessary, it does feel that the problems which did occur can and will be corrected. Moreover, the Board wishes to express that it is committed to correcting any and all deficiencies in its CHIP Program and believes that its corrective actions in the past demonstrate this commitment.

Very truly yours,

Todd M. Venie
Assistant Prosecuting Attorney

TMV/rlc

Enclosures

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