



Issue Date September 28, 2009

Audit Report Number 2009-AT-1013

TO: Mary D. Presley, Director, HUD Atlanta Office of Community Planning and Development, 4AD

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The City of Atlanta Entered Incorrect Commitments into HUD's Integrated Disbursement and Information System for its HOME Program

HIGHLIGHTS

What We Audited and Why

We conducted an audit of the City of Atlanta's (City) HOME Investment Partnerships Program (HOME). We selected the City for review because it has received more than \$17 million in HOME funding since 2005. Our objective was to determine whether the City accurately entered commitments into the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (information system) for HOME-funded activities.

What We Found

The City did not comply with HUD requirements for committing HOME funds within the 24-month statutory deadline. The audit identified more than \$6.8 million in incorrect commitment entries that the City made to HUD's information system. The incorrect entries masked a shortfall of more than \$3.9 million that is subject to recapture by HUD. The recaptures, which resulted from a failure of

City staff to implement adequate controls, will deprive City residents of services that the HOME program was intended to provide. The incorrect commitments also undermined the integrity of the information system and of reports HUD generated from the system to monitor the City's compliance with the 24-month statutory commitment requirement.

What We Recommend

We recommend that the Director of HUD's Atlanta Office of Community Planning and Development recapture more than \$3.9 million in funds not committed by the 24-month statutory deadline. We also recommend that the Director require the City to implement controls to ensure that future HOME funds are committed by the required deadline, monitor commitments entered into HUD's information system and take appropriate action to promptly correct detected violations.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the finding with City and HUD officials during the audit. On August 17, 2009, we provided a copy of the draft report to City officials for their comment and discussed the report with them at the exit conference on August 24, 2009. The City provided its written comments to the draft report on September 8, 2009. The City agreed that it made incorrect entries to HUD's information system. However, the City felt the issues involved extenuating circumstances that HUD should consider to reduce the recommended financial impact on the City and its HOME program.

The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development (HUD) allocates HOME Investment Partnerships Program (HOME) funding to eligible local and state governments to strengthen public-private partnerships and to supply decent, safe, and sanitary affordable housing to very low-income families. Participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new construction, and tenant-based rental assistance. For program years 2005 through 2009, HUD awarded the City of Atlanta (City), Georgia more than \$17 million in HOME funding. The City's policy-making and legislative authority are vested in the city council, while the mayor is responsible for overseeing the day-to-day operations of the City and appointing and directing the heads of the various departments. The City's HOME program is primarily administered by its Bureau of Housing.

HUD requires grantees to enter data into an Integrated Disbursement & Information System (information system). The system allows grantees to request their grant funding from HUD and report on what is accomplished with these funds. HUD uses the real-time mainframe-based computer application, to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. HUD also uses the information system to generate reports used within and outside HUD, including the public, participating jurisdictions, and the Congress.

HUD's Office of Community Planning and Development in Atlanta, Georgia, is responsible for overseeing the City's HOME program. HUD's most recent monitoring report of the City's HOME program, dated September 30, 2005, did not include a review of the accuracy of commitment entries the City made to HUD's information system. However, in 2008 HUD recaptured more than \$1.9 million of the City's HOME funding for program year 2005 because the City did not commit the funds by its 24-month statutory deadline, March 31, 2007. Our audit identified more than \$3.9 million in additional HOME funds that are subject to recapture due to incorrect entries the City made to the information system during its 24-month statutory deadlines as of March 31, 2008, and May 31, 2009. We confirmed with HUD staff that the \$3.9 million subject to recapture by the audit is in addition to and is not a part of the \$1.9 million that HUD previously recaptured.

Our audit objective was to determine whether the City accurately entered commitments into HUD's information system.

RESULTS OF AUDIT

Finding 1: The City Entered Incorrect Commitments into HUD's Information System

The City incorrectly entered more than \$6.8 million in commitments into HUD's information system. The incorrect entries masked a shortfall of more than \$3.9 million that is subject to recapture by HUD. This condition occurred because City staff did not follow and enforce HUD program requirements and did not establish and implement procedures to monitor commitments. The recaptures will deprive City residents of services the HOME program was intended to provide. The incorrect commitment entries also undermined the integrity of the information system and reports that HUD generated from the system, such as the deadline compliance status report, to monitor City compliance with commitment requirements and to compile national program statistics. The incorrect commitment entries included more than

- \$5.1 million for non-community housing development organization activities in which the City was unable to produce written agreements, the agreements were executed after the 24-month deadline, or the commitments exceeded the contract amounts shown in the agreements.
- \$600,000 for community housing development organization activities in which the City was unable to produce one written agreement and two agreements were executed after the 24-month deadline.
- \$1.1 million for regular and community housing development organization activities in which written agreements did not exist at the time of the entries but were executed before the 24-month deadline.

Title II of the Cranston-Gonzalez National Affordable Housing Act, section 218(g), and 42 U.S.C. [*United States Code*] 12748(g) provide that a participating jurisdiction's right to draw funds from its HOME Investment Trust Fund shall expire if the funds are not placed under binding commitment to affordable housing within 24 months after the last day of the month in which such funds are deposited into the participating jurisdiction's HOME Investment Trust Fund. Regulations at 24 CFR [*Code of Federal Regulations*] 92.2(1) define commitment as an executed legally binding agreement to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance, an executed written agreement reserving a specific amount of funds to a community housing development organization, or having met the requirements to commit to a specific local activity. Regulations at 24 CFR 92.500(d) state that any funds in the U.S. Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement are subject to reduction or recapture by HUD.

The City Entered Incorrect Commitments into the Information System

Notice CPD [community planning and development] 07-06, Commitment, CHDO [community housing development organization] Reservation, and Expenditure Deadline Requirements for the HOME Program, section VII, provides instructions on unacceptable and acceptable documentation for commitments. Section VII(A) provides that unacceptable commitment documentation includes approved budgets, signed letters of intent, award letters, and council minutes. Section VII(B) provides that acceptable commitment documentation includes a written agreement or contract between the participating jurisdiction and a state recipient, subrecipient, program recipient, or contractor signed by both parties, dated on or before the deadline date, committing a specific amount of HOME funds to a specific HOME project. It further provides that the signatures of all parties signing the agreement or contract must be dated to show the execution date.

During the review period, April 1, 2006, through May 31, 2009, the City committed more than \$14.3 million in HOME funds, of which we examined more than \$10.7 million. We identified more than \$6.8 million in commitments that did not comply with the above requirements. The City entered the incorrect commitments during the 24-month commitment deadlines ending March 31, 2008, and May 31, 2009. The incorrect commitments consist of more than

- \$5.1 million (appendix C) that the City showed as committed before its 24-month commitment deadline, although the funds were not valid commitments. The incorrect entries consisted of commitments for (1) 10 activities totaling more than \$2.72 million in which the City never executed written agreements and thus the reported commitments were not valid, (2) one activity for more than \$1.32 million that did not involve HOME funds, (3) one activity for \$1 million in which the written agreement was executed after the deadline date, and (4) two activities in which the committed amounts exceeded contract amounts by more than \$46,000.

City officials stated that HUD staff instructed them to enter more than \$1.32 million for a non-HOME-funded activity as a commitment into the information system to offset ineligible costs HUD identified in a prior monitoring review. HUD's field officials stated that they provided guidance for the city to enter the activity as a substitute project for the disallowed activity. However, the regulations only permit commitments for HOME-funded activities.

We reassessed the City's commitment compliance by adjusting the March 31, 2008, and May 31, 2009, balances in the deadline compliance status reports to exclude the incorrect entries discussed above. The incorrect entries masked a shortfall that totaled more than \$3.9 million that is subject to recapture by HUD because the City did not commit sufficient funds by the 24-month statutory commitment deadline dates. The City did not provide any allowable substitute commitments to offset the shortfall identified by the audit.

Description	March 31, 2008 deadline	May 31, 2009 deadline	Total
Excess commitments *	\$1,099,648	\$68,224	\$1,167,872
Less: incorrect commitments identified by audit	(3,309,006)	(1,795,231)	(5,104,237)
Adjusted balance (shortfall)	\$(2,209,358)	\$(1,727,007)	\$(3,936,365)

*These were the excess commitments shown in HUD's deadline compliance status reports.

- \$600,000 in community housing development organization reservations that the City showed as committed before the deadline date, although the amounts were not committed.

Activity number	24-month deadline date	Actual commitment date	Days past 24- month deadline at June 30, 2009	Amount
2152	Mar. 31, 2008	n/a	456	\$201,182
2624	Mar. 31, 2008	July 14, 2008	105	200,300
2505	Mar. 31, 2008	May 10, 2008	40	<u>200,000</u>
Total				<u>\$601,482</u>

The incorrect entries consisted of one activity (2152) in which the City did not execute a written agreement and two activities (2624 and 2505) in which the written agreements were executed after the deadline date. The incorrect commitments compromised the integrity of HUD's information system and the degree of reliability HUD could place on the data for monitoring commitments and compiling national statistics on the HOME program. However, the incorrect commitments were not subject to recapture because the amounts were less than the excess commitments shown in HUD's deadline compliance status report for community housing development organizations.

- \$1.1 million for activities in which the written agreements were executed 24 to 216 days after the commitment entries but in each case, the commitments were made before the 24-month deadline date.

Activity number	Date funded in information system	Date written agreement executed	24-month deadline date	Days between entry and written agreement	Amount
2447	July 27, 2007	Feb. 28, 2008	Mar. 31, 2008	216	\$ 138,053
2858	Nov. 7, 2007	Mar. 26, 2008	Mar. 31, 2008	140	372,000
2441	Sept. 25, 2007	Dec. 31, 2007	Mar. 31, 2008	97	92,500
2708	June 7, 2007	Aug. 28, 2007	Mar. 31, 2008	82	293,400
2831	Sept. 25, 2007	Oct. 22, 2007	Mar. 31, 2008	27	90,173
2829	Sept. 25, 2007	Oct. 22, 2007	Mar. 31, 2008	27	76,173
2516	July 27, 2007	Aug. 30, 2007	Mar. 31, 2008	24	<u>112,008</u>
Total					<u>\$1,174,307</u>

The above amounts are not subject to recapture because the funds were committed before the 24-month statutory deadline date. However, the incorrect commitments compromised the integrity of HUD's information system and the degree of reliability HUD could place on the data for monitoring commitments and compiling national statistics on the HOME program.

The regulations at 24 CFR 92.504 provide that the participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements, and taking appropriate action when performance problems arise. The City did not adequately implement this requirement. Specifically, the City did not monitor nor had it established procedures to require and document monitoring of the accuracy of commitments its staff entered into the information system. As a result, the City missed the opportunity to detect and correct the problems before they elevated to the point of subjecting program funds to recapture by HUD.

Because of the above conditions, the audit identified more than \$3.9 million in funds that are subject to recapture in addition to \$1.9 million that HUD recaptured from the City in 2008 (see background section). These conditions underscore the need for City officials to maintain proper management and oversight of program commitments. The recapture will deprive City residents of assistance the program was intended to provide. For instance, the \$3.9 million that is subject to recapture is enough to fund more than 85 home rehabilitations based on the City's \$45,000 standard limit per home for such work.

Conclusion

The City had not established and implemented the controls and procedures needed to detect and correct more than \$6.8 million in incorrect commitment entries its staff had made to the information system since April 2006. The incorrect entries masked a commitment shortfall of more than \$3.9 million that is subject to recapture by HUD. The recapture could have been avoided if the City had properly met its responsibility to ensure compliance with requirements. The recapture will deprive City residents of program assistance, and the incorrect entries compromised the integrity of commitments in the information system which HUD uses to monitor compliance with commitment requirements and to compile national program statistics.

Recommendations

We recommend that the Director of HUD's Atlanta Office of Community Planning and Development

- 1A. Require the City to reduce the commitments in the information system to the amounts supported by written agreements.
- 1B. Recapture \$3,936,365 in HOME funds, which the City did not commit by the 24-month statutory deadline.
- 1C. Require the City to train its staff regarding HUD's documentation and entry requirements for commitments entered into HUD's information system.
- 1D. Require the City to develop and implement monitoring procedures to ensure that future HOME funds are committed by the required deadline, ensure the accuracy of commitments entered into HUD's information system, and take appropriate action to promptly correct detected violations.

SCOPE AND METHODOLOGY

We performed the audit from April through July 2009 at the offices of the City's Bureau of Housing and the HUD Office of Community Planning and Development in Atlanta, Georgia.

We did not review and assess general and application controls for computer-processed data that the City entered into HUD's information system for commitments. We conducted other tests and procedures to ensure the integrity of computer-processed commitments that were relevant to the audit objective. Specifically, we examined written agreements to determine the accuracy of commitments the City entered into the information system. The review disclosed that the City entered incorrect commitments into the information system. We obtained correct information from written agreements for the activities reviewed and determined that incorrect entries compromised the reliability and integrity of HUD's information system (finding 1).

The review generally covered the period April 1, 2006, through May 31, 2009. We adjusted the review period when necessary. To accomplish our objective, we

- Researched HUD handbooks, the *Code of Federal Regulations*, and other requirements and directives that govern the commitment of HOME program funds;
- Obtained and reviewed reports from HUD's information system;
- Reviewed HUD's monitoring reports and files for the City's HOME program;
- Reviewed the City's consolidated annual performance and evaluation reports for its HOME program;
- Reviewed the City's procedures and controls used to administer its HOME program activities relative to commitments;
- Interviewed officials of the Atlanta HUD Office of Community Planning and Development and the City;
- Obtained and reviewed the City's audited annual financial statements, project files, policies, and procedures; and

- Conducted tests to determine the City's compliance with HOME fund commitment requirements. During the review period, April 1, 2006, through May 31, 2009, the City committed more than \$14.3 million in HOME funds, of which we examined more than \$10.7 million, or 75 percent. We examined all commitments that equaled or exceeded \$50,000 in order to cover the most significant commitment amounts. The results of the audit apply only to the tested activities and cannot be projected to the universe or total population.

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. 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 an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 objectives:

- Policies and procedures that management has implemented to reasonably ensure that resource uses are consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the above controls.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following is a significant weakness:

- The City did not enforce HOME requirements to ensure the accuracy of commitments its staff entered into the information system (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1B	\$ 3,936,365

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. 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 our recommendation is implemented, HUD will recapture \$3,936,365 in funds not committed by the 24-month statutory commitment deadline.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	
CITY OF ATLANTA	
DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT 55 Trinity Avenue, S.W. SUITE 1450 - ATLANTA, GEORGIA 30303 404-330-6070 - FAX, 404-658-7638 http://www.atlantaga.gov/Government/Planning.aspx	
SHIRLEY FRANKLIN MAYOR	JAMES E. SHELBY COMMISSIONER

September 8, 2009

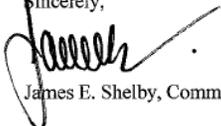
Mr. James D. McKay
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region 4
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388

Subject: Office of Inspector General Report - HOME Investment Partnerships Program

Dear Mr. McKay:

The City of Atlanta's Department of Planning and Community Development is in receipt of the Office of Inspector General audit report, dated August 17, 2009, for the HOME Investment Partnerships Program. For your review and consideration please find enclosed the City's response to the stated finding.

Thank you for your continued assistance and cooperation. Please do not hesitate to contact me if you have any additional concerns or questions, at (404) 330-6070.

Sincerely,

James E. Shelby, Commissioner

Enclosure

cc: Mary D. Presley, Director, HUD Atlanta Office of CPD
Terri M. Lee, Deputy Commissioner
Evelyn Nu'Man, Director - Bureau of Housing
Lee Hannah, Office of Grants Services
James B. Talley, Office of Grants Management

**City of Atlanta, Georgia Response to the
United States Department of Housing and Urban Development
Office of Inspector General for Audit, Region 4
Report dated August 17, 2009**

Overview. The City of Atlanta, Georgia is in receipt of the United States Department of Housing and Urban Development's (HUD) Office of Inspector General for Audit (OIG) monitoring report dated August 17, 2009 and discussed with the City and applicable members of HUD's Community Planning and Development (CPD) and the OIG staff on August 24, 2009.

The purpose of the OIG audit was to determine the City's compliance with HUD requirements for committing HOME Investment Partnerships Program (HOME) funds within the 24 month statutory deadline. For the purposes of the audit, the OIG reviewed the HOME Program grant years for 2006 – 2008. The following table identifies the applicable timeframe associated with the HOME Program's commitment requirement:

Program Year	HOME Program Grant Agreement Date	HUD Commitment Date
2006	March 22, 2006	March 31, 2008
2007	May 8, 2007	May 31, 2009

The City's Department of Planning and Community Development, Bureau of Housing (BOH) has the responsibility for the implementation of the City's HOME funded activities. The Department of Finance, Office of Grants Services (OGS) provides administrative oversight and is responsible for the entering and monitoring of data into the HUD Integrated Disbursement Information System (IDIS).

OIG Audit Results. As a result of the Audit, the OIG has made the following finding against the City of Atlanta in its implementation of the HOME Program: *"The City did not comply with HUD requirements for committing HOME funds within the 24-month statutory deadline. The audit identified \$6.8 million in incorrect commitment entries the City made within the IDIS system. As a result of the incorrect entries, the shortfall of \$3.9 million is subject to recapture by HUD" (page 1).*

While the final determination of the recapture amount will not impact the City's general fund; it will however reduce the City's cumulative HOME Program allocation and its ability to utilize the funding for HOME eligible activities.

City's IDIS Process. The distinctive method of processing transactions in IDIS (first in/first out) has resulted in major systematic obstacles encountered by the Cities across the country as they attempt to reconcile IDIS and the General Ledger accounting records. The City's IDIS staff developed a procedure to identify activities in IDIS and to aid in the IDIS reconciliation process

*City of Atlanta, Georgia
Response to HUD-OIG Audit Report
Page 1*

Comment 1

by “reserving funds” in IDIS. It is now apparent that that the City’s well intended efforts to reconcile the IDIS activities contributed to the misrepresentation of reserved funds as committed. The City respectfully offers that extenuating circumstances existed that impacted our ability to rely on the IDIS system and resulted in the ultimate finding of incorrect commitment entries.

In 2005, HUD-CPD and the City acknowledged the need to reconcile the IDIS reporting system with the City’s accounting system. As a result, the City received HUD sponsored on-site technical assistance from the ICF consultants in March 2006 and March 2007. Shortly thereafter, the Office of Grants Services began the process of reconciling the City’s HOME funds between the general ledger and the IDIS system. The complex reconciliation process was completed in December 2008.

Although the Department of Finance’s reconciliation process was completed in December 2008, the accompanying accounting adjusting entries were not processed by the May 2009 commitment deadline. The City agrees that the recapture of HOME funds impacts the ability to provide services to citizens; however, the assumption that the recapture will “deprive the citizens” (pages 2 and 8) of 85 home rehabilitations is subjective.

Analysis of the Amount Subject to Recapture. The OIG audit report identified more than \$6.8 million in commitments that did not comply with the HOME Program’s commitment requirements (pages 1, 5, 6, 9); however the actual net amount subject to potential recapture is approximately \$3.9 million. The incorrect commitment can be largely attributed to the following distinct instances for which the City provides the following explanation:

A. \$2,525,487 (see table below) was directly associated with the method the City elected to account for the out-sourcing of construction management and contractor payments associated with the substantial rehabilitation program. The units served are occupied by elderly and/or disabled clients who had long delayed maintenance and repairs. In addition, the majority of the units were over 50 years old and will require system and mechanical updates and adherence to the Section 106 environmental assessment requirements. The table below denotes the amount of funding committed in IDIS to the construction management and contractual services:

The OIG report maintains that the City misrepresented the true commitment situation. The City executed a written agreement to implement the substantial rehabilitation program and estimated that 100 homes would be assisted.

Although the City transferred the construction management processes to a newly established subrecipient, as a precautionary step, the City elected to directly pay the construction contractors. The City contract authorized up to 100 units. Funds for the first 50 units were “reserved in IDIS” to track the activity as reflected on the General Ledger. The City respectfully requests reconsideration and submits that the process followed established City contracting, procurement, and acceptable business practices since the funds were obligated to the contractor with the construction payments being made directly to the rehab contractors on behalf of the owner by the City of Atlanta. The City executed conditional written agreements, as allowed by HUD

Comment 2

Comment 1

Comment 3

Comment 4

regulations, when homeowners were approved for services and committed sufficient funds to cover the predevelopment, program delivery, rehabilitation cost and built in a modest contingency amount to address unforeseen repairs that might surface.

B. \$1,328,750 (IDIS Activity No. 3335) was associated with the deposit of funds from a non-federal source into the City's HOME bank account. This deposit was made in order to fund a substitute HOME eligible project designed to offset previously disallowed HOME projects. The City communicated the proposed actions to replenish the HOME account and provide affordable rental units, and followed the guidance provided by the local HUD Atlanta Community Planning and Development office.

Recap of the Commitments Subject to Recapture

IDIS #	Amount	% of Total	Documentation
2866	1,792,167		Results from contract executed to out-source the construction management and directly pay for the professional services associated with the substantial rehabilitation process and the contingency budgets for cost overruns associated with the rehabilitation of substandard structures constructed 50 years ago.
269	266,839		
2939, 3122, 3123, 3287, 3299, 3300, 3304	420,000		
2938	<u>46,481</u>		
	\$ 2,525,487	49%	
3335	\$ 1,328,750	26%	HUD approved offset from non-federal sources
	\$ 250,000	5%	Incorrect commitment to reconcile IDIS resulted in the funding without contract
	\$ 1,000,000	20%	2007 contract executed within the 24 month commitment requirement
	\$ 5,104,237.00	100%	Total
	<u>(1,167,872)</u>	-23%	23 % of the total commitments subject to recaptures were offset by excess commitments
	(3,936,365)		Subject to Recaptures

Comment 5

OIG Audit Recommendations

As previously stated, the OIG auditors have identified one finding against the City in its implementation of the HOME program. As a result of the finding, the following recommendations will be given to the HUD-CPD office:

OIG Recommendation 1A. Require the City to reduce the commitments in the information system to the amounts supported by written agreements.

Comment 4

City's Response: The City will reduce the commitments within the IDIS system as required. However, the City does not agree with the determination that the amount to be reduced in the IDIS system is approximately \$3.9 million. The OIG auditor has made a determination that the City incorrectly entered non HOME funds into the system. The amount which was entered was a result of identifying a non federal funding source to implement a HOME eligible activity. This was done in an effort to offset previously identified disallowed costs as a result of the HUD Program monitoring in September 2005.

OIG Recommendation 1B. Recapture \$3,936,365 in HOME funds, which the City did not commit by the 24-month statutory deadline.

Comment 6

City's Response: The City resourcefully identified non-federal funds to offset disallowed cost and provide affordable special use housing. The City is humbly requesting HUD to reconsider the OIG conclusion and seek a waiver that allows IDIS Activity No. 3335 to count towards the 2008 commitment. It is also noted that since the IDIS system commits funds on a first in/first out basis, and the City had an uncommitted HOME multifamily allocation, that should the waiver not be granted, it would be requested that HUD explore the option of considering the activity as if it were a multi-family project funded under the entitlement multifamily funds that were available at the time of IDIS commitment.

OIG Recommendation 1C. Require the City to train its staff regarding HUD's documentation and entry requirements for commitments entered into HUD's information system.

Comment 7

City's Response: The City will continue to seek training regarding the IDIS commitments entered into IDIS. It is noted, that in March 2007, HUD sponsored ICF Consultants to provide direct technical assistance to aid the City in addressing findings cited in September 2005 and to determine an approach for addressing the corrective actions needed going forward. Over the past four years, the City has relentlessly worked to improve the overall administration of the HOME program and to establish the necessary processes, policies and staff capacity to best implement the program and produces affordable housing. City staff sought technical assistance from HUD, attended HUD sponsored trainings, and secured HOME Certification of four senior level managers from the years 2006 - 2009.

In addition, the finance and the HOME Program implementation staff is committed to collaboratively working to resolve the findings and concerns associated with the statutory commitments requirements under the HOME program and the reporting in IDIS.

Since May 2005, the City managers and staff responsible for the managing and implementing of the HOME program have aggressively pursued training opportunities and BOH staff has attended the following classes:

Training Course
HUD HOME Base Training
HUD Basic IDIS Training
HOME & CDBG Basics
HUD Monitoring HOME
Building HOME through CHDOs
Basically CDBG
HOME Specialist Certification (a total of four Certified employees)
Advanced Home
Effective Written Agreements
Understanding Rental Housing Underwriting and Finance
HOME Rental Housing Compliance
Monitoring HOME
CHDO and HOME Basic
On Solid Ground: Tools and tactics for Managing Your Construction
Lead Safe Work Practices
Advanced Asbestos/Lead Seminar
HOME and NSP: Creating Affordable Housing

OIG Recommendation 1D: Require the City to develop and implement procedures to monitor commitments entered into HUD's information system and take appropriate action to promptly correct detected violations.

City's Response: The City provided the OIG auditors the BOH's Financial Monitoring Procedures for the HOME Program Commitment and the Office of Grants Management procedure for City staff entering commitments into IDIS. The policy has been expanded to include the monitoring of the commitments entered into IDIS to ensure that contracts are in place and the dates entered into the IDIS system comply with the HOME program requirements. While commitments were previously entered incorrectly, it is noted that the City did not disburse any HOME funds until the contracts were executed and complied with the written agreement requirements as stated in section 24 CFR 92.504.

Conclusion. The City is hereby committed to take the appropriate actions to ensure management and staff follow the HOME program regulations and implementation procedures that will ensure the enforcement of the HOME program requirements and to ensure the accuracy of the commitment dates its' staff enter into the IDIS system. The City acknowledges that a fundamental flaw existed in the processes and procedures used to commit HOME funds in IDIS

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Comment 8

and the execution of written agreements in the fund years 2006 and 2007. Since that time, the City's policy regarding commitments has been revised to further expand the City's oversight of its HOME Program commitments.

OIG Evaluation of Auditee Comments

- Comment 1** The City commented that the first-in first-out method for processing transactions in HUD’s information system has resulted in major systematic obstacles by cities across the country as they attempt to reconcile the data in HUD’s information system with their general ledger accounting records. The City stated that its staff developed a procedure to identify activities in HUD’s information system and to aid in the information system reconciliation process by “reserving funds” in the system. However, by “reserving” the funds in HUD’s information system without an executed written agreement, the City incorrectly committed the funds in violation of 24 CFR 92.2(1), which requires all commitments to be supported by executed written agreements. The City requested that we reconsider their position and accept the process it followed. The process followed by the City violated the requirements and is not permitted as a basis for committing funds in HUD’s information system.
- Comment 2** The City commented that the assumption that the recapture will “deprive” the citizen” of 85 home rehabilitations is subjective. The report simply states a factual calculation of the number of rehabilitations that could have been funded by the potential recapture amount.
- Comment 3** The City states it executed conditional written agreements, as allowed by HUD regulations. We reviewed the conditional written agreements and determined they did not qualify under the regulations as the basis for the commitment of HOME funds and that the agreements themselves stated “this agreement does not constitute a commitment of funds.”
- Comment 4** The City explained that it was acting under guidance from HUD when it entered a \$1.32 million commitment to the information system for an activity that was not funded by HOME funds. The City disagreed with the OIG inclusion of the \$1.32 million to calculate the more than \$3.9 million subject to recapture. The regulations at 24 CFR 92.2(1) define commitment as an executed legally binding agreement to use a specific amount of *HOME funds* (emphasis added). This activity used non-federal funds and cannot constitute a commitment in HUD’s information system despite guidance received to the contrary.
- Comment 5** The City commented that the questioned commitments included \$1,000,000 that was for a 2007 contract that was executed within the 24-month commitment requirement. We disagree. The City entered the commitment into the information system on July 30, 2007, although it did not execute the contract until July 17, 2008. The contract was executed 108 days after the City’s March 31, 2008, commitment deadline.

- Comment 6** The City requested HUD to reconsider the OIG conclusion and seek a waiver that would allow activity no. 3335 to count towards its 2008 commitment requirement. The City also commented that since the HUD information system uses a first-in first-out basis, if the waiver is not granted, HUD explore the option of allowing an uncommitted HOME multifamily allocation as if it were a multi-family project. The 24-month commitment requirement is statutory and is not subject to waiver. During the review, we asked City officials if they had any activities committed before their deadline dates, which they had not entered into HUD's information system and they said no. The request to allow the multifamily allocation as a multifamily project is ambiguous. The City provided no evidence that it had executed a written agreement for the multifamily allocation for the period covered by the audit.
- Comment 7** The City commented that between 2005 and 2009 its staff has attended various training courses and that it will continue to seek training regarding commitments entered into HUD's information system. The issues identified by the audit indicates a further need for training focused on the commitment of HOME funds coupled with increased City monitoring of staff performance in this area.
- Comment 8** The City responded that it provided its procedures for entering commitments into HUD's information system and has since expanded the procedures to include monitoring. The City provided and we assessed their procedures for entering commitments into HUD's information system. However, we requested but the City never provided procedures for monitoring commitments that its staff enters into HUD's information system.

Appendix C

SCHEDULE OF INCORRECT COMMITMENTS ENTERED INTO HUD'S INFORMATION SYSTEM WHICH RESULTED IN SHORTFALLS

Activity number	Required commitment date	Actual commitment date	Days past 24-month deadline as of June 30, 2009	Amount	Notes
Amounts still not committed					
2866	Mar. 31, 2008	n/a	456	\$1,792,167	A
2669	Mar. 31, 2008	n/a	456	266,839	A
2668	Mar. 31, 2008	n/a	456	250,000	A
3335	May 31, 2009	n/a	30	1,328,750	B
2939	May 31, 2009	n/a	30	60,000	A, C
3122	May 31, 2009	n/a	30	60,000	A, C
3123	May 31, 2009	n/a	30	60,000	A, C
3287	May 31, 2009	n/a	30	60,000	A, C
3299	May 31, 2009	n/a	30	60,000	A, C
3300	May 31, 2009	n/a	30	60,000	A, C
3304	May 31, 2009	n/a	30	60,000	A, C
			Subtotal	\$4,057,756	
Commitments made after the 24-month deadline					
2748	Mar. 31, 2008	July 17, 2008	108	\$1,000,000	D
			Subtotal	\$1,000,000	
Commitments that exceeded the amounts shown in the written agreements					
2934	May 31, 2009	Feb. 5, 2009	0	\$22,061	E
2938	May 31, 2009	Feb. 5, 2009	0	\$24,420	E
			Subtotal	<u>\$46,481</u>	
			Total	<u>\$5,104,237</u>	

Notes	
A	The City did not produce legal written agreements to support the commitments of these funds. The regulations at 24 CFR 92.2(1) define commitment as an executed legally binding agreement to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance, an executed written agreement reserving a specific amount of funds to a community housing development organization, or having met the requirements to commit to a specific local activity. These commitments were not valid because they were not supported by written agreements executed before the commitment deadline dates.
B	<p>The documentation provided by the City shows that this activity was funded by local bonds and not by the HOME program. Thus, the more than \$1.32 million commitment the City entered into the information system for the activity was incorrect, and it caused an overstatement of City commitments in the information system. The regulations at 24 CFR 92.2(1) define commitment as an executed legally binding agreement to use a specific amount of HOME funds.</p> <p>City officials stated that community planning and development officials from the local HUD field office instructed them to enter this non-HOME-funded activity into the information system to offset ineligible costs that HUD identified in a prior monitoring review. We discussed this matter with HUD officials, and they stated that they provided guidance for the City to enter the activity as a substitute project for the disallowed activity. However, the regulations only permit commitments for HOME-funded activities to the information system, and the requirement is not subject to override by the local HUD office.</p>
C	The contracts provided by the City were not executed agreements that qualify for the commitment of HOME funds. Instead, the documents provided were the agreements that the homeowner executed to comply with the affordable housing requirements associated with the rehabilitation activity for which they applied. The agreements were signed by the recipients but not by City officials. The documents state that “this agreement does not constitute a commitment of funds.” To support the commitments entered into the information system, the City needed but had not executed contracts to complete the rehabilitation work.
D	The commitment was supported by a written agreement, but the agreement was dated after the City’s 24-month statutory commitment deadline.
E	The commitments exceeded the written agreements by more than \$46,000. The City committed \$65,000 for activity 2934, but the contract was for \$42,939, which was \$22,061 less than the City committed. The City also committed \$65,000 for activity 2938, but the contract was for \$40,580, which was \$24,420 less than the City committed. The total commitments for the two activities exceeded the contract amounts by \$46,481 (\$22,061+\$24,420).