



Issue Date October 24, 2011
--------------------------------

Audit Report Number 2012-PH-1001
-------------------------------------

TO: Charles E. Halm, Director, Office of Community Planning and Development,  
Baltimore Field Office, 3BD

//signed//

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

SUBJECT: Healthy Neighborhoods, Inc., Baltimore, MD, Generally Ensured That Its  
Consortium Members Met Recovery Act Requirements

## **HIGHLIGHTS**

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

We audited Healthy Neighborhoods, Inc.'s Neighborhood Stabilization Program 2 based on a complaint received by our office and as part of our annual audit plan to review activities funded by the American Recovery and Reinvestment Act of 2009. The grantee received \$26 million in Program funds under the Recovery Act. Our objective was to determine whether the grantee ensured that its consortium members properly awarded Program contracts and resold homes according to the requirements of the Recovery Act and applicable U.S. Department of Housing and Urban Development (HUD) regulations.

### **What We Found**

The grantee generally ensured that its consortium members properly awarded Program contracts and resold homes according to the requirements of the Recovery Act and applicable HUD regulations. The grantee ensured home buyers met income eligibility requirements and that resale values were appropriate. The grantee needed to provide additional documentation and improved monitoring;

however, to ensure that consortium members awarded Program contracts in accordance with Federal requirements.

### **What We Recommend**

We recommend that the Director of HUD's Baltimore Office of Community Planning and Development require the grantee to develop and implement controls to make sure that it (1) adequately monitors its developers to ensure that Program requirements are followed, and (2) establishes an internal audit function as required.

For each recommendation in the body of the report 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 provided a discussion draft audit report to the grantee on September 15, 2011, and discussed it with the grantee during the audit and at an exit conference on October 3, 2011. Following the exit conference, we provided an updated draft report to the grantee on October 12, 2011. The grantee provided written comments to our draft audit report on October 18, 2011. The grantee generally agreed with the conclusions in the report. The complete text of the grantee's response, along with our evaluation of that response, can be found in appendix A of this report.

## TABLE OF CONTENTS

---

Background and Objective	4
Results of Audit	
Finding: The Grantee Generally Ensured That Its Consortium Members Met Recovery Act Requirements	6
Scope and Methodology	10
Internal Controls	11
Appendix	
A. Auditee Comments and OIG's Evaluation	13

## BACKGROUND AND OBJECTIVE

---

The Neighborhood Stabilization Program 2 was established by Title XII of Division A of the American Recovery and Reinvestment Act of 2009 to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. The U.S. Department of Housing and Urban Development (HUD) allocated \$2 billion in program funds to assist in the redevelopment of abandoned and foreclosed-upon homes. This funding was allocated competitively to eligible entities<sup>1</sup> that demonstrated the capacity to execute projects, leveraging potential, concentration of investment to achieve neighborhood stabilization, and additional factors as determined by HUD. HUD awarded a combined total of \$1.93 billion in Program grants to 56 grantees nationwide.

The Program is a component of the Community Development Block Grant (CDBG) program, and basic CDBG requirements govern it. However, the notice of funding availability<sup>2</sup> outlines many additional requirements, including but not limited to requirements that recipients of grants (1) expend 50 percent of their Program funds 2 years from the date of the grant agreement or by February 11, 2012, (2) expend 100 percent of their Program funds 3 years from the date of the agreement or by February 11, 2013, (3) submit quarterly reports using the Disaster Recovery Grant Reporting System to report quarterly achievements, (4) comply with 24 CFR (Code of Federal Regulations) Part 85 for State and local governments and 24 CFR Part 84 for nonprofit entities regarding procurement practices, and (5) comply with 24 CFR Part 58 for environmental reviews and requests for release of funds.

Healthy Neighborhoods, Inc., is a nonprofit entity organized in 2004. Its mission is to assist undervalued neighborhoods in increasing home resale values, market its communities, create high standards for property improvement, and forge strong connections among neighbors. This grantee was awarded \$26 million in Program funding on February 11, 2010. Under its agreement with HUD, the grantee serves as the lead member of a consortium and is responsible for monitoring its consortium members and ensuring compliance with HUD Program requirements. In its HUD-approved Program application, the consortium consists of the grantee and consortium members including Druid Heights Community Development Corporation, Incorporated; Habitat for Humanity of the Chesapeake, Incorporated; St. Ambrose Housing Aid Center, Incorporated; the City of Baltimore Department of Housing and Community Development; and Telesis Baltimore Corporation, a for-profit developer. In March 2011, the grantee requested to amend its HUD-approved Program application. It requested to reclassify three of its consortium members as developers. On June 30, 2011, HUD approved the amendment.

As shown below, activities focused on (1) acquisition and rehabilitation of abandoned or foreclosed-upon properties for sale to persons of low and moderate income, (2) buyers' closing cost assistance, and (3) project administration. As of August 15, 2011, the grantee had expended \$8.6 million of its award. The grantee has resold 20 program units to home buyers.

---

<sup>1</sup> Eligible entities include States, units of general local government, and nonprofit entities or consortia of nonprofit entities, which may submit proposals in partnership with for-profit entities.

<sup>2</sup> Notice of Funding Availability, FR-5321-N-01

<b>Housing activity</b>	<b>Responsible entity</b>	<b>Program funds granted</b>	<b>Projected number of units</b>	<b>Program funds expended</b>	<b>Program units sold</b>
Acquisition, rehabilitation, and resale	St. Ambrose Housing Aid Center, Inc.	\$8,112,600	186	\$1,838,361	7
Acquisition, rehabilitation, and resale	Druid Heights Community Development Corporation, Inc.	5,650,000	28	738,683	0
Acquisition, rehabilitation, and resale	Telesis Baltimore Corporation	4,733,200	35	2,212,784	0
Acquisition, rehabilitation, and resale	Habitat for Humanity of the Chesapeake, Inc.	4,200,000	100	3,155,675	3
Purchase and rehabilitation by direct buyer	Healthy Neighborhoods, Inc.	1,025,000		206,508	10
<b>Total housing activity</b>		<b>\$23,720,800</b>		<b>\$8,152,011</b>	
10 percent administration costs		\$2,372,080	Not applicable	\$492,020	Not applicable
<b>Totals</b>		<b>\$26,092,880</b>	<b>349</b>	<b>\$8,644,031</b>	<b>20</b>

Our objective was to determine whether the grantee ensured that its consortium members properly awarded Program contracts and resold homes according to the requirements of the Recovery Act and applicable HUD regulations.

## RESULTS OF AUDIT

---

### Finding: The Grantee Generally Ensured That Its Consortium Members Met Recovery Act Requirements

The grantee ensured home buyers met income eligibility requirements and that resale values were appropriate. The grantee needed to prepare or provide additional documentation after the audit, on five of the six contract awards totaling almost \$2.9 million in order to fully justify that it properly awarded the contracts in accordance with Federal requirements. This occurred because the grantee needed to develop and implement improved controls to make sure that it adequately monitored its consortium members' contract award process.

---

#### **Income Eligibility and Property Resale Value Requirements Were Met**

Section IV.A.3.c. of the notice of funding availability for the Program required home buyers to meet income eligibility requirements. Program funds were to be used to assist persons whose incomes did not exceed 120 percent of the area median income. We reviewed the income documentation of 17 home buyers assisted with Program funds and determined that all met income eligibility requirements.

Section J of appendix 1 of the notice of funding availability for the Program required that redeveloped properties sold to individuals as a primary residence be sold in an amount equal to or less than redevelopment costs. We reviewed the resale values of the properties sold and determined that the resale values did not exceed redevelopment costs. We also reviewed and selected a sample of 10 high-valued expenditures totaling \$2.7 million. We found that the \$2.7 million was used for expenditures that met Program eligibility requirements.

#### **The Grantee's Process for Awarding Program Contracts Needed Improvement**

Three of the grantee's consortium members procured services needed to complete the redevelopment of 73 properties acquired with Program funds. As of August 30, 2011, the consortium members had awarded six contracts totaling \$3.2 million. We reviewed the contract files of all six contracts to determine whether they were properly awarded. While the grantee eventually provided reasonable

assurance that it received fair and reasonable prices on these contracts, it needed to prepare and provide additional documentation after the audit on five of the six contract awards totaling almost \$2.9 million in order to fully justify that it received a fair and reasonable price and awarded the contracts in accordance with Federal requirements.

- Regulations at 24 CFR 84.43 required that procurement transactions be conducted in a manner providing full and open competition. Regulations at 24 CFR 84.46 further required that procurement records and files for purchases in excess of the small purchase threshold include a justification for lack of competition when competitive bids or services are not obtained. One consortium member awarded two contracts totaling \$649,525 without publicly advertising the solicitations. Instead, the consortium member e-mailed the solicitations to contractors that expressed an interest in previous newspaper advertisements for similar type work. HUD guidance required the invitation for bids to be published at least once in a newspaper of general circulation, providing sufficient time prior to bid opening. The grantee acknowledged the consortium member did not publicly advertise the two solicitations but believed it had received and evaluated a sufficient number of bids through e-mails it sent to potential bidders. After we raised concerns over the lack of public advertisements, the grantee provided estimates from its contractual inspector demonstrating that it received a fair and reasonable price. However, in accordance with HUD guidance and to make sure all interested contractors are provided an opportunity to bid on contracts, the grantee should ensure consortium members advertise solicitations at least once in a newspaper of general circulation, providing sufficient time prior to bid opening.
- Regulations at 24 CFR 84.44 required that the grantee set forth requirements that the bidder fulfill in order for the bid or offer to be evaluated by the recipient. The bid solicitations for two of the contracts reviewed totaling over \$1.2 million required that the bidders' resume include the company's expertise and experience in doing renovations which incorporated green technologies and building construction techniques. However, the winning bid package provided no evidence of any expertise and experience in doing renovations which incorporated green technologies and the bid evaluation form provided no evidence that this was considered in the contract award process. After we raised concerns over the lack of evidence of consideration of green technologies the grantee informed us none of the bidders had experience in green strategies. However, the consortium member needed to adequately document this assertion and provide evidence that expertise and experience in green technology was adequately evaluated and considered in its bid evaluation.

- Regulations at 24 CFR 84.46 required that procurement records and files for purchases in excess of the small purchase threshold include a basis for contractor selection and the basis for award cost or price. The bid evaluation for one contract award totaling almost \$1 million did not demonstrate a basis for contractor selection and the basis for award cost or price. After we raised concerns over the lack of evidence of the basis for award cost or price the grantee prepared documentation showing how it evaluated the bids and its claim that it received a fair and reasonable price.

### **The Grantee Did Not Adequately Monitor Contract Awards**

Section IV.A.3.f. of the notice of funding availability for the Program required the grantee to have a plan for monitoring program activities and ensuring the performance of its consortium members. Although the grantee had adequately monitored its consortium members' acquisition of abandoned and foreclosed homes, the grantee had not adequately monitored its consortium members' procurement of services for the redevelopment of the acquired homes. The grantee did not adequately monitor the contract award process used or the procurement files maintained by its consortium members to ensure Federal regulations were followed.

On June 30, 2011, the grantee received approval from HUD to reclassify its consortium members as developers. HUD's guidance for developers participating in the Program does not require developers to follow Federal procurement requirements or Federal management and budget circulars. However, developers must execute a developer's agreement with the grantee and provide a detailed cost estimate for redevelopment work. The developer may not provide housing counseling services to potential buyers. The grantee should closely monitor its developers' activities to ensure that Program requirements are followed.

### **The Grantee Did Not Have the Required Internal Audit Function**

In addition to having a monitoring plan, section IV.A.3.f. of the notice of funding availability for the Program required that the grantee have an internal audit function to examine potentially risky areas of program operations and management. The grantee had not established an internal audit function as required. However, at the completion of our audit, it stated that it was in the process of obtaining services from an external accounting firm so that the internal audit function could be implemented as required.

## **Technical Assistance Is To Be Provided to the Grantee**

HUD's Office of Technical Assistance performed an assessment of the grantee's Program during the week of August 18, 2011. Based on its evaluation, it recommended that technical assistance be provided to the grantee. Technical assistance is provided to achieve the highest level of performance and results in community planning and development areas including the Recovery Act programs. The grantee will receive technical assistance in the areas of program administration, financial administration, and compliance with Federal regulations. It will also be assisted with revising the number of units to be resold to home buyers.

## **Recommendations**

We recommend that the Director of HUD's Baltimore Office of Community Planning and Development require the grantee to

- 1A. Develop and implement controls to ensure that it adequately monitors its developers to ensure that Program requirements are followed.
- 1B. Establish an internal audit function as required.

## SCOPE AND METHODOLOGY

---

We conducted the audit from May to August 2011 at the grantee's office located at 2 East Read Street, Baltimore, MD, and its consortium members' offices located throughout Baltimore, MD. The audit covered the period February 2009 through August 2011.

To accomplish our audit objective, we reviewed

- The Recovery Act, the Program notice of funding availability, and related HUD documents.
- Regulations at 24 CFR Part 84, applicable HUD guidance, and other directives that govern the Program.
- The grantee's approved Program application, amended application, budgets, grant agreement, consortium members' agreements, developer's agreement, and other program records.
- Policies and procedures related to the grantee's and its consortium members' expenditures, disbursements, procurement, and monitoring plans.
- Public databases and census tract data to assess whether properties met eligibility criteria.
- Income documentation and buyers' closing cost assistance provided to 17 home buyers.

We conducted interviews with the grantee, its consortium members, its developer, and HUD staff. As of August 30, 2011, consortium members had awarded six contracts totaling \$3.2 million. We reviewed the contract files of the six contracts awarded. We also reviewed and selected a sample of 10 high-valued expenditures totaling \$2.7 million. We found that the \$2.7 million was used for expenditures that met Program eligibility requirements. We reviewed 17 home buyer files and determined that income eligibility requirements were met. Lastly, we reviewed the resale values of eight homes and found that they met Program requirements.

To achieve our audit objective, we relied in part on computer-processed data. The computer-processed data included the grantee's expenditure data, HUD's Line of Credit Control System data, and other computer-generated data. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

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 grantee needed to provide additional documentation and improved monitoring to ensure that consortium members properly awarded Program contracts in accordance with Federal requirements.

- The grantee did not ensure that its consortium members fully complied with Program regulations with respect to monitoring and the implementation of an internal audit function.

# APPENDIX

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments



VIA E-MAIL AND HAND-DELIVERY

October 18, 2011

John Buck  
Regional Inspector General for Audit, Philadelphia Region 3AGA  
U.S. Department of Housing and Urban Development  
Wanamaker Building  
100 Penn Square East, Suite 1005  
Philadelphia, PA 19107-3380

Re: HUD Office of Inspector General Audit of Healthy Neighborhoods, Inc.  
("HNI")/ Neighborhood Stabilization Program 2 Grant

Dear Mr. Buck:

Enclosed is the response of Healthy Neighborhoods, Inc. ("HNI") to the revised draft audit report regarding HNI's administration of its Neighborhood Stabilization Program 2 ("NSP2") grant, which we received on October 12, 2011 ("Draft Audit"). We greatly appreciated your willingness to prepare a revised draft based upon the additional information that we provided to you and your auditors. The revised draft is a more complete and accurate reflection of our responsible administration of our NSP2 program grant.

In general, we agree with the Draft Audit's finding and recommendations. Our response contains some suggested clarifications to the language contained in the Draft Audit report to ensure that the final audit correctly describes the role of HNI and the applicable federal requirements.

Please feel free to contact me should you have any additional questions or if I can be of additional assistance.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark Sissman".

Mark Sissman

Cc: Kimberly Harrison, Office of Inspector General, HUD  
Belinda Morales, Office of Inspector General, HUD  
Shaleena Nwokeuku, Office of Inspector General, HUD  
Carol B. Payne, HUD Baltimore Office  
Charles E. Halm, HUD Baltimore Office

Michael P. Wallace, Chair

Mark Sissman, President

Timothy D. Armbruster

Douglass Austin

Andrew M. Bertamini

George L. Bunting, Jr.

Kevin G. Byrnes

Cheryl A. Casciani

Robert A. DeAlmeida

George Eaton

Robert C. Embry, Jr.

Paul T. Graziano

Jon M. Laria

Theo C. Rodgers

Patrick G. Tehan

2 East Read Street, Baltimore, MD 21202

410-332-0387 | Fax 410-837-4701

[www.healthyneighborhoods.org](http://www.healthyneighborhoods.org)

**HEALTHY NEIGHBORHOODS, INC.'S RESPONSE TO  
OCTOBER 13, 2011 REVISED DRAFT OIG AUDIT REPORT REGARDING  
NEIGHBORHOOD STABILIZATION PROGRAM 2 GRANT**

Healthy Neighborhoods, Inc. ("HNI") appreciates the opportunity to respond to the revised draft audit report ("Draft Audit"), which we received on October 13, 2011. We are extremely pleased that, after a five-month audit of our files, the HUD OIG found that HNI ensured that all homebuyers met income eligibility and the resale values of homes met all program requirements.

HNI is proud that we have worked in partnership with our consortium partners to quickly and effectively use these Federal funds to reinvest in neighborhoods that have been decimated by the foreclosure crisis. HUD OIG's Draft Audit confirms that every dollar has been invested to serve eligible families. As of September 30, 2011, more than \$ 10 million had been spent on eligible program activities, and 100 vacant properties are currently in the process of being rehabilitated. In addition to creating new housing opportunities for low and moderate income families and stabilizing neighborhoods, HNI's NSP2 program has helped to create one hundred desperately needed jobs in the greater Baltimore region.

We are also pleased that the revised Draft Audit concludes that HNI generally ensured that its NSP2 consortium members properly awarded program contracts. However, we disagree with the conclusion that HNI had not adequately monitored the consortium members' procurement. Below we suggest some clarifications to the language contained in the Draft Audit to ensure that the final audit correctly describes the role of HNI in the award of contracts and the applicable federal requirements.

**Background**

HNI is a non-profit partnership of banks, foundations, government and community organizations formed to help strong but undervalued Baltimore neighborhoods increase home values, market their communities, create high standards for property improvement and forge strong connections among neighbors. HNI began as a pilot program of the Baltimore Community Foundation in 2000 to develop market- and asset- driven strategies to benefit neighborhoods with significant assets but stagnant real estate values. The pilot recognized the critical importance of making these neighborhoods once again attractive to home purchasers and renovators.

Based upon significant measurable performance over three years, the Baltimore Community Foundation organized a new institution, HNI, in 2004 to promote these strategies and bring the program to scale. HNI provides capital for purchase and rehab by homeowners, free professional advice for rehabbers, grants for community projects which support positive images, neighborhood marketing, performance measures, partnerships that support other community development action and advocates for the HNI philosophy. HNI builds homeowners' assets, focuses on neighborhood markets, targets measurable outcomes, values

neighborhoods as partners and forges partnerships among lenders, philanthropies and neighborhoods.

Because foreclosures were having a very significant harmful impact upon our neighborhoods, in July 2009, HNI, the City of Baltimore and four development partners applied as a consortium for funding from HUD under the Neighborhood Stabilization Program 2 ("NSP2") program. In this highly competitive process, the consortium led by HNI was awarded a \$26,092,880 grant. The other members of the consortium are Druid Heights Community Development Corporation, Inc.; Habitat for Humanity of the Chesapeake, Inc.; St. Ambrose Housing Aid Center, Inc.; and the for-profit Telesis Baltimore Corporation.

Under the NSP2 grant, HNI operates as the lead member of the consortium. For the non-profit members of this consortium, HUD's procurement standards under Part 84 of 25 C.F.R. have been applicable. (See NSP2 Notice of Funding Availability dated May 4, 2009.)

**Finding: HNI Generally Ensured that Its Consortium Members Met Recovery Act Requirements**

HNI agrees with the OIG's finding contained in the Draft Audit that HNI ensured that the consortium members met Recovery Act requirements. However, there are some statements in the Draft Audit that need to be clarified.

**Award of Contracts**

The following portions of the Draft Audit need to be revised to make clear that the non-profit consortium members, not HNI, awarded the contracts in question:

- Second sentence on page six should be clarified to state, "The grantee prepared or provided additional documentation after the audit on five of the six contract awards totaling almost \$2.9 million in order to fully justify that *the consortium members* properly awarded the contracts..."
- Second heading on page six stating, "The Grantee's Process for Awarding Program Contracts Needed Improvement," needs to be revised to clarify that the contracts were awarded by the non-profit consortium members. The following would be a more accurate statement of the OIG's findings: "The Grantee Generally Ensured that its Consortium Members Properly Awarded Contracts."
- The sentence that continues from the bottom of page six to the top of page seven should be clarified to state that the "*the consortium members* received a fair and reasonable price and awarded the contracts in accordance with Federal requirements," as opposed to the grantee.

**Comment 1**

**Comment 1**

**Comment 1**

## Comment 2

### Green Technologies

The second bullet point on page seven regarding green expertise still contains some problematic language. The bid solicitations did not require that the bidders have experience implementing green strategies as a threshold requirement for award of these contracts. Nothing in the bid documents indicates that this is a requirement, nor is it a requirement of the NSP2 program, and nothing in the bid document prohibited or discouraged bidders without "green" experience from submitting bids. Rather, the bidders were invited to provide any relevant experience if they had it. HNI monitored the bid process and, recognizing that none of the bidders had "green" experience, it sought technical assistance from HUD. Thereafter, all of the winning contractors were provided training and professional support for green strategies to help increase their capacity in this area. The OIG asserts that the non-profit consortium member failed to provide documentation that none of the bidders had "green experience." The consortium member had in its files bid documents from bidders all of whom failed to provide "green experience" and the consortium member provided a chart that was a synopsis of all of the bid proposals.

To further support technical assistance for the contractors and to guarantee fulfillment of the NSP2 requirement that houses undergoing gut rehabilitation reach the standard of "Energy Star Qualified New Homes," HNI will continue to utilize the technical assistance of the Enterprise Community Partners, Inc. and the services of a HERS rater. HERS rating is required to obtain the Energy Star rating.

This bullet point should be clarified to reflect this information, and the last statement in the bullet point should be deleted.

### Public Advertising

HNI has advised its consortium members that so long as they maintain consortium member status, they must advertise opportunities in excess of the small purchase threshold in newspapers of general circulation for each solicitation.

As a result of the approved amendment re-classifying some consortium members as developers, effective June 30, 2011, the only consortium members who are not classified as developers are Healthy Neighborhoods and the City of Baltimore, and neither of these members will be procuring construction contractors. The four current developers and any future developers will be required to follow HUD's procurement standards outlined in their respective Development Agreements.

HNI will continue to insure that all developers seek fair and reasonable pricing in the selection of contractors. Written documentation of selection will be required. It has been and will continue to be a policy, that the HNI NSP2 contractual construction inspectors evaluate rehabilitation contracts for every property for completeness of scope and for reasonableness of costs.

### Comment 3

#### **Monitoring & Internal Audit Function**

We appreciate the revisions that were made to the section in the Draft Audit regarding HNI's monitoring and the internal audit function. We agree that we adequately monitored our consortium members' acquisition of abandoned and foreclosed homes. However, we do not agree with the statement that we "had not adequately monitored" the consortium members' procurement of services for the re-development of the acquired homes.

We have a monitoring plan in place as required and employ a team of experienced professionals. Monitoring is an ongoing process, and we are continuing to refine, enhance and more broadly implement these controls.

HNI began in the hiring of a management team with decades of experience in managing public sector housing programs and in relevant private sector disciplines. Among the team members are four professionals well-experienced at the management of public funds; three consultant construction inspectors; one law firm experienced in HUD programs, finance and real estate development; and an outside accounting firm.

Healthy Neighborhoods began meeting with its partners on January 25, 2010, before the formal grant award. We continued with twice monthly meetings to review program requirements and progress for the first 14 months of the program. HUD Area Office staff attended most of these meetings. The meetings are now held monthly. Copies of the agendas for these meetings were provided to the OIG.

Previously, an experienced consultant construction inspector reviewed contracts, bids, invoices and the quality of work. Now that the contracts have been executed, work is underway, homes are being acquired and sold, and paperwork is in the files, an internal auditor has been selected to carry out this function, subject to a review of references.

In other HUD funded programs, the Baltimore HUD Area Office has allowed a non-profit housing developer to provide housing counseling to a buyer of a home from that non-profit so long as certain protections are in place. Among the protections are that a disclosure must be posted and provided to the homebuyer and the homebuyer must be informed that they have the option of seeking other counseling. The HUD NSP2 staff has provided similar guidance.

#### **Technical Assistance**

We appreciate the technical assistance provided by HUD and have requested support on the areas of program administration, financial administration and compliance with federal regulations. We look forward to continuing to work with HUD and the OIG to ensure that NSP2 funds are spent in accordance with program requirements.

### **OIG Evaluation of Auditee Comments**

- Comment 1** Although the consortium member awarded the contracts, the grantee was responsible for ensuring that Program requirements were followed. The grantee executed a Program grant agreement with HUD agreeing that it would comply with Program guidance and award terms. By executing the Program grant agreement, the grantee assumed responsibility for the grant on behalf of the consortium and was to ensure compliance with all Program requirements.
- Comment 2** The bidders were required to provide a company resume that included expertise and experience in green technology. The audit evidence showed that the consortium member failed to document that it considered expertise and experience in green technology (or lack thereof) in its bid evaluation.
- Comment 3** The audit evidence showed that the grantee needed to develop and implement improved controls to make sure that it adequately monitored its consortium members' contract award process.