



Issue Date	March 23, 1999
Audit Case Number	99-FW-255-1004

TO: Katie S. Worsham
Director, Office of Community Planning and Development, 6AD

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: City of Houston, Texas
Homebuyers Assistance Program (funded by the HOME Program)

We performed an audit of the City of Houston's Homebuyers Assistance Program to determine if the City's Department of Housing and Community Development: (1) properly determined and documented the eligibility of participants and their properties; (2) had a system to recover assistance if the program participants sold the property before 5 years; (3) properly contracted with qualified subrecipients to carry out the program; and (4) adequately monitored administrative costs paid to subrecipients. We expanded the scope of our review to determine whether the City was providing unnecessary HOME assistance to home buyers with large amounts of cash savings.

We found the City has a good system for recovering assistance if program participants sell the property before 5 years. However, the audit found that the City and its subrecipients have not properly administered the Homebuyers Program, a conflict of interest existed between the City and one of its subrecipients, and the City is providing unnecessary assistance to home buyers who have sufficient funds to purchase their own homes.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

If you have any questions, please contact Darrel M. Vaught, Assistant District Inspector General for Audit at (817) 978-9309.

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Executive Summary

We audited the City of Houston’s Homebuyers Assistance Program. The purpose of our audit was to determine whether the City of Houston’s Department of Housing and Community Development: (1) properly determined and documented the eligibility of participants and their properties; (2) recovered assistance if the participants sold the property before 5 years; (3) contracted properly with subrecipients to carry out the program; and (4) monitored administrative costs paid to subrecipients. We expanded the scope of our review to determine whether the City was providing unnecessary assistance to home buyers.

The City was not properly administering the HOME Program. Although the City has a good system for recovering assistance, it had significant problems in the other areas reviewed.

The City and its subrecipients have not properly administered their Homebuyer Assistance Program.

The City: (1) did not always follow established procedures for determining income; (2) used a method of determining income that was susceptible to manipulation; (3) did not always have sufficient information regarding home buyers’ eligibility; and (4) provided assistance for properties located outside the City. As a result, the City has paid \$128,011 in ineligible assistance and lacks support for an additional \$254,310. In addition, the City did not have sufficient controls over its Homebuyer Program loan filing system, did not maintain an accurate database tracking system, and had errors in its payment voucher system.

Conflict of interest existed between the City and a subrecipient.

Because of a conflict of interest, the City awarded subrecipient contracts to a corporation for services already being provided by another nonprofit corporation. These conflicts led to improper subcontracting, duplicate payment of administrative costs, and unapproved contract modifications. As a result, the City incurred questionable administrative fees totaling \$422,044, of which \$218,960 is ineligible.

The City is providing unnecessary home buyer assistance.

The City is providing unnecessary assistance to some home buyers. Home buyers with large cash savings participate in the Program. As a result, the City provides assistance to home buyers who have sufficient funds to purchase their own home and are not in need of government assistance.

This report contains recommendations that the City repay ineligible amounts; provide documentation for unsupported amounts or repay the program; and improve its controls and procedures over income eligibility, the loan filing system, the tracking database, and the payment voucher system. Further, we are recommending the City take appropriate safeguards against conflicts of interest and limit its use of HOME funds to those individuals in need of government assistance.

The City disagrees with the draft findings.

We issued a draft report to the City on November 23, 1998, and discussed the draft with City officials at an exit conference on January 11, 1999. The City issued a written response to the draft report on February 23, 1999. The City generally disagreed with all of the draft findings, but did agree to a few of the recommendations. We have summarized the City's response in the findings and included it without attached documents as Appendix B.

Table of Contents

Management Memorandum	i
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Executive Summary	iii
-------------------	-----

Introduction

1

Findings

1	Homebuyers Assistance Program Not Properly Administered	7
2	Conflict of Interest Negatively Affects Contracts	17
3	City Providing Unnecessary Assistance	27

Management Controls

33

Appendices

	A Schedule of Questioned Costs	35
37	B Auditee Comments	
67	C Distribution	

Abbreviations

CFR Code of Federal Regulations

HUD U.S. Department of Housing and Urban Development
OIG Office of Inspector General
OMB Office of Management and Budget

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Introduction

The City of Houston's Department of Housing and Community Development receives and administers grants from the U. S. Department of Housing and Urban Development, including funding under the HOME Investment Partnership Act (HOME). The Department Director is Margie Bingham. The Department keeps its records at 601 Sawyer, Houston, Texas.

The HOME Investment Partnership Act was created in November 1990 under Title II of the National Affordable Housing Act of 1990. HOME has many purposes including expanding the supply of decent, safe, sanitary and affordable housing for very low and low income Americans. The HOME Program has undergone significant changes since it originated. The Final Rule for the Program was effective on October 16, 1996. Until HUD issued the Final Rule, the Program operated under a number of Interim Rules.

The City has funded a variety of programs using HOME funds, including rehabilitation of existing single family housing, multifamily rental housing, home buyers assistance, Community Housing Development Organizations operating expenses, and program administration. Since 1994, the City of Houston's Department of Housing and Community Development has received the following in HOME funds:

Fiscal Year	Amount Funded (millions)
1994	\$9.4
1995	\$10.2
1996	\$10.5
1997	\$10.2
1998	\$11.0

City of Houston's Homebuyers Assistance Program.

The City's Homebuyers Assistance Program provides eligible low-income home buyers with financial assistance coupled with education and counseling. The financial assistance is in the form a loan for closing costs, downpayment and/or principal reduction. The City forgives the loan at the end of 5 years if the home buyer still lives in the house. The amount of the assistance the City has provided has varied over the life of the Program. Assistance has been as high as \$14,999 for a newly constructed home to \$3,500 for an existing home.

Originally, the City and Housing Opportunities of Houston, Inc. (Housing Opportunities) operated the Homebuyers Assistance Program. The City processed new construction assistance loans that the City funded under grant agreements with home builders. Housing Opportunities served as

contractor and processed assistance loans for existing homes. Housing Opportunities received reimbursements from the City for the administrative costs of operating the Program. The last of the direct grants to home builders expired in late 1997. The City no longer processes Homebuyer Assistance Program loans itself.

Housing Opportunities is a Texas nonprofit corporation. Housing Opportunities was incorporated on June 21, 1990. One of Housing Opportunities' purposes is to protect and expand private home ownership for low and moderate income persons and to contribute to the revitalization of declining neighborhoods. In December 1995, Housing Opportunities became a subrecipient of the City to process assistance loans for existing homes. A subrecipient is an entity selected by the City to administer all or a portion of the City's HOME Program. Housing Opportunities receives reimbursements from the City to cover the administrative costs of operating the Program. The City extended Housing Opportunities' status as a subrecipient with the award of another contract in May 1997.

The Houston Housing Finance Corporation (Corporation) is a Texas public nonprofit corporation organized under the Texas Housing Finance Corporation Act. The Corporation was incorporated on December 5, 1979, by a resolution of the Houston City Council. In January 1996, the City entered into an agreement with the Corporation to also have them serve as a subrecipient. The Corporation was to provide assistance to eligible home buyers purchasing newly constructed homes, provide information, and encourage new construction. The City continued the Corporation's subrecipient status by awarding another contract in July 1997.

Audit Objectives

We audited the City of Houston's Homebuyers Assistance Program. The purpose of our audit was to determine whether the City of Houston's Department of Housing and Community Development: (1) properly determined and documented the eligibility of participants and their properties; (2) had a system to recover assistance if the program participants sold the property before 5 years; (3) properly contracted with qualified subrecipients to carry out

the program; and (4) adequately monitored administrative costs paid to subrecipients.

Scope and Methodology

We obtained background information by:

- Reviewing relevant HUD regulations, requirements, technical guides, and grant agreements.
- Examining records, plans, and reports maintained by the Fort Worth Office of Community Planning and Development.
- Scanning the City's accounting records, financial reports, policies, management reports, contract files, and public literature.
- Interviewing HUD's Fort Worth Office of Community and Planning and Development and the City of Houston's Department of Housing and Community Development staff.

To accomplish our audit objectives, we:

- Obtained an understanding of the City's Homebuyers Assistance Program by interviewing the City's and the subrecipients' staff.
- Reviewed operating policies, guidelines, handbooks, financial records, meeting minutes, and correspondence files of the City and its subrecipients.
- Obtained and reviewed contracts between the City and its subrecipients.
- Obtained and reviewed contracting information and the agreement between the two Homebuyers Assistance Program subrecipients.
- Interviewed City Legal Department Attorneys about the Homebuyers Assistance Program contracts and the conflict of interest issues.

- Selected and tested a sample of City and subrecipient processed assistance loans for home buyer eligibility, file documentation, and loan amount eligibility.
- Selected and compared a sample of assistance loans to the on-line Harris County Appraisal District records to test for property geographic eligibility.
- Selected and compared a sample of loans to the City's Public Works utilities records to ensure that the home buyers still occupied the home.
- Reviewed and tested the accuracy of the City's general ledger, payment vouchers, and contract register.
- Reviewed and tested the filing controls of the City and one subrecipient.
- Reviewed and tested the controls over and the accuracy of the City's database for the Homebuyers Assistance Program.
- Obtained and reviewed the City's monitoring reports of the subrecipients.
- Reviewed and tested administrative costs charged by the subrecipients to the program.

We expanded the scope of our review in the area of home buyers with large cash savings. For this issue, we performed additional testing on the City's Homebuyer Assistance files to locate home buyers who paid large amounts of cash at closing. We also interviewed HUD's Community Planning and Development's Office of Affordable Housing Programs staff concerning HUD's HOME regulations on the issue.

Audit Period and Sites

We conducted the audit from October 1997 to October 1998 in accordance with generally accepted government auditing standards. The audit covered the City's Homebuyer Assistance Program operations from the time of the first assistance loan in July 1994 to May 1998. We expanded the scope of our review, as necessary.

We conducted the audit at the City of Houston's Department of Housing and Community Development and its two subrecipients. The subrecipients, located in Houston, Texas, are the Houston Housing Finance Corporation and Housing Opportunities of Houston, Inc.

We provided a copy of this report to the Director of the City of Houston's Department of Housing and Community Development, the Controller of the City of Houston, and the Inspector General for the City of Houston.

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Homebuyers Assistance Program Not Properly Administered

The City and/or its subrecipients: (1) did not always follow established procedures for determining income; (2) used a method of determining income that was susceptible to manipulation; (3) did not always have sufficient information regarding home buyers' eligibility; and (4) provided assistance for properties located outside the City. As a result, the City has paid \$128,011 in assistance to ineligible home buyers and lacks support for an additional \$254,310 of assistance. In addition, the City did not have sufficient controls over its Homebuyer Assistance Program loan filing system, maintained an inaccurate database tracking system, and had uncorrected errors in its payment voucher system.

HOME Regulations

HOME regulations require that assistance be provided in a participating jurisdictions boundaries.¹

Under the Project Requirements in the HOME regulations, five requirements must be met for a project to qualify as affordable housing under the homeownership program: (1) the housing must be single family housing; (2) the housing must be modest; (3) the housing must be acquired by a home buyer who qualifies as low-income and occupies the property for the entire affordability period; (4) the housing must meet mandated affordability requirements; and (5) the participating jurisdiction must impose either resale or recapture requirements on the assistance.²

HOME regulations also state that participating jurisdictions are responsible for ensuring that HOME funds are used in accordance with all program requirements. HOME regulations further state that the use of subrecipients or contractors does not relieve a participating jurisdiction of this responsibility.³

In addition, HOME regulations require that each participating jurisdiction establish and maintain sufficient records to enable HUD to determine whether HOME requirements have been met. HUD requires grantees to

¹ 24 CFR Part 92, subsection 201 (a).

² 24 CFR Part 92, Subsection 254.

³ 24 CFR Part 92, Subsection 504 (a).

maintain records for a minimum of 5 years, and longer if affordability periods apply.⁴

Finally, HOME regulations⁵ also require that governmental entities follow portions of HUD’s Administrative Requirements.⁶ HUD’s Administrative Requirements require that grantees have financial management systems that are accurate, current, and that completely disclose the financial results of assisted activities.⁷

Total loans funded under Homebuyers Assistance Program.

The City of Houston, Housing Opportunities of Houston, Inc. (Housing Opportunities) and the Houston Housing Finance Corporation (Corporation) have all funded loans under the Homebuyers Assistance Program. However, either the City’s underwriting staff or Housing Opportunities did the actual processing of the loans.⁸ The City began funding Homebuyer Assistance Program loans in July 1994. Home buyers used to be able to combine assistance from the Corporation with the City and Housing Opportunities. However, the Corporation’s new contract stopped that practice in mid-1997. Through May 31, 1998, the City provided the following assistance to home buyers:

Funding Entity	Total Number of Assistance Loans Funded	Number of Loans Where Assistance was Combined	Total Number of Families Assisted
City of Houston	185	2	183
The Corporation	480	102	378
Housing Opportunities	2,045	0	2,045
Totals	2,710	104	2,606

Audit testing and methodology.

OIG initially reviewed 85 of the 1,800 loans the City and Housing Opportunities processed, funded, and closed as of August 31, 1997.⁹ OIG tested the loans to determine if : (1) the City funded only eligible home buyers; (2) the City and subrecipient adequately documented the files; (3) the property’s mortgage amount did not exceed HUD’s maximum funding limit; and (4) the City had procedures to

⁴ 24 CFR Part 92, Subsections 508 (a) and (.c).

⁵ 24 CFR Part 92, Subsection 505.

⁶ 24 CFR Part 85.

⁷ 24 CFR part 85, Subsection 20.

⁸ See Finding 2 for information regarding the work actually performed by the Corporation.

⁹ Using statistical sampling software, OIG selected two samples (40 loans processed by City underwriting staff and 45 loans processed by Housing Opportunities).

recapture assistance amounts if the buyer sold the home within 5 years. Because Housing Opportunities indicated that their procedures had greatly improved with the adoption of new procedures, an additional sample of 20 loans closed between September 1997 and May 1998 was selected. These 20 loans were tested for home buyer eligibility and file documentation. In addition, we also reviewed the City's Homebuyers Assistance Program database to test for assisted properties that were outside the City's geographic limits. Finally, we obtained payment information for all contracts between the City and its Homebuyers Assistance Program subrecipients to confirm the number of loans closed and the total amount paid in administrative fees.

Mortgage amounts meet modest housing requirements.

All 85 files processed by both the City and Housing Opportunities met the modest housing requirement. HOME regulations require that housing acquired by a home buyer be modest. A participating jurisdiction can either use HUD's 203 (b) single family mortgage limits or it can determine what is 95 percent of the median purchase price for single family housing in their jurisdiction.¹⁰ Both the City and Housing Opportunities adopted a policy consistent with this requirement. None of the 85 files reviewed exceeded that amount.

City has procedures to recapture assistance.

Although the City did not have to recapture the assistance on any of the 85 files reviewed, the audit found that the City has good procedures to recapture assistance upon sale of the property. HOME requires that assistance either be recaptured at the time of sale or the property must be resold to a purchaser who qualifies as low income. The City has decided to recapture assistance when an assisted property is sold. The City's procedures require a recorded second lien and deed of trust for all Homebuyers Assistance Program loans. Testing done on duplicate property listings showed that this control is working properly and that assistance is being repaid on the sale of a property.

City and subrecipient not following their established income procedures.

The City and Housing Opportunities do not always follow their established procedures for determining income. As a result, out of the 85 reviewed, the City and Housing Opportunities processed seven ineligible loans with assistance totaling \$48,605. HOME regulations require that

¹⁰ 24 CFR Part 92, Subsection 254 (a)(iii).

home buyers be low-income.¹¹ HOME originally required the use of its Section 8 Housing Program definitions for determining income. However, the Final Rule for HOME allows a participating jurisdiction to select from one of three methods, including using Section 8 definitions.¹² The Section 8 Program defines income as all amounts anticipated to be received by a family during the next 12 months.¹³ Both the City and Housing Opportunities adopted a policy of determining income by projecting 1 month's current pay forward. In six of the ineligible cases, the processor did not follow that procedure. Instead, the processor made a projection of pay based on 1 week, 2 weeks, or more than a month's worth of pay. In these six cases, if the processor had projected 1 month's worth of pay, the family would have been over the income limit for eligibility. The seventh case occurred because of an obvious clerical error. The processor projected the buyers bi-weekly pay out over a bi-monthly time period.

Income determination method susceptible to manipulation.

The City's and Housing Opportunities' method of determining income is susceptible to manipulation. Their method relies on 1 month's worth of pay stubs and ignores verification of employment and prior year's historical income. The HOME regulations do not specify the precise verification procedures a grantee must follow to determine an applicants income. However, the Technical Guide for Determining Income and Allowances for the HOME Program (Guide) states that a review of documents like pay stubs often does not provide needed information. The Guide states that a pay stub may not provide sufficient information about the average number of hours worked, overtime, tips, and bonuses. The Guide also states that a grantee can review information like the previous year's income tax return to determine if the current year's income is consistent with the previous year. Even though the City and Housing Opportunities often got verification of employment information that showed current and historical earnings, they did not consider this information when making income determinations. Audit testing disclosed that an additional four families (three processed by Housing Opportunities and one by the City) were not eligible when current earnings were projected for the year or when the

¹¹ 24 CFR Part 92, Subsection 254 (a)(3).

¹² 24 CFR Part 92, Subsection 203 (b).

¹³ 24 CFR Part 5, Subsection 509 (a)(2).

prior year's historical earnings were considered. In most cases, the home buyers had previously worked significant amounts of overtime. The ineligible assistance to these four families totals \$31,261.

Housing Opportunities staff agreed that their method might not be the most effective. They agreed that home buyers could manipulate pay stubs to report less income. As a result, they revised their procedures to consider income from a home buyer's tax return, verification of employment, and W-2 tax information in their income calculation process. This change should prevent the funding of ineligible loans as the ones identified above. Since the City no longer processes assistance loans, the point is moot for them. However, if the City decides to process loans again in the future, it should also revise its income calculation method.

City and subrecipient lack sufficient information to document home buyer eligibility.

The City and Housing Opportunities do not have sufficient information to support the eligibility of 39 out of the 85 home buyers. Assistance for these 39 loans totals to \$211,810. Missing documentation includes information regarding dependents, dependent income, other sources of income, and home buyer's assets. HOME regulations require that grantees maintain sufficient documentation to demonstrate that they have met HOME requirements. The City and Housing Opportunities did not always obtain sufficient information because: (1) mortgage companies take the original application for assistance and do not need or want information the City and subrecipient need to determine eligibility and (2) the City and the subrecipient's application forms are not designed to capture all needed information.

Additional testing disclosed similar problems.

Additional testing performed on 20 loan files disclosed problems similar to those previously identified in this report. The additional sample was selected from 910 files processed by Housing Opportunities between September 1997 and May 1998 because their staff indicated that their processing procedures had greatly improved since the adoption of new procedures in March 1996.¹⁴ The additional testing disclosed two more ineligible home buyers. These two home buyers were ineligible because Housing Opportunities did not consider the home buyers current and prior year's total earnings. As previously stated, Housing Opportunities

¹⁴ Judgmental sample of ten new construction and ten existing construction loans.

use of pay stubs to compute annual income can be manipulated so that ineligible home buyers are shown to be eligible when only pay stubs are used to determine income. The assistance provided on these two ineligible loans totaled \$19,000. In addition, seven files lack sufficient information to support the home buyers' eligibility. Four of the seven files did not have information about the spouses of married applicants. Another two files lacked information to show if the dependents over the age of 18 had any income. The remaining file contained outdated information and data discrepancies. Assistance for these seven files totaled \$42,500. Because the information for these files is missing and outdated, the City and Housing Opportunities cannot support the home buyers' eligibility.

Subrecipient provided assistance to properties outside City.

Housing Opportunities provided \$29,146 in assistance for 13 properties outside the City's geographic boundaries. HOME regulations require that assistance be provided in a participating jurisdiction's boundaries.¹⁵ The City had previously detected this problem and had identified properties that were funded outside the City's geographic limits. However, OIG testing identified three additional properties. Housing Opportunities' staff agreed that they improperly provided assistance to these home buyers. They stated that errors and conflicting definitions of how to determine whether a property was in the City's corporate limits caused the funding of ineligible properties. As a result of the audit, the City and Housing Opportunities have agreed to use Harris County Appraisal District on-line tax information to determine a property's eligibility.

City lacks controls over its files.

The City does not have sufficient controls over its Homebuyer Assistance Program loan filing system. As a result, the City could not always locate or provide complete loans files. HOME regulations require grantees to establish and maintain sufficient records to support adherence to the HOME requirements. Initially, the City could not locate either an entire file or a complete file for 12 of the 45 subrecipient processed files selected for review. City staff stated that their filing system was in a state of disarray because files had just been received from subrecipients and requested additional time to locate and inventory the loan files. However, after additional time and on more than one occasion, the City had serious difficulties locating or could

¹⁵ 24 CFR Part 92, Subsection 201 (a).

not locate some files. Thus, the City's controls and file inventory system do not ensure the City maintains adequate control over its Homebuyer Assistance Program loan files.

Testing at the Housing Opportunities did not disclose a similar problem. Housing Opportunities located all files that were requested and its controls appeared to be good. The Corporation turns all of its original files over to the City for safekeeping. Therefore, testing at the City included the Corporation's files.

City's tracking database is inaccurate.

The City's tracking database for the Homebuyers Assistance Program does not reconcile to its accounts payable information, is full of data entry errors, and contains duplicate entries. The City knows about the problems, but has not taken corrective action to prevent future inaccuracies. Although HOME does not specifically require a database, it does require that sufficient records exist to enable HUD to determine if the City has met HOME requirements. The City showed initiative in establishing the database. However, the City's failure to establish controls to ensure that the information it contains is accurate is contradictory to what the City is trying to accomplish. If the City plans to continue using this database to track its Homebuyers Assistance Program loans and funding, it should establish controls to ensure data accuracy and take action to correct the existing data problems.

City's systems contain uncorrected errors.

The City has data entry errors in its payment voucher system. The City staff could not explain why the master contract amount differed from the detail of payment vouchers by \$4,800 for one of the Corporation's contracts. Further, they also could not explain why the number of loans closed did not equal the number of loans for which the City paid the Corporation administrative fees. HUD's administrative requirements require that grantees have financial management systems that are accurate and completely disclose the results of assisted activities. This occurred because the City has no controls in place to independently check the accuracy of payment voucher data entries by its Financial Services staff. Uncorrected errors in the City's payment voucher system have caused the City to underreport the amounts that have been charged to administrative costs on two contracts. To prevent such errors from negatively affecting its financial systems, the

City needs to implement controls to check the accuracy of their financial data.

Auditee Comments

The City generally disagreed with the findings, but did indicate that it would continue to strengthen controls over its files and systems. The City's response stated that they had reviewed the ineligible and unsupported files and had come to different conclusions. The City asked for a opportunity to jointly review the files with HUD. In the case of the files that lacked supporting documentation, the City disagreed with our conclusions, but did admit in their response that information had not been obtained and that they were in the process of gathering it.

OIG Evaluation of Auditee Comments

We stand by our original conclusions and recommendations. The City can request, as part of the resolution process, a meeting to go over each case file. We are hopeful that the City's controls will correct the identified problems. However, since the City did not offer any corrections beyond what they were undertaking at the time of the audit, we question whether there will be any improvements in the City's filing and other systems.

Recommendations

We recommend that the Fort Worth Office of Community Planning and Development require the City of Houston to:

- 1A. Repay the HOME fund \$128,011 for HOME loans that are ineligible due to improper income calculations or the properties being outside the City's geographic limits.
- 1B. Perform additional work to support the \$254,310 in assistance to home buyers that lacked sufficient information to support their eligibility.
- 1C. Revise its application and other HOME forms so that the City obtains sufficient information to show that HOME requirements are met for areas such as dependents, dependent income, marital status, and other sources of income.

- 1D. Review and strengthen controls over its Homebuyer Assistance Program loan filing system to ensure proper documentation is retained for each assistance loan.
- 1E. Review its tracking database and take action to correct the inaccurate information, and establish controls to prevent the future entry of incorrect information.
- 1F. Correct the data entry errors in its payment voucher system and implement controls to prevent future errors from occurring.

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Conflict of Interest Negatively Affects Contracts

Because of a conflict of interest, the City awarded two subrecipient Homebuyer Assistance Program contracts to the Houston Housing Finance Corporation (Corporation) for services another nonprofit subrecipient actually provided at lower cost. A conflict of interest existed because the Mayor's Assistant for Housing was the President of the Corporation and had a indirect financial interest in the Corporation. Additionally, the Director of the City's Department of Housing and Community Development (Director), who was also a voting member of the Corporation's Board, made major modifications to one contract that were not in the best interest of the City or HUD. As a result of these non-City Council approved modifications, the HOME Program incurred questionable administrative costs totaling \$422,044, of which \$218,960 are ineligible.

HOME Regulations

HOME regulations define a conflict of interest by stating that no prohibited person "who exercises or has exercised any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision making process or gain inside information with regard to these activities, may obtain a financial interest or benefit from a HOME assisted activity, or have an interest in any contract, sub-contract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or one year thereafter." HOME regulations define a prohibited person as an employee, agent, consultant, officer, or elected official or appointed official of the participating jurisdiction or subrecipient receiving HOME funds.¹⁶

HUD has issued a notice reiterating this position.¹⁷ HUD Program officials interpret the regulations to prohibit only a financial interest or benefit. However, as stated upon the issuance of the regulations for the Community Development Block Grant Program¹⁸, HUD has recognized in the past that non-financial conflict of interests could occur, but were difficult to identify and define in the regulations.

¹⁶ 24 CFR Part 92, Subsection 356.

¹⁷ Notice CPD 98-9, HOME Program Conflict of Interest Provisions, on July 14, 1998. Section IV, Financial Interest or Benefit from a HOME-Assisted Activity.

¹⁸ The CDBG conflict of interest regulations are very similar to the HOME regulations.

“One of the most problematic areas has been with respect to public officials participating in the affairs of local non-profit organizations. . . . In such situations, the question arises whether the provision of CDBG funds to a non-profit organization constitutes a conflict because of the presence of a grantee official on the non-profit’s board. . . . An important purpose of the conflicts rule is to protect the reputation of the program from the appearance of providing special treatment or servicing special interests. Clearly, there are some situations where even a non-financial interest or benefit could create such an appearance. However, HUD has been unable to identify clear criteria that would serve to distinguish the kinds of personal interest or benefits that should be prohibited in such cases. The Department therefore, believes that the conflict rule should now be limited to the prohibition of situations that provide a financial interest or benefit.”

HOME regulations make participating jurisdictions responsible for managing the day-to-day operations of their HOME Programs. Participating jurisdictions must also ensure that HOME funds are used in accordance with all program requirements and written agreements. The use of subrecipients does not relieve them of these responsibilities. HOME regulations further require that a written agreement exist before disbursing any funds. The written agreement must describe the use of the HOME funds, including the tasks to be performed, a schedule for completing the tasks, a budget, and the period of the agreement. These items must be in sufficient detail to provide a sound basis for the participating jurisdiction to effectively monitor performance.¹⁹

HOME regulations²⁰ require that nonprofit subrecipients follow the requirements in the Cost Principles for Nonprofit Organizations²¹ and the applicable portions of HUD's

¹⁹ 24 CFR Part 92, Subsection 504.

²⁰ 24 CFR Part 92, Subsection 504 (c)(4) and Subsection 505.

²¹ OMB Circular A-122.

Uniform Administrative Requirements for Grants and Agreements Awarded to Nonprofit Organization.²²

City awarded two contracts.

The City awarded two contracts to the Corporation to administer a Homebuyer Assistance Program: one in January 1996 and another in July 1997. Since the Corporation was a subrecipient, the City did not have to follow federal procurement regulations.²³ Administrative fees awarded to the Corporation totaled \$600,000 for both the 1996 contract and 1997 contract. As of August 31, 1998, the City has paid \$422,044²⁴ in administrative fees to the Corporation for these two contracts. Both contracts had similar objectives: (1) to provide homeownership information, pre-development information and technical assistance, and counseling for home buyers and their builders; (2) to utilize Community Development Corporations, Community Housing Development Organizations, and other nonprofit organizations to encourage construction of homes for single families in neighborhood revitalization projects; and (3) to provide financial assistance to home buyers who lack sufficient funds for downpayment, closing costs, and/or prepaids.

A conflict of interest exists between City and Corporation.

The City and the Corporation have a conflict of interest which has negatively affected the contracting process in this case. Two senior City officials served as voting directors on the Corporation's Board with one also being the Corporation's President. The Mayor's Assistant for Housing was the unofficial supervisor of the Department of Housing and Community Development. At the time the contracts were awarded to the Corporation, the Mayor's Assistant was President of the Corporation and a voting member of the Corporation's Board. The Mayor's Assistant appears to have a financial interest in the Corporation, which does fall within the regulatory prohibition against conflicts of interest. According to its June 1995 Board minutes, the Corporation set aside \$200,000 to pay the expenses of the Mayor's Assistant. Further, the Corporation's audited financial statements notes the arrangement and states that the Corporation paid \$94,690 to an entity owned by the Corporation's President

²² 24 CFR Part 84.

²³ 24 CFR Part 92, Subsection 2.

²⁴ The City has not properly tracked payments of administrative fees. As of August 31, 1998, the amount paid per loan does not equal the total number of loans closed. The City was unable to provide information to allow a reconciliation. See Finding 1.

(Mayor's Assistant) during 1996. Having the Director of the Department of Housing and Community Development serving as a voting member of the Corporation's Board, is not in itself a technical violation of HUD's conflict of interest regulations. However, in our opinion, the questionable actions of the Director in her dealings with the Corporation are non-financial conflicts of interest as described by HUD in its comments about the conflict of interest regulations.

City awarded contracts were for services already under contract.

The City awarded two contracts to the Corporation for services that it already had under contract with another nonprofit corporation. The need for the two contracts with the Corporation is questionable since the City was already using Housing Opportunities of Houston, Inc. (Housing Opportunities) to provide home buyer assistance. Further, the Corporation, prior to receiving the first contract, always intended to have Housing Opportunities, who was already performing the same services, to fulfill the Corporation's contractual obligations. The Corporation's intent is illustrated in the meeting minutes of the Corporation to ratify the first contract with the City. The Corporation's President, who was also the Mayor's Special Assistant, stated:

“...Housing Opportunities of Houston will administer the proposed program and provide counseling to prospective purchasers; and a contract between HHFC²⁵ and Housing Opportunities of Houston should be negotiated and approved before the next regular meeting of the directors.”

The City's Director also attended this meeting and voted with the President to approve the Corporation's contract with the City.

The Corporation's Homebuyers Assistance Program contracts with the City are very similar to the City's contracts with Housing Opportunities. The tasks and responsibilities are almost exact duplicates. The major difference between the contracts is that the Corporation would assist new construction rather than existing homes. Another difference was that the contract with the

²⁵ Houston Housing Finance Corporation.

Corporation had two additional vague contract objectives; one for providing information and the second for encouraging new construction.

Contracts improperly subcontracted.

The Corporation improperly subcontracted out a majority of its subrecipient contracts. The Corporation did not have the staff to perform the financial assistance duties and never intended to perform the duties itself. As previously stated, the Corporation always intended to contract with Housing Opportunities. On two separate occasions, the City's Legal Department rejected a subcontract between the Corporation and Housing Opportunities. In a March 7, 1996 letter to the Assistant Director overseeing the Homebuyers Assistance Program, the City attorney stated:

"... it appears that HHFC, in contravention of the express provisions of the Agreement, is attempting to assign away to HOH²⁶ essentially all of HHFC's duties and obligations under the Agreement, while obligating itself only to "promote" the homeownership program. ... In summary, if HHFC is unwilling or unable to perform its duties under the Agreement, the City, pursuant to City Council action, will have to either expressly allow a total assignment to HOH or terminate the contract with HHFC for nonperformance and enter into a new direct contract with HOH or other qualified contractor."

The City's Department of Housing and Community Development apparently ignored the objections raised by the City's Legal Department. On April 8, 1996, 7 days after the second rejection of the subcontract, the Corporation, without City Legal Counsel's knowledge, entered into an Independent Contractor Agreement with Housing Opportunities. The duties in the rejected subcontracts are very similar to the duties in the Independent Contractor Agreement. Interestingly enough, the Agreement called for the Corporation to pay Housing Opportunities a flat fee per loan that equated to almost exactly what the City was reimbursing Housing Opportunities under its separate contracts.

²⁶ Housing Opportunities of Houston, Inc.

City improperly allowed contract modifications.

The City improperly allowed significant modifications to the Corporation's original contract without City Council approval. The Corporation's contract prohibited substantial revision by the Director without City Council approval. The City dropped geographical targeting requirements and changed the reimbursement basis of the contract. The City's contract with the Corporation required that assistance only be provided to certain geographically targeted areas. However, on April 26, 1996, the City's Director wrote a letter to the Corporation's President eliminating the geographic targeting provisions of the contract. In September 1996, before the City reimbursed the Corporation for any administrative costs under the contract, the Corporation's President requested a change from the contract's reimbursement basis to a flat fee per loan. Even though it was prohibited by federal regulations, the City's Director approved the change in October 1996. In addition, the contract restricted such modifications. No evidence exists to show that the City's Director sought or obtained City Council approval for this major modification.

City lacks support for administrative fees.

Because the Corporation was reimbursed on a flat fee basis, the City cannot support the administrative fees paid to the Corporation. HOME regulations allow reimbursement for eligible administrative and planning costs. To be eligible, costs must be documented and conform to federal cost principles.²⁷ Since the Corporation had other forms of funding and duties, the City should have required the Corporation to prepare a cost allocation plan. Such a plan should have contained a method, including appropriate documentation, to support the allocation of direct and indirect costs. Without such a plan, the Corporation cannot adequately document what costs were directly or indirectly related to their HOME-funded activities. A review of the Corporation's spending for items such as salaries, advertising, marketing, and telephones show that most of these costs cannot be attributed solely to their HOME-funded activities. These expenses can either be attributed to or associated with the Corporation's Mortgage Credit Certification, Reduced Rate Mortgage, and its Private Sector Initiatives Programs. Federal cost principles require a cost allocation plan and that specific supporting documentation, such as time allocation records be kept.

²⁷ 24 CFR Part 92, Subsection 207 and 24 CFR § 92.505, which incorporates the cost principles of OMB Circulars A-87 (governmental entities) and A-122 (nonprofit entities).

Without one, neither the City nor the Corporation can support the administrative fees totaling \$422,044 paid to date.

City Monitoring Division did not question lack of cost allocation plan.

The City Monitoring Division reviewed the Corporation and did not question their lack of a cost allocation plan. The City's Department of Housing and Community Development Monitoring Division performed a routine fiscal and compliance review of the Corporation's contract in March 1996. The only finding was that the Corporation was not reporting to the City as required. However, Monitoring staff had previously questioned Housing Opportunities for not having a cost allocation plan. The City required Housing Opportunities to adopt a cost allocation plan because entities other than the City of Houston provided funds to cover the cost of Housing Opportunities administration of their programs. Thus, the City's Department of Housing and Community Development did not treat the Corporation the same as it did Housing Opportunities. Both contracts were similar and each were subject to following the same federal cost principles.

City was not aware it paid both nonprofit subrecipients twice for processing loans.

The City paid twice for the processing of new construction assistance loans. The City reimbursed Housing Opportunities for its administrative costs for processing loans for existing homes based on its cost allocation plan. The City paid the Corporation \$422,044 for processing loans on new construction based on a flat fee per loan. The Corporation then paid a portion of the fee they received to Housing Opportunities, who actually processed the loans. However, Housing Opportunities, in recording and billing for their administrative costs, did not differentiate between loans processed for the City and loans processed for the Corporation. Housing Opportunities staff, responsible for processing the loans for both the City and the Corporation said they considered all HOME-funded loans to be a "City" activity and allocated their time to that one cost center. Housing Opportunities then requested reimbursement from and the City paid all the costs associated with processing HOME-funded loans. As of August 31, 1998, ineligible double billing amounted to approximately \$218,960²⁸. Double billing would not have occurred if the City had taken its own legal counsel's advice and contracted directly

²⁸ This amount is an approximate because the amount paid in administrative fees to the Corporation does not equal the number of loans they have closed. City staff could not reconcile the difference. See Finding 1.

with Housing Opportunities for new construction loan processing.

In conclusion, since the City was apparently unable to maintain its objectivity due to the conflicting interests, improper contracting occurred. The City awarded contracts for services it already had under contract. The City also allowed improper subcontracting, unapproved modifications, and duplicate payments to occur. As a result, the City is unable to support the entire \$422,044 paid to date under the contract. Further, \$218,960²⁹ of the administrative fees paid are ineligible because they are for duplicate payments leaving \$203,084 as unsupported. Finally, before the City enters into any other contracts with the Corporation or makes any other payments under the current contract, the City should request a waiver of the conflict of interest provisions, change the terms to provide for cost reimbursement, and require the Corporation to establish an acceptable cost allocation plan consistent with federal cost principles.

Auditee Comments

The City generally disagreed with the finding and the recommendations. In the City's opinion, a conflict of interest did not and does not exist between the City and the Corporation. Further, the City responded that the Corporation did not improperly subcontract out for the same services. Additionally, the City opposed the idea that it had been billed twice for the processing of new construction loans. The City indicated that the financial statement information of Housing Opportunities proved that they had not been double billed. The City indicated that the Corporation had incurred significant costs in operating their Homebuyers Assistance Program. However, the City did admit that the Corporation did not have a cost allocation plan to support the administrative costs paid to date.

**OIG Evaluation of
Auditee Comments**

We believe that the City's arguments that there was not a conflict of interest are inadequate. In our opinion, not only

²⁹ OIG considers the "fee" the Corporation paid to Housing Opportunities as the ineligible amount since it is not practical for Housing Opportunities to segregate the commingled costs.

did a regulatory conflict exist with the Mayor's Assistant but a conflict existed with the Director based on her actions as well. However, we did make some language changes in the final report to clarify our position. Since the City's own Legal Department's objected to the subcontracting of the Corporation's duties, we still maintain that the services were improperly subcontracted out and the contracts with the Corporation were unnecessary. We reviewed Housing Opportunities' financial information provided by the City. The information provided did not show that duplicate billing had not occurred. We still believe, based on Housing Opportunities' own cost allocation plan, that the City paid twice for loan processing. We agree with the City that a cost allocation plan needs to be prepared for the Corporation.

Recommendations

We recommend that the Fort Worth Office of Community Planning and Development require the City of Houston to:

- 2A. Repay the HOME fund \$218,960 for ineligible duplicate payments of administrative costs.
- 2B. Repay the remaining \$203,084 in administrative fees and any fees paid subsequent to the audit period unless the City can provide documentation that the contracts were necessary and the costs charged are supportable, reasonable and properly allocated in accord with federal cost principles.
- 2C. Cease paying any administrative fees to Houston Housing Finance Corporation for the subrecipient contract.
- 2D. Terminate the existing contract with Houston Housing Finance Corporation unless the City can demonstrate there is no longer a conflict of interest, the services are necessary, and change the contract terms to provide for reimbursement of administrative costs, which must be documented in accord with federal cost principles.
- 2E. Before entering into any other HUD-funded contracts with the Houston Housing Finance Corporation demonstrate that there is no conflict of interest, the

services will be substantially performed by the Corporation, and administrative costs will be handled on a reimbursement basis in accord with applicable federal cost principles.

City Providing Unnecessary Assistance

The City of Houston is providing inappropriate assistance to home buyers who have large cash savings. Although the HOME Program is silent on participation by home buyers who have substantial cash savings, the City’s contracts with its subrecipients state that the objective of the City’s Homebuyers Assistance Program is to provide financial assistance to home buyers who lack sufficient funds for downpayment, closing costs, and/or prepaids. The City is aware that home buyers with large cash savings are participating in the Program and has not taken any action to stop such participation. As a result, the City is providing unnecessary assistance to home buyers who already have sufficient funds to purchase their own home.

HOME Regulations

The federal regulations³⁰ for the HOME Program are silent on cash savings, except for stating that the participating jurisdictions must compute the income produced from savings as part of a family’s income. However, HOME regulations, in a section discussing subsidy layering, state:

“Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted for this purpose and will not invest any more HOME funds, in combination with other governmental assistance, than is necessary to provide affordable housing.”³¹

In addition, HOME regulations require that a written agreement be executed before disbursing any HOME funds to any entity or home buyer. Further, the agreement must describe the use of the HOME funds, including the tasks to be performed, a schedule for completing the tasks and a budget.³²

One of the purposes of the City’s 1995 Consolidated Plan was to develop local priority needs and objectives.³³ The Plan stated that one of the barriers to affordable housing was the limited financial resources of low-income households. The City said their intent was to ensure the most effective use of HOME funds to provide affordable

³⁰ 24 CFR Part 92.

³¹ 24 CFR Part 92, Subsection 250 (b).

³² 24 CFR Part 92, Subsection 504.

³³ The consolidated plan combines into a single submission the planning and application aspects of the Department’s HOME Investment Partnerships, and other HUD grants.

City contracts limited assistance to home buyers lacking funds.

housing. The City said they would use the Homebuyers Assistance Program to commit resources to assist low and moderate income persons with downpayment and closing costs assistance, as well as “soft second mortgages.”

The City has two subrecipients administering its Homebuyers Assistance Program: Houston Housing Finance Corporation (Corporation) and Housing Opportunities of Houston, Inc. (Housing Opportunities). As previously stated in this report, Housing Opportunities does all of the processing for assistance for the Corporation.

The City had two contracts with the Corporation. The City awarded one contract in January 1996 and the other in July 1997. For both contracts under the Scope of Work, it states that one of the objectives of the contract is to provide financial assistance to eligible home buyers *who lack sufficient funds* for downpayment, closing costs, prepaids or principal reduction.

The City had three contracts with Housing Opportunities. The City awarded one contract in May 1994, another in December 1995, and the most current one in May 1997. For all three contracts, under the Scope of Work, it states that one of the objectives of the contract is to assist eligible low income families with financial assistance to *bridge the gap of insufficient funds* needed to purchase a home.

Testing performed on 85 loan files indicated that problems existed with the City and its subrecipient funding home buyers who had large amounts of cash savings. However, as the following table shows, the City’s subrecipient was not obtaining sufficient information to allow a review of all of the home buyers to determine the full extent of the problem.

	City of Houston Processed Loans		Subrecipient Processed Loans	
	No. of Files	% of Files OIG Reviewed	No. of Files	% of Files OIG Reviewed
Cash Savings in Excess of \$5,000	5	12.5%	3	6.7%
Cash Savings in Excess of \$10,000	2	5.0%	2	4.4%
Cash Savings in Excess of \$20,000	2	5.0%	1	2.2%
Files Lacked Sufficient Information	0	0.0%	21	46.7%
Total Files Reviewed	40		45	

Assistance provided at City’s insistence.

Housing Opportunities admitted that they provided assistance to home buyers with large cash savings. However, they said they provided the assistance at the City’s insistence. Subrecipient staff noted an extreme case where the home buyer had put down over \$58,000 at closing. They stated that they had contacted the City because they did not want to provide assistance, but City underwriting staff told them they had to close the loan. Subrecipient staff said that they felt the contract they had with City precluded them from funding such loans, but stated they knew when to “not fight the issue.”

Additional testing performed.

To determine the extent of loans where buyers made large downpayments, we scanned the files for one major contract³⁴ for closing documents where buyers put down more than \$13,000³⁵. The following table is a compilation of information obtained through interviews and that file review:

	Cash Paid at Closing	Cash Savings
Home buyer 1	\$13,017.00	unable to find complete file
Home buyer 2	\$14,272.97	unable to find complete file
Home buyer 3	\$58,182.24	\$75,150.00
Home buyer 4	\$29,012.99	\$62,477.51
Home buyer 5	\$23,462.31	\$59,840.62
Home buyer 6	\$44,542.04	\$47,616.00
Home buyer 7	\$35,812.32	\$46,505.50
Home buyer 8	\$19,215.47	\$45,031.73
Home buyer 9	\$22,682.27	\$34,554.00
Home buyer 10	\$34,003.45	\$32,462.00
Home buyer 11	\$17,887.25	\$29,398.00
Home buyer 12	\$14,669.99	\$20,804.60
Home buyer 13	\$13,797.90	\$15,508.00

City Staff disagree.

City Underwriting and Finance staff disagreed that funding such loans was an unnecessary or ineffective use of HOME funds. Both the Director of Finance and Underwriting Manager felt that since HOME regulations did not prohibit such assistance that the City was within its rights to provide the funds however they wished. They felt that preventing people with savings from participating in the program would penalize frugal borrowers. They did not believe that

³⁴ The City’s files for contract FC37762 may not have been complete and contained files for other home buyers assistance contracts which were included as part of this review. See Finding 1 for comments about City’s filing controls.

³⁵ A downpayment that was more than the amount of City assistance plus normal closing costs.

it was an improper or ineffective use of HOME funds to assist borrowers that had the savings to purchase a house on their own. In fact, the City approved the loan to Home buyer 6 in the above table after this issue and that loan was brought to their attention.

HUD Program staff find HOME fund use to be violation of program intent.

HUD's Community Planning and Development Office of Affordable Housing Programs staff believe that the City's use of HOME funds to assist home buyers with large cash savings violates the intent of the HOME Program. They agreed that HOME regulations do not specifically prohibit such assistance but stated that HUD expects cities to set controls to ensure that HOME funds are administered in a reasonable and prudent manner.

According to a May 1998 Houston Chronicle article, the number of households that cannot find affordable housing is increasing. In our opinion, by assisting people who have the financial means to help themselves, the City of Houston is using its limited federal resources in a highly ineffective and unnecessary way.

Auditee Comments

The City generally disagreed with the finding. The City stated in their response that their current policies and procedures complied with HOME Program regulations and technical bulletins. The City said that without the City's downpayment assistance, that it was entirely possible that the home buyers higher debt to income ratio would not have been acceptable to many mortgage companies. Additionally, the City indicated that adopting a policy limiting assets might be prohibited because of ethnic and cultural differences protected by federal law.

OIG Evaluation of Auditee Comments

We disagree with the overall content of the City's comments. Since the HOME Program regulations are silent about asset limitations, the City is correct in stating that their current policies "technically" comply with the regulations. As the finding states, however, such "technical" compliance does not mean that the City is using HUD's limited HOME funds in a prudent, effective, or reasonable manner. In our opinion and in the opinion of the HUD staff who formulate the HOME Program's regulations, the assistance was unnecessary for the cases

cited in the report. With their large cash downpayments, most of the identified home buyers would have been able to obtain a home loan on their own without the City's assistance. HUD FHA's own Mortgage Credit Analysis guidelines show that a debt to income ratio as high as these borrowers may be acceptable. The City's concerns about implementing a policy that would be prohibited because of ethnic and cultural differences are unfounded. Several large cities around the country have adopted such a uniform policy.

Recommendation

- 3A. We recommend that the Fort Worth Office of Community Planning and Development require the City of Houston to review its Homebuyer Assistance Program and adopt policies to ensure that its HOME funds are used effectively and consistently with the needs identified in their Consolidated Plan.

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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Policies and procedures to ensure that assistance was provided to eligible home buyers and properties in compliance with HUD HOME regulations.
- Administrative controls to ensure the validity and reliability of the Homebuyers Assistance Program record keeping systems, database tracking systems, the accounts payable system, and contract ledger system.
- Policies and procedures to ensure that HUD HOME funds were safeguarded to prevent waste, loss, and misuse.
- Policies and procedures to ensure that recovery of funds was in compliance with HOME regulations.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses as discussed in this report:

- The City and its subrecipient lack controls to ensure that income calculation methods are consistently followed (see Finding 1).
- The City and its subrecipient have not reviewed their income calculation methods to ensure that they fully comply with HUD program regulations (see Finding 1).

- The City and its subrecipient lack controls to ensure that sufficient information is obtained to support the eligibility of home buyers in the Program (see Finding 1).
- The City lacks controls to ensure that filing, database, financial and contracting systems contain valid, accurate, and reliable data (see Finding 1).
- The City lacks administrative controls to ensure that contracted services are necessary and the costs paid for those services are supportable (see Finding 2).
- The City has not reviewed its assistance policies to ensure that limited HUD HOME funds are provided in a manner to ensure that they are safeguarded against misuse and waste (see Finding 3).

Schedule of Questioned Costs

<u>Recommendation Numbers</u>	<u>Ineligible</u> ¹	<u>Unsupported</u> ²
1A	\$128,011	
1B		\$254,310
2A	218,960	
2B	_____	<u>203,084</u>
TOTALS	<u>\$346,971</u>	<u>\$457,394</u>

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

² Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of 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 a 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.

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Auditee Comments

Lee P Brown, Mayor

CITY OF HOUSTON

Housing & Community Development Department

Post Office Box 1562 Houston, Texas 77251-1562 713/868-8300

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 Corroll G Roninson CITY) -C)NTROLLER Sylvic R. Garcie

February 23, 1999

D. Michael Beard
 Regional inspector General for Audit
 U.S. Department of Housing and Urban Development
 Southwest District Office of Inspector General
 1600 Throcionorton, Room 406
 Post Office Box 2905
 Fort Worth, Texas 76113-2905

Subject: City of Houston Homebuyers Assistance Program Funded by the HOME Program

Dear Mr. Beard:

This is in response to your audit of the City's Homebuyers Assistance Program (the "Program"), which is the most successful part of the City's "Homes for Houston" program. The audit provides a summary of the legal and institutional structure of the Program, but not its impact, which derives from the large number of low and moderate income families who have received assistance in buying a home through the Program.

In the seven year period from January 1992 through December 1998, the City assisted 4,565 families in purchasing a home, expending \$24.8 million in CDBG, HOME and local funds in the process. While 3,507 of these families have purchased existing homes in the City, the remainder, or a total of 1,058 families have purchased new homes through the Program. The Program has helped to stabilize neighborhoods and generate the addition of \$75 million in new single family homes to the City's tax base. This has stimulated job growth and provided other indirect benefits to the local economy.

The Program is a success. Affordable housing is being substantially increased and the City and its residents are the benefactors. The City could not have sustained this level of production or attained this measure of success without capable administration and a coalition of public and private, for-profit and non-profit entities. We believe the program complies with federal law and regulations, and take exception to significant aspects of all three findings contained in the report.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February, 1999**

Final resolution of the specific conclusions and recommendations reached in the audit will require joint, simultaneous review with the responsible Program officers. Since our meeting in January, the City has been afforded its first detailed look at the specific of the findings contained in the audit. Accordingly, this response provides additional documentation not included in the scope of your review as well as different conclusions we have reached after subsequent review of the same documentation referenced in your report.

The Findings

The findings, and our response, can be summarized as follows:

Finding 1: The City and its subrecipients have not properly administered their Homebuyer Assistance Program. The audit recommends that the City be required to 1) repay \$133,442 to the HOME grant for assistance provided to 28 ineligible homebuyers, 2) provide additional documentation to support the eligibility of 46 homebuyers or repay \$254,310 to the HOME grant, 3) revise eligibility procedures and forms, and 4) improve controls over homebuyer case files, its production database, and payment voucher system.

City's Response: The City reviewed every case file cited by your staff and has come to different conclusions in many if not most cases. Therefore, we propose to conduct a joint, simultaneous review of every homebuyers assistance case file cited in the audit with HLTD staff. We will be better informed as a result of this process to understand the specific deficiencies which your staff has identified in forms and procedures. We also intend to complete efforts currently underway to strengthen controls over files and systems as required to prevent financial risk and accomplish program requirements.

Finding 2: A conflict of interest existed between the City and a subrecipient, which caused the City to award two subrecipient Homebuyer Assistance Program contracts to the Houston Housing Finance Corporation (HHFC) for services already being provided by another nonprofit. The audit recommends that the City be required to 1) repay \$218,960 in ineligible administrative fees paid by HHFC to Housing Opportunities of Houston (HOH), 2) provide documentation for \$203,084 in questioned costs paid to HHFC, and 3) seek HUD's guidance before entering into any other contracts with HHFC.

Response: We are providing, important information contained in HOH's Annual Audits for the year 1995-1998 that clearly establishes the eligibility of the monies HHFC paid to HOH and disagree with this finding. We will request that HHFC provide similar information in the form of a cost allocation plan for their contract period. However, there is no conflict of interest between the City and HHFC. The City has had numerous contracts with HHFC, which is a quasi-governmental entity created by State law with a

**City of Houston OIG Audit Response
Homebuyers Assistance Program
February, 1999**

board appointed by the Mayor and City Council. Therefore, we do not believe it is necessary to seek HUD guidance regarding future contracts with HHFC.

Finding 3: The City is providing unnecessary homebuyer assistance to homebuyers who have large amounts of cash savings. The audit proposes that the City be required to review its homebuyers assistance program and ensure that funds are being used effectively and consistently with the needs identified in their Consolidated Plan.

Response: The City's current policies and procedures comply with HOME regulations and technical bulletins which specifically require that assets, including cash and cash equivalents, be included in eligibility determinations only to the extent of their income producing potential. Our review of the specific cases cited by the audit indicates that this matter may be based on ethnic and cultural differences protected by federal law. The City is disinclined to follow what we regard as a policy recommendation, and not a regulatory compliance finding, in light of specific technical guidance from HUD to the contrary.

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

Margie L. Bingham, Director

Attachments

**THE CITY OF HOUSTON'S RESPONSE
TO AN OIG AUDIT OF ITS
HOMEBUYER ASSISTANCE PROGRAM**

INTRODUCTION

The objectives of this audit were to determine whether the City of Houston's Department of Housing and Community Development:

1. Properly determined and documented the eligibility of participants and their property;
2. Had a system to recover assistance if the program participants sold the property before five years;
3. Properly contracted with qualified subrecipients to carry out the program; and
4. Adequately monitored administrative cost-c paid to subrecipients.

The audit found that the City has an adequate method of recovering assistance from sales of assisted homes, but identified perceived weaknesses in the other three areas listed above.

The audit methodology described in the audit itself appears to have been thorough, citing a lengthy list of sources including documents reviewed and persons interviewed. The City has identified some additional information, which was available to the auditors, but which apparently was not used to support the audit findings. This particularly true of Finding 2 regarding perceived conflicts of interest which are supposed to have lead to duplicate payments of administrative payments.

Also, the audit describes the time period for the audit as being October 1997 to October 1998, with records having been reviewed for a four year period, July 1994 to May 1998. OIG audit staff actually conducted their first review of the City's HOME program in November 1994 and concluded this first review in niid-1995 without issuing a formal report. The City issued a revised lender's manual to mortgage lenders in August 1995, responding in part to the issues raised at that time by the OIG. The OIG audit staff made an additional brief appearance in the City's office again in 1996 without issuing a formal report. The City has made every attempt to respond to the OIG's suggestions that resulted from these previous visits to ensure the success of the down payment assistance program.

The City takes issue with significant aspects of this audit.

1. The City and OIG auditors have reviewed the same down payment assistance records and files and come to very different conclusions because judgement and interpretation is involved. In certain areas, important information is not provided in the audit.
2. OIG cites the City's lack of controls in critical areas. We believe our existing controls are adequate to support the high production level in the program, and are continuing to

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

improve them whenever deemed necessary. But it is an overstatement to say that controls are lacking in the City's administration of the program.

3. The audit apparently deems the effectiveness of the program to be dependent on the manner in which it is documented and administered and not at all on results. The adequacy of internal controls should be judged at least in part on their impact on results. The audit insufficiently associates financial, property or human risks with weaknesses it cites.
4. The audit also uses broad brush generalizations to cite weakness in controls which makes it difficult for management to respond in an informed, effective way. When controls are to be strengthened, including computer systems, records, eligibility processes, or contract provisions regarding a subrecipient's responsibility, it is important that the specific harm done be cited. This allows management to take specific corrective action without additional costly review.
5. The details supporting much of finding I involving the review of specific case files was not provided to the City until January 1999, almost two months after the audit was issued. Concerns expressed in connection with financial reconciliation of the HHFC contracts for down payment assistance was also provided at that time. The City has had approximately one month to review the detailed assertions provided by the auditors in order to answer audit findings and concerns developed over several years of review.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Finding Area 1 - Administration of the Homebuyers Assistance Program

This finding cites numerous purported shortcomings in the City's administration of its homebuyer assistance program based on detailed information, most of which was not made available until after the City received the audit. After the detail was received, the City began its review of files and sources documents to ascertain the validity of the audit's findings and concerns. This review is still underway, but the City's conclusions resulting from its detailed review are different than those expressed in the audit.

Therefore, the City believes that income determinations for individual clients will best be resolved through joint, simultaneous review of the documentation for each ineligible or questioned case by City staff and HUD representatives. The audit's comments concerning the City's record keeping and tracking systems were not always accurate and were too broad to serve as the basis of specific corrective actions by management. The preliminary results of our detailed review have been provided to the auditors for their information.

Finding 1.1 - The City did not always follow established procedures for determining income in seven cases with \$48,605 in assistance payments.

Response 1.1 - Final determinations of eligibility for these cases depends upon 1) making precise calculations which result in *estimated projections of income* that are very close to the income limits for each household involved and 2) application of the income limits table for the correct year. Experienced underwriting personnel not involved in the original review and certification of these cases have reviewed these files and come to different conclusions in many cases than did the auditors. This can best be resolved through the use of an agreed upon worksheet to calculate income which treats overtime in a manner consistent with the regulations and the joint development of that worksheet by City, and HUD personnel.

Finding 1.2 - The City used a method of determining income that was susceptible to manipulation in six cases with \$50,260.62 in assistance payments.

Response 1.2 - The City's method of calculating annual income has been based on the "Technical Guide for Determining Income and Allowances for the HOME Program" since the inception of its down payment assistance program. The Guide provides that "today's circumstances will continue for the next 12 months, unless there is verifiable evidence to the contrary.... The exception to this rule is when documentation is provided that current circumstances are about to change." (See page 4 of the Guide.) To comply with this provision of the Guide, the City does not use tax returns or other prior year information to adjust current salary projections unless they provide evidence that circumstances are about to change.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

This often amounts to a subjective judgement, particularly as it relates to previous and current overtime earnings. Overtime is often a recurring job requirement, and is always subject to great variation in timing and duration. If a person reports no overtime currently, but tax returns indicate overtime was earned in the prior year, this may mean that over-time is going to recur and should be included in the annual income calculation. It may also mean that overtime was earned on a one time basis for what could have been a variety of reasons.

The audit states that the City and HOH "did not consider" current and historical earnings information when making income determinations, but cites only six instances in which this affected the income calculation so as to make an ineligible applicant appear eligible. The City reviewed these cases, and determined that overtime in every case was critical to eligibility because the applicants' annual income were very near the maximums for their household size. In such cases, it is not clear exactly how a calculation can be made that will compensate for the variability in overtime. If any variation in overtime from prior years is to be regarded in the future as a conscious attempt to manipulate the eligibility test, then the City will have to disregard the Technical Guide's first instruction: use current circumstances to project future income.

Based on the City's review of these cases, we believe that this can best be resolved through a joint, simultaneous review of each file involving City and HLTD personnel to resolve the best way to apply the letter and spirit of the HOME regulations to overtime. We also believe that no rule can eliminate the variability in overtime, and that it can only penalize marginally qualified low income applicants to attempt to devise a rule which can do so.

Finding 1.3 - The City did not always have sufficient information regarding homebuyers' eligibility in 46 cases with \$254,310.24 in assistance payments.

Response 1.3 - The City received the specific list of 46 cases and the auditors' comments on each one in its January 24, 1999 meeting with OIG staff. Since that time, experienced underwriting personnel who were not involved in approval of these cases have reviewed the files and the auditors comments. Many of the files appear to contain sufficient information upon which to base a determination, but joint review of each file with HUD staff will be required to resolve the issues raised by the auditor. Additional documentation must be obtained for other files before a final determination can be made.

The auditor's primary reasons for questioning each case on the list, and our general response to each, is as follows.

1 - "No original loan application." In a number of cases, a copy of the original loan

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

application was found in the file. In other cases, the borrower's affidavit, used prior to the change in procedures requiring a full loan application, was present in the file.

2. "No documentation about assets." In many if not most of these cases where the auditor made this comment, the borrower had disclosed in the loan application or borrower's affidavit present in the file that their liquid assets were less than \$6000. The auditor apparently regarded this as insufficient documentation regarding assets. In all of the City processed case files and in some of the HOH processed case files, tax returns are present to provide the basis for verifying borrower's affidavit on this matter. Copies of the original loan application would have to be requested from the borrower's mortgage company in each HOH case with no tax returns.
3. "No information provided regarding child support payments." Tax returns were found in many files which included the children in question as dependents. Child support for these cases will have to be researched.
4. "Indications file regarding additional, unreported sources of income." City staff did not see in many of the cases noted the indications of additional income referenced by the auditor.
5. "Dependent over 18 or indications of other household members." In these cases, the persons in question are listed on tax returns in the files as dependents. College age children listed as dependents must be full-time students, and/or the borrower must be responsible for the majority of their financial support to claim them as a dependent.
6. "Spouse on application, but no information about whether there was any income." In several cases, the spouse signed the loan application or borrower's affidavit which indicated "0" or some amount of income.

Finding 1.4 - Subrecipient provided assistance to properties outside City in 15 cases with \$34,576.23 in assistance payments.

Response 1.4 - The City does not contest this finding, but does disagree with the solution proposed in the audit.

In 1996, the City identified the need to have a reliable means of identifying addresses that were actually outside of the City limits because of the possibility for confusion on this point. The City's boundaries are extensive, not predictable, and difficult to discern at street level. Mailing address is misleading, because a Houston address can be inside or outside the City. Furthermore, HOH was processing down payment assistance cases for Harris County, thereby

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

enhancing the chances that a County case might accidentally be charged to the City without a reviewer catching the error.

In December, 1996, HCD purchased a copy of the City's property appraisal database from a commercial firm located in Houston which provides property appraisal data as a service. HCD then modified its Single Family Housing System to edit addresses entered to determine whether they were listed in the City's appraisal database. Subsequent to this, HCD began to use the Harris County Appraisal District Internet home page to identify newly constructed properties that were not in the appraisal database when it purchased. HCD began using these controls to identify the out of City cases in 1997, and to prevent further outside of City cases from being processed by HOH.

In August, 1998, HCD approached the County to determine whether the County could possibly reimburse the City for having funded cases rightfully charged to the County's HOME grant. By City Charter, the City could return the cases to HOH and deduct the amount of the finding from its next payment to HOH. If the County and HUD were amenable, the County could then reimburse HOH under its contract with HOH for the cases, and the costs would have been rightfully charged. This would ensure the purposes of the HOME Program were met, enhancing affordable housing in the City and the County. It also would avoid the use of approximately \$30,000 in local property tax dollars to compensate for fifteen clerical errors.

The OIG provided these cases to the City in its detailed list of ineligible and questioned cases, but actually reduced the number of cases to thirteen and the amount to \$29,145.53. We believe the cases actually number fourteen and total a cost of \$32,645.53.

Finding Area 1 Concerns - The City did not have sufficient controls over its Homebuyer program loan filing system, maintained an inaccurate database tracking system, and had uncorrected errors in its payment voucher system. .

Finding Area 1 Concerns Response: These concerns are expressed in such a broad way as to leave the impression that the City's records are too disorganized for description. But the audit lacks sufficiently specific information to guide management in implementing corrections as required. Furthermore, the audit fails to link specific risks or financial losses to the conditions described in the City's records.

The Department's records are sufficient to support production tracking, recovery of assets, research of individual cases, and reconciliation of financial records. As such, they are in compliance with HOME administrative requirements. A review of each of the three record keeping systems in this regard follows.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Down Payment Filing System: The City maintains its down payment closing cost assistance files in a single file room, furnished with shelves designed expressly for filing systems. As files are received from HOH, they are organized in this room in months according to date of closing and in alphabetical order of last name within a month. Prior to 1998, HOH had a practice of keeping the City's files for a year at a time, and then delivering hundreds of files at the same time. In early 1998, when the auditors renewed their on-site activity, hundreds of files had been delivered to the City and were in the process of being, inventoried and organized for placement in the file room. The City keeps its down payment assistance case files until the compliance period for the buyer has elapsed. Because of the volume of these files, many are kept off-site at a secure City archive location, along with many other similar program records. *To the City's knowledge, every file the auditors asked for was found, although it may not have been found immediately.*

While the auditors were present, the City was in the process of strengthening its controls over its files. The inventory process described earlier was well underway in order to identify deficiencies in specific files so that documents could be located at HOH, a lender or title company. In the absence of more specific guidance from the audit, this project will be completed as designed, and the results entered into the Single Family Housing System.

Single Family Housing Database: The Single Family Housing system was initially designed and programmed by HCD staff in 1994 to provide specific documentation for housing production reports since commercial prepackaged software was not available for this specific purpose. It now contains over 11,000 records from every single family home assisted by the City or by HHFC since 1990. Each record includes the name, street address, program, amount of assistance provided, and the date the assistance took place. The system runs on the HCD Local Area Network and is accessed throughout the Department with a variety of reports available to each user.

Each month, multiple HCD staff enter case information to the system. HCD staff responsible for the monthly report to Mayor and City Council then run detailed lists of homes and owners or buyers assisted to support and prepare that report. Information from the database is also imported into the Department's Geographic Information System software provided by HUD to produce the Annual Consolidated Plan and used to produce maps that demonstrate the impact of the City's single family housing programs across the City and in specific neighborhoods.

HCD periodically runs reports to identify duplicate addresses and/or names to proof the accuracy of the overall system. Since the single family system is not integrated with other systems, notably financial and geographic information systems, some slight variations in information are always present in the system.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

The auditors were allowed full access to this system, and determined that it was "full of data entry errors." This characterization is based on an apparent misunderstanding of the way the system is used. The database is not used to process payments to single family housing contractors because it cannot be integrated with the City's accounts payable system. No financial risk is associated with the variations between the system and financial records. The errors in owner names and street addresses can be found in any property information system, but they do not affect nor control actual property transactions. The auditors even acknowledged that the City's method of recovering down payment loans from the early sale of properties was adequate.

The recommendation that the City establish controls to ensure data accuracy implies that the City has not already done so. In December of 1996, the City purchased a copy of the Harris County property tax rolls and enhanced the database to include an edit to determine whether a particular street address is inside or outside the City. This allowed the City to locate the homes assisted that were outside of the City (see Finding 1.4) and to initiate a process with the database and HCAD's Internet site of identifying homes before closing that were outside of the City.

At the same time, the City purchased geographic coordinates for each property account in the database (x-y coordinates). These coordinates were to be used in the HUD GIS software to more easily locate and map street addresses. To date, the HUD 2020 GIS software that was to accept the x-y coordinates has not functioned as advertised. But the HCD will continue to test newer versions of the HUD GIS software, and the City's GIS software, ARCInfo, to streamline the mapping process and improve accuracy.

Eliminating data differences with the financial system and the City's single family system is much more difficult. The City's financial system is integrated financial management software that is in use in hundreds of cities, counties, school districts, states and federal agencies across the country. It does not support, nor is it easily integrated with, geographic or address-based information systems. A third element has now entered this equation, HUD's Integrated Disbursement Information System (IDIS) which is not integrated with the City's financial system.

The City is forced, for the present, to use dual data entry for these systems and use manual or semi-automated reconciliation methods to prevent and correct variations between IDIS, its own financial system and the HCD single family housing system. Eliminating these differences completely, or reducing them to the level expected by the auditors, will be very costly in the absence of integration.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

City Financial System: The City's financial system, referred to in the audit as its "payment voucher" system, is used to process \$2 billion in expenditures and manage \$1 billion in liquid assets annually. Payment vouchers, like every transaction in this system, include information segregated fields, some of which are used to edit and classify the transaction and others are simply for information. This distinction is not made in the audit when it states:

"The City of Houston has uncorrected data entry errors in its payment voucher system. In addition, the City could not explain why one of the Corporation's contracts did not balance or why the number of loans closed did not equal the number of loans for which administrative fees were paid."

The clear implication is that the errors found related directly to perceived payment process problems with the Corporation contract in question. Since the number of loans closed and number of administrative fees paid did not match, this could ostensibly be related to the error found. The audit then states:

"HUD's Administrative Requirements require that grantees have financial management systems that are accurate and completely disclose the results of assisted activities. The City has no controls in place to independently check the accuracy of payment voucher data entries by its Financial Services staff. Uncorrected errors in the City's payment voucher system have caused the City to under-report the amounts that have been charged to administrative costs on two contracts."

This specific situation was presented to the Assistant Director in the form of a document finding for review after this draft audit was issued. At that time, the Assistant Director investigated and determined the following which has been presented to the audit staff.

Two contracts were mentioned as having problems, including FC38048 with Houston Housing Finance Corporation and FC37762 with Housing Opportunities of Houston. The HHFC contract had street address errors in the description field of payment vouchers, and some vouchers grouped addresses together for payment purposes. Backup documentation for each voucher had been used to ascertain that payments were being made in accordance with the HHFC contract. *The description field is not used by the financial System to edit payments. No payment error resulted from the errors identified by the auditors.*

Also, the number of cases paid and administrative fees paid was determined the result of normal timing and processing differences. Administrative fees are paid after cases are closed and a complete set of original closing and processing documents are received from HHFC or HOH. This results in a four to six week delay between the time the City reimburses HHFC or

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

HOH for closing costs and for administration. A complete reconciliation of FC38048 was prepared using payment voucher detail to establish that this timing difference was the basis differing number of loans and administrative fees paid.

Also, the auditor's concern regarding balancing detail to the contract master history involved a comparison between inception-to-date information displayed in on-line contract information screens in the City's financial system and payment voucher detail taken from HCD's copy the financial system's ledger from the previous month. The City's accounting periods over with each monthly close taking place after the first week of the next month begins. HCD then obtains an electronic copy of the monthly financial system ledger. Because of these timing differences, this sort of comparison must be done carefully.

When first contacted in October 1998 about the \$4800 difference, HCD payables staff suggested that timing was the reason for the apparent difference. The auditor did not inform the HCD staff or management that the issue would appear in the audit, nor provide sufficient time for HCD staff to find the \$4800 transaction in question. The audit was prepared without further contact with HCD staff. In January, after the auditor met with the Assistant Director and the payables staff, the transaction was found and an explanation was provided by HCD within twenty four hours.

After the January 1998 meeting with the auditor in which the Assistant Director for financial and information services received specific information that was the basis for the concerns regarding the "payment voucher system" expressed in the audit, he determined the following:

- 1. No duplicate payments or overpayments resulted from the data entry errors in payment voucher line description fields. The payment process includes sufficient controls including segregation of duties, documentation requirements, and financial system coding to ensure that payments are made in accordance with contract requirements.*
- 2. Existing controls, including file copies of documents and the HCD financial database, were sufficient to reconcile all issues identified the auditor to management.*
- 3. Because of the specific problems identified in the Assistant Director's reconciliation process, additional controls will be implemented in coding documents and processing payments to make reconciliation a more efficient process.*

Finding 1 Recommendations and Response:

The audit recommends that the City be required to:

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Recommendation 1A - Repay the HOME fund \$133,442 for ineligible down payment assistance expenditures due to improper income calculations or properties located outside the City.

Response 1A - The City proposes a joint, simultaneous review by HCD and HUD staff of each case file to determine the final outcome of this finding. The final determination should be documented through a standard format used for each case and signed by reviewers from both agencies,

Recommendation 1B - Perform additional work to support \$254,310 in assistance to homebuyers where sufficient information does not exist to support their eligibility.

Response 1B - The City proposes a joint, simultaneous review by HCD and HLTD staff of each case file to determine the final outcome of this finding. The final determination should be documented through a standard format used for each case and signed by reviewers from both agencies.

Recommendation 1C - Revise its down payment assistance application and other forms so that sufficient information is obtained to show that HOME requirements are met for areas like dependents, dependent income, marital status and other sources of income.

Response 1C - The City's current forms include the information described in the Recommendation; however, the City will consider such changes if specific deficiencies in the current forms can be identified.

Recommendation 1D - Review and establish sufficient controls over its Homebuyer Assistance Program loan filing system.

Response 1D - The Department plans to complete its file inventory project as designed.

Recommendation 1E - Review its tracking database and take action to correct the inaccurate information, and establish controls to prevent the entry of incorrect information in the future.

Response 1E - The Department will perform a periodic reconciliation review to identify duplicate owner names and addresses. The results of the down payment assistance file inventory project will also be used to update the Single Family Housing System as planned.

Recommendation 1F - Correct the identified data entry errors in its payment voucher system

and implement controls to prevent future errors from occurring.

11

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Response IF - The Department will initiate changes in future payment voucher processing to ensure that individual owners' homes assisted will be listed in separate payment voucher lines and line descriptions based on payment documentation provided by HHFC and HOH.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Finding Area 2 - Conflict of Interest Negatively Affects Contracts

Summary of Finding: Because of a conflict of interest, the City awarded two subrecipient Homebuyer Assistance Program contracts to the Houston Housing Finance Corporation (HHFC) for services already being provided by Housing Opportunities of Houston (HOH) and made duplicate payments for the services in question.

Summary of Response: The City of Houston and HHFC have a long standing cooperative relationship which has fostered and supported the down payment/closing cost assistance and other single family assistance programs. This relationship is statutory, and involves no personal gain or interest for the elected or appointed officials of either agency. Furthermore, duplicate services were neither contracted nor paid for by the City.

Finding 2.1 - The City and the Corporation (HHFC) have a conflict of interest that has negatively affected the contracting process.

- A. The Director of Housing and Community Development and the Special Assistant to the Mayor served as voting directors on HHFC's Board and as members of the Project Review Committee.**
- B. The Project Review Committee reviewed and recommended for approval to City Council all projects receiving City HOME funding.**
- C. The HHFC Board set aside \$200,000 to pay the expenses of the Assistant to the Mayor.**
- D. The City also allowed contract modifications without City Council approval and did not question HHFC's lack of a cost allocation plan.**

Response 2.1 - This finding appears to be based on a concept of institutional conflict of interest not apparent in the regulations. The City and HHFC have a longstanding cooperative, institutional relationship involving numerous contracts and project funded with housing grant funds, and the issue of a conflict of interest has never been raised before. For these reasons, it was not believed necessary to seek a waiver from HUD for HHFC to become a subrecipient to help administer the \$9500 down payment assistance program.

The HOME regulations define conflict of interest in terms of financial interest or benefit that accrues from profit making or income generating projects or contracts. The language of 24 CFR Part 92, Subsection 356 defines how persons can be construed to have such interest or benefit under a heading entitled "Persons covered" (see 24 CFR Part 92, Subsection 356(c)). There is no similar section or language governing institutions or officials of institutions as a separate cause of conflict of interest.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

The audit suggests that a conflict of interest exists simply because the two appointed City officials exercise official duties as board members for a quasi-public agency, HHFC, which is a subrecipient for the City. However, neither the audit nor the HOME regulations define what constitutes interest or gain in such a circumstance or how a conflict of interest can exist if no personal interest or gain is involved. No personal benefit or gain from the alleged conflict of interest is cited in the audit, because none exists.

There was no conflict of interest or personal benefits involved in the two contracts awarded to HHFC by the City as a result of the institutional relationship described. The Director of Housing and Community Development serves as a member of the HHFC Board by virtue of her office, just as many other City officials serve as an official City representative on the boards of quasi-governmental agencies that work with the City. Legislation creating such entities often provides accountability to the voters by placing City or County appointed officials on the board and requiring that other board members be appointed by local elected officials. In this case, the Director serves as an HHFC board member by virtue of her position, and there is no special compensation or consideration for her service.

Likewise, the Special Assistant to the Mayor received no compensation, either as President of the HHFC Board or as the Special Assistant. The \$200,000 set aside by the HHFC Board for the Special Assistant's expenses provided funds for staff, supplies, and services to support the Special Assistant's activities in planning, program development and promotion of the *Homes for Houston* program. The HHFC staff charged to this budget had extensive contact with the Department and with members of the real estate and mortgage banking community in order to establish the network of private agencies and financial institutions that have made the \$9500 closing cost assistance program a success.

Mayor and City Council were aware of the official responsibilities and assignments of the two officials in question when both contracts were awarded to HHFC. Furthermore, Mayor and City Council are the final approval authority for all contracts funded directly with HOME grant monies. The institutional relationship between the City and HHFC, managed through its Department of Housing and Community Development, has been utilized to provide a range of financing tools and promote public-private ventures that benefit the community.

Since the 1980s, HHFC and the City have cooperated in administering the Urban Homesteading Program, with HHFC serving as the property owner and lien holder and the City providing program management and funding. Since the City and HHFC began down payment closing cost assistance program in the early 1990s, funding and administrative responsibility for the Program have been shared by the two entities. Likewise, HHFC has provided financing for projects in which federal program requirements might have seemed

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

onerous to project sponsors or developers.

In other cases, HHFC has provided local funding as interim or supplemental financing for major City projects funded also with federal funds. HHFC provided interim financing for the Rice Hotel and the Renaissance Center projects, both of which were funded through the Section 108 loan program by the City. HHFC's role in supporting economic development, in developing the *Homes for Houston* campaign, in administering the \$9500 Program contract, and in facilitating private sector support for these program is a natural outgrowth of their mission and is vitally important to the community.

Finding 2.2 - The City awarded contracts to HBFC for services already under contract through HOH. HHFC then improperly subcontracted with HOH for said services, including payment in the form of a flat fee to HOH for each case completed.

Response 2.2 - It is true that the City's contracts with HHFC required them to provide the same *type* of services already provided by HOH in one key respect. However, HHFC did not improperly subcontract for the same service.

Both HHFC contracts contain the following clause regarding the matter of subcontracts, providing that HHFC shall:

"Not assign any rights or delegate the performance of any duties or obligations contained in this Contract, except as expressly permitted in this Contract, provided that Contractor shall be permitted to delegate to third-parties the obligation to accumulate information regarding the eligibility of the Homebuyer or the property, provided farther that, notwithstanding any such delegation, Contractor will be responsible for reviewing all such information and shall independently verify and certify to the C@ the eligibility of each Homebuyer and property;" [Contract FC34118, effective January 15, 1996, page 20, section 5.16(iv); and Contract FC38048, effective July 1, 1997, page 18, section 5.14(iv)]

HHFC has performed in accordance with the terms of this provision of these contracts, subcontracting with HOH to perform the service described in the section shown above, but retaining the responsibility for final certification of homebuyers and properties. Under the current procedure, HOH gathers information and analyzes that information to assure that they are complete and sufficient to support eligibility. When the case is ready to close, HOH sends the original file to HHFC for further processing and keeps a copy of the file for its own records. HHFC then reviews the file, prepares a check, and ultimately bills the City for reimbursement. The reimbursement request includes a certification that the payments made by

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

HHFC are in accordance with the requirements of their contract which includes the language above.

HHFC's subcontract with HOH provides for HOH to make its own determination of eligibility in each case, but this is necessary to ensure HOH accumulates sufficient information to make such a determination. Without this step, the accumulation of forms and data would be essentially meaningless and could be performed in a haphazard manner that did not support certification. In this respect, HHFC retains responsibility to finally determine the eligibility of each case, and the City has the authority to hold HHFC accountable through the payment and advance liquidation process for such final eligibility determinations.

The audit concludes this section with the following:

"Interestingly enough, the Agreement called for Housing Opportunities to be paid a flat fee per loan that computed out to exactly what the City was already paying Housing Opportunities under its separate contract."

This sentence implies that the nature of the fee to be paid to HOH indicated an underlying *intention* on someone's part to duplicate the fee already paid by the City to HOH under the \$3500 existing homes purchase assistance contract. In fact, it simply represented a pricing strategy which recognized the cost per file of processing similar cases, absent the final steps of handling a case: final eligibility certification, processing payment for closing and billing the City for reimbursement. Every new construction case file was to be a type of case not handled by HOH through the \$3500 contract. The thought that the unit cost of processing a single file has anything to do with the total amount paid as the result of additional volume is addressed in the next section.

Finding 2.3 - The City paid twice for the processing of new construction assistance loans, reimbursing HOH for loan processing based on a cost allocation plan and HBFC for new construction loans on a flat fee per loan basis. This resulted in ineligible costs totaling \$218,960 as of August 31, 1998.

Response 2.3 - This finding appears to have resulted from confusion caused by the different methods used to pay HOH and HHFC, anecdotal interpretation of these payment mechanisms, and consequent misunderstanding of the similar language in the HOH and HHFC contracts regarding loan processing. The City is paying twice for similar services, but it is not paying twice for the same service which is easily verified by a more complete review of HOH's homebuyer assistance program income and expense.

Over the last several years, the volume of down payment assistance cases processed by HOH

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

for the City and other jurisdictions has increased significantly. Consequently, HOH has hired additional staff to handle the increased workload that resulted from the increase in case volume. If the City had chosen to contract directly with HOH for processing of the \$9500 cases, it would have been necessary that the City pay additional amounts to HOH for administration in order to handle the additional workload caused by the \$9500 new construction program. If the finding is correct, then HOH would have handled the increased case volume with the same level of staff as before and would have a surplus of cash on hand. HOH audits do not support this scenario but instead provide support for a more realistic scenario.

Using information from HOH audits, and housing production records maintained by the City and HOH, it is apparent that the City did not make duplicate administrative payments of \$218,960 (see Attachment A). For the three year period beginning July 1, 1995 and ending June 30, 1998, HOH spent \$1,235,746 for Homebuyer Assistance in processing 2,671 cases for all jurisdictions at an average cost of \$462.65 per case. Extending this unit cost to just the 2,435 City cases processed during this same period, HOH expended \$1,126,560 to process the City's cases, including 1,815 existing homes and 620 new homes.

During this three year period, HOH received a combined estimated total of \$1,023,616 in administrative payments from the City and HHFC for processing the City's down payment assistance cases. This is \$102,944 less than the portion of HOH's Homebuyer Assistance cost pool allocated to the City on a per case basis. It is significant to note that HOH's cost of processing each case went up slightly in the middle of the period, due perhaps to startup of the \$9500 new construction program. HOH's cost per case went down in the third year when volume peaked at 1,483 cases. It is also significant to note that the \$340 per case paid by HHFC to HOH for partial processing of its own cases appears to have been reasonable and proportionate when compared with the unit costs developed using this methodology.

The draft audit prepared by the OIG does not specifically list the HOH audits in its sources reviewed section. Instead, copies of these audits were provided to the auditor in a meeting on January 21 1999 with the Assistant Director of Finance and Administration for HCD. It is our understanding that support for this finding is based on payroll billing schedules from HOH allocating individual salaries to the \$3500 contract, to other jurisdictions and to an "Other" category. Specific HOH staff members charged to the \$3500 program based on this schedule are purported to have made verbal representations to the auditor that they were processing \$3500 and \$9500 cases at the same time. From this information, the auditor apparently concluded that the City was paying twice for the same loan processing activity.

Cost accounting for salaries in any organization is subject to such errors, resulting in incorrect

17

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

charges for specific individuals' time for a single pay period. That is why it is necessary to identify the direct and indirect costs of a particular function and then calculate an average unit cost in order to compensate for inaccurate payroll accounting and billing of time in a given pay period. In this case, the HOH audits, which have been prepared in accordance with federal regulations and generally accepted accounting principles, contain schedules which should be considered as an adequate basis for resolving this finding.

Finding 2.4 - A total of \$203,084 in administrative fees paid to HHFC are unsupported and are questioned because they were paid on a flat fee/per case basis.

Response 2.4 - The total amount paid to HHFC by the City for the period ending August 31, 1998, was \$422,044, which includes the \$218,960 in fees paid to HOH (see Finding and Response 2.3). The remainder, or \$203,084, was retained by HHFC to cover their own expenses in developing and managing the \$9500 new construction down payment assistance program. HHFC has provided millions of dollars to finance projects and programs that are an outgrowth of *Homes for Houston*, including the Rice Hotel, Fourth Ward, Renaissance Center and the down payment/closing cost assistance program.

HHFC has provided staffing and office support for the *Homes for Houston* effort since the program's inception. The production level established and maintained for this program was possible because of several critical elements devised jointly by the City and HHFC including:

1. Intake and processing of applications from persons interested in becoming homebuyers,
2. Referral of applicants to homebuyer education classes, credit counseling, or to other housing assistance programs more suited to their household income, and
3. Leadership of the Houston Housing Partnership, a consortium of lenders and non-profit agencies, in support of affordable housing and the down payment assistance program.

The program has been a success because of the common understanding developed through the Partnership and the procedures developed for processing applicants through the *Homes for Houston* hotline, through the homebuyer education classes, through credit counseling agencies, and finally to HOH for loan application and processing. HHFC's investment not only relieved the City of certain housing program administrative costs, the quasi-public nature of HHFC was essential in fostering mass participation by mortgage lenders and home builders in the new construction down payment assistance program.

There has been insufficient time for HHFC to prepare a cost allocation plan; however, a brief

18

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

summary of the critical elements of HHFC's income and expense under the new construction *and Homes for Houston* is presented (see Attachment B) is presented with this response. We are aware that these costs have been reviewed by the auditor previously and that certain elements of this list are considered ineligible. They are presented to demonstrate HHFC's financial commitment to the new construction program.

Finding 2 Recommendations and Response:

Recommendation 2A - Repay the HOME fund \$218,960 for ineligible duplicate payments of administrative fees.

Response 2A - The City made no duplicate payments for administering the down payment/ closing cost assistance program, based on a more complete review of audit information for HOH. The City's payments to HHFC for loan processing estimated at \$218,960 in the audit for the period ending August 31, 1998 should be allowed because they were not duplicate payments.

Finding 2B - Repay the remaining \$203,084 in questioned administrative fees unless the City can provide documentation that the contracts were necessary and the costs charged are supportable, reasonable and properly allocated.

Response 2B - The City will request that HHFC prepare a cost allocation plan for the period of the two contracts in question, calendar years 1996, 1997 and 1998. The purpose of this plan will be to demonstrate that the \$203,084 was expended for eligible costs.

Finding 2C - Obtain HUD's guidance before entering into any other contracts with the Houston Housing Finance Corporation.

Response 2C - The City has entered into numerous contracts with HHFC for housing grant funded programs and projects with HUD's knowledge and tacit assent. There is no conflict of interest involved in these contracts, so the City has no intention of requesting specific guidance on any similar contracts negotiated in the future.

19

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

Finding 3 - City Providing Unnecessary Assistance

This finding concludes that the City is providing unnecessary assistance to home buyers who already have sufficient funds to purchase their own home. The audit deems the assistance unnecessary because these home buyers have large cash savings which is in excess of the assistance the City is providing. The regulatory basis for this determination is 24 CFR Par-t 92, Subsection 250(b) which requires that grantees "will not invest any more HOME funds, in combination with other governmental assistance, than is necessary to provide affordable housing." In the face of contradictory technical and procedural guidance, the audit is silent on how this is to be accomplished, referring the issue to the Fort Worth Office of Community Planning and Development for resolution.

The matter of how to regard cash savings accumulated by a low income person and paid at closing is not a matter of regulatory compliance but a policy question. And the current policy is clear. The City's down payment/closing cost assistance program is operated in compliance with the HOME regulations and technical guidance, which requires that low income persons be assisted regardless of the level of assets they may be able to accumulate. The down payment assistance program is also required to meet anti-discrimination requirements that are the foundation of federal housing programs. We are concerned that the change in approach advocated by the audit regarding assets of low income persons might endanger the City's ability to adhere to these important federal requirements.

The City reviewed the specific case files cited by the auditor and reached different conclusions regarding the issue of cash or liquid assets. The City also disagrees with the application of Subsection 250(b) shown above to the down payment/closing cost assistance program, because it is intended for another purpose. If this issue is addressed as a policy question and not an audit finding, it must be based on a more complete review of applicable law, regulations, and the impact it has on specific low income home buyers.

The audit implies that the only aspect of affordability which should concern HUD and the City is the home purchase itself. According to the audit, assistance should not be provided if a home buyer can afford to make the down payment and pay closing costs. However, it is important to consider another aspect of affordability: the home buyer's capacity to qualify for a mortgage, to make payments and to maintain the home over the long term. It is the City's contention that these cash down payments helped make homes affordable for the families spotlighted in the audit by keeping their mortgage principal and interest payments in an affordable range. This is vitally important because of the length of any mortgage and the relatively short time in years in which a low income family could exhaust savings in the tens of thousands of dollars.

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

It is also important to know the ethnic and cultural makeup of the group of home buyers selected by the auditor. The full content of the thirteen case files selected was not disclosed in the audit, but is critical to a full understanding of the impact of any change in eligibility determination. It is entirely possible, if not probable, that the pattern of home buying which is being discussed here is based on ethnic, cultural and other differences protected by federal law.

Profile of Home Buyers with Cash Savings

Twelve of the thirteen households selected for review in the audit are headed by elderly, Asian-American or Hispanic persons. Included are two couples in their sixties, one of whom is Hispanic. The other heads of household include five Hispanics and five Asian-Americans. Most indicated they were renters at the time they bought their homes with the City's help, and all of them met the program's low income guidelines. This means they apparently had saved sufficient funds to make a home possible while working at lower incomes. Most had little or no installment debt. Only one indicated any vested interest in an employer's pension fund or IRA.

The circumstances behind each family's decision to make a significant cash down payment vary, but they all appear to include a desire to keep their monthly mortgage payment to an affordable range . Their monthly payment averages 27.4 % of their income, which is just under the industry benchmark of 28 % for house payments. Without the City's assistance, their payments would be 29.9% of their income. But without the City's help and their own cash savings paid at the close, their average payments would increase to 39.4 % of their income. It is entirely possible that this higher ratio would have been unacceptable to many of the mortgage companies.

The thirteen family situations are also varied, but they appear to be the epitome of the people the HOME program is intended to help. They include an elderly couple from Florida who were homeowners before they moved to Houston. The City's assistance and their cash down payment reduced their monthly payment from 37 % to 24.2 % of their retirement income. One Hispanic male with three dependents, including two small children, is self-employed for a second job as a decorations wholesaler. He invested 60% of his cash savings to reduce his monthly payment from 30% of income for a new home to 24.2% when the City's assistance was included.

Two Asian males in their thirties, each with a single older dependent listed, one 50 and the other 64 years of age, invested approximately eighty percent of their cash savings to reduce their payments to an average of 34 % of their incomes. One home buyer, whose age is not listed on the application who appeared to be elderly, did list three dependents who are 8, 10

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

and 60 years of age. This same buyer indicated that he had rented for 31 years, and was willing to invest 60% of his cash savings to reduce his monthly payment to 17.6% of income.

Applying HOME Program Requirements to the City's Program

The City's down payment assistance program is in compliance with HOME program regulations and technical requirements. The "Technical Guide for Determining Income and Allowances for the HOME Program," cited by the audit as the authoritative source for income determinations in a down payment assistance program, is used by the City as the primary tool for administering its own program. On page 8, under the heading "Treatment of Assets," the Guide states:

"Some assistance programs require that families 'spend down' assets before they can participate. *There is no asset limitation for participation in the HOME Program* (our emphasis). Income from assets is, however, recognized as part of Annual Income. To comply with Section 8 rules regarding assets, (grantees) must know (1) what to include as assets, (2) how to compute the market and cash value of those assets, and (3) how to determine the income from the asset to be included in Annual Income."

The Technical Guide includes nine pages (pages 16 through 24) of rules and examples for how to calculate the impact of assets, including cash, on an applicant's eligibility. **HUD's specific, technical guidance to cities for HOME funded assistance program., is very clear. Annual income, including income from assets but excluding the assets themselves, is the basis for eligibility in a HOME funded down payment assistance program.**

The HOME regulations at 24 CFR Part 92, subsection 203(b) provide the basis for the Technical Guide and the calculations of Annual Income referenced above. There is a specific mention of the inclusion of income derived from assets at subsection 203(b)(2)(iv): "Interest, dividends, net rental income, or income from estates or trusts" is included in Annual Income. Given the specificity of the regulations and the Technical Guide, it is very unlikely that the regulations intend for assets to be considered in eligibility determinations in any manner other than the income they produce being included in Annual Income.

The audit proposes that another section of the HOME regulations, subsection 250(b) should be the governing rule in determining whether individual home buyers assisted should be ruled eligible. This rule states:

"(b) Subsidy Layering. Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted

22

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

for this purpose and will not- invest any more HOME funds, in combination with other governmental assistance, than is necessary to provide affordable housing."

Based on this rule, the audit proposes that the City "set some controls to ensure that HOME funds are administered in a reasonable and prudent manner." This apparently means that the City would be expected to establish some fixed level of assets acceptable for eligibility in the program. This is a highly questionable approach because it would have to consider as many different elements as are considered in calculating Annual Income. Family size, age of applicants, relative liquidity of assets, and income itself would have to be considered. The most troublesome criteria would easily be determining the cutoff point for cash savings for any family in any set of circumstances, in light of the specific language in the Technical Guide to the contrary.

In any event, this complex, unworkable approach is not found in the regulations. The section cited above is part of a section which speaks to 'projects," meaning multi-family projects owned by a for-profit or non-profit developer. The mechanics for enforcing the rule articulated in subsection 250(b) are found in 250(a). *This rule speaks to per-unit subsidy amounts in multi-unit projects that are obviously not owned by the occupants themselves. This rule is intended to limit owners' profits and to guarantee affordability for low income tenants. It is not intended to be used out of context to put undue limits on affordability determinations for low income home buyers.*

City Program Issues

The City has described the down payment assistance program in every budget, Consolidated Plan and annual report provided to the Mayor and City Council and HUD since the inception of the Program. The City has consistently described the down payment assistance program as one that assists income-eligible homebuyers in purchasing an existing or newly constructed home. The City can find no reference in any of these documents to program participation being limited to home buyers who could not otherwise afford to purchase a home.

The audit is correct that this reference is included in the City's contracts with HOH and HHFC in the Scope of Work which is an exhibit in each contract. However, those contracts also require that HOH and HHFC administer the down payment assistance program in accordance with program regulations and requirements. The audit does not point out that the Scope of Work is subordinate to the Consolidated Plan, the Annual Consolidated Plan and other program documents approved by the City's elected officials and by HUD that form the basis for the down payment assistance program. If this finding were based on technical compliance issues, as audit findings typically are, the auditor could have come to a very different

**City of Houston OIG Audit Response
Homebuyers' Assistance Program
February 1999**

conclusion: that the contracts with HOH and HHFC were out of step with program documents previously approved by HUD.

Conclusion

The primary objective of the HOME program is "to expand the supply of decent, safe, sanitary, and affordable housing for low income persons and families." The City's down payment assistance program is successful in this regard. From a policy standpoint, changing program eligibility requirements to limit participation to low income families with very little cash savings or capacity to save would undermine the future success of the program. From a legal compliance standpoint, the City would be on very tenuous ground if it attempted to devise an ad hoc approach to eligibility not addressed in any technical document issued by HUD.

In the absence of specific guidance from HUD, the City is most reluctant to base eligibility determinations on what appear to be ethnic or cultural differences in the area of personal savings. The City also believes that it is extremely unwise to attempt to eliminate people from the program who have demonstrated the ability to save. Low income families typically have little or no reserves to cushion them against financial calamities. An auto accident, sudden illness, or early retirement can easily place a burden on a low income homeowner that cannot be managed without missing a mortgage payment, postponing necessary repair of storm damage or delaying other necessary home maintenance.

In Houston, we welcome low income home owners who are good savers and who are willing to invest in our community. They are likely to be good neighbors and the foundation of stable neighborhoods of the sort HUD envisions nationwide.

Recommendation 3A - We recommend that the Fort Worth Office of Community Planning and Development require the City of Houston to review its Homebuyer Assistance Program and adopt policies to ensure that its HOME funds are used effectively and consistently with the needs identified in their Consolidated Plan.

Response 3A - The City proposes that the Fort Worth Office CPD staff conduct with City staff a joint detailed review of the files addressed by OIG in this recommendation. We believe that this may serve to clarify the wisdom of the treatment of assets in the HOME regulations and Technical Guide.

ATTACHMENT A

**HOUSING OPPORTUNITIES OF HOUSTON
HOMEBUYER ASSISTANCE PROGRAM
SPENDING AND PRODUCTION, FY 1996-FY 1998**

	<u>Fiscal Year Ending:</u>			<u>Period</u>
	<u>June 30, 1996</u>	<u>June 30, 1997</u>	<u>June 30, 1998</u>	<u>Total</u>
Cost Allocation: HOH Homebuyer Assistance Cost Per Case				
1. HOH Spending for Homebuyer Assistance by Fiscal Year (Source: Consolidated Financial Statement, Consolidated Statement of Functional Expenses)	\$198,849	\$425,231	\$611,666	\$1,235,746
2. Homebuyer Cases Closed For.				
City of Houston				
Existing Homes	390	570	855	1,815
New Homes	<u>0</u>	<u>158</u>	<u>462</u>	<u>620</u>
2a. Subtotal - City of Houston	390	728	1,317	2,435
Other Jurisdictions	<u>0</u>	<u>70</u>	<u>166</u>	<u>236</u>
Total Cases Closed	390	798	1,483	2,671
3. Average Cost per Closed Case - (1 divided by 2)	\$509.87	\$532.87	\$412.45	\$462.65
4. Allocated Cost for City of Houston Cases (2a times 3)	\$198,849	\$387,930	\$543,199	\$1,126,560
City of Houston Payments to HOH for Administration:				
Direct Payments (See Consolidated Financial Statement, Schedule of Federal, State and Local Awards, HOH)				
FC33628	\$38,961	\$0	\$0	\$38,961
FC34107	\$139,282	\$210,943	\$0	\$350,225
FC37762	<u>\$0</u>	<u>\$85,838</u>	<u>\$337,792</u>	<u>\$423,630</u>
Subtotal - Direct Payments	\$178,243	\$296,781	\$337,792	\$812,816
Indirect Payments: HHFC Payments to HOH for Processing of \$9500 New Home Program'	<u>\$0</u>	<u>\$53,720</u>	<u>\$157,080</u>	<u>\$210,800</u>
Total Direct and Indirect Payments	\$178,243	\$350,501	\$494,872	\$1,023,616
City Payments Under/(Over) Allocated HOH Cost for City Cases	\$20,606	\$37,429	\$48,327	\$102,944

* HHFC pays HOH \$340 per closed new home case.

ATTACHMENT B

**HOUSTON HOUSING FINANCE CORPORATION
HOMES FOR HOUSTON AND
HOMEBUYER ASSISTANCE PROGRAM COSTS
CALENDAR YEARS 1995-1998**

Income/Expense Category	1995	1996	1997	1998	Total	Period
Income						
Fees Paid by City - Down Payment Assistance: New Construction Program		\$0	\$9,474	\$213,254	\$215,157	\$437,885
Expense						
Fees paid to Housing Opportunities		0	36,924	74,528	115,668	1227,120
Marketing Services (Note 1)	7,500	119,234	32,742	525	\$160,001	
Homes for Houston Hotline Staffing	0	114,460	98,225	10,125	\$222,810	
Hotline Telephone Charges	0	7,428	9,149	5,645	\$22,222	
Finance and Marketing Director (Note 2)	0	36,000	68,000	60,000	\$164,000	
General Counsel - Homes for Houston	24,548	41,101	5,955	0	\$71,604	
General Counsel - Down Payment Assistance (\$9500)	0	0	0	20,692	\$20,692	
Postage, Mailing and Supplies/Services	0	12,045	5,972	216	\$18,233	
Total Expenses	\$32,048	\$367,192	\$294,571	\$212,871	\$906,682	
EXPENSES (OVER)/UNDER FEES PAID	(\$32,048)	(\$357,718)	(\$81,317)	\$2,286	(\$468,797)	

Note:

- (1) One-half of marketing services provided by Goswick Advertising allocated to new construction program.
- (2) One-half of Finance and Marketing Director's time allocated to new construction program.

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