



Issue Date January 18, 2008

Audit Report Number 2008-BO-1003

TO: Robert C. Paquin, Director, Community of Planning and Development, 1AD

FROM: 
John A. Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: The Maine State Housing Authority, Augusta, Maine, Needs to Improve Controls over Its Administration of the HOME Program

HIGHLIGHTS

What We Audited and Why

We audited the HOME Investment Partnerships program (HOME) administered by the Maine State Housing Authority, Augusta, Maine (Authority), as part of our annual audit plan. The Authority received more than \$21 million in U.S. Department of Housing and Urban Development (HUD) funding for its federal HOME program from 2005 to 2007.

Our audit objective was to determine whether the Authority administered its HOME program in compliance with HUD regulations. We focused on whether the Authority (1) had adequate internal controls over its management process, accounting, and data processing; (2) used HOME program funds for eligible activities and adequately supported expenditures; (3) had adequate monitoring practices; and (4) properly accounted for HOME program income.

What We Found

The Authority generally administered its HOME program in accordance with HUD regulations. It had adequate internal controls over its accounting and data

processing and properly accounted for HOME program income. However, we identified two areas in which the Authority needs to improve its management controls, including improving its monitoring practices and ensuring that HOME program funds are used for eligible activities. Specifically, the Authority failed to track the status of outstanding housing quality standards deficiencies it found during annual compliance reviews and ensure that corrective actions were taken in a timely manner. The Authority also failed to ensure that two homes met HUD health safety standards before disbursing HUD funds to assist homebuyers. These deficiencies occurred because the temporary transition of personnel assigned to perform monitoring duties and the heavy workload of the Authority's only inspector for the Home Repair and Maine American Dream Initiative (MADI) programs impeded efforts to address corrective action items in a timely manner. Also, the Authority was unaware that the two homes failed to meet HUD standards because it did not maintain inspection reports, relying on the community action agency's (CAA) certifications that homes met HUD standards. As a result, several homeowners were living in homes that were not decent, safe, and sanitary. Also, the Authority's disbursement of \$13,686 to two homebuyers for homes that were not decent, safe, and sanitary was not the best use of funds.

What We Recommend

We recommend that the Director of the Office of Community Planning and Development in Boston require the Authority to (1) review all HOME Repair and Maine's American Dream Initiative (MADI) program annual compliance reviews performed during the period of temporary transition of personnel assigned monitoring duties and ensure that all corrective action items have been adequately addressed, (2) evaluate whether procedures to better coordinate and schedule inspections for its HOME Repair and MADI programs should be implemented, (3) consider hiring or using additional inspectors to assist with inspections for its HOME Repair and MADI programs, (4) obtain all documentation and evidence necessary to substantiate that all deficiencies were corrected to ensure that \$13,686 provided for the two homes was put to the best use, (5) maintain copies of all inspection reports based on CAAs' inspections of homes funded under MADI, and (6) ensure that CAAs provide evidence of correction of housing quality standards violations such as invoices for repairs to correct deficiencies on homes funded under MADI.

For each recommendation in the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.6, REV-3. Please also furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided Authority officials with a draft audit report on January 4, 2008, and requested a response by January 17, 2008. We held an exit conference with Authority officials on January 11, 2008, to discuss the draft report, and we received their written comments on January 15, 2008. The auditee's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships program (HOME) was created by Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990. In general, the purpose of the HOME program is twofold: (1) to expand the supply of decent, safe, and affordable housing for very low-income and low-income Americans and (2) to strengthen public-private partnerships in the production and operation of such housing. As a housing block grant, the HOME program gives participating jurisdictions discretion over which housing activities to pursue. These activities may include acquisition, rehabilitation, new construction, and resident-based rental assistance. In addition, participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, and interest subsidies. Up to 10 percent of the HOME funds received by a participating jurisdiction may be used to administer the program.

The Maine State Housing Authority (Authority) is a unit of local government approved by the U.S. Department of Housing and Urban Development (HUD) as a participating jurisdiction to receive HOME funds. The Authority operates under a director and a five-member board of commissioners. In addition to state tax credits and bonds and continuum of care funding, it receives formula-based allocations of HOME funds to administer four main programs, including (1) the Rental Assistance Coupon Plus program, (2) Maine's American Dream Initiative (MADI) program, (3) the HOME Repair program, and (4) the Rental Loan program. The Authority is currently emphasizing use of HOME program funds to (1) shelter its homeless, (2) renovate multifamily homes for low-income tenants, and (3) provide opportunities for first-time homebuyers.

In recent years, the Authority has adapted its HOME program to provide a wider range of services that are provided in conjunction with state aid and incentives that help support lending institution programs and community action agency (CAA) programs as well. The Authority contracts with CAAs to deliver programs including the HOME Repair and MADI programs to qualified applicants. The CAAs originate and underwrite loans under these programs and submit loan packages to the Authority for review, approval, and purchase. The MADI program loans are provided for downpayment assistance, closing costs, and rehabilitation assistance to eligible first-time homebuyers.

The following table shows the amount of HUD funds the Authority used for the HOME program in program years 2005 to 2007.

<i>Year</i>	<i>HOME</i>
Jan 1, 2005, to Dec 31, 2005	\$7,276,212
Jan 1, 2006, to Dec 31, 2006	\$6,951,013
Jan 1, 2007, to Dec 31, 2007	\$6,871,920
Total	\$21,099,145

Our audit objective was to determine whether the Authority complied with HUD regulations in the administration of its HOME programs. Specifically, we wanted to determine whether the Authority (1) had adequate internal controls over its management process, accounting, and data

processing; (2) used HOME funds for eligible activities and adequately supported costs; (3) had adequate monitoring practices; and (4) properly accounted for HOME program income.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Always Effectively Monitor Its HOME Program

The Authority did not always monitor its HOME program in accordance with federal regulations and its own policies and procedures. Specifically, it did not always adequately track the status of outstanding housing quality standards deficiencies found during its annual compliance reviews or always substantiate that corrective actions were taken in a timely manner. This condition occurred because the temporary transition of personnel assigned to perform monitoring duties and the heavy workload of the Authority's only inspector for the HOME Repair and the MADI programs impeded efforts to monitor corrective actions in a timely manner. As a result, several homeowners were living in homes that were not decent, safe, and sanitary.

Housing Quality Standards Violations Not Addressed in a Timely Manner

Our review of two annual compliance reviews performed by the Authority for two subrecipients (CAAs) found that the Authority failed to monitor all outstanding deficiencies and ensure that corrective actions were taken. In accordance with its procedures for annual compliance reviews of CAAs, the Authority is required to track deficiencies not yet cleared, and if a response is not received from the CAA in a timely manner, the appropriate Authority manager is required to contact the CAA for a status report. Based on our review, the Authority did not always follow these procedures.

The first compliance review, performed on October 10 and 11, 2006, for one CAA (the Penquis Community Action Agency or Penquis), included a review of the HOME Repair and MADI programs. This review identified a home funded under the MADI program with significant housing quality standards violations involving lead-based paint hazards that were not corrected in a timely manner. During the compliance review, the Authority inspected six HOME Repair and four MADI homes. The HOME Repair inspections identified findings in one home, and the MADI inspections identified findings in three homes. The Authority also reviewed six HOME Repair and four MADI files. The HOME Repair file review identified findings for six homes, and the MADI file review identified findings for one home. The Authority informed Penquis that it had until November 24, 2006, to take corrective actions on violations.

Penquis addressed all findings with the exception of the home with the significant housing quality standards violations involving lead-based paint hazards. These same deficiencies were found during an April 14, 2006, inspection when the homebuyer applied for closing cost assistance under the MADI program;

however, this assistance was later approved without correction of the violations. On December 15, 2006, Penquis approved a HOME Repair loan to address the home's deficiencies found in the compliance review. The Authority's records did not show any evidence that it routinely tracked the status of the outstanding deficiencies. We requested that the Authority obtain an updated status on the corrective actions and learned that the initial contractor, hired to correct deficiencies, delayed the work and a new contractor was hired to complete the work by October 17, 2007. The deficiencies that were initially found on April 14, 2006, had not been corrected as of November 1, 2007.

Files Lacked Evidence That Corrective Action Measures Had Been Taken

A second compliance review (performed on June 12 and 26 and July 3, 2006, of another CAA, the York County Community Action Corporation or York County) included inspections of five MADI homes and a review of five MADI files. There were no findings noted on the file reviews, but the inspection reports cited housing quality standards deficiencies in three of five homes inspected. The corrective actions were to have been completed by September 29, 2006, and supporting documentation (photographs and inspection reports) provided. However, the Authority's files lacked documentation showing that the deficiencies had been adequately addressed. At our request, the Authority contacted York County for updated information, and it was determined that repairs had not been completed on two of the three homes. The information provided disclosed that York County had contested the violations and felt satisfied, based on a November 2006 conversation with the Authority, that the two homes complied with housing quality standards and repairs were unnecessary. The Authority's inspector was unaware of any formal notification regarding the two homes.

In addition, there was no evidence that housing quality standards violations on the remaining home had been addressed. The Authority had required York County to contact it for a followup inspection once the work on the home was completed. Although York County contacted the Authority on November 14, 2006, indicating that work had been completed and the home was ready to be reinspected, the homeowner's file did not include an inspection report to substantiate that the Authority performed a follow up inspection.

The Authority believed that the temporary transition¹ of personnel (between the Energy and Housing Services and Homeownership departments) assigned to perform monitoring duties impeded the monitoring process over the short term. In addition, the Authority indicated that it had only one inspector covering the

¹ This temporary transition involved training of Authority personnel in the various duties performed in the Homeownership department.

entire state of Maine for its MADI and HOME Repair programs. Therefore, the inspector would sometimes encounter difficulty in completing tasks in a timely fashion.

Conclusion

The Authority failed to adequately monitor and ensure that all outstanding housing quality standards deficiencies were corrected in a timely manner. As a result, several homeowners were living in homes that were not decent, safe, and sanitary. The temporary transition of Authority personnel ordinarily assigned to perform monitoring duties and the heavy workload of the Authority's only inspector, who was responsible for two of its primary programs, contributed to its failure to address housing quality standards violations in a timely manner. The Authority needs to take steps to improve procedures to prevent similar deficiencies from occurring.

Recommendations

We recommend that the Director of the Office of Community Planning and Development in Boston require the Authority to

- 1A. Review all HOME Repair and MADI program annual compliance reviews performed during periods of temporary transition of personnel assigned monitoring duties and ensure that all corrective action items have been adequately addressed.
- 1B. Evaluate whether procedures to better coordinate and schedule inspections for its HOME Repair and MADI programs should be implemented and implement any needed procedures.
- 1C. Consider hiring or using additional inspectors to assist with inspections for its HOME Repair and MADI programs.

RESULTS OF AUDIT

Finding 2: Authority Did Not Always Ensure That Homes Receiving HUD Funding Met Housing Quality Standards

The Authority did not always ensure that homes receiving HUD funding met housing quality standards. Specifically, one of the Authority's subrecipients (CAA) incorrectly certified that two homes met housing quality standards, although concurrent inspections showed that the homes failed to meet HUD standards. The Authority was unaware that the homes failed because it did not maintain inspection reports but relied instead on the CAAs' certifications that homes met HUD property standards. As a result, the Authority's disbursement of \$13,686 to two homebuyers for homes that were not decent, safe, and sanitary may not have been the best use of funds.

Home with Serious Deficiencies Improperly Certified as Meeting Housing Quality Standards

We identified two instances in which a CAA, Penquis, incorrectly certified that homes funded under the MADI program met housing quality standards, although recent inspections showed that homes did not meet HUD's standards. Since the Authority did not maintain copies of the inspection reports, we requested that the Authority obtain inspection reports from Penquis.

The first instance involved a home with significant violations found in the Authority's October 2006 annual compliance review (see finding 1). On May 3, 2006, Penquis certified that the home met housing quality standards on the date of inspection and that no rehabilitation work was necessary. However, the Penquis inspection report, dated April 14, 2006, showed that the home had significant violations, causing the home to fail. The homebuyer received \$3,836 in funding for GAP/closing cost assistance and closed on the purchase of the property on May 3, 2006. There were indications that the inspector certified that the home conditionally met housing quality standards contingent upon rehabilitation work being performed within a short timeframe. However, as of November 1, 2007, the required rehabilitation work had not been performed.

MADI Funds Disbursed for Homes That Failed to Meet Housing Quality Standards

The second instance involved a home requiring a housing quality standards inspection based on a homebuyer's application, dated July 19, 2006, for closing

cost assistance under the MADI program. The home failed to meet housing quality standards based on concerns with the home's central heating system and because the home was missing handrails in two locations. The homebuyer received \$9,850 in funding for GAP/closing costs based on Penquis's certification, dated November 21, 2006, that the completed rehabilitation work brought the home up to standards. However, this certification was made before the work on the home's central heating system, including the removal of a monitor heater and gas tank and installation of the new furnace, was completed on December 6, 2006. HUD funds were not used for the rehabilitation work. The Authority's records did not contain documentation to determine whether the missing handrails were replaced.

The Authority concurred that these actions violated its policies and procedures, which dictate that program funds will not be disbursed in connection with a home until the home satisfies all program requirements, including meeting housing quality standards. The Authority assumed that the two homes met HUD standards based on certifications made by Penquis. The director of the Authority's Homeownership department stated that the Authority changed its policy for borrower applications dated after July 1, 2006. This policy now requires CAAs to submit all documentation relevant to an applicant's funding/loan requests, including inspection reports. In the second instance, this policy was not followed because the application was dated July 19, 2006, and an inspection report was not included in the homebuyer's file.

Conclusion

The Authority failed to ensure that two homes met housing quality standards before providing funds to assist homebuyers under MADI. As a result, \$13,686 in HUD funds was improperly disbursed to two homebuyers for homes that were not decent, safe, and sanitary. This condition occurred because the Authority was unaware that the homes failed to meet housing quality standards by relying on the certifications made by the CAA (Penquis) that one home met standards on the date of inspection and that a second home's completed rehabilitation work brought the home up to HUD property standards.

Recommendations

We recommend that the Director of the Office of Community Planning and Development in Boston require the Authority to

- 2A. Obtain the documentation necessary to substantiate that all deficiencies regarding the two homes identified were corrected to ensure that the \$13,686 in funding provided for the two homes was put to the best use.

- 2B. Ensure that it maintains copies of all inspection reports based on CAA inspections of homes funded under MADI.

- 2C. Ensure that CAAs provide evidence of correction of housing quality standards violations such as invoices for repairs to correct deficiencies on homes funded under MADI.

SCOPE AND METHODOLOGY

We performed an audit of HOME programs administered by the Authority. Our fieldwork was completed at the Authority's offices located at 353 Water Street, Augusta, Maine, from August to November 2007. Our audit generally covered the period January 2005 to June 2007 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Reviewed applicable legislation, HUD regulations, and HUD notices.
- Reviewed the Authority's policies and procedures for cost allocation, procurement practices, and monitoring policies to ensure that they were consistent with HUD requirements.
- Evaluated internal controls and conducted sufficient tests to determine whether controls were functioning as intended.
- Identified and examined controls over computer systems, including identifying what computer-processed data exist, the extent of use, and the reliability of the systems, and verified that the Authority entered information into HUD's Integrated Disbursement and Information System.
- Reviewed independent public auditors' reports and HUD monitoring reviews.
- Identified activities that were slow to reach completion and determined whether the Authority's accomplishments reported in the consolidated annual performance evaluation report were in agreement with the Authority's records.
- Evaluated the Authority's procurement practices through a review of procurements. Focusing on construction projects completed in fiscal year 2006, we reviewed a nonrepresentative sample of three HOME procurements, totaling \$10,781,033, from a universe of five procurements, totaling \$16,467,540, based on large dollar amounts.
- Selected a nonrepresentative sample of three categories of administrative expenses excluding payroll from the universe, totaling \$337,011, based on our knowledge of HUD programs and those categories of expenditures that have a higher risk. We selected three invoices, one from each of the three categories of expenses, for review. From the categories education/training and printing, totaling \$33,081 and \$16,849, respectively, we selected the largest education/training expense, at \$28,500, and the largest printing expense, at \$3,078, for review. From the business travel account, totaling \$13,817, we identified the name of the most frequent traveler in that year and selected that person's largest invoice, totaling \$350, for review. We evaluated these expenditures to ensure that they were eligible, reasonable, and appropriately supported.
- Determined whether \$160,846 in HOME program income was accounted for.
- Evaluated procedures for recording and tracking HOME program complaints.
- Evaluated accountability over interfund/interprogram transfers.
- Evaluated the Authority's cost allocation system by selecting a payroll, reflecting 50 employees, charged to the HOME program, representing seven departments. Using the universe of 50 employees, we selected two employees from each of the seven departments who had the largest year-to-date balances in hours charged to HOME for a total of 14 employees. The total hours representing the universe of employees are 10,602.

- We selected Penquis for review of homeowner files under the HOME Repair program based on Penquis's incurring the largest amount of project costs (\$930,912) of the seven CAAs using federal HOME funding for the HOME Repair program in program year 2006. We selected a nonrepresentative sample of five homeowners, incurring project costs totaling \$525,911, from a universe of 23 homeowners, incurring project costs totaling \$930,912, to test procedures and controls to ensure eligibility of applicants, projects, and work performed; that projects met HUD property standards upon completion of work; and that proper documents existed, including application, mortgage deed, environmental review, lead-based paint disclosure, and certain procurement-related documentation.
- We selected York County for review of homeowner files under the MADI program based on York County's receiving the next to largest amount of federal HOME funding, totaling \$39,275, of the four CAAs receiving \$111,772 in federal HOME funding for the MADI program in program year 2006. We excluded Penquis, which actually received the largest amount of federal HOME funding (\$39,340), because Penquis was already selected for review under the HOME Repair program and selecting York County allowed for a more representative review of CAAs. We reviewed 100 percent (total of four loans) of York County's homeowner loans in 2006 to ensure eligibility of applicants, projects, and work performed; that projects met HUD property standards upon completion of work; and that proper documents existed, including application, mortgage deed, environmental review, lead-based paint disclosure, and certain procurement-related documentation.
- We selected Penquis for review of the Authority's annual compliance reviews to determine whether the Authority is adequately monitoring its subrecipients under the HOME Repair program. Penquis was selected because it incurred the largest amount of project costs (\$930,912) of the seven CAAs using federal HOME funding for the HOME Repair program in program year 2006.
- We selected York County for review of the Authority's annual compliance reviews to determine whether the Authority is adequately monitoring its subrecipients under the MADI program. York County was selected because it received the next to largest amount of federal HOME funding, totaling \$39,275, of the four CAAs receiving \$111,772 in federal HOME funding for the MADI program in program year 2006. We excluded Penquis, which actually received the largest amount of funding (\$39,340), because Penquis was already selected for review under the HOME Repair program and selecting York County allowed for a more representative review of CAAs.
- Determined whether the Authority met its matching requirements. We also selected a nonrepresentative sample of four matching contributions, totaling \$8,296,579 in leveraged funds, from a universe of 161 matching contributions, totaling \$11,989,091, based on the largest contributions to determine whether Authority was leveraging from private resources.

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

INTERNAL CONTROLS

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.

Relevant Internal Controls

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

- Controls over administrative expenses.
- Controls to ensure that the grantee adequately monitors subrecipient performance.
- Controls over procurement.
- Controls over the matching and leveraging of funds.
- Controls over interfund transfers.
- Controls over tracking program complaints.

We assessed the relevant controls 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 item is a significant weakness:

- Controls to ensure that the grantee adequately monitors subrecipient performance (findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
2A	\$13,686

1/ Recommendations that funds 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 preaward reviews, and other savings which are specifically identified. In recommendation 2A, the \$13,686 represents the HOME funds that would be used more effectively with the assurance that homes receiving HUD funding have complied with housing quality standards.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

See page 20 for evaluation.

Auditee Comments

See below.



Maine Housing
Maine State Housing Authority

January 11, 2008

HUD-OIG
OFFICE OF AUDIT
BOSTON, MASSACHUSETTS

2007 JAN 15 AM 11:08

RECEIVED

John A. Dvorak
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region 1
Thomas P. O'Neill Federal Building
10 Causeway Street, Room 370
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:

We have reviewed the draft Audit Report detailing results of your recent review of the HOME Investment Partnership administered by the Maine State Housing Authority. Additionally, our staff met with Kevin Smullen and Morgan McCarthy on January 9 to discuss results of the review.

MaineHousing concurs with your findings, and offers the following statements in response to the recommendations suggested in the report.

Recommendation 1A. Review all HOME Repair and MADI program annual compliance reviews performed during periods of temporary transition of personnel assigned monitoring duties and ensure that all corrective action items have been adequately addressed.

MaineHousing Response

Energy and Housing Services (EHS) staff is reviewing all 2007 Home Repair and MADI issues identified during the annual compliance reviews to determine whether all corrective actions have been completed and that adequate documentation exists to support resolution. This review will be completed by January 31, 2008.

EHS is also implementing an electronic mechanism to track inspections and required corrective actions through to resolution. Homeownership will adopt a duplicate system to track MADI issues and concerns to resolution. Both tracking mechanisms will be in place by February 15th, 2008.

Recommendation 1B. Evaluate whether procedures to better coordinate and schedule inspections for its HOME Repair and MADI programs should be implemented and implement any needed procedures.

MaineHousing Response

Inspections for Home Repair will be done in two ways:

- A random selection of units receiving home repair will be inspected monthly (selected from the list of recently completed/closed projects).

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

- Additional units will be selected during the annual compliance review. Units selected will also include a sample of previously reviewed units that required corrections so that verification can occur that corrections were actually completed.

MADI inspections will be performed on a sample of units representing recently completed projects and the loan purchased by MaineHousing on a monthly basis. Performing inspections closer to the loan purchase date allows MaineHousing to identify any existing problems and ensure that they are resolved in a timely manner.

All inspections will be documented and any necessary corrections tracked to ensure they are completed.

Recommendation 1C. Consider hiring or using additional inspectors to assist with inspections for its HOME Repair and MADI programs.

MaineHousing Response

When MADI was transitioned to EHS, it was determined there was a need for an additional inspector for Home Repair and MADI. An additional resource has been dedicated to these programs and the individual has recently received the necessary HQS certification from Nan McKay. This position has been receiving on the job training by the Field Inspector for the last several months and will be able to inspect on his own starting February 1, 2008.

Recommendation 2A. Obtain the documentation necessary to substantiate that all deficiencies regarding the two homes identified were corrected to ensure that the \$13,686 in funding provided for the two homes was put to the best use.

MaineHousing Response

By February 15, 2008, MaineHousing will require the CAA(s) to submit documentation substantiating that all deficiencies are cured. Should the CAA(s) fail to provide the necessary documentation, MaineHousing will require the CAA(s) to reimburse MaineHousing for any program funds advanced in connection with the loan(s).

Recommendation 2B. Ensure that it maintains copies of all inspection reports based on CAA inspections of homes funded under MADI.

MaineHousing Response

Effective July 1, 2006, MaineHousing required copies of all inspection reports be included with the loan files before purchase.

Recommendation 2C. Ensure that CAAs provide evidence of correction of housing quality standards violations such as invoices for repairs to correct deficiencies on homes funded under MADI.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

MaineHousing Response
Effective immediately, MaineHousing will require copies of invoices for any repairs required to correct deficiencies on homes funded under MADI.

Please feel free to contact me anytime if you need anything else.

Sincerely,

Dale McCormick
Director

OIG Evaluation of Auditee Comments

The Auditee agreed with all the findings and recommendations, and the proposed planned actions resolve the conditions cited in the audit findings and respond to all the recommendations in the report.

Appendix C

CRITERIA

According to 24 CFR (*Code of Federal Regulations*) 92.504(a), the participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements and taking appropriate action when performance problems arise. The use of state recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.

In accordance with the Authority's written standard operating procedures on annual compliance reviews of CAAs, the Authority is required to track deficiencies not yet cleared, and if a response is not received from the CAA in a timely fashion, the appropriate Authority manager is required to contact the CAA for a status report.

In accordance with the program agreements between the Authority and two CAAs (Penquis and York County), the CAAs agree to comply with requirements and procedures set forth in the MADI program guide.

Chapter 5, section A, of the Authority's MADI program guide states that program funds may only be used in connection with the acquisition and rehabilitation of an existing or newly constructed home that satisfies specific requirements. One of those requirements noted in chapter 5, section H(1), of the program guide states that all homes shall comply with HUD's housing quality standards at the time of occupancy by the borrower.

Chapter 7, section Q(7), of the MADI program guide states that if the inspection of a home shows that the home contains lead hazards, the lender (CAA) should not proceed with the purchase of the home and should work with the borrower to find another eligible home. Section Q(7) further states that a borrower may not live in the home until the home complies with property standards (housing quality standards) and is free of all noted defects.

Chapter 8, section A, of the MADI program guide states that a borrower may not occupy a home unless and until the home complies with applicable state and local building codes and housing quality standards and is free of lead hazards, regardless of whether the borrower has children under the age of six.

Chapter 8, section B, of the MADI program guide dictates that the rehabilitation necessary to bring a home into compliance with housing quality standards must be completed within six months of the date the borrower purchases the home. It further states that the borrower and the borrower's family may not occupy the home until the home complies with housing quality standards. In addition, chapter 8, section B, stipulates that the Authority will not disburse program funds to a lender (CAA) in connection with a home until the home satisfies all program requirements, including without limitation the property standards (housing quality standards).

HUD regulations at 24 CFR 92.251(a)(2) state that housing acquired with program funds must meet all applicable state and local housing quality standards and code requirements. If there are no such housing quality standards or code requirements, the housing must meet HUD's housing quality standards.

HUD regulations at 24 CFR 92.612(b) state that housing assisted with initiative funds must meet the property standards in 24 CFR 92.251.

HUD Regulations at 24 CFR 92.508(a) state that each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met requirements of this part. The participating jurisdiction must maintain records demonstrating that each project meets the property standards of 24 CFR 92.251.