OFFICE OF AUDIT
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Prince George's County, Largo, MD, Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements

2012-PH-1011

August 3, 2012

Issue Date: August 3, 2012

Audit Report Number: 2012-PH-1011

TO: Michael Rose, Director, Office of Community Planning and Development, Washington, DC, Field Office, 3GD

//signed//

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

SUBJECT: Prince George's County, Largo, MD, Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of Prince George's County's HOME Program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6729.

August 3, 2012

Prince George's County, Largo, MD, Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements

Highlights

Audit Report 2012-PH-1011

What We Audited and Why

We audited Prince George's County, MD's administration of its HOME Investment Partnerships Program as part of our annual audit plan. Our objective was to determine whether the County properly administered its Program by ensuring that its community housing development organizations were eligible and complied with Program requirements, providing rental, home ownership, and rehabilitation assistance in accordance with requirements and implementing sufficient controls to ensure the appropriate use of Program funds.

What We Recommend

We recommend that the Director of HUD's Washington, DC, Office of Community Planning and Development require the County to (1) repay the Program $2.4 million it spent on ineligible expenses, (2) provide support for $1.3 million in expenses or repay the unsupported amount to the Program, (3) reprogram $4.7 million in Program funds as appropriate for eligible Program activities and to improve its administration of the Program, and (4) implement procedures to ensure that Program funds are disbursed and used in compliance with applicable requirements.

What We Found

The County generally did not administer its Program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements and guidelines. It did not ensure that three of its four active housing development organizations were eligible and operating in compliance with Program requirements. It also improperly committed Program funds and could not show that it followed requirements related to Program funds it provided for rental, downpayment and rehabilitation assistance.

These problems occurred because County staff overlooked Program requirements and County officials mismanaged the Program. Also, the County failed to perform monitoring according to Program requirements. As a result, it made approximately $2.4 million in ineligible disbursements and could not properly account for $1.3 million in disbursements. The County also had about $4.7 million in excess, improperly committed, or underused Program funds.

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BACKGROUND AND OBJECTIVE

The HOME Investment Partnerships Program was created under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR (Code of Federal Regulations) Part 92. The Program provides formula grants to States and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income people. It is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Participating jurisdictions may choose among a broad range of eligible activities, using Program funds (1) to provide home purchase or rehabilitation financing assistance to eligible homeowners and new home buyers; (2) to build or rehabilitate housing for rent or ownership; or (3) for "other reasonable and necessary expenses related to the development of non-luxury housing," including site acquisition or improvement, demolition of dilapidated housing to make way for a Program-assisted development, and payment of relocation expenses.

As a participating jurisdiction or grantee, Prince George's County administers its Program through its Department of Housing and Community Development. The County received the following Program grants from HUD over a 9-year period:

Fiscal year	**HOME funds received**
2002	$ 2,767,000
2003	3,261,245
2004	3,730,029
2005	3,224,106
2006	2,966,867
2007	2,957,752
2008	2,829,688
2009	3,120,592
2010	3,104,366
Total	**$27,961,645**

HUD deobligated more than $2.1 million of the County's 2009 Program funds because of its failure to meet the expenditure deadline.

Jack Johnson served as the county executive from 2002 through 2010. In February 2011, he was indicted for soliciting and accepting things of value in exchange for providing and agreeing to provide favorable official action for and on the behalf of developers and other favored contractors. He pled guilty in May 2011, and in December 2011 he was sentenced to about 7 years in Federal prison. James Johnson, the former director of the County's Department of Housing and Community Development, was also involved in the conspiracy and pled guilty in January 2011. James Johnson served as the housing director from November 2009 until December 2010. He had served as the acting housing director from October 2008 until November 2009. James Johnson was sentenced to 37 months in prison. Rushern Baker became the county executive, effective November 2010, and Eric Brown became the housing director in July 2011.

The grantee spends its Program funds on the following major programs and activities:

- Homeowner Rehabilitation Program
- Homebuyer activities
- Multifamily Rental Housing Construction and Rehabilitation Program
- Community housing development organizations

In addition, 10 percent of the Program funds are authorized for administrative costs.

Our objective was to determine whether the County properly administered its Program by ensuring that its community housing development organizations were eligible and complied with Program requirements, providing rental, home ownership, and rehabilitation assistance in accordance with requirements and implementing sufficient controls to ensure the appropriate use of Program funds.

RESULTS OF AUDIT

Finding: The County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements

The County generally did not administer its Program in accordance with HUD requirements and guidelines. It did not ensure that three of its four active housing development organizations were eligible and operating in compliance with Program requirements. It also improperly committed Program funds and could not show that it followed requirements related to Program funds it provided for rental, downpayment, and rehabilitation assistance. These problems occurred because County staff overlooked program requirements and County officials mismanaged the Program. Also, the County failed to perform monitoring according to Program requirements. As a result, it made approximately $2.4 million in ineligible disbursements and could not support $1.3 million in disbursements. It also had about $4.7 million in excess, improperly committed, or underused Program funds.

Development Organizations Were Ineligible

The County awarded Program funds to three community housing development organizations that did not meet eligibility requirements. The three organizations - Roots of Mankind Corporation, Omega Gold Development Group, and Kairos Development Corporation - did not meet the definition of a community housing development organization provided by regulations at 24 CFR 92.2.

According to the regulations, such an organization must have among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons, as evidenced in its charter, articles of incorporation, resolutions, or by-laws. It must have specific standards of financial accountability, a demonstrated capacity for performing activities assisted with Program funds, and a history of serving the community within which housing to be assisted with Program funds is to be located. It also must maintain accountability to low-income community residents by (1) maintaining at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations; and (2) providing a formal process for low-income program beneficiaries to advise the organization in its decisions regarding the design, siting, development, and management of affordable housing. HUD's Office of Community Planning and Development (CPD) Notice CPD-97-11, attachment A, mirrors these requirements.

The audit evidence showed that the three development organizations did not meet the eligibility requirements shown in table 1 below.

Table 1

Eligibility requirement not met	Development organization		
	Roots of Mankind	**Omega Gold**	**Kairos**[1]
Governing documents indicate purpose to provide decent affordable housing	X		X
Documentation of compliance with financial accountability standards at 24 CFR 84.21	X		X
Demonstrated capacity to complete activities assisted with Program funds			X
History of serving in community where Program-assisted projects are to be located	X	X	
One-third of board membership reserved for representatives of low-income residents	X	X	X
Formal process for low-income beneficiaries to provide input on affordable housing	X		X

In the case of Roots of Mankind, aside from not meeting eligibility requirements, its receipt of certification as a development organization was questionable because in April 2011, its developer pled guilty to conspiracy to commit extortion in connection with paying bribes to the County's former executive and housing directors.

The County Awarded About $1.2 Million in Operating Funds to Ineligible Development Organizations

The County did not comply with or ensure compliance with Program requirements related to development organizations. It awarded $50,000 in operating funds to Roots of Mankind, which was not an eligible development organization. It also awarded three operating grants totaling $100,000 to Omega Gold between 2006 and 2008. In addition to failing to ensure Omega's eligibility as a development organization, it did not enter into an agreement with Omega for housing to be developed, sponsored, or owned within 24 months of the funding as required by regulations at 24 CFR 92.300(e). The County finally executed an agreement with Omega Gold in March 2011 to develop a project. HUD canceled the project in April 2012 because the County failed to draw funds for the project within 12 months of the agreement in compliance with Program requirements.

[1] HUD determined that Kairos was ineligible during a monitoring review it performed in 2011.

Therefore, Omega and Roots of Mankind were not eligible for the $150,000 in operating funds they received.

In April 2011, HUD determined that Kairos did not meet eligibility requirements based on a monitoring review it performed. Also, Kairos failed to properly manage two predevelopment loans it received by including ineligible amounts for property acquisition and exceeding the Program limit for predevelopment expenses. As a result, in August 2011, HUD asked the County to repay about $1 million in Program operating and set-aside funds that were provided to Kairos. However, as of April 2012, it had not repaid the funds.

The County Funded a $1.7 Million Project That Was Not Completed

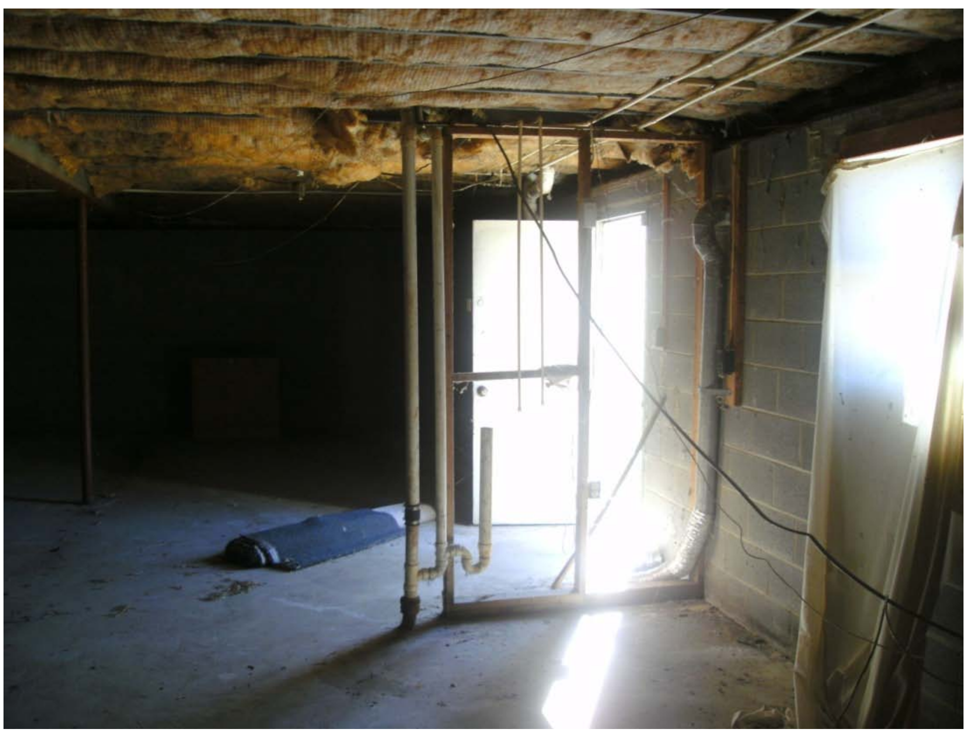
In October 2009, the County executed a $1.7 million commitment agreement with Roots of Mankind to develop a project (Romwood Square) which involved renovating 11 existing single-family homes to be rented to eligible families and managed as affordable housing under regulations at 24 CFR 92.252. In addition to the organization being ineligible, the basis of the agreement was questionable because Roots of Mankind did not apply for the project funds until March 2010. Section II of the agreement stated that the County's Department of Housing and Community Development had received, evaluated, and recommended approval for Roots of Mankind's application for Program funds. Therefore, it was not clear what the County's Housing Department reviewed before recommending approval of project development funds for Roots of Mankind.

According to County files, the estimated project start and completion dates for Romwood Square were January 2010 and August 2010, respectively. Roots of Mankind selected contractors and requested and received about $1.2 million in July 2010 to cover acquisition costs and developer fees for the project. However, our onsite visit during the audit disclosed that no renovations had been completed and the properties were vacant. There were several signs of neglect or abandonment including damaged foundation, debris caused by a broken storm door, a fallen tree, damaged roofing, and overgrown grass or plants as shown in the pictures below.

Foundation wall in need of repair at property 15200.

Debris from broken storm door at property 15204.

Fallen tree at property 15205. This property also had a broken window that is not visible in the picture.



Evidence of abandonment at property 15205.

Damaged roof at property 15207.

Overgrown grass and weeds at property 15208.

Program regulations incorporated into HUD HOMEfires[2] Volume 3, Number 5, require that construction or rehabilitation related to Program-funded projects be reasonably expected to start within 12 months of fund commitment. Although the County expected the project to start about 2 to 3 months after the agreement was executed and completed 8 months later, we found no evidence to show that it diligently monitored and followed up with Roots of Mankind to ensure the start and completion of the project. A letter in the County's files showed that it met with Roots of Mankind in April 2011 (more than a year and a half after Program funds were committed) to discuss its lack of progress on the project. The County requested that Roots of Mankind provide a proposal by April 22, 2011, to show its intentions for completing the project. The County also inspected the project in June 2011, at which point it noted that the grass was overgrown. County records stated that Roots of Mankind was issued a citation and asked to address the violation within 10 days. Roots of Mankind did not provide the requested proposal. Also, there was no documentation to show that it addressed the citation or that the County performed other project reviews or inspections.

The County said that it would take legal steps to terminate funding for the project and recover the $1.2 million it provided for project acquisition costs. It also said that it would reprogram the remaining committed funds of about $464,000 to other eligible projects. The recovery of the $1.2 million and the invalidation of the remaining committed funds would increase the County's risk of not meeting the deadline to commit the funds (commitment shortfall). Also, the recovery of the $1.2 million would increase the County's risk of not disbursing the funds by the mandated deadline (disbursement shortfall). Any fund shortfalls would be subject to potential recapture by HUD.

The County Improperly Committed Funds in HUD's Information System

HUD requires grantees to enter fund commitments into its Integrated Disbursement and Information System. HUD uses the information system to monitor compliance with Program requirements for committing funds. The County improperly committed Program funds in seven cases related to development organization and downpayment assistance activities in HUD's information system. It did not correctly commit predevelopment loan funds for two development organization activities known as Livingston Forest and Singer Building. According to chapter 12 of HUD's information system training manual, the funds should have been classified with a specific code to identify them in the system and initially funded only with the approved loan amounts. However, in both cases, the County did not classify the activities with the specific required code. It also funded both activities with the entire amount of the related

[2] HOMEfires is the official policy newsletter of the HOME Program. Each newsletter answers a specific policy question related to the Program.

commitment agreements instead of just the funds for the loans as shown in table 2 below.

Table 2

Project	Committed funds	Correct commitment (approved loan amount)	Excess commitment	Adjustments[3] to committed funds	Committed funds balance
Livingston Forest	$1,900,000	$400,000	$1,500,000	$1,900,000	$ 0
Singer Building	1,300,000	235,500	1,064,500	558,182	741,818
Total	$3,200,000	$635,500	$2,564,500	$2,458,182	$741,818

As shown in the table above, the County unnecessarily overcommitted about $2.5 million for the predevelopment loans. The projects related to the predevelopment activities were later determined to not be feasible; therefore, the County unnecessarily tied up Program funds when it made excess commitments for the activities. One of the activities had a remaining balance of about $741,800, which would be funds available for other eligible activities or projects. However, the County runs the risk of losing these funds to recapture if it does not draw them by the statutory September 26, 2012, deadline.

In two other cases, the County improperly committed $1.8 million for development organization activities known as Bradbury Homes and HIP Homeownership Opportunities. It committed the funds without properly executing related written agreements as required by regulations at 24 CFR 92.2(2), which provide that a commitment for a specific project must be supported by an executed agreement under which Program funds will be provided for an identifiable project. HUD guidance in HOMEfires Volume 1, Number 6, also reflects this requirement, and adds that no Program funds can be committed for a rental or home ownership project until address information is available. HUD later canceled the activities in accordance with regulations at 24 CFR 92.502(b)(2) because the County failed to draw funds within 12 months of the commitments.

The County also did not properly commit and set up three downpayment assistance activities. It committed about $3.2 million for the activities without executing related written agreements for identifiable projects or properties as required. According to HUD HOMEfires Volume 9, Number 2, a project or subgrant should not be set up in HUD's information system before the execution of a legally binding written agreement to commit the funds. In addition, Volume 1, Number 6, states that no Program funds can be committed for a rental or home ownership project until address information is available and most first-time home buyer assistance cases

[3] Adjustments to committed funds represent supported draws and County reductions of committed amounts.

would be considered separate projects and should be separately recorded in the information system.

For one activity, the County committed $800,000 in 2005; however, it did not execute the related written agreement until 2009 and did not separately record the individual cases for the activity. The County drew $280,000 of the funds committed and then concluded that the activity was not feasible because of declining real estate conditions. The remaining $520,000 represents excess committed funds. For the other two activities, the County had about $2.4 million in commitments with no related executed agreements for identifiable properties recorded as separate activities.

The County needs to work with HUD to correct system entries as necessary and properly account for $3.6 million[4] in excess or improperly committed funds.

The County Could Not Account for $1.2 Million in Assistance for Rental Projects

The HOME Program imposes an affordability period on projects assisted with Program funds to ensure that the projects provide long-term affordable housing. The County did not ensure that three subrecipients awarded $1.2 million for rental projects complied with Program affordability requirements on property standards or tenant income. According to regulations at 24 CFR 92.504(d), during the period of affordability, the County must perform onsite inspections of Program-assisted rental housing to determine compliance with the property standards requirements at 24 CFR 92.251 and to verify information submitted by property owners in accordance with requirements at 24 CFR 92.252. Information submitted by property owners would include information on tenant income. Therefore, verification of the information is key to ensuring that Program income eligibility requirements were met.

Program regulations require monitoring at least every 3 years for projects containing 1 to 4 units, biennially for projects containing 5 to 25 units, and annually for projects containing 26 or more units. The 3 rental projects had between 4 and 31 units; however, the County could not provide documentation to show that it monitored them according to Program regulations. As a result, there was no assurance that Program requirements were met for the rental projects, and $1.2 million in Program funds is unsupported.

[4] Approximate sum of excess or improperly committed funds in HUD's information system ($741,818 + $520,000 + $2,380,661= $3,642,479)

The County Could Not Account for $86,575 in Project Expenses

The County lacked adequate supporting documentation for $86,575 in project expenses it charged in relation to providing downpayment assistance. Regulations at 24 CFR 92.508(a)(3)(ii) provide that grantees must maintain records on the source and application of funds for each project in accordance with 24 CFR 85.20(b)(5), which states that grantees must follow applicable Office of Management and Budget (OMB) cost principles in determining the allocability of costs. Paragraph (b)(6) of the regulation further states that accounting records must be supported by appropriate source documents including canceled checks, paid bills, payroll and time and attendance records, contracts, etc. Also, according to regulations at 24 CFR 92.505(a), the requirements of 24 CFR 85.20 and OMB Circular A-87 (2 CFR 225) apply to grantees.

Regulations at 24 CFR 92.206(d)(6) state that staff and overhead costs directly related to carrying out a project may be charged to project costs. Also, HUD Notice CPD-06-01 requires that each project be individually charged for project costs and that purchases of office supplies be charged to administrative costs.

The County charged $86,575 in salaries and office expenses as project-related costs under a downpayment assistance activity funded through its My HOME program. The County provided only a timesheet for an employee that it stated worked 100 percent on the My HOME program; however, the timesheet did not break down the time spent on specific activities or projects within the program. The County provided only one timesheet because the remaining time sheets were similar to the one it provided. It stated that its time tracking system was not capable of providing a time breakdown by each individual activity. The total amount charged to the activity included about $3,300 in office supply expenses. Based on the requirements outlined above, the office supplies should have been charged to program administrative expenses and not to project-related costs. Therefore, the County should justify $86,575 charged to the downpayment assistance activity.

The County Could Not Account for $37,760 in Funds Provided for Rehabilitation Assistance

The County failed to maintain adequate documentation to show that income eligibility requirements were met for a rehabilitation assistance case. It committed $37,260 in Program funds for a homeowner's property rehabilitation. However, it did not provide adequate support for the family composition and income according to regulations at 24 CFR 92.203, which required that it determine the family's income eligibility by determining the family's annual income. The audit showed that the County had drawn $26,145, leaving $11,115 remaining to be drawn. The County also failed to provide documentation to explain why it provided $500 more than the rehabilitation cost for another case. The County should justify the $26,645 it spent on rehabilitation assistance.

County Staff Overlooked Program Requirements and the Program Was Mismanaged

The audit deficiencies occurred partly because County staff overlooked Program requirements and prior management officials mismanaged the Program. During the audit, we interviewed six County staff members about their job functions, knowledge, and training. The job functions covered included certification of development organizations, project monitoring, administration of HUD's information system, and income eligibility reviews. All six staff members said that they were aware of Program requirements, and three said that their work was subjected to supervisory review. Two of the staff members responsible for project monitoring indicated that they relied on their supervisor to provide information on projects to be monitored and they had not been directed to monitor the projects questioned.

Since County staff members said they were aware of Program requirements, it appeared that they overlooked the requirements in certain instances. For example, with regard to the issue of the ineligible development organizations, a HUD-designed checklist covers the requirements that must be met before an organization is certified as a development organization. The County had its version of the checklist, which reflected all of the HUD requirements. The County would not have certified ineligible organizations if its staff had followed the checklist.

Although County staff members interviewed stated they were aware of Program requirements, based on the audit evidence, some of the staff may not have received the training or guidance they needed to perform their job functions correctly. Three of the six staff members interviewed indicated that they had received some job training; however, they had no training certificates or other supporting records. Also, the information system entry errors made by County staff highlighted an area in which the staff needed training. County staff stated that the County did not have a process to track training. Because the County did not have a formal process for tracking staff training or developmental needs, it failed to identify or assess and address staff training needs.

The County's former executive and housing directors were convicted of accepting bribes in exchange for providing favorable official action for and on behalf of developers and other prospective contractors or subgrantees. This and the major deficiencies in the County's administration of the Program show that the officials mismanaged the Program.

The County Did Not Perform Required Monitoring

According to regulations at 24 CFR 92.504(a), the County must manage the day-to-day operations of its HOME program, ensure that Program funds are used in accordance with all program requirements and written agreements, and take appropriate action when performance problems arise. The regulations further provide that the use of subrecipients does not relieve the County of this responsibility and that the performance of each subrecipient must be reviewed at least annually. Based on these requirements and the status of its four active development organizations during the audit period (2002-2010), the County should have performed at least 29 monitoring reviews of the organizations; however, the audit evidence showed that County staff ignored Program requirements and did not monitor any of the organizations during the audit period.

The County had over $615,000 in undisbursed Program administration funds. It should maximize the use of these available resources to improve the administration of its Program.

The County Acknowledged Deficiencies and Requested Technical Assistance From HUD

The County acknowledged the issues associated with its administration of the Program and generally agreed with the audit findings. During the audit, we requested feedback on the findings from the County's housing director. He confirmed that the County lacked adequate controls and added that County staff had limited knowledge and understanding of the development process.

Due to the problems associated with its administration of the Program, the county executive requested technical assistance from HUD. In February 2012, HUD executed an agreement for technical assistance and capacity building with the County. HUD plans to send a specialist to help the County manage its housing programs and other community revitalization efforts. According to the agreement, HUD will cover areas such as the HOME Program, the use of its information system, staff training, and monitoring.

Conclusion

The County generally failed to administer its Program in accordance with applicable requirements and guidelines because its staff overlooked Program requirements and County officials mismanaged the Program. Also, the County failed to perform monitoring according to Program requirements. As a result, three of its four active development organizations were ineligible and did not comply with Program requirements. Also, there was no assurance that income eligibility or property standards requirements were met for rental and rehabilitation projects.

In addition, the County made approximately $2.4 million in ineligible disbursements and could not support $1.3 million in disbursements. Also, it had about $4.7 million in excess, improperly committed, or underused Program funds. These funds must be reprogrammed within the timeframes dictated by Program and Federal requirements. Failure to appropriately reprogram the funds will increase the risk of commitment or disbursement shortfalls for the County, which could potentially lead to HUD's recapturing or deobligating the funds.

Recommendations

We recommend that the Director of HUD's Washington, DC, Office of Community Planning and Development require the County to

1A. Repay the Program $150,000 from non-Federal funds for operating funds it disbursed to two ineligible development organizations.

1B. Repay the Program the $1,025,654 it was previously asked to repay for funds disbursed to an ineligible development organization.

1C. Repay the Program $1,235,940 from non-Federal funds for funds disbursed for a project that was acquired but not completed.

1D. Reprogram $464,060 in committed set-aside funds for other eligible activities, thereby putting the funds to better use.

1E. Reprogram $3,642,479 from excess or improperly committed funds to other eligible activities, thereby putting the funds to better use.

1F. Provide adequate documentation to show that affordability requirements were met for three rental projects or repay the Program $1,272,325 from non-Federal funds.

1G. Provide adequate documentation for $86,575 in salaries and office expenses related to downpayment assistance activities or repay the Program from non-Federal funds.

1H. Provide supporting documentation showing that income eligibility requirements were met for the rehabilitation assistance case, and to support the excess rehabilitation funds spent or reimburse the Program $26,645[5] in assistance funds provided from non-Federal funds.

1I. Reprogram $11,115 in remaining funds to be drawn for the rehabilitation assistance case to other eligible activities if the County cannot support $26,145 in assistance funds it has already provided.

1J. Identify at least annually its universe of program subrecipients, development organizations, and applicable projects to be reviewed and perform monitoring according to Program requirements.

1K. Implement a process to track, evaluate, and address the training needs of management and staff responsible for administering the Program.

1L. Use its resources available of approximately $615,703 in administrative funds to strengthen its administration of the Program.

1M. Implement the technical assistance agreement with the County to ensure that it receives the assistance it needs to run its Program in accordance with requirements.

[5] Represents $26,145 in unsupported rehab assistance funds and $500 in unexplained excess rehab expenses.

SCOPE AND METHODOLOGY

We performed our onsite audit work at Prince George's County's office located at 9400 Peppercorn Place, Largo, MD, between August 2011 and March 2012. The audit covered the period January 1, 2002, through December 31, 2010, but was expanded when necessary.

We relied in part on computer-processed data in HUD's Integrated Disbursement Information System. We did not perform a detailed assessment of the reliability of data; however, we performed a minimal level of testing and found the data to be generally adequate for our purposes. The testing entailed matching property data from the system to file documents. In certain instances, the system data did not reconcile with related file documentation. In those instances, we relied on the information from supporting documents in the Program case files.

To accomplish our audit objective, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements.
- Reviewed County documents, including but not limited to single audit reports of Federal awards programs, annual action plans, the consolidated annual performance evaluation report, the organizational chart, the employee listing, the chart of accounts, monitoring reports, grant agreements with subrecipients, and policies and procedures for its HOME program.
- Reviewed HUD's monitoring reports on the County.
- Communicated with officials and employees of the appropriate HUD CPD division as well as officials and employees of the County.
- Performed site visits to two activities.
- Performed analytical procedures, which included reviewing
  - HUD's information system to obtain relevant data tables and reports, and applicable Program reports from HUD's Website.
  - Documentation on assistance provided for 12 of 297 downpayment cases and 1 of 156 rehabilitation cases that were identified through filters in HUD's information system to determine whether Program requirements were met. The cases identified were selected because the purchase price or after rehab value of the related property appeared to have potentially exceeded the allowed limit, and it appeared the minimum required investment had not been met.
  - Support for about $1.4 million (97 percent) in draws related to expiring Program funds and other draws that were made between July and September of 2011. The draws included funds for downpayment and rehabilitation assistance, security

deposits, and rental projects, and were identified by filtering Program draws from 4,707 draws related to Community Planning and Development activities in HUD's information system.

- Documentation for the County's 5 largest draws out of 447 made between 1997 and 2011 totaling $6 million.

- A universe of 18 open Program activities as of September 2011, and making selections for review based on risk indicators as follows:

  - Support for $280,000 in draws for seven downpayment assistance cases to determine whether requirements for the minimum investment, income eligibility, and property value were met. The draws were related to an activity that was funded in 2005, but only had 35 percent of the funds drawn as of September 2011.

  - Documentation related to three activities for which the County did not enter project completion data into HUD's information system within the required timeframe.

  - Support for six development organization and rental housing activities totaling $4.1 million. More than half of funded amounts had been drawn; however, no related housing units had been reported in HUD's information system.

We reviewed eligibility and performance for three of the County's four development organizations identified through auditor-determined indicators in HUD's information system and reviewed correspondence and other information for the fourth organization which HUD had determined to be ineligible. We also reviewed a sample of 11 of 40 completed projects to determine whether the County monitored them as required. Five of the projects were selected because they had more than 26 units each, meaning that the County was required to monitor them at least annually based on Program requirements. The remaining six projects were identified when a comparison of the County's listing of projects with its listing of projects monitored showed that they might not have been reviewed in compliance with Program requirements.

The $4.7 million in funds to be put to better use reported represents excess, improperly committed or underused funds. If the County implements the audit recommendations, these funds will be available for use on eligible activities and to improve Program administration.

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The County did not ensure that its development organizations were eligible and operating in compliance with Program requirements.

- The County did not properly manage and account for funds it provided for housing development activities as well as rental, downpayment, and rehabilitation assistance funds.

- The County lacked adequate controls to ensure that it administered its program according to requirements.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$ 150,000		
1B	1,025,654		
1C	1,235,940		
1D			$ 464,060
1E			3,642,479
1F		$1,272,325	
1G		86,575	
1H		26,645	
1I			11,115
1L			615,703
Totals	**$2,411,594**	**$1,385,545**	**$4,733,357**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ 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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the County implements our recommendations, $4.7 million in excess, improperly committed, or underused funds will be available for use on eligible activities and to improve Program administration.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

THE PRINCE GEORGE'S COUNTY GOVERNMENT
Department of Housing and Community Development

RUSHERN L. BAKER, III
County Executive

Key to Progress
Eric C. Brown
Director

July 13, 2012

Mr. John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

Re: Prince George's County, DHCD

Dear Mr. Buck:

This letter is written in response to the draft Audit Report submitted to the Prince George's County Department of Housing and Community Development (DHCD) regarding the HOME Investment Partnerships Program for the period of 2002 through 2010. In conducting your further review and revision, we request that you consider the information below for each of the related matters to the Audit Finding:

> *"(t)he County generally did not administer its Program in accordance with HUD requirements and guidelines. It did not ensure that three of its four active housing development organizations were eligible and operating in compliance with Program requirements. It also improperly committed Program funds and could not show that it followed requirements related to Program funds it provided for rental, down payment and rehabilitation assistance."*

I. Development organizations were ineligible.

Response: The County acknowledges that the certification requirements as outlined in 24 CFR 92.2 were not adhered to for three community housing development organizations (CHDOs) – Roots of Mankind Corporation, Omega Gold Development Group, and Kairos Development Corporation for the audit period of 2002 through 2010.

II. The County awarded about $1.2 million in Operating Funds to Ineligible Development Organizations.

Response: As stated in the draft Audit Report, HUD monitored Kairos Development Corporation and in April 2011 determined: (1) it did not meet the eligibility requirements; and (2) the use of HOME development funds was not in compliance with program regulation and therefore approximately $1 million must be returned to HUD. The County agrees with this determination and sent a letter to Kairos Development Corporation requesting repayment. In lieu of payment,

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Kairos Development Corporation agreed to deed the property to the County. The County has asked HUD to accept the deed as full satisfaction of any repayment. Currently, the request is still pending a final determination by HUD.

III. The County funded a $1.7 million project was not completed.

Response: The County acknowledges the issues identified. As stated in the report, the County has taken legal steps to terminate funding for the project and recover the $1.2 million provided for project acquisition cost. The County forwarded a letter regarding this matter to Roots of Mankind. All remaining program funds will be reprogrammed.

IV. The County improperly committed funds in HUD's Information system.

Comment 1

Response: The report states the County improperly committed $1.8 million for development activities known as Bradbury Homes and HIP Homeownership Opportunities. The report further states these funds were committed without executing a related written agreement as required at 24 CFR 92.2(2), which provide that a commitment for a specific project must be supported by an executed agreement under which Program funds will be provided for an identifiable project. However, this is not the case. The County executed a HOME Funds Conditional Commitment Agreement with Bradbury Heights LLC on March 9, 2011 as related to the Bradbury Homes project. The funds for this project were committed in the Integrated Disbursement and Information System (IDIS) on March 28, 2011. The County executed a HOME Funds Conditional Commitment Agreement with Housing Initiative Partnership, Inc. on December 28, 2010 as related to the HIP Homeownership Opportunities project. The funds for this project were committed in IDIS on December 28, 2010. Therefore, the County was in compliance with the regulations at 24 CFR 92.502(b)(1).

V. The County could not account for $1.2 million in assistance for Rental Projects.

Comment 2

Response: The County acknowledges the regulations at 24 CFR 92.504(d) which require monitoring of HOME Program activities and projects based on a written agreement. Additionally, the County acknowledges the regulations at 24 CFR 92.251 (property standards) and 24 CFR 92.252 (qualifications as affordable rental housing). The County does not have records of consistent monitoring reports for three rental projects including: Horizon House I, Malta House and Family Crisis Center which may be a part of the $1.2 million of rental assistance; however, the audit report is not clear on this matter.

VI. The County count not account for $86,575 in project expenses.

Response: On April 5, 2012 the County provided the following documentation to account for $86,575 in project expenses for the My HOME program:

Compensation:	$73,815.20
Fringe:	$9,441.05
Office Supplies:	$1,950.00
Printing:	$1,368.95

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As cited in the report, the County's accounting records for the My HOME Program must be supported by appropriate source documents including canceled checks, paid bills, payroll and time and attendance records. Documentation provided included the County's general ledger reports which provide monthly statement of costs and expenditures for grant programs, invoices for paid bills, journal entry documentation to reclassify payroll expenses from the NSP/NCI Program to the My HOME program and attendance records for relevant employees.

Comment 3

The key issue is whether attendance records and journal entries to reclassify payroll expenses to the My HOME program was "substantiated" by time sheets. The County utilizes the Electronic Timecard System (ETS) which tracks attendance, only. The system does not track staff time by Grant or Program activities. The County has provided ETS records for the My HOME staff charges for the period of December 2011 through April 2012.

Comment 3

As of pay period ending 5/5/12, the County has instituted a manual tracking system for My HOME Program staff to track time spent on specific activities and projects. Tracking instrument is attached (Attachment A).

The County acknowledges the requirement to comply with the applicable regulations at 24 CFR 92.505(a) (3) (ii), 24 CFR 85.20(b) (5) and OMB Circular A-87 (2 CFR 225).

VII. The County could not account for $37,760 in funds provided for rental assistance.

Response: As stated in the report, the referenced homeowner rehabilitation assistance case(s) lacked adequate documentation for two properties: (a) 6512 Columbia Park Rd., Landover, MD 20785 , IDIS number 1629 and; (b) 9205 Crossbow Rd., Fort Washington, MD 20744, IDIS number 1538 as required under 24 CFR 92.203. Specifics regarding each of these properties are explained below.

Comment 4

The file for 6512 Columbia Park Rd., Landover, MD file lacked documentation verifying household composition and annual income; however, the file documents account for the value of the rehabilitation assistance provided, totaling $37,165. The scope of work for this project included:

Windows	Removed and replaced 4 vinyl insulated windows.
2nd Floor – Bath	Removed and replaced existing wall, subfloor and floor tile, bathtub, toilet, vanity, medicine cabinet, light fixture, towel bar, toilet paper holder; and painted entire bathroom.
Interior Doors	Removed, replaced and painted 4 interior closet doors and 3 bedroom doors. Installed new shelving and poles in 4 closets.
Entry Doors	Removed and replaced front and rear security/storm doors and entry doors.
Bedrooms	Installed floor registers and repaired drywall
1st Floor – Bath	Removed existing metal wall tiles and installed new drywall; removed and replaced existing floor tiles, toilet, and vanity, installed a ceiling register and painted entire bathroom.
Baseboards	Removed, replaced and painted 2nd floor baseboards
Basement	Removed faulty drainage system and replaced with new to include the cutting/ repairing of the concrete floor; repaired/replaced all water

Comment 4

	damaged items to include carpet and drywall; and remediated mold and mildew, painted basement and stairway to the basement and installed handrail.
Exterior	Removed large, diseased tree from rear yard, painted awning at front porch and repaired handrail front steps.
HVAC	Serviced HVAC and cleaned duct work.

The Homeowner Rehab IDIS Set Up and Completion form in the file indicated the funded amount of $37,165 and there are copies of LOCCS payment vouchers (HUD Form 40099) that also total $37,165. The first draw request was $9,540, the second request $7,965, the third request $8,640 and the final request at $11,020. It appears the project activity was completed and closed in IDIS after the third payment; therefore the final payment request of $11,020 has never been drawn and the activity amount was adjusted to equal the first three payments which totaled $26,145. The County has reopened the activity, corrected the funded amount totaling $37,165 and will request the final draw.

The second case cited in the report, 9205 Crossbow Rd., Fort Washington, MD 20744 had an initial total contract cost of $38,000. Change orders #1 - #3 yielded a revised total contract value of $43,390.00. The County's records indicate that the contractor submitted four (4) payment requests for the full contract amount of $43,890.00. County staff miscalculated the amounts totaling change order numbers two (2) and three (3) which created a shortfall of $500.00.

Document	Amount	Revised Contract Amt	Date Approved
Initial Contract	$38,000		11/17/2010
Change Order #1	Added $5,890	$43,890.00	11/29/2010
Change Order #2	Subtracted $4,500	$39,390.00	05/11/2011
Change Order #3	Added $4,000	$43,390.00	05/11/2011

Payment	Amount	Totals
Invoice #1	$17,460	$17,460
Invoice #2	$ 9,000	$26,460
Invoice #3	$ 9,180	$35,640
Invoice #4	$ 4,290	$39,930
Retainage Paid	$ 3,960	$43,890

VIII. The County staff overlooked program requirements and the program was mismanaged.

<u>Response:</u> The new County administration understands and has taken corrective steps to assess staff capacity and program training needs. As discussed below, "The Agreement for the Provision of Technical Assistance and Capacity Building" between the U.S. Department of Housing & Urban Development and Prince George's County is one of the primary resources that will be used to assess staff capacity and provide training. Additionally, the County has and will continue to view HUD's HOME Program webinar trainings. The new administration seeks to have each HOME Program staff person to obtain HUD's HOME Program Certification. Most recently, staff completed a three week Real Estate Development Training Program facilitated by the National Development Council.

IX. The County did not perform required monitorings.

Response: The County acknowledges 24 CFR 92.504(a) and its requirement to conduct monitoring of all HOMES funded projects. However, the County also acknowledges that there are no records evidencing the results of HOME Program monitoring(s) conducted of the four development organizations during the period of 2002 through 2010.

It is important to underscore that under the new administration, the County has incorporated language in all HOME Program funded activities the requirements under 24 CFR 92.4050(a). As required, each agreement describes the use of the HOME funds, including the tasks to be performed, a schedule for completing the tasks, a budget, and the period of the agreement. These items serve as the required basis for the County to effectively monitor performance under each agreement. Additionally, the County will establish a monitoring schedule for all HOME funded programs and activities for each program year.

X. The County acknowledged deficiencies and requested technical assistance from HUD.

Response: In February 2012, an "Agreement for the Provision of Technical Assistance and Capacity Building" was executed between the U.S. Department of Housing & Urban Development and Prince George's County. The agreement will enable the County to address deficiencies within it larger Community Planning and Development operations, including the HOME Program. Technical assistance will be provided in the following areas:

- Conducting a comprehensive needs assessment of the County's agencies that administer and implement CPD program funds;
- Providing staff development training to facilitate proper utilization of HUD systems and program administrations, including IDIS. General training will be provided for various CPD Programs including the HOME Program.
- Conducting a review and assisting the development of improvements to policies and procedures.
- Assess the County's monitoring process for its sub grantees/sub recipients and assisting in the development of procedures and guidelines for sub grantee/sub recipient monitoring
- Assisting the County in using technology and available software to enhance data and mapping capacity for planning, tracking, and analyzing community development and affordable housing investments.
- Providing capacity building and training for community Housing Development Organizations (CHDOs).
- Facilitating the planning process for a new comprehensive housing and community development plan.
- Assisting the County in using policy priorities and gap financing as tools to encourage affordable housing and community development in the County priority development areas.

Under the report recommendations, the County agrees with the following recommendations and will take appropriate actions for each item listed below:

- Identify at least annually the universe of program sub recipients, development organizations, and applicable projects to be reviewed and perform monitoring according to Program requirements.
- Implement a process to track, evaluate and address the training needs of management and staff responsible for administering the HOME Program.
- Use available resources of approximately $615,703 in administrative funds to strengthen the administration of the Program.
- Implement the technical assistance agreement to ensure receipt of needed assistance to administer the HOME Program in accordance with requirements.

Please be assured that the new County administration understands the gravity of the matters identified in Draft Audit Report and that the administration has begun to institute appropriate corrective actions and will continue to make the necessary changes to ensure adherence to applicable regulations for the HOME Program.

Sincerely,

Eric C. Brown
Director

Cc: Marvin Turner, Director, District of Columbia Office, HUD
Michael Rose, Acting Director, Community Planning & Development, HUD
Tom Himler, Deputy Chief Administrative Officer, Prince George's County

ATTACHMENT A

HOUSING AND COMMUNITY DEVELOPMENT - PLANNING & DEVELOPMENT BI-WEEKLY TIMESHEETS

EMPLOYEE NAME: ______________________
(Please Print)

Pε Period Begin: ____________
Period End: ____________

ACTIVITY	TOTAL HOURS	Sun	Mon	Tues	Wed	Thurs	Fri	Sat	TOTAL HOURS	Sun	Mon	Tues	Wed	Thurs	Fri	Sat
MY HOME - Marketing	-								-							
MY HOME -Clerical/Telephone	-								-							
MY HOME - Settlements	-								-							
MY HOME- Underwriting	-								-							
MY HOME- Legal Review/Support	-								-							
MY HOME- Monitoring	-								-							
MY HOME - Environ Review	-								-							
MY HOME - Inspections	-								-							
NSP 3 - Marketing																
NSP 3-Clerical/Telephone																
NSP 3 - Settlements																
NSP 3- Underwriting																
NSP 3-Legal Review/Support																
NSP 3 - Monitoring																
NSP 3 - Environ Review																
NSP 3 - Inspections																
Personal Leave																
Annual Leave	-								-							
Sick Leave	-								-							
Holiday Leave	-								-							
Civil Leave	-								-							
Administrative Leave	-								-							
Comp Leave	-								-							
TOTAL	-								-							

MANAGER'S AUTHORIZATION ______________________________

OIG Evaluation of Auditee Comments

Comment 1 Program regulations at 24 CFR 92.2(2) provide that a commitment for a specific project must be supported by an executed agreement under which Program funds will be provided for an identifiable project. Also, regulations incorporated into HUD HOMEfires Volume 3, Number 5, require that construction or rehabilitation related to Program-funded projects be reasonably expected to start within 12 months of fund commitment. In addition, according to regulations incorporated into HOMEfires Volume 1, Number 6, funds cannot be committed to a project until a written agreement has been executed for the identifiable property(ies); therefore, no Program funds can be committed for a rental or home ownership project until address information is available.

The County executed a conditional agreement and committed related funds for Bradbury Homes in March 2011. However, as of January 2012, Omega, the responsible development organization had not acquired the properties to be rehabilitated. Therefore rehabilitation was not started, and the committed funds were not drawn. In the case of the HIP Homeownership Opportunities project, the County executed a conditional agreement but did not identify the related properties as required by Program regulations.

As stated in the audit finding, HUD canceled both projects in accordance with Program regulations when the County failed to draw Program funds within 12 months of the fund commitments.

Comment 2 The $1.2 million in rental assistance funds questioned relates to the following three rental projects:

Parkway Terrace	$ 750,000
Malta Homes	319,325
Family Crisis Center	203,000
Total	$1,272,325

Comment 3 The County only provided a time record for one staff member for the period December 2010 to April 2011 because the remaining time sheets were similar to the one it provided. The tracking system the County implemented as of May 2012 is not sufficient to properly account for staff time charges because it does not account for specific Program-funded projects or activities as required by Program regulations.

Comment 4 The County failed to provide evidence that it met Program income eligibility requirements for the property at 6512 Columbia Park Road. Since the County agreed that file documents did not include documentation verifying household composition and annual income, it should repay related Program funds drawn and reprogram the remaining committed funds. Also, although the County stated that file documents accounted for the value of the rehabilitation assistance totaling

$37,165 it committed $37,260 for the activity. During the audit, the County stated that the $95 difference represented an unused contingency, and that it would be corrected in HUD's information system. The County needs to take action to complete the correction. In addition, since the County acknowledged that its staff made a miscalculation that resulted in a $500 shortfall in the case of the property at 9205 Crossbow Road, it should repay the funds to the Program.