



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
Pacific/Hawaii Region  
450 Golden Gate Avenue, Box 36003  
San Francisco, California 94102-3448

**MEMORANDUM NO:  
2002-SF-0801**

July 31, 2002

MEMORANDUM FOR: Nelson Bregon  
Deputy Assistant Secretary for Grant Programs, DG

FROM: //SIGNED//  
Mimi Y. Lee  
Regional Inspector General for Audit, 9AGA

SUBJECT: HOME Investment Partnerships Program

### **INTRODUCTION**

We have completed an internal audit survey of the HOME Investment Partnerships Program (HOME). The purposes of the survey were to evaluate the susceptibility of HOME to unnecessary risk of waste, fraud or abuse and to determine the need for and direction of any additional internal audit coverage.

Although we did identify several areas of risk, the factors contributing to the risk are not new, some may be unavoidable and most are not unique to HOME versus other Community Planning and Development (CPD) programs. This Audit Memorandum includes recommendations addressing several departmental and programmatic issues, but we do not believe additional internal audit coverage is warranted at this time. We will provide a separate Audit Memorandum to the Director of CPD, California State Office, with recommendations pertaining to the Participating Jurisdictions (PJs) and Community Housing Development Organizations (CHDOs) we reviewed during the survey.

## **BACKGROUND**

The HOME Program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 as amended, and implementing Regulations are specified at 24 CFR Part 92. HOME funding<sup>1</sup> is allocated to eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income families. State and local governments that become PJs<sup>2</sup> may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, and new construction of housing, and tenant-based rental assistance. PJs may provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies and other forms of investment approved by HUD. HOME Regulations require that PJs reserve not less than 15 percent of their allocations for housing to be developed, sponsored, or owned by approved CHDOs. Private nonprofit, community-based service organizations receive their certification and designation as CHDOs<sup>3</sup> from PJs based upon criteria specified in 24 CFR Part 92.

## **METHODOLOGY AND SCOPE**

The overall objective of our review was to evaluate the susceptibility of HOME to unnecessary risk of waste, fraud or abuse. The survey work primarily concentrated on overall program monitoring and the CHDO approval process. Some of the rationale for the review evolved from our audit of Nonprofit Participation in HUD Single Family Programs.<sup>4</sup> We were concerned that nonprofit organizations precluded from participation in Single Family programs nevertheless might be participating in HOME. Whereas HUD has established procedures intended to limit participation in Single Family programs only to qualified, capable, experienced nonprofit organizations and HUD actually approves (or disapproves) the Single Family nonprofits, CHDO nonprofits initially need not have comparable experience or qualifications and CHDOs are approved by PJs, not by HUD. We were also concerned that problems we found with nonprofits participating in the Single Family programs could extend to CHDO nonprofits participating in HOME. Specifically, we were concerned that (1) CHDO nonprofits could be controlled by profit motivated groups or individuals, (2) property resale profit margins could be excessive, and (3) construction or rehabilitation work might not meet minimum standards.

In conducting the survey, we:

- Analyzed 35 prior HUD Office of Inspector General (OIG) external audit reports (Attachment A), three prior OIG internal reports,<sup>5</sup> and one prior General Accounting Office (GAO) report<sup>6</sup> that included coverage of HOME.

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<sup>1</sup> HOME funding for FY 2001 was over \$1.7 billion and over \$12.5 billion from FY 1993 through FY 2001.

<sup>2</sup> Funding was approved for 605 Participating Jurisdictions (PJs) from FY 1993 through FY 2001.

<sup>3</sup> Approximately 1,900 CHDOs have participated in the HOME Program since 1997.

<sup>4</sup> Audit Report No. 2002-SF-0001, dated November 5, 2001.

<sup>5</sup> The three reports included an Audit Overview of HOME (Unnumbered report dated December 21, 1992), a report on the Allocation and Award of HOME Program Funding (94-AT-105-0001 dated December 27, 1993) and a report summarizing a multi-district external audit effort that included eight external audits of ten PJs (95-AT-155-0002 dated April 10, 1995).

- Conducted computer and manual matching procedure between the approximate 1,900 CHDO nonprofits (participating in HOME during fiscal years 1997 through 2001) and Single Family databases of removed or rejected nonprofits.
- Analyzed the Grants Management Process (GMP) System database of monitoring reviews by HUD staff covering HOME during fiscal years 1998 through 2001.
- Reviewed files and interviewed staff at one HUD field office<sup>7</sup>, two PJs<sup>8</sup> and two CHDOs.<sup>9</sup>
- Interviewed homeowners and inspected construction or rehabilitation work for eight<sup>10</sup> single family properties and reviewed related HUD real estate owned (REO) and FHA insured loan files as applicable.
- Reviewed five tenant files at one CHDO rehabilitated multifamily project and inspected the units and interviewed the tenants for three of the five.
- Researched possible undisclosed identities or conflicts of interest using various public records and Internet resources for 235 entities or individuals.

One of the CHDOs we reviewed was selected because they had been denied approval to participate in Single Family programs.

### **SURVEY RESULTS**

Our audit survey did identify some areas of apparent risk and several deviations from program requirements including: (1) monitoring weaknesses at both the HUD field office level and at the PJ level, (2) administrative weaknesses at both the PJ and sub-grantee or CHDO level, and (3) actual or apparent conflicts of interest. Although these issues are discussed in more detail in this report, most recommendations for corrective action are more appropriately directed to the HUD field office. For the most part, our concerns that HOME might be experiencing problems with CHDOs analogous to those we found for Single Family nonprofits were alleviated as a result of the survey.

### **CHDO Versus Single Family Nonprofit Concerns**

#### Nonprofits precluded from Single Family still participating in HOME

Our computer and manual matching of active CHDOs and Single Family removed or rejected nonprofit listings only identified 78 CHDOs nationwide receiving HOME funding since 1997 who had been removed or rejected by Single Family. These 78 CHDOs represent only about 4 percent of the approximate 1,900 CHDOs who were approved for HOME funding in fiscal years 1997 through 2001. Further, some of the 78 CHDO nonprofits may have lost their Single Family approval for relatively benign

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<sup>6</sup> GAO report titled Weak Management Controls Compromise Integrity of Four HUD Grant Programs (GAO/RCED-99-98 dated April 1999).

<sup>7</sup> Community Planning and Development, California State Office.

<sup>8</sup> City of Stockton, CA and San Joaquin County, CA.

<sup>9</sup> Asociacion Campensina Lazaro Cardenas Inc. (ACLC) and Stocktonians Taking Action to Neutralize Drugs (STAND).

<sup>10</sup> Five ACLC properties and three STAND properties.

reasons that would not preclude their participation in HOME. For example, ACLC's application for approval as a Single Family insured mortgagor was denied because two of the ACLC principal staff members had recently filed personal bankruptcy petitions. Notwithstanding, we believe it is only reasonable, prudent and logical for HUD and/or PJs to evaluate the circumstances relating to any CHDOs that have been denied participation in Single Family programs as they may relate to the suitability of the CHDOs for participation in HOME. In Attachment B, we have provided a listing of the 78 active CHDO nonprofits that have been removed or rejected from participation in Single Family programs. A more detailed listing showing funding amounts by program year and the PJ funding sources has been provided to your staff separately.

#### CHDO nonprofits controlled by profit motivated entities

There was no evidence that either of the CHDOs we reviewed during the survey were controlled by profit motivated entities, and none of the 35 prior OIG external audits we reviewed identified this as an issue. Although there may be some CHDOs who are controlled or improperly influenced by for-profits, the survey work did not substantiate the problem.

#### Excessive property resale profit margins

HOME Program participant income limitations (24 CFR 92.217) and housing affordability requirements (24 CFR 92.254) both have a limiting effect on the resale price of properties thereby mitigating problems of excess profit margins. Also, HUD only learns of profit margins for Single Family nonprofits retrospectively<sup>11</sup> whereas CHDO resale prices receive proactive scrutiny from PJs.

#### Construction/rehabilitation problems

Although construction/rehabilitation problems were discussed in several of the prior OIG audits of HOME, we do not believe these type problems are as prevalent or severe as we found in the Single Family nonprofit audit. We did not find construction or rehabilitation deficiencies for any of the properties we inspected during the survey. Also, PJs provide a level of review and approval for HOME program construction and rehabilitation work that is nonexistent in the Single Family program.

### **HUD Monitoring of PJs**

In order to address the longstanding dichotomy of static or diminishing resources (staff and travel) and increasing monitoring responsibilities (programs and participants), CPD has developed a systematic and structured risk ranking procedure for scheduling on-site monitoring reviews. Also, our analysis of HOME program monitoring data in CPD's Grants Management Process (GMP) system disclosed that monitoring reviews increased from about 8 percent of PJs in 1998 to about 30 percent the last three fiscal years, and 68 percent of the 605 PJs have

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<sup>11</sup> Annual reports are required on all deep discount (30%) resales and all Single Family nonprofits are required to include property resale data in conjunction with biannual re-certification packages.

received some form of HOME program on-site monitoring by HUD at least once in the last four fiscal years (1998 through 2001). However, that leaves 32 percent or 195 PJs who have not been monitored on-site by HUD at all in four or more years.

The April 1999 GAO report (GAO/RCED-99-98) stated HUD's on-site monitoring reviews of HOME and other Community Development grant programs were infrequent and (where they did occur) often were not comprehensive and failed to detect significant problems. Although all of the GAO report recommendations have been closed and on-site monitoring frequency has significantly increased since 1998, our analysis of GMP data suggests monitoring review coverage may continue to be a problem. The GMP includes information on areas covered during each monitoring review and the following table depicts the coverage of 10 review areas during 645 monitoring reviews conducted in fiscal years 1998 through 2001.

<b>Review Area Covered</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Average</b>
<b>Affordability</b>	10.2%	30.9%	31.3%	32.7%	29.9%
<b>CHDO Qualifications</b>	6.1%	17.2%	25.1%	28.0%	21.6%
<b>Commitment/Expenditure</b>	4.1%	17.6%	21.0%	17.3%	17.5%
<b>Eligible Activities/Costs</b>	14.3%	31.3%	33.8%	48.8%	35.3%
<b>Financial Management</b>	14.3%	12.0%	17.4%	25.6%	17.4%
<b>Match</b>	0.0%	15.5%	19.5%	22.6%	17.4%
<b>Other</b>	8.2%	27.5%	39.5%	34.5%	31.5%
<b>Quality of Work/Compliance</b>	10.2%	24.9%	28.7%	27.4%	25.6%
<b>Subrecipient/State Oversight</b>	10.2%	18.0%	24.6%	22.6%	20.6%
<b>Subsidy Layering</b>	2.0%	11.6%	11.8%	12.5%	11.2%
<b>Converted Data</b>	59.2%	8.6%	4.1%	2.4%	9.5%

As shown, the area covered most frequently (eligible activities/cost) was only included in 35.3 percent of the reviews, and other important areas (financial management, quality of work/compliance, and CHDO qualification) were reviewed even less often. The GMP data also shows 58.4 percent of the reviews resulted in "no findings" reports and 58.1 percent reported "no concerns." This could be interpreted to mean 58 percent of the PJs were doing such a good job there were no troublesome issues to be found. However, it could also mean some of the reviews were not comprehensive enough to identify actual problems. By contrast, only two of thirty-five (5.7 percent) prior OIG external reports we reviewed were "no findings" reports. Each of the two PJs included in our on-site survey work had been monitored by HUD once in the last four years and the related monitoring reports were both "no findings" and "no concerns" reports. As discussed in the sections that follow, we found reportable problems at both PJs including inadequate subrecipient monitoring and unapproved cost allocation procedures.

Neither the lack of adequate monitoring resources nor the proliferation of monitoring responsibilities are new and are not unique to HOME versus other Community Development programs. They are also largely dictated by Congress and therefore outside the control of CPD or even the Department. CPD should however reexamine the risk ranking procedure used in identifying PJs for monitoring and provide direction and training to field staff as necessary to

reduce the risk of not identifying significant actual problems with the finite monitoring resources.

An example of the risks associated with infrequent or ineffective monitoring of PJs is a settlement agreement of nearly \$1.7 million reached on February 14, 2002, between the Department of Justice, HUD and the Commonwealth of Pennsylvania. The settlement pertains to excessive administrative costs the PJ charged to the HOME program over a period of six years from July 1993 through June 1999. HUD staff had performed onsite monitoring of the PJ in May 1994 and again in September 1997 but neither of the reviews identified the problem.

### **PJ Monitoring of Contractors and Subrecipients (CHDOs)**

Regulations cited at 24 CFR 92.504 impose responsibility on PJs for ensuring that HOME funds are used in accordance with all program requirements and written agreements, and for taking appropriate action when performance problems arise. The Regulations require that PJs review the performance of each contractor and subrecipient at least annually.

Although both of the PJs included in our survey did provide upfront and ongoing oversight of CHDO activities through initial project approval, review of funding requests, and periodic inspection of projects, neither PJ conducted actual monitoring of any overall CHDO operations. PJ review of funding requests did not always provide the intended oversight since there were instances where CHDOs received funding solely on the basis of their requests without any supporting documentation. Also, upfront oversight was less than effective in some cases such as the approval of CHDO operating cost funding without any demonstrated need for the funding.

Our on-site survey work at two PJs combined with our analysis of thirty-five prior OIG external audit reports suggests that PJ monitoring of contractors and subrecipients is a problem of national proportion. Twenty of the thirty-five reports (57.1 percent) cited this as a problem although twenty-one of the thirty-five reports pertained to limited scope reviews. Many of the limited scope reviews did not list PJ subrecipient monitoring in the audit objectives. Therefore, the percentage of audits where we identified the problem (in relation to audits where we looked for it) is actually much higher. The GAO also reported<sup>12</sup> on the problems of undocumented and nonexistent subrecipient monitoring.

PJ monitoring reviews of overall CHDO operations are necessary in part to ensure that HOME funding is provided only for reasonable, necessary, eligible expenditures and is not duplicative of funding from other Federal, State or local sources. They are also necessary for assessing the actual ongoing performance of the CHDOs. Since HUD is not involved in CHDO initial approvals and does not monitor CHDO operations, it is essential that PJs perform comprehensive annual reviews of their operations.

### **PJ Administrative Weaknesses**

In addition to problems with subrecipient monitoring, we found other administrative weaknesses at both of the PJs included in our survey. Neither PJ was in compliance with OMB Circular A-

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<sup>12</sup> Report No. GAO/RCED-99-98 dated April 1999.

87 relative to the allocation of some PJ administrative costs. Although the methods used appeared reasonable, they deviated from the OMB requirements. Twenty-three of thirty-five (65.7 percent) prior OIG external audits we reviewed also reported some sort of PJ administrative weakness. There were a variety of administrative weaknesses reported including internal control, financial management and reporting issues. Although there was no single recurrent weakness, the frequency of PJs experiencing problems administering the HOME program represents a risk that needs to be addressed.

The Commonwealth of Pennsylvania settlement discussed above demonstrates the potential magnitude of monetary risk associated with PJ administrative weaknesses. This one PJ improperly charged nearly \$1.7 million of administrative costs to HOME. Similar problems at even a small percentage of the other 604 PJs could represent a substantial waste of taxpayer monies.

### **CHDO Administrative Weaknesses**

Neither of the CHDOs we reviewed was in compliance with OMB Circular A-122 relative to the documentation or allocation of operating costs as required by their written agreements with the PJs. Neither CHDO maintained personal activity reports for employees evidencing time spent on HOME versus other activities. STAND prepared time sheets only differentiating work time versus leave or holiday time, and ACLC prepared time sheets allocating work hours between different projects but some of the projects received funding from other sources in addition to HOME.

Neither CHDO maintained records demonstrating a need for operating cost funding. The CHDO requests for operating cost funds did not identify any funding shortfalls and in fact, pay raises and bonuses provided to principal staff suggest the operating cost funds were not needed. For example, the ACLC Chief Executive Officer received a 22.8 percent pay raise in March of 1999 and an 18.4 percent bonus in December 2000. ACLC paid more money in staff bonuses in 2000 and 2001 than they received in operating cost funding during the period from the City of Stockton.

Neither CHDO maintained board meeting minutes evidencing important administrative or HOME related activities. ACLC maintained minutes which appear to reflect most HOME related activity but did not have documentation of board approval for staff raises and bonuses. STAND was unable to produce even informal minutes evidencing board involvement in any HOME related activity.

One of the CHDOs (STAND) used an unlicensed contractor for some rehabilitation work. Although this contractor normally did relatively small scope jobs at reasonable prices and apparently completed the work satisfactorily, a license was required for much of the work. Moreover, STAND's use of this unlicensed contractor leaves both STAND and homeowners with little recourse if problems should occur.

**Actual or Apparent Conflicts of Interest**

HOME program Regulations at 24 CFR 92.356 provide in part that “No persons ... who exercise any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision making process or gain inside information with regard to these activities, may obtain a financial interest or benefit from a HOME-assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.”

ACLC appears to have violated these Regulations with an office lease agreement with a corporation partially owned by one of the ACLC board members, and with the award of HOME loan funds to an ACLC employee. The lease agreement has been disclosed in audited financial statements submitted to both PJs<sup>13</sup> who provide ACLC with HOME funding but no “exception” to the conflict of interest provisions in the Regulations has been obtained. The employee who received the HOME funded loan was otherwise eligible and does not appear to have received special consideration, but again the required exception was not obtained. ACLC also used HOME funds to purchase a property from a City of Stockton Community Development Committee member. Although not a clear violation of the Regulations, this transaction leaves an appearance of possible conflict of interest.

Actual or apparent conflicts of interest were cited in ten of thirty-five (28.6 percent) of the prior OIG external audit reports we reviewed.

**AUDITEE COMMENTS AND OIG EVALUATION**

On the whole, your response (Attachment C) to the draft memorandum report is very positive and supportive. The response describes a number of actions you have taken or plan to take to address our concerns. We have reworded some of the recommendations, as you requested, to reflect the fact that HUD’s contractual relationship is with PJs and not with CHDOs. There are, however, several areas of disagreement and we believe some will require legal opinions as to the applicable regulations.

**Applicability of 24 CFR 92.356(a)-(e) Conflict of interest requirements to CHDOs**

We disagree with your implication that CHDOs are always considered owners and developers as opposed to subrecipients and therefore are not covered by 92.356(a)-(e). The definition of a subrecipient under 24 CFR 92.2 is:

“..A public agency or nonprofit organization selected by the participating jurisdiction to administer all or a portion (emphasis added) of the participating jurisdiction’s HOME program. A public agency or nonprofit organization that receives HOME funds solely as a developer or owner of housing is not a subrecipient.”

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<sup>13</sup> City of Stockton and San Joaquin County.



This definition does not preclude the possibility that a CHDO may serve as a subrecipient for a PJ. Further, the definition of a CHDO at Section 92.2 does not preclude a CHDO from serving as a subrecipient. In fact, both of the CHDOs we reviewed were actively involved in the administration and operation of substantial portions of the PJ's HOME programs and they both received HOME funding specifically for such operational expenses. Both CHDOs carried out virtually all aspects of screening, training and selecting the individuals and families who received HOME loan or grant funds from the PJs for the purchase of single-family properties. In our opinion, these are not solely owner or developer activities. We believe a logical rather than technical interpretation of the HOME regulation is in the taxpayer's best interests. It does not make sense for CHDO board members to be exempt from conflict of interest restrictions whether we call the CHDO an owner/developer or a subrecipient.

### **Applicability of OMB Circular A-122 to CHDOs**

We also disagree with your position that CHDOs are not subject to OMB Circular A-122 requirements. Under 24 CFR 92.2 Definitions, CHDOs must have "standards of financial accountability that conform to 24 CFR 84.21, 'Standards for Financial Management Systems.'" Section 84.21(b)(6) requires the CHDOs to have "Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award." Section 84.27 of Title 24, CFR, sets forth "Federal principles for determining allowable costs," and, among other things, it identifies OMB Circular A-87 as applicable for state and local governments and OMB Circular A-122 as applicable for non-profits. Therefore, the definition of CHDO, at a minimum, appears to incorporate the spirit if not the letter of OMB allowability standards (i.e., OMB Circulars A-87 and A-122) into CHDO operations. Moreover, with respect to CHDOs that serve as subrecipients for PJs, Federal Regulations expressly impose OMB allowability standards on their operations. In that regard, section 92.505 of Title 24, CFR, explicitly states that subrecipients must abide by OMB Circulars A-87 or A-122, depending upon whether they are a state or local government entity or merely a non-profit. Finally, the Applicability statement for OMB Circular A-122 says "These principles shall be used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement." Therefore, absent a specific exemption for CHDOs from the Office of Management and Budget, the requirements of OMB Circular A-122 would be applicable to any CHDO where the receipt of any part of its HOME funding is based upon costs incurred such as operating expenses or funding for anything where the actual costs incurred are used to determine the amount of funding.

### **HUD Monitoring of PJs**

Your response indicates you disagree with the audit conclusion that HOME grant program monitoring visits were infrequent, not comprehensive and failed to detect significant problems. You also indicate all grantees have been monitored during the last four years either on-site or via remote monitoring and/or technical assistance. First of all, it was GAO's audit conclusion that on-site monitoring reviews were infrequent, not comprehensive and failed to detect significant problems. Our conclusion was that this appears to be a continuing problem, and the

recommendation was only that you reexamine the procedures used in selecting PJs for on-site monitoring. Our analysis was of on-site monitoring review information captured in the GMP. To the extent it can be documented, remote monitoring might address the issue of frequency, but remote monitoring could not be as comprehensive as is possible through on-site monitoring and would be more prone to missing significant problems. We have revised this section of the report to more clearly recognize the significant increase in on-site monitoring subsequent to 1998 and to acknowledge the closure of all prior GAO report recommendations.

### **RECOMMENDATIONS**

We recommend the Deputy Assistant Secretary for Grant Programs:

- 1A. Direct appropriate CPD field office staff to determine the circumstances relating to the 78 active HOME program CHDOs who have been denied participation in Single Family programs and provide the information to PJs who should decide the suitability of each CHDO's continued participation in HOME. The PJs should be required to report the bases for their decisions back to HUD.
- 1B. Develop a system of coordination and communication between HOME and Single Family staff to ensure nonprofit organizations removed or excluded from participation in one program (for serious cause) receive appropriate scrutiny from HUD and/or PJs for continued participation in the other program.
- 1C. Reexamine procedures used in selecting PJs for on-site monitoring and in determining the review areas to be covered to address the risks of not monitoring some PJs for extended time periods and not identifying significant problems at those who are monitored.
- 1D. Issue instructions to all PJs emphasizing the requirement for and importance of comprehensive annual contractor and subrecipient monitoring.
- 1E. Obtain legal opinions as to the applicability of OMB Circular A-122 and 24 CFR 92.356(a)-(e) to CHDOs and issue clarifying instructions to all PJs based upon the legal opinions.

Within 60 days please provide us, for each recommendation in this report, a status report on: (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (415) 436-8101.

**External Audit Report Summary**

Report Number	Report Date	Grantee	State	Programs Covered	Review Type **	Report Format	HOME Related Problems Count	HOME Related Problems Key
1	95-PH-241-1007	City of Philadelphia	PA	HOME, CDBG	Audit	Audit Report	2	4, 9
2	95-CH-255-1005	Lake County	IL	HOME	Audit	Audit Report	3	2, 7, 10
3	96-AT-203/255-1003	State of Georgia	GA	HOME, Sec. 8	Audit	Audit Report	3	2, 5, 6
4	96-AT-244/255-1813	City of North Charleston	SC	HOME, CDBG	Limited Scope (Complaint)	Controlled Memorandum	5	3, 4, 5, 12, 18
5	97-AT-241-1005	City of Flint	MI	HOME, CDBG, HOPE 3	Limited Scope (Audit)	Audit Report	2	13, 14
6	97-AT-244/255/256-1808	City of Savannah	GA	HOME, CDBG, HOPE 3	Limited Scope (Audit)	Controlled Memorandum	10	1, 3, 4, 5, 7, 10, 11, 14, 15, 17
7	97-PH-255-1810	State of West Virginia	WV	HOME	Limited Scope (Survey)	Controlled Memorandum	0	
8	97-AT-255-1818	State of Mississippi	MS	HOME	Limited Scope (Audit)	Controlled Memorandum	1	3
9	98-FW-241-1805	City of Fort Smith	AR	HOME	Limited Scope (Survey)	Controlled Memorandum	1	3
10	98-AT-255-1002	City of Homestead	FL	HOME	Limited Scope (Audit)	Audit Report	5	1, 4, 10, 11, 13
11	98-AT-241-1003	City of Miami	FL	HOME, CDBG	Limited Scope (Audit)	Audit Report	5	1, 7, 8, 11, 13
12	98-BO-249-1004	City of New Haven	CT	HOME, CDBG, UDAG, *	Audit	Audit Report	9	1, 2, 3, 4, 9, 10, 11, 17, 18
13	1999-SE-155-1001	City of Seattle	WA	HOME	Limited Scope (Audit)	Audit Report	4	1, 2, 6, 8
14	99-AT-241/242/255-1002	Augusta-Richmond County	GA	HOME, CDBG, UDAG	Limited Scope (Congressional)	Audit Report	0	
15	99-FW-255-1004	City of Houston	TX	HOME	Audit	Audit Report	6	1, 2, 3, 4, 7, 9
16	99-SF-241-1003	City of Lynwood	CA	HOME, CDBG	Limited Scope (Audit)	Audit Report	4	1, 2, 13, 16
17	99-CH-255-1803	Fairfield County	OH	HOME, CDBG	Limited Scope (Complaint)	Controlled Memorandum	8	1, 2, 4, 5, 6, 7, 8, 12
18	00-BO-255-1001	Holyoke/Chicopee	MA	HOME	Audit	Audit Report	5	1, 2, 8, 11, 12
19	00-BO-255-1002	North Suburban Consortium	WA	HOME	Audit	Audit Report	6	1, 2, 9, 15, 21, 22
20	Not Controlled	State of Washington	WA	HOME	Audit	Uncontrolled Memo	2	1, 2
21	00-NY-255-1004	City of Troy	NY	HOME	Audit	Audit Report	3	1, 3, 7
22	00-FW-255-1002	State of Texas	TX	HOME	Limited Scope (Complaint)	Audit Report	3	1, 2, 15
23	00-CH-255-1003	State of Ohio	OH	HOME, CDBG	Audit	Audit Report	6	1, 2, 4, 5, 6, 12
24	00-PH-255-1802	Westmoreland County	PA	HOME	Audit	Controlled Memorandum	4	1, 2, 5, 6
25	00-BO-255-1803	State of Maine	ME	HOME, CDBG	Limited Scope (Complaint)	Controlled Memorandum	8	1, 2, 5, 6, 10, 14, 19, 20
26	01-CH-243-1001	City of Ironton	OH	HOME, CDBG	Limited Scope (Audit)	Audit Report	7	1, 2, 3, 4, 5, 6, 7
27	2001-0E-1001	City of Cheyenne	WY	HOME, CDBG	Limited Scope (Audit)	Audit Report	4	1, 3, 9, 10
28	2001-BO-1803	State of Massachusetts	MA	HOME	Limited Scope (Survey)	Controlled Memorandum	0	
29	2001-AT-1006	City of Hattiesburg	MS	HOME, CDBG	Audit	Audit Report	6	1, 2, 4, 5, 6, 13
30	2001-BO-1006	State of Connecticut	CT	HOME	Limited Scope (Survey)	Controlled Memorandum	2	2, 7
31	2002-NY-1801	City of Utica	NY	HOME, CDBG, Sec. 8	Audit	Controlled Memorandum	6	1, 2, 4, 10, 13, 15
32	2002-PH-1801	City of Baltimore	MD	HOME	Limited Scope (Survey)	Controlled Memorandum	4	1, 2, 4, 11
33	2002-AT-1806	City of Chattanooga	TN	HOME, CDBG	Limited Scope (Complaint)	Controlled Memorandum	2	1, 10
34	2002-CH-1802	State of Wisconsin	WI	HOME, CDBG	Limited Scope (Complaint)	Controlled Memorandum	4	3, 4, 5, 12
35	2002-PH-1001	City of Williamsport	PA	HOME, CDBG	Audit	Audit Report	8	1, 2, 4, 7, 10, 13, 15, 21
					* also Sec. 108, Sec. 203(k)		148	
					** 21 of 35 reviews were limited scope reviews			
<b>HOME Related Problems Description Key</b>								
1	Participating Jurisdictions program administration weaknesses (23 count)							
2	Inadequate Participating Jurisdiction monitoring of subgrantees (20 count)							
3	Actual or apparent conflict of interest violations (10 count)							
4	Contracting problems ie competition or other documentation (14 count)							
5	Repair or rehab work not done or not done properly (10 count)							
6	Housing not in decent, safe and sanitary condition (9 count)							
7	Overcome participants or eligibility not documented (9 count)							
8	Affordability requirements are not being properly applied or enforced (4 count)							
9	Participant loan or related records not properly maintained (5 count)							
10	Unapproved, unallowable or questionable expenditures (9 count)							
11	Program income not properly accounted for (6 count)							
12	Repair or rehab work costs excessive (5 count)							
13	Program objectives not met or not documented (7 count)							
14	Preliminary work write ups/cost estimates not prepared (3 count)							
15	Inadequate support for administrative and/or project delivery costs (5 count)							
16	Funding not committed or distributed timely (1 count)							
17	Excessive holding periods prior to resale (2 count)							
18	Evidence of improper flip sales (2 count)							
19	Building permits not obtained (1 count)							
20	Ineffective complaint resolution procedures (1 count)							
21	Incomplete or inaccurate input into IDIS (2 count)							
22	Failure to obtain annual audits (1 count)							

Attachment B

**Single Family Non Profit Removed List**

Count	CHDO NAME	ADDRESS	CITY	STATE
1	AFFORDABLE HOMES, INC.	760 MATTIE ROAD, SUITE A-1	PISMO BEACH	CA
2	ALLIED HOUSING, INC.	22245 MAIN ST, SUITE 200	HAYWARD	CA
3	ASSOCIACION CAMPESINA LAZARO CARD.	42 N. SUTTER ST, SUITE 406	STOCKTON	CA
4	BAYVIEW COMMUNITY DEVELOPMENT CORPORATION	5100 FEDERAL BLVD	SAN DIEGO	CA
5	CONCERNED CITIZENS OF SO. CENTRAL	4707 SO. CENTRAL AVE.	LOS ANGELES	CA
6	CURRY TEMPLE COMMUNITY DEVELOPMENT CORP	1001 HICKORY AVE	COMPTON	CA
7	EAST LA COMMUNITY CORPORATION	530 S BOYLE AVE	LOS ANGELES	CA
8	GREATER BETHANY ECONOMIC DEVELOPMENT	8409 S HOOVER ST	LOS ANGELES	CA
9	NEED (NEIGHBORHOOD ECONOMIC & EDUCA	11530 S. NORMANDIE AVE, #2	LOS ANGELES	CA
10	NEIGHBORHOOD HOUSING SERVICES	1390 NORTH D ST	SAN BERNADINO	CA
11	PARENTS OF WATTS	10828 LOU DILLION AVE	LOS ANGELES	CA
12	ROSECRANS MANOR	1155 E. 148TH ST	COMPTON	CA
13	VALLEJO NEIGHBORHOOD HOUSING SERVICES	610 LEMON ST	VALLEJO	CA
14	WEST ANGELES COMMUNITY DEVELOPMENT CORP	3045 S CRENSHAW BLVD	LOS ANGELES	CA
15	WESTERN DEVELOPMENTS	1855 W. KATELLA AVE, 260-C	ORANGE	CA
16	WOMEN'S NETWORK FOR CANCER PREVENTION	2501 W. SLAUSON AVE.	LOS ANGELES	CA
17	NORTHEAST DENVER HOUSING CENTER	1735 GAYLORD ST	DENVER	CO
18	NEIGHBORHOOD HOUSING SERVICES	125 NORTH ST	NEW BRITIAN	CT
19	MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORG	3917 MINNESOTA AVE, NE	WASHINGTON	DC
20	AFFORDABLE HOUSING SOLUTIONS FOR FLORIDA,INC	757 ARTHUR GODFREY ROAD	MIAMI	FL
21	CENTRAL FLORIDA H.A.N.D.S.	496 S DELANY AVE	ORLANDO	FL
22	DANIA ECONOMIC DEVELOPMENT CORP	1399 STIRLING ROAD	DANIA	FL
23	NEIGHBORHOOD HOUSING DEVELOPMENT	P.O. BOX 2608	GAINESVILLE	FL
24	NAMPA NEIGHBORHOOD HOUSING SERVICES	704 11TH AVE NORTH	NAMPA	ID
25	LAKE COUNTY COMMUNITY ACTION	106 S SHERIDAN ROA	WAUKEGAN	IL
26	FORT WAYNE NEIGHBORHOOD HOUSING	1421 OXFORD ST	FORT WAYNE	IN
27	HORACE MANN AMBRIDGE NEIGHBORHOOD	1614 WEST 5TH AVE	GARY	IN
28	PROJECT RENEW	P.O. BOX 12981	FT. WAYNE	IN
29	UNITED NORTHWEST AREA DEV	1100 WEST 30TH ST	INDIANAPOLIS	IN
30	SEE-KAN COOPERATIVE	RT 2 BOX 68	SEDAN	KS
31	HOUSING OPPORTUNITIES OF NORTH KENTUCKY	841 ISABELLA ST	NEWPORT	KY
32	CONCERNED CITIZENS FOR SPRINGFIELD INC.	38 OXFORD ST	SPRINGFIELD	MA
33	REVISIONS COMMUNITY HOUSING DEVELOPMENT ORG	20 WINTERS LANE	CATONSVILLE	MD
34	YORK COUNTY COMMUNITY ACTION PROGRAM	PO BOX 72	SANFORD TOWN	ME
35	FRANKLIN ST COMMUNITY HOUSING COOPERATIVE	923 WEST IONIA	LANSING	MI
36	GREATER LANSING HOUSING	606 WEST SHIAWASSEE	LANSING	MI
37	HOUSING OPPORTUNITIES	35350 KELLY ROAD	CLINTON	MI
38	DESALES COMMUNITY HOUSING CORP.	2759 RUSSELL BLVD	ST. LOUIS	MO
39	HAMILTON HEIGHTS NEIGHBORHOOD	4725-27 GOODFELLOW BLVD	ST. LOUIS	MO
40	THIRD WARD NEIGHBORHOOD COUNCIL	3808 WEST FLORISSANT	ST. LOUIS	MO
41	SANDHILLS COMMUNITY ACTION PROGRAM, INC	P.O. BOX 937	CARTHAGE	NC
42	CHADRON COMMUNITY DEVELOP CORP	800 PINE ST	CHADRON	NE
43	PANHANDLE COMMUNITY SERVICES	3350 10TH ST	GERING	NE

## Attachment B (continued)

Count	CHDO NAME	ADDRESS	CITY	STATE
44	SWESTERN COMMUNITY SERVICES, INC	P.O. BOX 603	KEENE	NH
45	HELP/RURAL HOUSING/HOMELESS	3423 CENTRAL NE	ALBUQUERQUE	NM
46	NORTH LAS VEGAS NEIGHBORHOOD HOUSING SERVICES	3100 EAST LAKE MEAD BLVD	N. LAS VEGAS	NV
47	C.O.D.E. INC.	878 NORTH MAIN ST	JAMESTOWN	NY
48	CENTRAL ISLIP CIVIC COUNCIL	P.O. BOX 219	CENTRAL ISLIP	NY
49	ECUMENICAL COMMUNITY DEVELOPMENT ORG	475 RIVERSIDE DRIVE	NEW YORK	NY
50	H.O.G.A.R., INC.	7 BROADWAY, P.O. BOX 577	HAVERSTRAW	NY
51	LACKAWANNA HOUSING DEVELOPMENT CORP	697 RIDGE ROAD	LACKAWANNA	NY
52	NEIGHBORHOOD HOUSING SERVICES	683 S AVE	ROCHESTER	NY
53	NORTH AMITYVILLE HOUSING REHAB.	P.O. BOX 761	AMITYVILLE	NY
54	RURAL HOUSING OPPORTUNITIES CORPORATION	339 EAST AVE, SUITE 305	ROCHESTER	NY
55	UNIVERSITY HEIGHTS CDA	3242 MAIN ST	BUFFALO	NY
56	UTICA NEIGHBORHOOD HOUSING SERVICES	322 S ST	UTICA	NY
57	YONKERS COMMUNITY ACTION PROGRAM, INC.	164 ASHBURTON AVE	YONKERS	NY
58	LORAIN COUNTY COMMUNITY ACTION	506 BROADWAY	LORAIN	OH
59	MIRACIT DEVELOPMENT CORPORATION	2181 MOCK ROAD	COLUMBUS	OH
60	MOUNT PLEASANT NOW DEVELOPMENT CORP	13815 KINSMAN ROAD	CLEVELAND	OH
61	PORTAGE AREA DEVELOPMENT CORP	231 WEST MAIN ST	RAVENNA	OH
62	HOUSING PARTNERS OF TULSA, INC.	415 INDEPENDENCE ST	TULSA	OK
63	ST. VINCENT DE PAUL SOCIETY	705 S SENECA	EUGENE	OR
64	CDC OF FRANKFORD GROUP MINISTRY	4620 GRISCOM ST	PHILA	PA
65	HUNTING PARK CDC	3961 N. 9TH ST	PHILADELPHIA	PA
66	NEIGHBORHOOD HOUSING SERVICES OF READING	221 WEST BUTTONWOOD ST	READING	PA
67	NEW KENSINGTON COMMUNITY DEVELOPMENT CORP	2513-15 FRANKFORD AVE	PHILADELPHIA	PA
68	UNIVERSAL COMMUNITY HOMES, INC.	1427 MONTROSE ST	PHILADELPHIA	PA
69	VECA CDC	1680 JACKSON AVE	MEMPHIS	TN
70	COMMUNITY HOUSING RESOURCE BOARD	1628 MAIN ST	LUBBOCK	TX
71	COMMUNITY SERVICES AGENCY	P.O. BOX 488	CARRIZO SPRINGS	TX
72	OUR CASAS RESIDENT COUNCIL	307 MARSHALL #320	SAN ANTONIO	TX
73	SEAST TEXAS COMMUNITY DEVELOPMENT CORP, INC	3355 ELMIRA	BEAUMONT	TX
74	NEIGHBORHOOD HOUSING SERVICES (SALT LAKE CITY)	1268 WEST 500 NORTH	SALT LAKE CITY	UT
75	PARK PLACE REDEVELOPMENT FOUNDATION	516 WEST 36TH ST	NORFOLK	VA
76	PORTSMOUTH COMMUNITY DEVELOPMENT GROUP	440 HIGH ST	PORTSMOUTH	VA
77	NEIGHBORHOOD HOUSING SERVICES OF KENOSHA, INC	5605 16TH. AVE	KENOSHA	WI
78	WISCONSIN COULEE REGION COMMUNITY ACTION PROGRAM	201 MELBY ST	WESTBY	WI

Attachment C



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-7000

JUN 11 2002

OFFICE OF THE ASSISTANT SECRETARY  
FOR COMMUNITY PLANNING AND DEVELOPMENT

MEMORANDUM FOR: Mimi Y. Lee, District Inspector General for Audit, 9AGA

A handwritten signature in black ink, appearing to read "Nelson R. Bregón".

FROM: Nelson R. Bregón, Deputy Assistant Secretary for Grant Programs, DG

SUBJECT: CPD Comments of Draft Audit Report  
HOME Investment Partnerships Program

This responds to your May 8, 2002, memorandum, requesting comments from CPD on the recently completed audit of the HOME Investment Partnerships Program. This memorandum outlines: 1) ongoing CPD efforts to improve HOME program management by participating jurisdictions (PJs); 2) CPD concerns with the audit's observations on CHDO administrative weaknesses; and 3) CPD's response to the specific recommendations made in the audit.

Overall, CPD understands the elements of inherent risk in the administration of block grant programs. Because it is impossible to eliminate all risks, CPD, in managing its programs, has made decisions about the amount of risk that can be prudently accepted. In the case of its block grant programs, CPD believes that certain risks are acceptable - when balanced against the community control, responsiveness to locally-identified needs, and the flexibility that are characteristic of the block grant approach. CPD also recognizes its responsibility to take all practicable steps to mitigate risk -- the provision of guidance, training, tools and technical assistance to HOME participating jurisdictions (PJs) and risk assessment and on-site and remote monitoring by CPD field staff. Over the past several years, CPD has been working on an extensive training and technical assistance effort that is intended to address many of the risk areas identified in the audit report. In addition, CPD has trained nearly 300 field staff on managing and monitoring the HOME Program since August, 1999.

**Ongoing CPD Efforts To Mitigate Risk and Improve Program Performance.**

The annual appropriation of technical assistance funds for the HOME Program have made it possible for CPD to develop numerous training courses, technical guides and web products that improve the administration and efficiency of local HOME program operations. In addition, CPD is able to provide on-site, direct technical assistance to public agencies and nonprofit organizations to assist them in improving their operations. Existing courses for HOME PJs include a HOME basics primer, construction management, and property and asset management. In the past year, CPD has been working to augment its HOME technical assistance agenda with several new courses, publications and web products. Several of the new training courses are designed to address concerns raised in this audit.

- 1) Monitoring weakness among PJs. As a complement to the monitoring guide for PJs that was issued in October 2000, CPD is developing a monitoring training course for PJs. The course, which piloted in early May, will teach PJs how to monitor their own program activities and those of their program participants for both compliance with HOME requirements and sound management practices.
- 2) Administrative weakness at both the PJ and sub-grantee or CHDO level. CPD is working on several new training courses that address administrative practices among HOME program participants. These include:

Managing HOME: Organizing for Program Delivery. This course, targeted to middle and senior level PJ managers, addresses issues of organizational structure, staff capacity, policies and procedures, and monitoring and evaluation. Deliveries begin in June, 2002.

Show Me the Money: Financial Management for Participating Jurisdictions. This course is targeted to both program and accounting staff working on the HOME Program, addresses OMB circulars and uniform administrative requirements, financial reporting systems, cost documentation, and reporting and compliance. Deliveries begin Fall 2002.

HOME Base: Building and Supporting Your Programs with Nonprofits. This course, targeted to PJ staff that work with nonprofits, discusses building and maintaining the capacity of nonprofits to effectively undertake HOME programs or projects and managing nonprofit performance and relationships. Deliveries begin July, 2002.

- 3) Inadequate low-income representation on CHDO boards. CPD has also been concerned that PJs are not reexamining CHDO board representation periodically, after the initial determination of CHDO eligibility is made. For that reason, CPD developed a HOMEfires newsletter to call attention to the requirement that PJs requalify nonprofit organizations as CHDOs at least each time HOME funds are awarded, and preferably annually. (HOMEfires, Vol. 4, No. 1, April 2002 at <http://www.hud.gov/offices/cpd/affordablehousing/library/homefires/index.cfm>).

**CHDO Administrative Weakness**

CPD has long recognized the statutory intent of the CHDO requirement in the HOME program and continually seeks to strengthen CHDOs through training and direct technical assistance. Having said that, however, the audit contains some inaccuracies with respect to the requirements applicable to CHDOs.

The audit states that neither of the CHDOs reviewed was in compliance with OMB Circular A-122 relative to documentation or allocation of administrative costs. Specifically, it is noted that the CHDOs did not maintain documentation differentiating time spent on HOME versus other activities.

Under the HOME Program rules, CHDOs are treated as developers and owners of housing. Consequently, unlike subrecipients that administer all or a portion of a PJ's program on its behalf, CHDOs are not subject to A-122. CHDOs do not receive HOME administrative funds under 24 CFR 92.207 for projects that they own, develop or sponsor. Consequently, unless a CHDO is also acting as a subrecipient for a portion of a PJ's HOME Program, there is no requirement that costs be tracked or allocated in accordance with OMB Circular-122. Further, the use of CHDO operating expense funds is not limited to activities directly related to HOME projects and the funds are not required to be associated with a HOME project or activity.

In CPD's continual evaluation of the management controls in place for the HOME program, we believe that some PJs may not be determining a CHDO's need for operating funds or requesting a detailed budget for the use of the funds. CPD will consider ways to reinforce the message that the award of CHDO operating funds is to be based upon demonstrated need and a proposal for specific uses of the funds and that costs paid with CHDO operating funds, like other HOME funds, must be reasonable and necessary under OMB Circular A-87.

The audit also cites, as a possible conflict of interest, a situation in which a CHDO leased office space from a corporation partially owned by a CHDO board member. CHDOs are not subject to Part 84 requirements or to the HOME conflict of interest requirements of 24 CFR 92.356(a) – (e). As the owners and developers of housing, only the provisions of 24 CFR 92.356(f), which prohibit CHDO employees, officers and agents from occupying a HOME-assisted unit unless an exception is granted, are applicable to CHDOs. Consequently, execution of this lease did not constitute a conflict of interest violation.

**CPD Response to Recommendations**

Recommendation 1A: Direct appropriate CPD field office staff to determine the circumstances relating to the 78 active HOME program CHDOs who have been denied participation in Single Family programs and the related suitability of their continued participation in HOME.



Response: HOME participating jurisdictions, not HUD, designate CHDOs and determine whether their qualifications merit both initial and continued participation in the program. HUD is only authorized to take action with respect to a CHDO's participation in the program through debarment or if the organization does not meet the CHDO definition at 24 CFR 92.2.

Consequently, CPD does not agree that its field staff should take on this responsibility. CPD agrees that it should examine the appropriateness and feasibility of providing the list of disqualified nonprofits to PJs. HUD could then encourage PJs to consider whether the circumstances of disqualification merit exclusion from participation in the HOME program as well.

Recommendation 1B: Develop a system of coordination and communication between HOME and Single Family staff to ensure nonprofit organizations removed or excluded from participation in one program (for serious cause) receive appropriate scrutiny for continued participation in the other program.

Response: Again, it is not HUD's role to determine the appropriateness of an organization's participation as a CHDO in the HOME Program. PJs make those judgments; HUD intervenes only through debarment or where the nonprofit organization does not meet the regulatory CHDO definition. However, as stated above, CPD is willing to consider whether it is feasible and appropriate to provide the Office of Single Family Housing's list to HOME PJs.

Recommendation 1C: Reexamine procedures used in selecting PJs for on-site monitoring and in determining the review areas to be covered to address the risks of not monitoring some PJs for extended time periods and not identifying significant problems for those who are monitored.

Response: CPD does not agree with the audit conclusion that HOME grant program monitoring visits were infrequent, not comprehensive and failed to detect significant problems.

The oversight and management of grantees, especially high-risk grantees, continues to be a priority of the Office of Community Planning and Development (CPD). Through the use of the Grants Management System (GMP) during the past few years, CPD has significantly increased the number of on-site monitoring visits of HOME program grantees. As noted in your report, sixty-eight (68) percent of the Participating Jurisdictions (PJ) have received some form of HOME program on-site monitoring by HUD at least once in the last four years (1998-2001). What is not reflected in the report is that the remaining 32 percent of the PJ during this period were reviewed via remote monitoring and/or technical assistance.

Each year under GMP, all HOME grantees pass through a very comprehensive remote risk assessment process conducted by the Field staff responsible for working with the grantee during the past year. All aspects of the HOME program are reviewed using a set of critical documents, e.g., CAPER, IDIS commitment/disbursement data, etc. Scores are assigned to the various review areas and tallied to rank the grantees from high to low risk. The highest risk grantees are earmarked for on-site monitoring visit.

The review process also enables the Field to earmark the specific review areas of HOME that should be covered during on-site reviews; therefore ensuring limited staff and travel resources are focused on the areas in most need of being reviewed. It is often determined that certain aspects of the HOME program, e.g., subsidy layering, converted data, financial management, etc., may not warrant review during the on-site visit. Therefore, the on-site review would focus only on the other remaining areas of the HOME program where significant problems were detected.

This portion of the GMP assessment process negates the conclusion drawn in the report that comprehensive reviews were not made of the HOME program. According to the report only limited HOME areas were cited in GMP following monitoring visits; therefore concluding that the reviews were not comprehensive. CPD disagrees with this conclusion. We believe that in order to make a true determination as to the comprehensive quality of a HOME review, one needs to review of the entire GMP risk analysis process (both remote and on-site) then draw a conclusion as to its comprehensive nature. CPD believes that reviewing both areas would reveal that comprehensive reviews has and continue to be made of all HOME grantees.

Recommendation 1D: Issue instructions for all PJs emphasizing the requirement for and importance of comprehensive annual contractor and subrecipient monitoring.

Response: This action has already been taken but additional steps are underway. In October, 2000, CPD issued a comprehensive monitoring guide for PJs to use in monitoring all aspects of their HOME programs (Monitoring HOME Performance, HUD 2030-CPD). This publication has been widely distributed to PJs. In addition, earlier this month, ICF Incorporated, under contract to the Office of Affordable Housing Programs, delivered a pilot training entitled Monitoring HOME. This training includes information and techniques for monitoring contractors, CHDOs, state recipients and subrecipients. Course materials are being edited and additional deliveries are expected to begin in the Fall. In addition to the steps already taken, CPD proposes to issue a HOMEfires reminding PJs of their obligation to review the performance of HOME program participants at least annually through both remote and on-site monitoring.

I appreciate the opportunity to comment on the draft audit report, particularly to ensure that HOME program requirements are accurately reflected. Should you have any questions, please contact me at 202-708-1506 or Mary Kolesar, Director, Office of Affordable Housing Programs on 202-708-2470.

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