



Issue Date	September 23, 2011
Audit Report Number	2011-SE-1008

TO: Doug Carlson, Director, Portland Office of Community Planning and Development, OED

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Project and Cost Eligibility Regulations

## **HIGHLIGHTS**

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

We audited the Idaho Housing and Finance Association's HOME Investment Partnerships Program because the U.S. Department of Housing and Urban Development (HUD) had not performed a comprehensive monitoring review of Idaho Housing's program since 2007 and it received approximately \$6 million in HOME grants from HUD in each of the fiscal years 2008 through 2010.

The objective of our review was to determine whether Idaho Housing complied with HOME project and cost eligibility requirements.

### **What We Found**

Idaho Housing did not always comply with HOME project and cost eligibility requirements. Specifically, it (1) did not always inspect acquisition and acquisition and rehabilitation projects for compliance with property standards and (2) disbursed HOME funds to borrowers for ineligible and unsupported costs.

## **What We Recommend**

We recommend that HUD require Idaho Housing to perform or procure independent inspections for property standards requirements and require owners to make necessary repairs. If repairs are not made within a reasonable time, Idaho Housing should be required to reimburse its HOME trust fund from non-Federal funds for the more than \$2.6 million expended on these projects. In addition, Idaho Housing should be required to reimburse its HOME trust fund from non-Federal funds for the \$58,001 expended on ineligible costs, provide supporting documentation for any portion of the \$399,327 which it cannot support as being eligible, implement effective policies and procedures, and receive technical assistance from HUD.

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 the discussion draft to Idaho Housing on August 26, 2011, and requested a response by September 9, 2011. Idaho Housing provided a response on September 9, 2011. Idaho Housing agreed with our findings and recommendations. The complete text of the auditee's response can be found in appendix B of this report.

# TABLE OF CONTENTS

---

Background and Objective	4
Results of Audit	
Finding 1: Idaho Housing Did Not Always Inspect Projects for Compliance With Property Standards	5
Finding 2: Idaho Housing Disbursed HOME Funds to Borrowers for Ineligible and Unsupported Costs	11
Scope and Methodology	14
Internal Controls	16
Appendixes	
A. Schedule of Questioned Costs	18
B. Auditee Comments	19
C. Ineligible and Unsupported Costs by Recommendation and Project	21
D. Projects Reviewed	22

## BACKGROUND AND OBJECTIVES

---

The National Affordable Housing Act of 1990 created the U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program. In January 1991, the governor of Idaho designated the Idaho Housing and Finance Association as the appropriate agency to act on behalf of the State of Idaho for all purposes under the Act. HUD has allocated almost \$18 million in HOME funds to Idaho over the past 3 grant years.

<b>Grant year</b>	<b>Grant amount</b>
2008	\$ 5,544,297
2009	6,171,896
2010	<u>6,167,417</u>
<b>Total</b>	<b>\$17,883,610</b>

The intent of Idaho Housing's HOME program is to increase the availability of safe and decent housing for low- and very low-income families, seniors, and individuals. Idaho Housing used HOME funds for

- New construction of affordable rental housing;
- Acquisition or rehabilitation of affordable rental housing or both;
- Direct downpayment assistance to home buyers; and
- New construction, and acquisition and rehabilitation of home-buyer properties.

The objective of our review was to determine whether Idaho Housing complied with HOME project and cost eligibility requirements.

## RESULTS OF AUDIT

---

### Finding 1: Idaho Housing Did Not Always Inspect Projects for Compliance With Property Standards

Idaho Housing did not always inspect HOME projects for compliance with applicable property standards. This condition occurred because Idaho Housing lacked the internal controls needed to adequately manage compliance with property standards from project application through completion. As a result, HUD and Idaho Housing lacked assurance that more than \$2.6 million in HOME funds was used for eligible HOME activities and that the intended program benefits were realized.

---

Idaho Housing did not always inspect HOME acquisition and acquisition and rehabilitation multifamily projects for compliance with applicable property standards.

#### **HOME Regulations Require Inspections**

The HOME regulations at 24 CFR (Code of Federal Regulations) 92.251(a) state that grantees must ensure compliance with property standards requirements at the time of project completion. Housing that is constructed or rehabilitated with HOME funds must meet minimum building code requirements before project completion. Idaho Housing defined these requirements in chapter 2 of its HOME administrative plan and exhibit C, Written Rehabilitation Standards.

Housing that is acquired with HOME funds must meet all applicable State and local housing quality standards and code requirements, and if there are no such standards or code requirements, the housing must meet the HUD housing quality standards in 24 CFR 982.401, Section 8. Idaho Housing stated in chapter 2 of its administrative plan that acquisition projects must meet minimum property standards set forth in the Section 8 program housing quality standards.

#### **Rehabilitation Projects Were Not Inspected for Compliance With Minimum Code Requirements**

Idaho Housing did not determine whether three multifamily acquisition and rehabilitation projects met HOME minimum building code requirements at the time of project completion. It provided more than \$1 million in HOME funds for the acquisition of these projects. U.S. Department of Agriculture Rural Development grant assistance and Low Income Housing Tax Credits provided

funds for their rehabilitation. However, Idaho Housing did not inspect them for compliance with the minimum code requirements as established in its rehabilitation standards.

These projects were rehabilitated between 2008 and 2010. While there was some electrical work done on the projects, not all of the electrical systems were brought up to rehabilitation standards effective in 2008. In the units we visited, there was no evidence of any electrical inspection or permit since the 1970s.

Idaho Housing's rehabilitation standards state that all units must have ground fault circuit interrupter receptacles or protection for all exterior, bath, and kitchen sink receptacles. During our site visit, we noted that many of the electrical outlets did not have ground fault circuit interrupter (GFI) receptacles where required.



Kitchen outlet no GFI



Exterior outlet no GFI or cover

These standards also state that the heating system must be in sound condition and not present a health or safety hazard, but we noted that some of the units had electrical baseboard heaters that were rusted and corroded.



Rusted baseboard heater

In addition, the rehabilitation standards specify that wood that touches the earth must be pressure treated. We noted that the exterior of one of the projects had wood between the vinyl siding and the ground that was not in good repair as required by the standards and was not pressure treated wood.



Exterior wood not pressure treated

The purpose of our visits was to determine whether there were obvious rehabilitation standards violations, not to conduct a full inspection of the projects. Therefore, other violations may exist.

### **Acquisition Projects Were Not Inspected for Compliance With HUD Housing Quality Standards**

Idaho Housing did not determine whether four multifamily acquisition projects met minimum housing quality standards at the time of project completion. It provided more than \$1.5 million in HOME funds for the acquisition of these projects but did not inspect them for compliance with HUD's housing quality standards. According to Idaho Housing's 2008 administrative plan, acquisition projects that are not going to be rehabilitated must meet HUD's Section 8 housing quality standards. These standards require that the property be decent, safe, and sanitary. The four "Village" multifamily projects were acquired with HOME funds during 2008 and 2009.

Idaho Housing's HOME administrative plan provided for a physical needs assessment to be performed and all critical items to be corrected. However, the physical needs assessment did not include all of the elements required in a housing quality standards inspection and did not require an inspection of all units for compliance with housing quality standards. In addition, the owners did not always correct items identified as critical.

The physical needs assessment for Leisure Village II included replacement of all windows and exterior paint within the first 2 years. However, only some of the windows were replaced, and the exterior trim was not painted. Excess cash that had been withheld at closing for these activities went to the owner. During our site visit, we noted that the exterior trim paint was flaking off the wood and several beams were splitting. Although not mentioned in the physical needs assessment, we also noted that one unit's sliding glass door was difficult to open

and had not been replaced and the threshold wood was rotting, causing a potential safety hazard.



Rotten wood under sliding glass door threshold



Trim paint flaking



Beam rotting

**Idaho Housing Lacked Internal Controls for Property Standards.**

Idaho Housing lacked the internal controls needed to ensure compliance with property standards from project application through completion. Its administrative plan put the responsibility for compliance with property standards on the project owner, it did not have detailed procedures for project completion, and the administrative plan was not always used to develop procedures for monitoring compliance with property standards.

Idaho Housing's administrative plan put the responsibility for compliance with property standards on the project owner. However, Idaho Housing, as the participating jurisdiction, was ultimately responsible for ensuring that projects complied with applicable property standards, and the owners did not perform the required inspections.



A 2007 Portland, OR, Office of Community Planning and Development monitoring report issued a finding on Idaho Housing for not ensuring compliance with property standards. The report stated that Idaho Housing "...is responsible for ensuring compliance with the property standard requirements of 92.251(a)(2) through its own inspections ..."

The administrative plan was not always used to develop procedures for monitoring compliance with property standards. Idaho Housing did not have written procedures other than the plan for monitoring compliance with property standards.

### **HUD and Idaho Housing Lacked Assurance That Funds Were Used for Eligible Activities**

HUD and Idaho Housing lacked assurance that more than \$2.6 million in HOME funds was used for eligible HOME activities and that the intended program benefits were realized. The tenants lived in housing that was not durable and in which electrical hazards existed. In addition, the projects were not always safe and decent.

### **Recommendations**

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

- 1A. Require Idaho Housing to perform or procure independent inspections for minimum building code requirements on the acquisition and rehabilitation properties that received HOME funding and require the owners to make any repairs necessary as a result of the inspections. If repairs are not made within a reasonable time, Idaho Housing should be required to reimburse its HOME trust fund from non-Federal funds for the \$1,022,898 expended on ineligible projects.
- 1B. Require Idaho Housing to perform or procure independent inspections for HUD housing quality standards on the acquisition-only properties that received HOME funding and require the owners to make any repairs necessary as a result of the inspections and identified in the earlier physical needs assessments. If repairs are not made within a reasonable time, Idaho Housing should be required to reimburse its HOME trust fund from non-Federal funds for the \$1,591,620 expended on ineligible projects.
- 1C. Ensure that Idaho Housing management and staff prepare and implement effective written policies and procedures for compliance with HOME

property standards requirements from initial application through project completion.

- 1D. Provide technical assistance to Idaho Housing to ensure that its management and staff comply with HOME regulations.

## Finding 2: Idaho Housing Disbursed HOME Funds to Borrowers for Ineligible and Unsupported Costs

Idaho Housing disbursed HOME funds to borrowers for ineligible and unsupported costs. These payments occurred because Idaho Housing did not fully implement its cost controls. Consequently, it spent about \$58,000 on ineligible activities that would otherwise have been available to benefit low- and very low-income families, seniors, and individuals. In addition, neither HUD nor Idaho Housing had assurance that more than \$399,000 spent on unsupported costs was used for eligible activities.

---

Idaho Housing disbursed HOME funds to borrowers for ineligible and unsupported costs.

### **Idaho Housing Disbursed Funds for Ineligible Costs**

Idaho Housing disbursed HOME funds to one borrower for an ineligible asset management fee. This fee was a required fee under the Low Income Housing Tax Credit program, which was one of the funding sources for the project. Although the fee was required for the program, it did not qualify as an eligible fee under the HOME program since it did not meet any of the cost categories under the eligible project costs identified in 24 CFR 92.206 through 92.209. According to 24 CFR 92.214(a)(9), Prohibited Activities, HOME funds may not be used to pay for any cost that is not eligible under 24 CFR 92.206 through 92.209.

Contrary to 24 CFR 92.504(c)(1)(i), Idaho Housing executed a written agreement with the borrower without completing a budget specifying the tasks that were eligible for HOME funding. Specific requirements include the tasks to be performed, a schedule for completing the tasks, and a budget. These items must be in sufficient detail to provide a sound basis for Idaho Housing to effectively ensure that HOME funds were not used for ineligible activities.

### **Idaho Housing Disbursed Funds for Unsupported Costs**

Idaho Housing disbursed HOME funds to five borrowers for unsupported general requirements costs. Although these costs might have been eligible costs, the borrowers did not have full documentation to substantiate what activities specifically were considered construction general requirements. According to Idaho Housing's HOME program administrative plan, all disbursement requests to Idaho Housing must be evidenced by full documentation in the form of bills, invoices, or receipts. Because there was no supporting documentation, we were not able to substantiate the eligibility of the draw requests. Idaho Housing

accepted this requirement as an industry standard for contractors to include as a part of the contractor's construction progress payment.

### **Written Agreements Did Not Define Eligible Costs**

Idaho Housing's written agreement with project owners did not always define the eligible costs that were to be paid for with HOME funds. This oversight was brought to Idaho Housing management's attention in 2004 and again in 2007 HUD monitoring reviews. HUD cited Idaho Housing for not specifying how the HOME funds were to be used in its written agreements. Since HOME-funded rental housing projects usually include development costs that are ineligible for HOME funding, the specific use of HOME funds needs to be identified in the project agreement and is a required element of written agreements.

In addition, Idaho Housing did not require contractors to submit full documentation of specific costs incurred. It paid what was submitted on the Idaho Housing form called "Request for HOME Draw" and the borrower's form called "Owner's Draw Request," which listed only the summary project line item costs. Idaho Housing should have obtained documentation to support the items listed on the forms to determine the eligibility of the draw requests. Although Idaho Housing adopted the industry practice, the industry practice was not developed to further prudent HOME grant management.

### **Idaho Housing Inappropriately Spent Costs**

Idaho Housing inappropriately spent about \$58,000 on ineligible activities that would otherwise have been available to benefit low- and very low-income families, seniors, and individuals. In addition, neither HUD nor Idaho Housing had assurance that more than \$399,000 spent on unsupported costs was used for eligible activities.

### **Recommendations**

We recommend that the Director of the HUD Portland Office of Community Planning and Development to require Idaho Housing to

- 2A. Reimburse its HOME trust fund from non-Federal funds for the \$58,001 expended on ineligible costs.

- 2B. Provide supporting documentation for the \$399,327 in unsupported costs or reimburse its HOME trust fund from non-Federal funds for any costs that remain unsupported.
  
- 2C. Implement its cost controls by requiring detailed eligible costs in its written agreements and comparing those costs to the drawdown requests for eligibility.

## SCOPE AND METHODOLOGY

---

Idaho Housing spent more than \$19.8 million in HOME funds on 553 activities, of the activity types shown below, from April 2008 through February 2011. We obtained this information from HUD's Integrated Disbursement and Information System.

Type	Activity	Funds expended
Single family	Acquisition and new construction	\$ 771,851
Single family	Acquisition only	6,328,265
Single family	New construction	569,118
Multifamily	Acquisition and new construction	1,075,115
Multifamily	Acquisition and rehabilitation	1,022,898
Multifamily	Acquisition only	1,974,372
Multifamily	New construction	5,504,610
	Administration and other	2,602,353
	Total	\$19,848,582

To achieve our objectives, we reviewed HUD and Idaho Housing criteria and contracts, met with HUD and Idaho Housing staff, and reviewed HUD and Idaho Housing files and other records.

We initially reviewed a statistically sampled selection of vouchers to determine whether Idaho Housing obtained sufficient documentation to support the eligibility of costs. Based on the voucher review, we determined that a review by project would best meet our objectives. We selected 22 projects for project eligibility, with HOME dollars committed ranging from \$35,000 to nearly \$1.4 million. These projects consisted of all new construction multifamily projects that exceeded \$140,000 and all multifamily acquisition and acquisition and rehabilitation projects. In addition, we selected all single-family new construction projects that were built in Southeast Idaho.

For cost eligibility, we reviewed all 11 HOME multifamily new construction projects. We did not review the other multifamily projects' costs since we questioned them entirely based on noncompliance with property standards.

Our review of the single-family downpayment assistance program did not disclose any findings. See appendix D for a listing of projects selected for review and total amount drawn through February 2011.

We obtained and reviewed project files for pertinent documentation such as project applications, loan and regulatory agreements, HOME fund drawdowns, project physical needs assessments, HOME project monitoring performed by Idaho Housing, and project closeout documents. We also made site visits to all projects reviewed.

We did not rely on automated data other than to select our initial sample, and we reviewed hardcopy documents for our analysis.

Our audit covered the period April 2008 through February 2011. We expanded the period as needed to evaluate historical and current information pertinent to our review. We performed our audit work onsite at Idaho Housing, 565 West Myrtle, Boise, ID, and at various project sites throughout the State from March through July 2011. We briefed Idaho Housing management and HUD's Portland Office of Community Planning and Development management throughout the audit.

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 for determining compliance with applicable laws and regulations.

We assessed the relevant control 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:

- Idaho Housing did not have adequate controls in place to ensure that inspections were performed on projects for compliance with property standards (finding 1).



- Idaho Housing did not have adequate controls in place to ensure that HOME funds disbursed to borrowers complied with HOME requirements for eligibility and support of costs (finding 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$1,022,898
1B		\$1,591,620
2A	<u>\$58,001</u>	
2B		<u>399,327</u>
Total	<u>\$58,001</u>	<u>\$3,013,845</u>

1/ Ineligible costs are costs charged to a HUD 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 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



September 9, 2011

Ronald J. Hosking, Regional Inspector General for Audit  
U.S Department of Housing and Urban Development  
Office of the Inspector General  
Region X Office of Audit  
909 First Avenue Suite 126  
Seattle, WA 98104-1000

Dear Mr. Hosking,

Please accept this correspondence as IHFA response to the draft OIG audit report transmitted to us on August 26, 2011.

**Recommendations 1A & 1B** (page 2 of draft document)

IHFA concurs with recommendation number 1A (\$1,022,898) and 1B (\$1,591,620) as outlined in Appendix C. IHFA will require HQS inspectors to schedule inspections within 60 days of the OIG final report. IHFA will coordinate timeframes to ensure repairs sufficient to satisfy HQS reinspections (if any) with the HUD Portland Office of CPD (HUD). IHFA shall provide documentation related to HQS inspections as directed by HUD. IHFA will work with HUD to define reasonable timeframes to rectify compliance issues for the properties identified. Timeframes on repair items identified will be conditioned upon type and location (interior/exterior) and climate considerations. It is the intent of IHFA to resolve the all issues pertaining to these recommendations as directed by HUD Portland CPD office.

IHFA will develop written internal control procedures acceptable to HUD that address HOME property standards requirements. IHFA will also develop a peer review process to address overall compliance with HOME requirements in consultation with HUD.

IHFA will work with HUD to identify areas of need for technical assistance and staff training to strengthen IHFA compliance with HOME regulations.

**Recommendation 2A** (page 2 of draft document)

IHFA acknowledges this finding as outlined in Appendix C, and will work with HUD Portland CPD staff to identify possible options to clear the finding. IHFA estimates resolution of this recommendation within 45 days (or as directed by HUD) of issuance of OIG final report.

**Recommendation 2B** (page 2 of draft document)

IHFA concurs with recommendation 2B (\$399,327) as outlined in Appendix C. IHFA will provide categorical line item documentation, acceptable to HUD, to substantiate the unsupported costs within 45 days (or as directed by HUD) of issuance of OIG final report.

Please let me know if I can provide clarification on any of the items above.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Gruber".

James M. Gruber

Grant Programs Manager

Cc: Doug Carlson, Director, CPD, Portland Field Office

Julie Williams, Executive Vice President, IHFA



## Appendix C

### INELIGIBLE AND UNSUPPORTED COSTS BY RECOMMENDATION AND PROJECT

---

<b>Recommendation number</b>	<b>Integrated Disbursement and Information System number and activity</b>	<b>Ineligible costs</b>	<b>Unsupported costs</b>
1A	5153 - Clover Creek I Apartments		558,220
1A	5154 - Clover Creek II Apartments		302,710
1A	5155 - Clover Creek III Apartments		<u>161,968</u>
	Total 1A		<u>\$1,022,898</u>
1B	5158 - Freedom Village		270,800
1B	5159 - Leisure Village II		716,330
1B	5160 - Leisure Village VIII		296,700
1B	5161 - Leisure Village X		<u>307,790</u>
	Total 1B		<u>\$1,591,620</u>
2A	5184 - Cardona Senior Apartments	<u>\$58,001</u>	
	Total 2A	<u>\$58,001</u>	
2B	5184 - Cardona Senior Apartments		\$ 60,682
2B	5935 - Kathy Reed Senior Apartments		117,154
2B	4766 - Lakeview Family Apartments		9,360
2B	5574 - Lynn Peterson Disabled Apts		170,931
2B	5185 - Rosslare Senior Apartments		<u>41,200</u>
	Total 2B		<u>\$ 399,327</u>
	Total	<u>\$58,001</u>	<u>\$3,013,845</u>

---

## Appendix D

### PROJECTS REVIEWED

<b>IDIS* number</b>	<b>IDIS activity</b>	<b>Type</b>	<b>Costs committed</b>
5184	Cardona Senior	New construction	\$ 1,074,849
5153	Clover Creek I	Acquisition & rehabilitation	558,220
5154	Clover Creek II	Acquisition & rehabilitation	302,710
5155	Clover Creek III	Acquisition & rehabilitation	161,968
5158	Freedom Village	Acquisition only	270,800
5406	Green Meadows Condos	Acquisition only	35,000
5935	Kathy Reed - Neider House	New construction	1,398,039
4766	Lakeview Family Apartments	New construction	1,057,490
5159	Leisure Village II	Acquisition only	716,330
5160	Leisure Village VIII-Willow Creek	Acquisition only	296,700
5161	Leisure Village X	Acquisition only	307,790
5574	Lynn Peterson - Fruitland	New construction	1,386,325
4940	Market Lake	Acquisition only	392,752
5955	Mill River Seniors	New construction	440,000
5937	PNHS Homebuyer Infill 2009	New construction	280,000
5677	Ponderosa Family Apartments	New construction	300,000
5868	River Street Senior Apartments	New construction	515,000
6118	Riverstone West Family Apts	New construction	517,500
5058	Rose Park	New construction	800,000
5185	Rosslare Senior	New construction	900,000
Multiple	SEICAA Homebuyer	New construction	960,000
5936	Tullamore Senior Apartments	New construction	143,164
<b>Total reviewed</b>			<b><u>\$12,814,637</u></b>

\* IDIS = HUD's Integrated Disbursement and Information System