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Audit Report Number	2006-PH-1013
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TO: Ronnie Legette, Director, Office of Community Planning and Development,  
Richmond Field Office, 3FDM

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional  
Office, 3AGA

SUBJECT: The Commonwealth of Virginia, Richmond, Virginia, Did Not Ensure HOME  
Funds Were Disbursed and Used in Accordance with Federal Regulations

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Commonwealth of Virginia's (Commonwealth) HOME Investment Partnerships program (HOME) as part of our fiscal year 2006 annual audit plan. Our audit objective was to determine whether the Commonwealth's Department of Housing and Community Development was properly administering its HOME program.

### **What We Found**

The Commonwealth did not ensure that HOME funds were disbursed and used in accordance with federal regulations. We reviewed project funds disbursed through the Commonwealth's Affordable Housing and Preservation program, operating assistance grants awarded to community housing development organizations, and downpayment and closing cost assistance provided through the Commonwealth's Single Family Regional Loan Fund. The Commonwealth did

not always comply with federal regulations and/or its own requirements in its disbursements and administration of HOME funds for various purposes. These problems occurred because it did not develop and document critical risk assessments and implement an adequate monitoring program to ensure that it properly administered the HOME program. As a result, HOME funds totaling \$183,706 were used for ineligible expenses or activities and \$527,060 in expenses were unsupported. The Commonwealth also accumulated more than \$3.2 million in administrative funds that should have been used to improve its administration of its HOME program and to fund additional eligible HOME projects. Doing so would have enabled the Commonwealth's HOME program to better meet its main goal of providing affordable housing for low-income households.

### **What We Recommend**

We recommend that the director of the Richmond Office of Community Planning and Development require the Commonwealth to recover \$183,706 it spent on ineligible expenses and provide support for \$527,060 in expenses or repay the amount to the HOME program. In addition, the Commonwealth should use the accumulated \$3.2 million in administrative funds to improve its monitoring program and recommit any excess funds to eligible HOME projects. Lastly, we recommend that the Commonwealth create and implement procedures to ensure that HOME funds are disbursed and used in compliance with applicable regulations.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We discussed the report with the Commonwealth during the audit and at an exit conference on August 10, 2006. The Commonwealth provided written comments to our draft report on August 23, 2006. The Commonwealth generally concurred with our findings and stated that improvements would be implemented to address the management challenges noted in our report. The complete text of the Commonwealth's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The HOME Investment Partnerships program (HOME) was created under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR [*Code of Federal Regulations*] Part 92. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. HOME funds are awarded annually as formula grants to participating jurisdictions. States are automatically eligible for HOME funds and receive either their formula allocation or \$3 million, whichever is greater. Participating jurisdictions may choose among a broad range of eligible activities, such as providing home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers and building or rehabilitating housing for rent or ownership. States may also use HOME funds for other reasonable and necessary expenses related to the development of nonluxury housing, including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and payment of relocation expenses.

As a participating jurisdiction, the Commonwealth of Virginia (Commonwealth) administers its HOME program through the Department of Housing and Community Development. The Commonwealth received more than \$63.2 million in HOME grants from the U. S. Department of Housing and Urban Development (HUD) over a four-year period.

<b>Grant year</b>	<b>Grant amount</b>
2002	\$13,489,000
2003	\$15,802,000
2004	\$17,603,748
2005	\$16,398,717
<b>Total</b>	<b>\$63,293,465</b>

The Commonwealth spends its HOME funds on the following major activities:

- Affordable Housing Preservation and Production program
- Indoor Plumbing Rehabilitation program
- Single Family Regional Loan Fund
- Community housing development organization operating assistance

In addition, 10 percent of HOME funds are authorized for the Commonwealth's administrative costs.

Our objective was to determine whether the Commonwealth properly administered its HOME program.

## RESULTS OF AUDIT

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### Finding 1: The Commonwealth Did Not Administer Affordable Housing and Preservation Funds in Compliance with Federal Regulations

The Commonwealth did not administer HOME project funds awarded through its Affordable Housing and Preservation program in compliance with federal regulations. It did not properly secure project funds for recapture or ensure that project expenditures were eligible, supported, and made within required timeframes. These problems occurred because the Commonwealth did not develop and document critical risk assessments and implement an adequate monitoring program to properly administer its HOME program. As a result, \$25,006 in HOME funds were used for ineligible expenses or activities, and \$469,203 was unsupported. The Commonwealth also accumulated more than \$3.2 million in administrative funds that could have been used to improve its administration of its HOME program and to fund additional eligible HOME projects.

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#### **Disbursements of \$319,203 Were Not Properly Secured for Recapture**

The Commonwealth did not properly secure HOME program funds provided to Hope Community Builders (Hope), a community housing development organization. Hope constructed duplexes at Covenant Heights in Harrisonburg, Virginia, but improperly based the amount of the HOME investment subject to recapture for 17 homebuyers solely on the downpayment assistance provided to the homebuyers and failed to include \$319,203 in other HOME assistance in the form of loans which the homebuyers were not required to pay back (forgiven loans/debt). Regulations at 24 CFR [*Code of Federal Regulations*] 92.254(a)(5)(ii) require that HOME investment subject to recapture should be based on the entire amount of HOME assistance that enabled the homebuyer to buy the dwelling unit. This should include any HOME assistance that reduces the purchase price from fair market value to an affordable price. Based on this requirement, the Commonwealth should have included \$319,203 in forgiven loans/debt it provided to homebuyers in addition to the downpayment assistance. The mortgage notes executed between Hope and the 17 homebuyers did not comply with federal regulations because the notes did not name the Commonwealth as a party to the transactions or address the recapture requirements pertaining to the \$319,203 in additional HOME assistance. In many cases, the minimum period of affordability should have also increased for these homebuyers because of the additional HOME assistance. Since the

Commonwealth did not comply with the affordability and recapture provisions in the *Code of Federal Regulations*, \$319,203 in HOME funds was not secured and is at risk if the homebuyers do not comply with affordability requirements.

**Disbursement of \$150,000 Was Not Supported**

The Commonwealth could not substantiate that \$150,000, which it disbursed to the Southampton County Assembly (Southampton), a community housing development organization, was used for eligible HOME activities. Regulations at 24 CFR [*Code of Federal Regulations*] 92.508(a) require participating jurisdictions to establish and maintain sufficient records documenting that program requirements were met. Section (a)(3)(ii) requires participating jurisdictions to maintain project records on the source and application of funds for each project, including supporting documentation.

In March 2001, the Commonwealth contracted with Southampton to acquire land in Boykins, Virginia, and build five houses for low-income families for a total cost of \$150,000. Although the Commonwealth quickly paid Southampton the entire \$150,000, it did not perform monitoring to ensure that the funds were spent on eligible HOME costs. In 2005, the Commonwealth unsuccessfully attempted to contact Southampton to examine its records. Consequently, the Commonwealth continues to have no assurance that the \$150,000 it disbursed to Southampton in 2001 was used for eligible HOME activities.

**\$430,000 Was Not Spent within Required Timeframes**

In November 2002, the Commonwealth contracted with Community Housing Partners Corporation, a community housing development organization, to rehabilitate 72 units at Northway Apartments in Galax, Virginia, for a total of \$430,000. The Commonwealth disbursed the entire amount to Virginia Housing and Development Authority (Virginia Housing), the fund administrator, in March 2003. Virginia Housing did not disburse any of the HOME funds for the project until January 2004. The remaining funds were not completely disbursed until December 2005. Virginia Housing did not remit any interest to HUD for the extended period the HOME funds were held without being disbursed. Regulations at 24 CFR [*Code of Federal Regulations*] 92.502(c)(2) require that funds drawn from the United States Treasury account be expended on eligible costs within 15 days. Interest earned beyond 15 days of a disbursement must be returned to HUD. The Commonwealth violated these requirements when it did not ensure that HOME funds drawn were used on eligible costs within 15 days

and that the interest earned beyond the 15-day period was returned to HUD. We calculated the interest due HUD at \$14,853 (see appendix B for calculation).

### **\$10,153 in HOME Funds Was Spent on an Ineligible Unit**

The Commonwealth entered into a contract with Community Housing Partners Corporation to rehabilitate 98 units at Meadowview Apartments in Pulaski, Virginia, for a total of \$995,000. The contract stated that the 98 units were to be occupied by families at 50 percent of area median income. One family, who had lived at Meadowview since 1990, had an income of more than \$78,000, which was well over the income limit of \$36,350. The Commonwealth was not aware of this because it did not perform monitoring to ensure that the income levels of all tenants were within the allowable limit before disbursing the HOME funds. HUD Office of Community Planning and Development Notice 98-2 states that if a participating jurisdiction is developing an occupied project in which some of the units are occupied by overincome tenants, it may not invest HOME funds in those units. The Commonwealth violated this requirement because HOME funds were spent on a unit occupied by a family with income in excess of the allowable limit. Because the Commonwealth violated this requirement, approximately \$10,153<sup>1</sup> in HOME funds was expended on an ineligible unit.

### **The Commonwealth Did Not Implement an Adequate Monitoring Program**

The Commonwealth was not able to identify violations of HOME regulations and/or its own procedures because it did not develop and document critical risk assessments and implement an adequate monitoring program to ensure that it properly administered its HOME program. Regulations at 24 CFR [*Code of Federal Regulations*] 92.504(a) require a participating jurisdiction to manage the day-to-day operations of its HOME program and ensure that HOME funds are used in accordance with all program requirements and written agreements, taking appropriate action when performance problems arise. It further states that the use of subrecipients does not relieve the participating jurisdiction of this responsibility and that the performance of each subrecipient must be reviewed at least annually. In addition, regulations at 24 CFR [*Code of Federal Regulations*] 92.104 require the Commonwealth to submit a consolidated plan, which must describe the standards and procedures that the state will use to monitor activities carried out in furtherance of the plan and will use to ensure long-term compliance with requirements of the programs involved, including the comprehensive planning

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<sup>1</sup> 1/98 of \$995,000

requirements<sup>2</sup>. In its fiscal year 2005 consolidated plan, the Commonwealth stated that it has increased the use of risk assessments to identify program areas or projects in which problems are most likely to occur. It further stated that if necessary, available monitoring and compliance resources can be concentrated on programs or projects that exhibit greater potential for falling out of compliance.

Contrary to its 2005 consolidated plan, the Commonwealth did not perform a risk assessment to determine resources it needed to monitor its HOME program, and it performed on-site monitoring reviews of only 3 of 26 community housing development organizations (12 percent) in 2005. As a result, it did not identify violations of HOME regulations and/or its own procedures. For example, the Commonwealth failed to perform monitoring reviews of Southampton for more than four years; consequently, it had no assurance that HOME funds disbursed to the development organization were used for eligible HOME costs. In the case of Meadowview Apartments by Community Housing Partners Corporation, the Commonwealth did not perform monitoring to verify that all of the tenants' income levels were within the allowable limit before committing HOME funds for the project. As a result, HOME funds were expended on an ineligible unit.

**The Commonwealth  
Accumulated \$3.2 Million in  
Administrative Funds**

Our review of data in HUD's Integrated Disbursement and Information System indicated that the Commonwealth had \$3.2 million in administrative funds available to be disbursed as of May 18, 2006.

<b>Fiscal year</b>	<b>Amount reserved</b>	<b>Total disbursed</b>	<b>Available to disburse</b>
2004	\$1,680,385	\$51,724	\$1,628,661
2005	\$1,584,884	\$0	\$1,584,884
<b>Total</b>			<b>\$3,213,545</b>

As the table above shows, the Commonwealth has only disbursed \$51,724 of the cumulative \$3.2 million reserved for fiscal years 2004 and 2005. As a result, there are approximately two years worth of unspent administrative funds for the HOME program. These administrative funds could be used to strengthen the Commonwealth's administrative procedures pertaining to its HOME program. Part of the strengthening should involve investing time and funds (if needed) to perform and document a comprehensive risk assessment to (1) identify and prioritize HOME program subrecipients/areas requiring monitoring, as well as the extent of monitoring needed; and (2) determine, hire, and maintain the appropriate staffing levels needed to properly administer the HOME program. Any excess funds could be used to fund other eligible HOME projects. Therefore, any funds

<sup>2</sup> 24 CFR [Code of Federal Regulations] 91.330



the Commonwealth does not use to strengthen its monitoring program should be reprogrammed for the use of HOME-eligible projects. This would help the Commonwealth ensure that the HOME program's main goal of providing affordable housing for low-income households is accomplished more efficiently.

### **The Commonwealth Should Evaluate Its Staffing Levels**

As discussed previously, the Commonwealth has only disbursed \$51,724 of the cumulative \$3.2 million in administrative funds reserved for fiscal years 2004 and 2005. Based on the problems noted during our review and the significant amount of administrative funds available, it is evident that the Commonwealth needs to evaluate its staffing levels to ensure that they are adequate to monitor and administer its HOME program effectively.

As of 2005, the Commonwealth was administering and monitoring HOME funds with approximately 26 community housing development organizations and 16 Single Family Regional Loan Fund agencies. As previously discussed, the Commonwealth performed on-site monitoring reviews of only 3 of 26 community housing development organizations (12 percent) in 2005. Further, it did not perform any monitoring of its Single Family Regional Loan Fund agencies in 2003 and 2004. For 2005, Commonwealth staff documented only one monitoring report and correspondence addressing four monitoring visits for which no reports were written. During this period, the Commonwealth had at least 16 active Single Family Regional Loan Fund agencies.

During the period of our review, the following staff were responsible for the areas we reviewed: two program administrators, one housing finance manager, and one financial and program analyst. These staff members were responsible for performing a variety of functions, including but not limited to monitoring projects to ensure compliance, verifying project completion reports, reviewing and endorsing program guidelines, approving grant agreements and disbursement requests, and making recommendations for funding HOME activities.

At the start of our audit, one program administrator position and the housing finance manager position were vacant. The program administrator position had been vacant since September 2005. In addition, the deputy director of housing resigned on March 30, 2006. The table below depicts turnover related to the critical housing finance manager position during our audit period.

<b>Position filled or vacant</b>	<b>Period</b>
Filled	October 2002 to August 2003
Vacant	September 2003 to January 2004
Filled	February 2004 to September 2005
Vacant	October 2005 to Present

Commonwealth staff acknowledged that they did not devote adequate time to on-site monitoring visits due to heavy workloads. Another consequence of the lack of adequate staff was that the Commonwealth was unable to close HOME program activities within 120 days of the final draw as required by 24 CFR [*Code of Federal Regulations*] 92.502(d)(1). The HUD Richmond Office of Community Planning and Development addressed this issue in its review of the Commonwealth's performance during the 2003 program year. As of April 30, 2006, the Commonwealth had 52 HOME activities totaling more than \$1.35 million that were still open after 120 days of the final draw. The 52 activities included 34 for which the final draws had occurred at the time of HUD's review.

## Recommendations

We recommend that director of the Richmond Office of Community Planning and Development

- 1A. Require the Commonwealth to take action to secure \$319,203 in HOME funds provided to homebuyers at Covenant Heights and ensure that the entire amount of the HOME assistance is secured for the minimum period of affordability.
- 1B. Require the Commonwealth to provide documentation to substantiate the eligibility of \$150,000 provided to Southampton or repay the HOME program from nonfederal funds.
- 1C. Require the Commonwealth to repay HUD \$14,853 for interest earned on the \$430,000, which was drawn for Northway Apartments but not used within 15 days.
- 1D. Require the Commonwealth to repay the HOME program \$10,153 for the unit at Meadowview Apartments occupied by a family with income in excess of the allowable limit.
- 1E. Require the Commonwealth to at least annually, develop and document a risk assessment to identify its universe of HOME program recipients and available resources to adequately monitor the program.

- 1F. Require the Commonwealth to improve its monitoring procedures to include (at a minimum) determining whether recipients are following their contracts with the Commonwealth, performing on-site reviews of recipients at least annually, examining recipients' records when performing its on-site reviews, and ensuring that HOME funds are expended on valid HOME program activities.
- 1G. Require the Commonwealth to evaluate staffing levels and ensure that staffing is adequate to effectively monitor and administer the HOME program.
- 1H. Require the Commonwealth to take action to ensure that HOME activities outstanding beyond 120 days of their final draws are closed and implement procedures to ensure that the requirement to close activities within 120 days of the final draw is met.
- 1I. Require the Commonwealth to establish a procedure (on an annual basis) that will ensure future funds obligated by the Commonwealth for administrative funds are based on actual administrative costs. This procedure should ensure that any amount the Commonwealth determines is in excess of the actual expenditures is recommitted for use on eligible HOME projects.
- 1J. Require the Commonwealth to recommit any portion of the \$3,213,545 not used by the Commonwealth to strengthen its monitoring program for use on eligible HOME projects.
- 1K. Determine whether the procedures implemented by the Commonwealth are sufficient to adequately monitor its HOME program. If the Commonwealth fails to implement sufficient procedures, the director should seek appropriate administrative actions as described in 24 CFR [*Code of Federal Regulations*] Part 92.

## Finding 2: The Commonwealth Did Not Always Administer HOME Operating Assistance Grants in Compliance with Federal Regulations

The Commonwealth failed to administer operating assistance grants awarded to community housing development organizations in compliance with federal regulations and its own operating procedures. It did not always ensure that operating assistance funds were properly expended by community housing development organizations. In addition, it disbursed operating assistance funds without reviewing supporting documentation and improperly awarded funds for expenses that should not have been paid with HOME funds. Further, it did not always reprogram HOME operating assistance funds associated with expired contracts. These deficiencies occurred because the Commonwealth did not properly develop risk assessments and implement a monitoring plan to ensure that deviations from requirements would be detected. In addition, it did not ensure that it employed sufficient staff to effectively administer its HOME program. As a result, HOME funds were spent on ineligible expenses totaling \$82,500 and unsupported expenses of \$9,357. In addition, \$60,000 in available funds associated with expired contracts could be put to better use if the Commonwealth reprograms the funds for other eligible HOME activities.

### Operating Assistance Funds Were Improperly Expended

The Commonwealth awarded operating assistance grants to Piedmont Housing Alliance (Piedmont) and Central Virginia Housing Coalition (Central Virginia) without executing written agreements requiring them to fund HOME-eligible projects within 24 months of receiving the operating assistance grants. The table below provides the details of the grants awarded.

<b>Community housing development organization</b>	<b>Date grant effective</b>	<b>Grant amount</b>	<b>Expended</b>
Piedmont Housing Alliance	Unknown – contract missing	\$ 40,000	\$40,000
Piedmont Housing Alliance	May 21, 2004	\$ 40,000	\$17,500
Central Virginia Housing Coalition	May 21, 2004	\$ 50,000	\$21,875
<b>Totals</b>		<b>\$130,000</b>	<b>\$79,375</b>

Regulations at 24 CFR [*Code of Federal Regulations*] 92.300(e) require participating jurisdictions providing funds for community housing development organizations' operating expenses to execute written agreements with the organizations requiring them to also fund HOME-eligible projects. The agreements must be executed within 24 months of the community housing

development organizations' receipt of funds for operating expenses. The Commonwealth violated this requirement when it provided operating assistance grants without executing written agreements with the community housing development organizations requiring them to fund HOME-eligible projects within 24 months of receiving the operating assistance funds. Further, the Commonwealth communicated to Piedmont that its initial proposed project did not meet minimum affordability requirements on May 5, 2003 but awarded it a second operating grant on May 21, 2004, for the same project. The \$79,375 in operating assistance funds expended by Piedmont and Central Virginia is ineligible because the community housing development organizations did not also fund HOME-eligible projects within 24 months of receiving HOME funds for operating expenses.

**The Commonwealth Disbursed Funds for Unsupported and Ineligible Costs**

The Commonwealth's community housing development organization operating assistance guidelines require grantees to submit paid invoices with each programmatic and financial report to receive additional funding. Paid invoices are to be reimbursed at a rate of 75 percent, with the remaining portion representing a 25 percent cash match by the grantee. The quarterly reports submitted by community housing development organizations did not always include paid invoices supporting expenses incurred. In the case of Petersburg Urban Ministries (Petersburg), there was no support for \$9,357 in HOME operating assistance funds expended. Additionally, the Commonwealth disbursed \$3,125 to Petersburg that should have been paid from Petersburg's own funds for it to meet its 25 percent match requirement.

**The Commonwealth Needs to Reprogram Funds Associated with Expired Contracts**

The Commonwealth's contracts with Piedmont, Central Virginia, and Petersburg have expired. The table below shows the amount of available funds associated with each of the expired contracts.

<b>Community housing development organization</b>	<b>Amount available</b>
Piedmont Housing Alliance	\$22,500
Central Virginia Housing Coalition	\$28,125
Petersburg Urban Ministries	\$ 9,375
<b>Total</b>	<b>\$60,000</b>

The available funds from the expired contracts represent funds that were not requested by the community housing development organizations. The associate director of the Division of Housing stated that the Commonwealth was instructed that closing an operating grant before closing out the related project development funds causes a double counting of the units in HUD's Integrated Disbursement and Information System. This statement is not supported because section 5-1-3 in chapter 5 of the Integrated Disbursement and Information System Reference Manual includes instructions on how to deobligate funds. The \$60,000 associated with the expired contracts should be reprogrammed for other eligible HOME activities.

### **The Commonwealth Did Not Perform Adequate Monitoring or Properly Evaluate Staffing**

The deficiencies associated with the operating assistance grant funds occurred because the Commonwealth did not perform a risk assessment or implement an adequate monitoring plan to ensure that deviations from requirements would be detected. For example, the Commonwealth performed on-site monitoring reviews of only 3 of 26 community housing development organizations (12 percent) in 2005. Additionally, it did not perform monitoring of its Single Family Regional Loan Fund agencies in 2003 and 2004. For 2005, Commonwealth staff documented only one monitoring report and correspondence addressing four monitoring visits for which no reports were written. During this period, the Commonwealth had at least 16 active Single Family Regional Loan Fund agencies. In addition, it did not evaluate staffing to ensure that it had sufficient staff to effectively administer its HOME program.

The Commonwealth should develop and document a comprehensive risk assessment to determine the resources it needs to implement an effective monitoring plan and hire and maintain the appropriate staffing levels needed to effectively administer its HOME program. This will help to ensure that the operating assistance grant funds are administered in accordance with applicable guidelines and regulations. Recommendations to address these issues were made in finding 1.

### **Recommendations**

We recommend that the director of the Richmond Office of Community Planning and Development require the Commonwealth to

- 2A. Repay the HOME program \$79,375 for the operating assistance funds awarded to community housing development organizations that did not initiate development of eligible HOME projects.
- 2B. Provide adequate documentation to support the \$9,357 spent by Petersburg or repay the amount to the HOME program.
- 2C. Recover the \$3,125 overpayment of HOME funds from Petersburg.
- 2D. Deobligate \$60,000 in available funds associated with expired contracts and reprogram them for other eligible HOME activities, thereby putting the funds to better use.

### Finding 3: The Commonwealth Did Not Ensure That Downpayment Assistance Was Awarded in Compliance with Applicable Requirements

The Commonwealth failed to ensure that assistance for downpayment and closing costs provided through its Single Family Regional Loan Fund was awarded in compliance with applicable requirements. Our review disclosed deficiencies pertaining to 7 of 22 cases of assistance provided for downpayment or closing costs. The Commonwealth did not always award assistance for eligible properties or ensure that assistance awarded was supported or awarded in compliance with the Commonwealth's own procedures. These deficiencies occurred because the Commonwealth did not develop risk assessments and implement a monitoring plan to ensure that deviations from requirements would be detected. In addition, it did not employ sufficient staff to effectively administer its HOME program. As a result, HOME funds were used for ineligible assistance in the amount of \$76,200 and unsupported assistance totaling \$48,500. In addition, \$38,556 in funds awarded in excess of the Commonwealth's set limits could have been used to assist additional homebuyers if the Commonwealth had complied with its own procedures.

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#### Assistance Was Awarded for Ineligible Properties

The Commonwealth awarded assistance for the purchase of homes with prices exceeding the single family mortgage limits under Section 203(b) of the National Housing Act. The properties' settlement statements indicated the Commonwealth awarded \$41,200 and \$35,000, respectively, for two properties with prices of \$206,000 and \$197,000 in Charlottesville, Virginia. The mortgage limit for both homes was \$194,116. No market analysis was performed to determine whether the prices of the homes were within 95 percent of the median price of single-family homes in the jurisdiction. Regulations at 24 CFR [*Code of Federal Regulations*] 92.254(a)(2)(iii) provide that participating jurisdictions may either use the single family mortgage limits under Section 203(b) of the National Housing Act or 95 percent of the median price of single-family homes in an area as the price limit when awarding HOME funds for downpayment assistance. The Commonwealth did not comply with this requirement. As a result, \$76,200 was awarded for properties that were not eligible for HOME funds.

#### Assistance Awarded Was Not Supported

In 3 of the 18 cases associated with the Covenant Heights project discussed in finding 1, we could not verify the recipients' family sizes to determine whether they met the applicable income requirements for assistance. The community housing development organization responsible for the project disposed of applications documenting information on family sizes, along with other important



details. As a result, we were unable to completely verify the family sizes indicated on homebuyer/homeowner rehabilitation completion reports for the three recipients. We were only able to verify the existence of one member in two of the cases and two members in the third case, based on the signatures shown on the settlement statements for the sale of the properties. Commonwealth staff stated they were not aware that applications needed to be maintained for a specific period. Regulations at 24 CFR [*Code of Federal Regulations*] 92.508(c) state that all records pertaining to each fiscal year of HOME funds must be retained for the most recent five-year period. Section 92.508(c)(2) further states that for homeownership housing projects, records may be retained for five years after the project completion date, except for documents imposing recapture/resale restrictions, which must be retained for five years after the affordability period terminates. The table below depicts the downpayment assistance awarded for the three cases.

<b>Property address</b>	<b>Total number in family</b>	<b>Number verified</b>	<b>Unable to verify</b>	<b>Downpayment assistance</b>
196 Jericho Road	4	1	3	\$16,000
3195 Joppa Court	3	1	2	\$16,500
3211 Joppa Court	7	2	5	\$16,000
<b>Total unsupported</b>				<b>\$48,500</b>

The \$48,500 in downpayment assistance awarded is unsupported because the Commonwealth failed to comply with the *Code of Federal Regulations*' record retention requirements.

**The Commonwealth Did Not Comply with Its Own Procedures**

In another two cases, the Commonwealth paid assistance that exceeded the amount allowed under its own procedures as outlined in its Program Design Manual and consolidated plan. In one case, the recipient received assistance of \$54,306, which represented 62 percent of the home's land and construction costs. This assistance exceeded the maximum assistance of \$20,000 allowed based on the Commonwealth's established procedures. As a result, the recipient received excess assistance of \$34,306. In the other case, the Commonwealth overpaid \$4,250 by exceeding its maximum allowable assistance based on 10 percent of the home's sales price plus \$2,500 in closing costs. Regulations at 24 CFR [*Code of Federal Regulations*] 91.325(d)(3) require states to certify that they will evaluate projects in accordance with their adopted guidelines before committing HOME funds to the projects. In addition, part 92.201(b)(1) states that each participating jurisdiction is responsible for distributing HOME funds according to its

assessment of the geographical distribution of housing needs as identified in the state's approved consolidated plan. If the Commonwealth had complied with these requirements and followed its own guidelines, \$38,556 in HOME funds could have been used to assist additional families and, thereby, put to better use. Additionally, complying with its own procedures will ensure that HOME funds are awarded to eligible recipients in a fair and consistent manner.

### **The Commonwealth Did Not Perform Adequate Monitoring or Properly Evaluate Staffing**

The deficiencies associated with the downpayment and closing cost assistance funds occurred because the Commonwealth did not implement an adequate or effective monitoring plan to ensure that deviations from requirements would be detected. For example, the Commonwealth did not perform monitoring of its Single Family Regional Loan Fund agencies in 2003 and 2004. For 2005, Commonwealth staff documented only one monitoring report and correspondence addressing four monitoring visits for which no reports were written. During this period, the Commonwealth had at least 16 active Single Family Regional Loan Fund agencies. In addition, it did not evaluate staffing to ensure that it was adequate to effectively administer its HOME program.

The Commonwealth should develop and document a comprehensive risk assessment to determine the resources it needs to implement an effective monitoring plan and hire and maintain the appropriate staffing levels needed to effectively administer its HOME program as a whole. This will help to ensure that the Commonwealth awards HOME assistance funds for downpayment and closing costs in accordance with applicable requirements and guidelines. Detailed recommendations to address these issues are contained in finding 1.

### **Recommendations**

We recommend that the director of the Richmond Office of Community Planning and Development require the Commonwealth to

- 3A. Repay the HOME program \$76,200 for assistance paid in cases in which property prices exceeded the Section 203(b) mortgage limits.
- 3B. Obtain and provide supporting documents to show that three recipients of \$48,500 in downpayment assistance met the applicable income limits or recover and credit the amount back to the HOME program.

- 3C. Take action to comply with its own procedures for awarding downpayment and closing cost assistance to ensure that HOME funds are awarded to eligible recipients in a fair and consistent manner.

## SCOPE AND METHODOLOGY

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To accomplish our audit objective, we

- Reviewed applicable federal regulations relating to the administration of the HOME program.
- Reviewed Commonwealth documents including the consolidated annual action plan, annual performance and evaluation report, monitoring reports relating to the administration of the HOME program, procurement procedures, fidelity bond coverage, organization charts, employee time sheets, indirect cost plan, human resource policies, and related correspondence.
- Obtained a list of subrecipients/community housing development organizations receiving HOME program funds from the Commonwealth for fiscal years 2002, 2003, 2004, and 2005 and selected a nonstatistical sample of four projects, six Operating Assistance Grants, and 22 cases of downpayment and closing cost assistance to determine whether the HOME program requirements were met.
- Conducted interviews with officials and employees of HUD's Community Planning and Development Division, the Commonwealth, and subrecipients/community housing development organizations of the HOME program.
- Reviewed HOME program contracts established between the Commonwealth and the selected community housing development organizations.
- Reviewed general ledgers, invoices, applications, tenant files, and settlement sheets and other legal documents to ensure that expended HOME funds were used for eligible HOME activities.

We performed the majority of our fieldwork between December 2005 and May 2006 at the offices of the Commonwealth, located at 501 North Second Street, Richmond, Virginia. In addition, we conducted fieldwork at the offices of Community Housing Partners Corporation, a community housing development organization, located in Christiansburg, Virginia. We also performed related fieldwork at Meadowview Apartments in Pulaski, Virginia, and Northway Apartments in Galax, Virginia. In addition, we conducted fieldwork at Hope Community Builders, another community housing development organization, located in Harrisonburg, Virginia, and made related site visits to the Covenant Heights project located in Harrisonburg, Virginia, and the Central Shenandoah Planning District Commission located in Staunton, Virginia, to pick up documents. The audit generally covered the period July 1, 2002, through September 30, 2005, but was expanded when necessary.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal control was relevant to our audit objectives:

- Monitoring of eligible HOME activities – Policies and procedures that management has in place so that adequate reviews are performed to ensure HOME grants are used for eligible activities.

We assessed the relevant control identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

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

- Lack of management oversight or monitoring (relates to findings 1, 2 and 3).
- Lack of adequate reviews performed on sub-recipients and/or community housing development organizations (relates to findings 1 and 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$319,203	
1B		\$150,000	
1C	\$ 14,853		
1D	\$ 10,153		
1J			\$3,213,545
2A	\$ 79,375		
2B		\$ 9,357	
2C	\$ 3,125		
2D			\$ 60,000
3A	\$ 76,200		
3B		\$ 48,500	
Totals	\$183,706	\$527,060	\$3,273,545

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a 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.
- 3/ “Funds to be put to better use” are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in pre-award reviews, and any other savings which are specifically identified. In these instances, if the Commonwealth implements our recommendations, it will use the \$3.2 million in excess administrative funds to improve monitoring of the HOME program and recommit any unused portion for eligible HOME projects, and \$60,000 in HOME funds will become available to support additional eligible HOME activities.

## Appendix B

### CALCULATION OF INTEREST TO BE REPAID TO HUD

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Date <sup>1/</sup>	Balance <sup>2/</sup>	Disbursement	Ending balance	Interest rate <sup>3/</sup>	Daily interest rate <sup>4/</sup>	Days elapsed <sup>5/</sup>	Calculated interest <sup>6/</sup>	Calculated balance <sup>7/</sup>
Mar. 30, 2003	\$430,000		\$430,000	0.9876%	0.000027	290	\$3,374	\$433,374
Jan. 14, 2004	\$433,374	\$108,409	\$324,965	1.3856%	0.000038	341	\$4,207	\$329,172
Dec. 20, 2004	\$329,172	\$100,000	\$229,172	2.9790%	0.000082	296	\$5,536	\$234,708
Oct. 12, 2005	\$234,708	\$ 29,069	\$205,639	3.9485%	0.000108	78	\$1,736	\$207,375
Dec. 29, 2005	\$207,375	\$192,522	\$ 14,853			<b>Total</b>	<b>\$14,853</b>	

1/ The first date represents the date the entire \$430,000 should have been expended. This date was 16 days after the Commonwealth disbursed the funds to the fund administrator for the Northway project. The last four dates represent the dates the funds were disbursed by the fund administrator.

2/ The \$430,000 is the total amount the Commonwealth disbursed for the project. The remaining balances were calculated by adding the calculated interest to the ending balance after each disbursement (see last column).

3/ The interest rate is based on the 13-week Treasury bill rate in effect during the applicable period.

4/ The daily interest rate was obtained by dividing the interest rate by 365.

5/ The days elapsed represent the number of days that passed before each disbursement was made.

6/ The calculated interest was obtained as follows: ending balance x interest rate/365 x days elapsed.

7/ The calculated balance was obtained by adding the calculated interest to the ending balance.


# Appendix C

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

RECEIVED AUG 25 2006

  
**COMMONWEALTH of VIRGINIA**  
DEPARTMENT OF  
HOUSING AND COMMUNITY DEVELOPMENT

Timothy M. Keane  
Governor

Patrick O. Gottschalk  
Secretary of  
Commerce and Trade

William C. Shelton  
Director

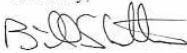
August 23, 2006

Mr. John P. Buck  
Regional Inspector General for Audit  
U.S. Dept. of Housing and Urban Development  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, Pennsylvania 19107-3380

Dear Mr. Buck:

The Department of Housing and Community Development is in receipt of the draft audit of the Commonwealth of Virginia's HOME Investment Partnership program conducted by HUD's Office of the Inspector General. In accordance with your regular practice and as a result of the exit conference between our agency's respective staff conducted on August 9, 2006, DHCD is providing, on the following pages, its response to the draft report.

It is our understanding that we will work through HUD's CPD staff here in Richmond on the resolution of these issues. We anticipate your release of the final report and trust that we have addressed all of the issues and findings presented in the report.


Sincerely,  
  
Bill Shelton

wcs/wf/ljm

Attachment

cc: Ms. M. Shea Hollifield, Deputy Director  
Division of Housing

Mr. Willie Fobbs, III, Associate Director  
Division of Housing



*Partners for Better Communities* [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov)

The Jackson Center • 501 North Second Street • Richmond, Virginia 23219-1321 • (804) 371-7000 • FAX (804) 371-7090 • TDD (804) 371-7089



Mr. John P. Buck  
August 23, 2006  
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**Finding 1: The Commonwealth did not administer Affordable Housing and Preservation and Production funds in compliance with federal regulations.**

**Comment 1**

DHCD believes that it did take steps to properly secure HOME program funds provided to Hope Community Builders, a CHDO in the Commonwealth of Virginia. Hope Community Builders constructed duplexes as part of the Covenant Heights development project in Harrisonburg, Virginia, under agreement with, and funded through, the Affordable Housing Preservation and Production (AHPP) program administered by DHCD. The referenced project involved a CHDO set-aside development subsidy to Hope Community Builders, and a homebuyer subsidy from the down payment assistance program. DHCD also approved Hope Community Builders' strategy to use its CHDO proceeds to further subsidize homebuyers as necessary, and to secure the state's HOME program investment by basing the affordability period on the amount of direct assistance to the homebuyer. In addition, Hope Community Builders also placed a 20-year note on these same properties to secure the entire affordability period of the property. As a result of reviewing these files, HUD's Office of the Inspector General (OIG) indicated that the mortgage notes executed between Hope Community Builders and 17 homebuyers in the Covenant Heights project did not meet federal regulations because the note did not name the Commonwealth as a party to the transaction. Therefore, DHCD will work with Hope Community Builders to see if it will be feasible to make the Commonwealth a party to the 20-year note. In addition, DHCD has notified Hope Community Builders that any future home sales under its agreement with DHCD must name the Commonwealth as party to the transaction and specifically address the recapture requirements based on the total direct subsidy to the homebuyers. DHCD will ensure that other future agreements are clear about this provision as well.

**Comment 2**

In March 2001, the Commonwealth contracted with Southampton County Assembly, a CHDO, to acquire land and construct five units of affordable housing in Boykins, Virginia. DHCD did not disburse the HOME funds in accordance with the terms of the original signed grant agreement, which called for incremental disbursements of the HOME funds during construction. Rather, DHCD disbursed the funds in one lump sum based on a request by Southampton County Assembly to amend the agreement. Subsequent attempts to verify the use of the funds have been thwarted by the grantee's lack of response. Site visits indicate that the CHDO's former office has been vacated and its mailing address no longer valid. DHCD has also been unsuccessful in locating the individuals associated with the organization. We believe that we have exhausted the administrative review options available to DHCD. As a result, DHCD has asked the Virginia Department of State Police and HUD's OIG investigator to initiate an investigation of Southampton County Assembly. DHCD recognizes that unless the investigation recovers these funds or finds that they have been spent on an eligible HOME project that a repayment to the HOME program may be necessary.

**Comment 3**

In November 2002, the Commonwealth contracted with Community Housing Partners Corporation (CHPC), a CHDO, to rehabilitate 72 HOME units as part of the Northway

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August 23, 2006  
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**Comment 3**

Apartments project in Galax, Virginia. As a result of a special request made by CHPC to access the HOME funds during construction activities on this project, DHCD amended its agreement with CHPC to allow access to the HOME funds during construction. Under a Memorandum of Understanding with the Virginia Housing Development Authority (VHDA), the state's Housing Finance Bond agency, to administer the construction funds, DHCD disbursed the entire \$430,000 to VHDA be administered as construction disbursements. Due to the fact that these funds were not disbursed from VHDA's account within 15 days, HUD's OIG has determined that the Commonwealth is in violation of HUD regulation 24 CFR 92.502(c) (2). DHCD will review the disbursement with VHDA's staff to determine an arrangement to address the earned or presumed accumulated interest on these funds as determined from the date of original disbursement to VHDA and subsequent disbursement to CHPC.

**Comment 4**

The Commonwealth also entered into a contract with Community Housing Partners Corporation to rehabilitate 98 units as part of the Meadowview Apartments project in Pulaski, Virginia. The contract stated that the 98 units were to be occupied by families at 50 percent AMI. HUD's OIG onsite review as reported to DHCD indicated that one of the units was occupied by a family above 50 percent AMI. Further discussion indicated that the unit was occupied by the family above 50 percent AMI at the time of the original HOME investment. DHCD will work with CHPC to determine if: 1) the unit's occupants would have been HOME-eligible at the time of the original HOME investment; and 2) to determine if other non-federal project funds were involved in this project and whether they could cover the cost of this unit. Once we have this information, we will be able to determine if some level of repayment from CHPC is appropriate.

**Finding 2: The Commonwealth did not always administer HOME operating assistance grants in compliance with federal regulations.**

**Comment 5**

The Commonwealth awarded operating assistance to Piedmont Housing Alliance (PHA) and Central Virginia Housing Coalition (CVHC), both CHDOs certified in Virginia. DHCD disagrees with HUD's OIG assertion that the Commonwealth awarded operating assistance without executing written agreements with the CHDOs to fund HOME-eligible projects within 24 months of receiving operating assistance grants. Contrary to the assertion on page 12 of the draft audit report, copies of the agreements are present in DHCD's files for these CHDOs. DHCD does, however, acknowledge that the CHDO operating assistance agreement with CVHC did not result in a HOME-eligible project within 24 months of executing the agreement. The CHDO operating assistance agreement with PHA was awarded on the basis of PHA receiving both a predevelopment commitment and a permanent financing commitment through DHCD's AHPP program. Based on correspondence received March 8, 2006, PHA notified DHCD that due to rapidly escalating construction costs in the Charlottesville area, PHA found itself unable to complete the originally conceptualized development plan and, therefore, only completed four of the originally planned eight units. DHCD believes that the PHA's 10th and Page project, for

Mr. John P. Buck  
August 23, 2006  
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**Comment 5**

which the CHDO operating grant in question was issued, resulted in HOME-eligible units. DHCD will further investigate the various funding sources for this project, including possible HOME funding by the Charlottesville/Albemarle HOME consortium.

**Comment 6**

In the case of Petersburg Urban Ministries (PUM), also a CHDO, the HUD OIG did not feel that there was supporting documentation for the final \$9,375 disbursement under its operating assistance agreement. DHCD staff is currently reviewing the documentation submitted by PUM to verify that the organization did submit proper documentation for these expenditures. We are also taking steps to clarify documentation and record-keeping procedures with all CHDOs.

**Comment 7**

The Commonwealth's contracts with PHA, CVHC, and PUM have all expired. DHCD has already reprogrammed the remaining \$22,500 on PHA's contract, and \$28,125 on CVHC's contract. The final \$9,375 has been disbursed to PUM and the documentation is being reviewed by DHCD staff as indicated above.

**Comment 8**

**Finding 3: The Commonwealth did not ensure that down payment assistance was awarded in compliance with applicable requirements.**

The Commonwealth awarded assistance for the purchase of homes under the former Single Family Regional Loan Fund program in the form of down payment and closing cost assistance. The HUD's OIG report asserts that DHCD awarded down payment and closing cost assistance on two properties that exceed the 203(b) limits of the National Housing Act. The OIG's report further asserts that no market analysis was performed to determine whether the prices of the homes were within 95 percent of the median price of single family homes in this area. DHCD's program uses sale comparables to determine the median sales prices for certain area sales. DHCD will provide copies of the sale comparable used on the two housing sales referenced in HUD's report. Our initial review indicates that one of two houses in question exceeded the 203(b) limits and may have been greater than 95 percent of the area median sales price for the Charlottesville/Albemarle region. Our initial review indicates that the other unit was within 95 percent of the market analysis price determination. Once our review is complete we will be able to determine the appropriate response to this issue.

**Comment 9**

The HUD OIG report indicates that three of the 18 cases reviewed in the Covenant Heights project in Harrisonburg, Virginia did not have adequate documentation to verify the HOME recipients' family size. DHCD staff will make an onsite visit to interview the CHDO developer and HOME unit occupants to document the correct family size at the time of occupancy. In addition, DHCD will provide more specific guidelines program-wide for record retention of all clients and subrecipients that participate in the HOME down payment assistance program.

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**Comment 10**

The OIG report indicated that in one case, a recipient received assistance that exceeded the maximum assistance allowed under DHCD's HOME Program Design in 2003. DHCD allows subrecipient administrators in certain high-cost Virginia localities, and localities where incomes are deemed too low to even obtain affordable housing, to provide assistance of up to 20 percent of the homes sales price. The buyer in question was in one of the areas where incomes were, and still are, deemed too low to obtain affordable housing. DHCD will provide a listing of these localities that were in operation in 2003 to HUD's OIG.

**Comment 11**

**General**

The draft audit report repeatedly references DHCD's unspent HOME administrative funds and makes recommendations about its use. DHCD is in compliance with HOME regulations on the amount of administrative funds allocated and the use of such funds. During the time the audit was conducted DHCD was in the process of an extensive assessment of its entire Housing Division's organization and structure. This assessment was undertaken to strengthen and improve our overall housing programs and procedures. During the audit process HUD's OIG staff did not seek information or initiate any dialogue about DHCD's staffing plans or organizational structure. Therefore DHCD's administrative initiatives were not taken into account in the draft audit report.

**Comment 12**

On August 1, 2006 – two days prior to the release of the draft audit report – DHCD installed a new deputy director for housing. The new housing deputy has over 20 years of experience in implementing and managing a variety of state and federal programs, including federal programs under HUD's CPD unit. DHCD is currently in the process of filling a number of full-time positions in its Division of Housing which administers all of the HOME funded programs in question and addressed in the OIG's audit report to help fully staff the HOME program. In addition, DHCD is in the process of reviewing and developing a plan to determine the administrative needs of the HOME program so that the administrative set-asides will be in keeping with needs. Special attention will be given to assuring that adequate funds are allocated for an enhanced, systematic and consistent monitoring system that will include risk assessments, standardized monitoring check lists, monitoring timeframes and reporting protocols. We are cognizant of our responsibilities to ensure a regulatory compliant HOME program that produces housing outcomes consistent with Virginia's housing needs.

## OIG Evaluation of Auditee Comments

- Comment 1** As described in the audit report, we believe the Commonwealth did not take steps needed to properly secure HOME program funds. However, we are pleased that the Commonwealth has agreed to take the necessary action to secure HOME program funds provided to Hope, and also to ensure that future agreements or notes comply with federal recapture requirements.
- Comment 2** We are pleased that the Commonwealth has agreed that it could not substantiate that \$150,000 which it disbursed to Southampton was used for eligible HOME activities and that it is now working to correct this problem.
- Comment 3** We are encouraged that the Commonwealth has acknowledged this problem and is now determining an arrangement to address the \$14,853 in interest due HUD.
- Comment 4** We are encouraged that the Commonwealth is now reviewing the issue of HOME funds being used to rehabilitate a unit inhabited by a family with income in excess of the allowable limit. However, the Commonwealth can prevent this problem in the future by strengthening its monitoring program to ensure that the income levels of all tenants are within the allowable limit before disbursing the HOME funds.
- Comment 5** The audit evidence showed that the Commonwealth awarded operating assistance grants to Piedmont and Central Virginia without executing written agreements requiring them to fund HOME-eligible projects within 24 months of receiving the operating assistance grants. We are encouraged that the Commonwealth agrees that the \$21,875 expended by Central Virginia is ineligible because this community housing development organization did not fund HOME-eligible projects within 24 months of receiving HOME funds for operating expenses. However, the Commonwealth did not have documentation supporting its contention that the operating assistance grants awarded to Piedmont resulted in HOME-eligible units or projects. On the contrary, we were provided correspondence from the Commonwealth indicating the Piedmont project was not affordable, and thereby not eligible for HOME funds.
- Comment 6** In the case of Petersburg, the audit evidence showed there was no support for \$9,357 in HOME operating assistance funds expended. We are pleased however that the Commonwealth is now taking steps to clarify its documentation and record keeping procedures.
- Comment 7** The Commonwealth stated that a final disbursement has now been made to Petersburg, and that remaining funds associated with Piedmont and Central Virginia have now been reprogrammed. Once the Commonwealth provides

evidence showing that these funds have been expended or reprogrammed for eligible HOME activities, recommendation 2D can be closed.

**Comment 8** The audit evidence showed the Commonwealth awarded assistance for the purchase of two homes with prices exceeding the single family mortgage limits under Section 203(b) of the National Housing Act. The Commonwealth was also unable to provide a market analysis showing that the sales prices for the homes was within 95 percent of the area median sales price for the region.

**Comment 9** We are pleased that the Commonwealth plans to conduct an onsite visits to document the correct family size and to take action to ensure that all subrecipients and participants of the HOME downpayment assistance program comply with federal record retention requirements.

**Comment 10** The Commonwealth stated that it allows subrecipient administrators in certain high-cost localities to provide assistance of up to 20 percent of home sale prices. The property in question was located in Southampton County. However, the Commonwealth did not list Southampton County as a high cost locality eligible for assistance of up to 20 percent in its consolidated plan or program design manual. In addition, the case in question did not have a settlement agreement showing that an eligible homeowner purchased the property.

**Comment 11** The Commonwealth stated that we did not seek information or initiate any dialogue about its staffing plans or organizational structure during the audit. We disagree with this statement. We requested and documented information on the Commonwealth's organizational structure and staffing levels in our audit workpapers. In addition, beginning in March 2006, we requested risk assessments from Commonwealth staff. We followed up on our request in April 2006. We were not provided any information on the Commonwealth's extensive assessment of its entire Housing Division's organization and structure. Instead, we were informed that risk assessments were not formally documented.

**Comment 12** We are encouraged that the Commonwealth has implemented and plans to continue to implement improvements to help resolve the deficiencies noted in our report.