



Pierce County, WA

**HOME Investment Partnerships Program
Matching Funds**



Issue Date: July 17, 2014

Audit Report Number: 2014-SE-1003

TO: Jack Peters, Director, Community Planning and Development, 0AD

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, Seattle Region, 0AGA

SUBJECT: Pierce County Claimed Ineligible and Unsupported HOME Matching Funds

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Pierce County Community Connections' HOME, Continuum of Care, and Emergency Solutions grant matching contributions.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Date of Issuance July 17, 2014

Pierce County Claimed Ineligible and Unsupported HOME Matching Funds

Highlights

Audit Report 2014-SE-1003

What We Audited and Why

We audited Pierce County because it received almost \$9 million in total funding in Washington State for its community planning and development grants under the 2011 and 2012 notices of funding availability. This amount represented a significant share of funds awarded in Region 10 (Alaska, Idaho, Oregon, and Washington). Our objective was to determine whether Pierce County met the matching requirements for the HOME Investment Partnerships Program.

What We Recommend

We recommend that the Director of the HUD Seattle Office of Community Planning and Development (1) require the County to remove nearly \$242,000 in ineligible matching funds from its HOME match carry forward and provide almost \$395,000 in eligible matching funds to its HOME trust fund from non-Federal sources or repay HUD up to nearly \$1.6 million, (2) resubmit its match reports to calculate a new carry forward amount and ensure that the new amount is adequately supported by a running match log and supporting match documentation, and (3) ensure that the County prepares and fully implements effective written policies and procedures for compliance with HOME requirements.

What We Found

The County claimed nearly \$242,000 in ineligible matching funds for three HOME projects. Since these three projects had already received HOME funding and were under affordability agreements, the matching funds reported were ineligible.

Also, the County did not support \$2.6 million in HOME matching funds carried forward from prior years. As a result, it had a shortfall of nearly \$395,000 in its match obligation for the program year beginning July 2008 and could be required to repay HUD almost \$1.6 million in HOME funds, depriving low-income people in its jurisdiction of needed housing.

The County has provided proposed corrective actions to the Director of the HUD Seattle Office of Community Planning and Development for its review.

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BACKGROUND AND OBJECTIVE

HOME Investment Partnerships Program

The National Affordable Housing Act of 1990 created the U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program. By establishing the HOME program, Congress intended to establish a partnership between the Federal Government and States, units of local government, and nonprofit organizations to expand the supply of affordable, standard housing for low-income families.

In keeping with the concept of partnership, each jurisdiction participating in the HOME program is required to make contributions to HOME-qualified housing in an amount equal to 25 percent of the HOME funds drawn down for housing projects. These contributions are referred to as "match." A jurisdiction incurs a match liability each fiscal year based on the amount of HOME funds drawn down from its U.S. Treasury account. In each fiscal year, a jurisdiction must make eligible matching contributions in an amount that equals the match liability incurred during that fiscal year. Matching contributions made in excess of the match liability may be carried forward as match credit toward meeting the match liability incurred in future years.

Each year, the jurisdiction must submit a financial report (form HUD-40107-A) in its consolidated annual performance and evaluation report showing the amount of match funds carried forward from the previous year, the amount contributed, the liability amount, and the excess match funds carried forward to the next year. The form also includes match contribution details by type and date contributed for each project.

Participating jurisdictions must track matching contributions provided by maintaining records demonstrating compliance with match requirements, including keeping a running log and multiyear project records documenting the type, amount, and date of the matching contributions for each project.

Pierce County

Pierce County is a participating jurisdiction located in Tacoma, WA. The Pierce County Department of Community Connections administers Pierce County's HOME program. The HOME funds are for Pierce County's low-income housing needs. The Department is responsible for keeping track of and reporting its matching contributions.

While the County operates on a calendar year, the County's HOME program year starts in July. The July 2012 program year corresponds to the most recent HOME plan approved by HUD from Federal fiscal year 2012.

Our objective was to determine whether Pierce County met the matching requirements established for the HOME program.

RESULTS OF AUDIT

Finding 1: The County Claimed Ineligible Matching Funds for Three HOME Projects

Pierce County claimed ineligible matching funds for three HOME projects. This condition occurred because the County was unaware of the requirements. As a result, it could spend future grant funds without spending adequate matching funds.

The County Claimed Ineligible Matching Funds

The County claimed nearly \$242,000 in ineligible matching funds for three HOME projects in its program years 2011 and 2012 match reports.

- One of the projects was acquired with HOME funds in 1998 and was rehabilitated with HOME matching funds claimed in its program year 2012 match report.
- Another project was acquired with HOME funds in 2001 and was also rehabilitated with HOME matching funds claimed in its program year 2012 match report.
- The third project was acquired with HOME funds in program year 2005 and was rehabilitated with matching funds claimed in its program year 2011 match report.

According to regulations at 24 CFR (Code of Federal Regulations) 92.220(a)(1), when matching funds are reported, they must be permanently contributed to the HOME program and must comply with HOME rules. Since these three projects had already received HOME funding and were under an affordability agreement, the matching funds reported were ineligible according to the regulations at 24 CFR 92.214(a)(6) (see appendix C).

The County Was Unaware of the Requirements

The County was unaware of the above requirements. It was aware that matching funds reported are permanently contributed to the HOME program. However, it was not aware that it could not claim funds contributed to the projects as matching funds for projects currently under a HOME affordability agreement.

**The County Could Spend
Future Grant Funds Without
Spending Adequate Matching
Funds**

The County could spend future grant funds without spending adequate matching funds to meet a future match obligation. The ineligible match should be removed from the HOME match carry forward. The County will then be able to spend future grant funds after it provides adequate, eligible, and compliant matching funds.

Recommendations

We recommend that the Director of the HUD Seattle Office of Community Planning and Development

- 1A. Require the County to remove \$241,979 in ineligible match funds from its HOME match carry forward for affordable housing projects.
- 1B. Ensure that the County’s management and staff prepare and fully implement effective written policies and procedures for compliance with HOME match eligibility requirements and provide training as needed.

Finding 2: The County Did Not Support HOME Matching Funds Carried Forward From Prior Periods

Pierce County did not support \$2.6 million in HOME matching funds carried forward from prior periods. This condition occurred because the County did not have adequate written procedures for maintaining a running match log and project documentation. As a result, it had a shortfall of nearly \$395,000 in its program year 2008 match obligation and could be required to repay HUD almost \$1.6 million in HOME funds, depriving low-income people in its jurisdiction of needed housing and services.

Pierce County Did Not Support HOME Matching Funds Carried Forward From Prior Periods

The County could not support the \$2.6 million in matching funds reported as carry forward to its match report for the program year beginning 2004. These funds were also carried forward on each match report through the years to its 2011 and 2012 match reports. The \$2.6 million originated from match funds reported before 2004, and no records were available to describe their source or age.

The County Did Not Have Adequate Written Procedures

The County's draft HOME matching policies and procedures were not adequate. There were no procedures for the running match log and project report to support the County's matching funds carried forward as required by HOME regulations at 24 CFR 92.508(a)(2)(ix) and Community Planning and Development Notice CPD 97-03 XI, Tracking Match Obligations and Contributions.

The County Had a Shortfall

The County had a deficit of almost \$395,000 in its match report for the program year beginning July 2008. Based on the HOME program's 25 percent match requirement, the County could be required to repay HUD almost \$1.6 million (\$394,811/0.25) in HOME funds, depriving low-income people in its jurisdiction of needed housing and services.

The County Was Making Changes

The County informed us that it had eligible HOME matching funds that had not been reported. It planned to resubmit its program years 2004 through 2012 match reports to correct these deficiencies. The County was also creating a running match log beginning with its program year 2004 matching contributions.

Recommendations

We recommend that the Director of the HUD Seattle Office of Community Planning and Development

- 2A. Require the County to provide \$394,811 in eligible matching funds to its HOME trust fund from non-Federal sources to meet its program year 2008 match liability or repay HUD up to \$1,579,244.
- 2B. Require Pierce County to remove \$2,640,244 in unsupported excess matching funds carried forward from its match report for program years 2011 and 2012, resubmit any match reports that are used to calculate a new carry forward amount, and ensure that the new amount is adequately supported by a running match log and supporting match documentation.
- 2C. Ensure that Pierce County management and staff prepare and fully implement effective written policies and procedures for compliance with HOME match record keeping requirements and provide training as needed.

SCOPE AND METHODOLOGY

Our review period generally covered July 1, 2011, through June 30, 2013, and was expanded as needed. We performed onsite work from December 18, 2013, through February 21, 2014, at Pierce County's offices, located at 1305 Tacoma Avenue, Tacoma, WA.

To accomplish the objective we performed the following review steps:

- Reviewed match requirements for each of the programs in our survey.
- Reviewed the County's match policies and procedures for these programs.
- Interviewed and obtained additional information from Pierce County personnel to clarify the policies and procedures.
- Obtained and reviewed match supporting documents for these programs.
- Determined whether each of the programs met its match requirements.
- Interviewed and coordinated with HUD's Office of Community Planning and Development management and staff located in its Seattle, WA, office.

We reviewed all four of the projects in which the County had HOME matching funds claimed in its 2011 and 2012 match reports. Therefore, a sample was not needed.

We did not rely on computer-processed data. Instead, we traced or verified information to supporting documentation, from which we drew our conclusions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Policies and procedures implemented to ensure that matching contributions were eligible and supported.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- The County did not have controls in place to ensure that matching funds would not be contributed to projects under affordability agreements (finding 1).
- The County did not have controls in place to ensure that a running match log and project documentation were maintained (finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$241,979	
2A		\$1,579,244

- 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 policies 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 the 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



Pierce County
Department of Community Connections

1305 Tacoma Avenue S., Suite 104
Tacoma, Washington 98402
(253) 798-4500 • FAX (253) 798-2818

Helen P. Howell
Director

June 25, 2014

HUD Office of Inspector General
Office of Audit (Region 10) Attn: Ronald J Hosking,
Regional Inspector General for Audit
909 First Avenue, Suite 126
Seattle, WA 98104

RE: HOME Match Audit

Dear Mr. Hosking,
This letter is in response to the draft audit report dated June 17, 2014. Below is the County's response and written comments on the draft audit report.

Finding #1:
The County claimed ineligible matching funds for three HOME projects.

Response #1:
The County has removed the \$241,979 in ineligible match from the match logs and match reports. Please note that after the ineligible match was removed the County had a match surplus in each subsequent federal fiscal year. See response to finding #2.

The County has revised its written policies and procedures to ensure that local cash contributed to a completed HOME assisted project during its period of affordability is not eligible as cash match for the HOME program. The County will also provide training related to these HOME match requirements to fiscal and program staff working in the HOME program.

Finding #2:
The County did not support HOME matching funds carried forward from prior periods.

Response #2:
The County used the existing match records dating back to October 1, 2004, and created a new

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running match log starting on that date. The unsupported carryover HOME match balance prior to October 1, 2004, of \$2,640,244 was eliminated, and the County started with a zero balance for federal fiscal year 2005. The revised match log recorded the type and the amount of match based on the existing match records. The HOME match log, match reports, and all match records are available for review.

The County is re-filing the HOME match reports for the nine years for federal fiscal years 2005 through 2013 with the CAPER. The revised match logs and match reports for federal fiscal year 2008 will reflect an excess match carryover of \$394,230.47, thus the County will have met its match obligations for federal fiscal year 2008.

The County has revised its policies and procedures and will retain all match logs, reports, and records in perpetuity, allowing all carryover matching funds from previous federal fiscal years to be verified.

If you have any questions you can contact Bryan Schmid, Housing Supervisor at 253-798-6909, or Tess Colby, Housing, Homeless, and Community Development Manager, at 253-798-6139.

Sincerely,

Dr. Mari Kruger Leavitt
Deputy Director

cc:
John Melgaard, HUD OIG
Tracey Vargas, Assistant Regional Inspector, HUD OIG
Steven Washington, Deputy Director HUD CPD
Helen Howell, Director Community Connections



OIG Evaluation of Auditee Comments

Comment 1 The County agreed with our findings and recommendations, has implemented corrective action, and will work with HUD to resolve the recommendations.

Appendix C

CRITERIA

24 CFR 92.214(a)(6) - (a) HOME funds may not be used to: ... (6) Provide assistance ... to a project previously assisted with HOME funds during the period of affordability established by the particular jurisdiction in a written agreement consistent with § 92.504.

24 CFR 92.220(a)(1) - Form of matching contribution. (a) Eligible forms. (1) Cash contributions from nonfederal sources. To be recognized as a cash contribution, funds must be contributed permanently to the HOME program...

Regulations at 24 CFR 92.508(a)(2)(ix) state that the participating jurisdiction must maintain records demonstrating compliance with the matching requirements. These records would include a running log with the project records documenting the type and amount of match contributions by project.

Notice CPD 97-03 XI, Tracking Match Obligations and Contributions, states that participating jurisdictions are required to maintain a running log that demonstrates compliance with the HOME program matching requirements. This log must identify the type and amount of each match contribution. HUD suggests that participating jurisdictions develop a single match log that simultaneously tracks both liability and credit and provides the pertinent information about the housing project and match contribution.