



## INTEROFFICE MEMORANDUM

**TO:** R. David Ware, Interim County Manager  
**FROM:** *Anthony Hicks*  
Anthony Hicks, Director, Office of Internal Audit  
**DATE:** May 13, 2013  
**RE:** Fulton County HOME Program Audit-Quarterly Review

The Office of Internal Audit has completed the audit of the HOME Program for the period of third and fourth quarter of 2012. Attached is a copy of our findings and recommendations.

If you have any questions or need additional information, please contact me at extension 21019 or Herman Hicks, Assistant Audit Manager, at extension 24585.

Attachment: Fulton County Office of Housing Quarterly Review-Third and Fourth Quarter 2012

Cc: Gerry Easley, Interim Director, Housing and Human Services Department  
Herman Hicks, Assistant Audit Manager, Office of Internal Audit



**FULTON COUNTY**

**FULTON COUNTY, GEORGIA  
OFFICE OF INTERNAL AUDIT**

**HOUSING AND HUMAN SERVICES DEPARTMENT**

**FULTON COUNTY OFFICE OF HOUSING  
QUARTERLY REVIEW  
THIRD AND FOURTH QUARTER 2012**

**May 13, 2013**

## Introduction

At the request of the Department of Housing and Urban Development, (HUD,) we monitored and reviewed the effectiveness of the policies and procedures implemented for the HOME Investment Partnership Program adopted by the Housing and Community Development Department. The purpose of our review was to determine if the Housing Department implemented proper controls and procedures to ensure effective monitoring of its HOME program and established adequate internal control procedures to address audit findings issued in previous HUD and Fulton County Internal Audit reports.

The HOME funded programs reviewed were those with expenditures within the scope period. The programs reviewed were the Community Housing Development Organizations (CHDO), the Tenant based Rental Assistance (TBRA), the American Dream Down payment Initiative (ADDI) and the Housing Rehabilitation Program (HRP). The programs are described as follows:

- Community Housing Development Organizations (CHDO) - these are independent registered charities that are organized to provide affordable housing opportunities to specific areas. CHDOs may provide rental assistance, buyer assistance and rehabilitation of rental properties that are later leased to low income families. CHDO organizations have specific HUD requirements that must be met before they can receive grant funds.
- Tenant Based Rental Assistance Program (TBRA) - assists eligible participants with securing non-luxury safe and sanitary housing in the private rental market.
- Down Payment Assistance Program (American Dream Down payment Initiative ADDI) - is designed to help first-time homebuyers with the biggest hurdle to homeownership: down payment and closing costs. The program was created to assist low-income first-time homebuyers with purchasing single-family homes by providing funds for down payment, closing costs, and rehabilitation.
- Housing Rehabilitation Program (HRB) - provides emergency assistance grants and deferred payment loans to improve living conditions of low and moderate income Fulton County residents, eliminate blighted conditions in targeted neighborhoods and preserve the basic character of the County's neighborhoods.

### **Objective**

The objective of our review and monitoring efforts is to assess the effectiveness of the procedures and controls implemented by Fulton County Department of Housing and Community Development.

### **Scope**

The periods covered by this review are the third and fourth quarters of 2012.

### **Methodology**

The participant files and financial records were reviewed for compliance with HUD requirements. Checklists provided on the Department of Housing and Urban Development's website were used extensively as a source of guidance for the review of the participant files. The financial records were reviewed for their consistency, accuracy and timeliness.

### **Findings and Recommendations**

#### **Finding 1 – The Tenant Based Rental Assistance Program's enrollment of recipients is below the Fulton County contract's required level of performance.**

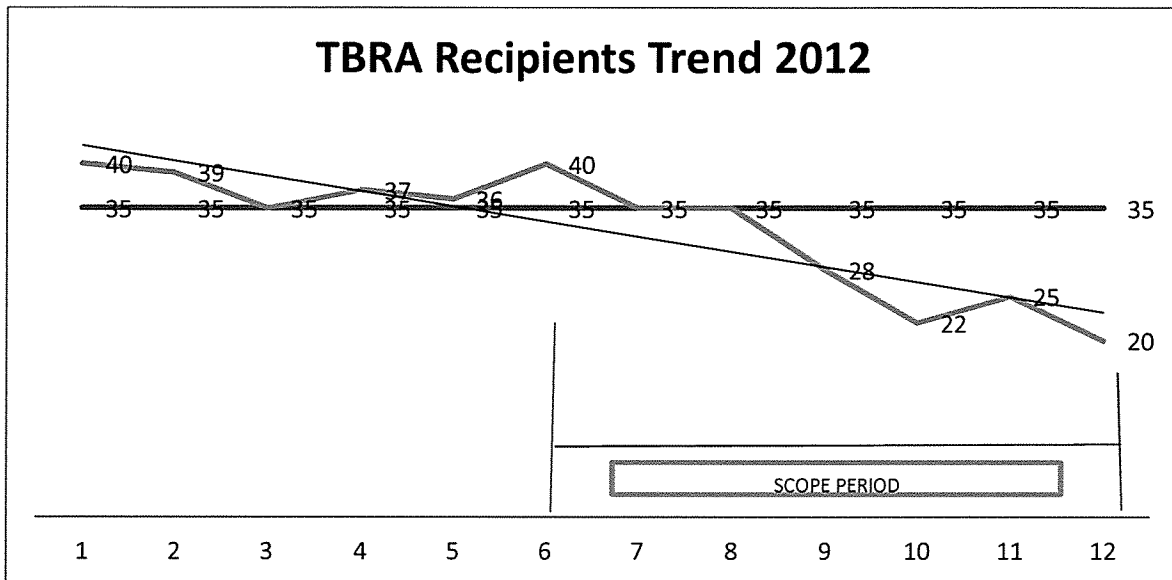
The original 2012 contract between Fulton County and the Housing Authority of Fulton County (HAFC) stipulates a performance level of 35 recipients with a budget of \$200,000.00 for expenditures per year. The contract was amended in May of 2012 with an increase of another \$200,000.00 [An average of \$25,000.00 per month to be disbursed]. HUD requires monitoring the viability of any Home Program Project set up on the IDIS system. During the scope period, the average number of monthly TBRA recipients was 28; the monthly average for assistance payments was \$19,837.50. The number of participants served is materially lower than what the contract requires.

There was a material increase in funding for the TBRA program for a year in which activity declined significantly. The Home Program Managers did not accurately project the amount of funds that could be expended by the TBRA program. TBRA funding was increased in 2012 by 100%, by the end of the year the number of TBRA participants had decreased by 50%.

### **Recommendation**

The Housing Authority of Fulton County (HAFC) and Fulton County's ability and commitment to maintain existing funding levels should be evaluated in depth before future increases in funding are considered. A better forecasting model should be implemented as well as an improved process for research and information sharing with other HUD entities. If the TBRA program has

the opportunity to expand its services there should be a pre-existing strategy for its successful implementation.



The HAFC contract sets a goal of 35 recipients – The actual audited recipients went from 40 in January to 20 in December. Funding was increased by \$200,000 in May. The last 4 months of the scope period showed significant decline when compared to the first 8 months of 2012.

**Finding 2 – Loss of Georgia Urban County Consortium contract HM10-5300 funds**

Fulton County’s contract with the Georgia Urban County Consortium’s (GUCC) is monitored by the Cobb Community Development Block Grant Program Office. During 2012 it was noted that the GUCC funds were reclaimed in December 2011. The reclaimed funds represent a loss of \$862,344.78 of Housing and Community Development funds that should have been utilized by Fulton County. This is the result of the Housing Department not projecting the TBRA, Housing Rehabilitation and other programs demand for funding accurately. This lack of effective planning and forecasting resulted in a material loss of program funds that could have been utilized. The Georgia Urban County Consortium reclaimed the funds originally provided and reclaimed by the Federal Government’s Agency of Housing and Urban Development.

**Recommendation**

Fulton County’s ability and commitment to maintain existing funding levels should be evaluated in depth before future increases in funding are considered. A better forecasting model should be implemented as well as an improved process for research and information sharing with other HUD entities. If a program has the opportunity to expand its services there should be a pre-existing strategy for its successful implementation.

**Finding 3 – CHDO contracts missing from organization files**

The only active Community Housing Development Organization (CHDO) during the scope period was the North Fulton Housing Initiative. The HUD requirements for CHDO organizations include an annual audit of the organization and its financial statements. One of the HUD and Fulton County requirements for CHDO organizations is the completion of a contract with Fulton County before funds can be provided for organization projects. A review of the fiscal year HUD Audit Report for the North Fulton Housing Initiative indicated that two of the organizations' agreements with Fulton County could not be located. The Fulton County CHDO Administrator indicated that this finding was correct and that two contracts were in the process of being completed to replace the missing contracts. A periodic review of CHDO organization files would have detected any missing contracts. During the audit period there were several missing organization contracts that were sighted in a 2011 external audit of the CHDO organization. The effect of not properly accounting for completed contracts renders Fulton County susceptible to losses.

**Recommendation**

There should be a periodic review of the CHDO organization's files. No payments should be made for CHDO projects without referencing the contract number of the project. The signed contract along with copies of the checks disbursed and the progress payment invoices for each project should be included in the project file. A periodic review of older files should be conducted with the use of the Rev 02/2010 HUD checklist.

**Finding 4 - Rehabilitation Program Project File's documentation should include a reconciliation of contracts and payments**

Proper Internal Controls include procedures to prevent over payments. Those procedures require that adequate documentation exist for all payments. During our review, we found that one contractor was overpaid by \$2,000.00; however, the overpayment was recovered promptly. This could have been avoided by implementing internal control measures to prevent and detect overpayments. The effect of not having the appropriate internal controls in place makes the county more susceptible to losses.

**Recommendation**

All future Rehabilitation files should have a spreadsheet inserted into the permanent file that reconciles the project invoices and change orders to the checks issued for payment.

**Finding 5 – Inspections for Home Ownership Program not conducted to HUD requirements**

Best practices for home ownership inspections require a physical inspection performed by a qualified Home Program inspector. The HUD report (dated August 13, 2012) indicated that the Fulton County Housing Division was not completing physical on-site inspections for eligible Down Payment Assistance properties. Interviews with the Home Program Inspectors confirmed that the inspection reports had been prepared based on outside appraisal inspections and not from physical site visits. A review of several Down Payment Assistance files revealed that the inspection reports did not document the inspection methods used to complete the reports; furthermore, there was no indication of the time of day the inspections were completed or a supporting explanation of noncompliant findings. The inspectors confirmed that the Down Payment Assistance Manager has requested all future inspections be done physically at the recipient's prospective home. One file was designated by a Fulton County Inspector, as an example of a site inspection. An evaluation of the inspection report provided no specific evidence of an actual visit; such as pictures or a log book entry. Additionally the Fulton County Housing inspection report did not include a Summary/Explanation section, which described items or areas that need repair or replacement. This report and the procedures are not consistent with best practices for Construction Projects or HUD procedures. The lack of physical inspections created the possibility of providing Down Payment Assistance Loans on properties that were not structurally sound according to local code requirements or HUD specifications.

**Recommendation**

To understand the best practice for confirming site inspections the Fulton County Public Works Construction Project Division Manager was consulted. He provided policies and procedures that are used in the Fulton County Public Works Department that include the following:

- The use of Construction Project Log Books that are bound and designed for project management information; this includes date, time, weather conditions and site location specifics.
- Digital photographs of all projects that can be stored on CDs and emailed to contractors (the inspectors have photographs in several files but not consistently for every inspection or project.)
- A manager's log of employee assignments and a record of spot check phone calls for employees on a random basis.
- Periodic reviews of employee logbooks for completeness and detail.
- The preparation of monthly summaries of inspections with results, issues and required corrections.

The Home Program Managers should implement these policies and procedures immediately and procure the necessary logbooks and equipment to create a suitable internal control process for Home Program site inspections. This would include a Housing Division policy for all inspectors to familiarize themselves with the appropriate methods of documenting inspections and the preparation of quarterly reports.

## **CONCERNS**

### **Concern 1**

On February 24, 2012 a review of the September HUD audit report was conducted, over the phone with the HUD Senior Community Planning Development (CPD) Representative that compiled the report. He expressed concern that Fulton County had not responded to the December 4, 2012 letter that restated the findings and concerns from the original report. The Housing Division was contacted concerning a response. The Fulton County Housing Division response was received by HUD on March 1, 2013; this represents a response time in excess of 80 days. It is our opinion that a more timely response and review of Audit Findings is warranted for future audit reports. By not responding in a timely manner the Housing Division is jeopardizing future levels of Home Program funding.

### **Recommendation**

The Housing Division should adopt a formal policy of responding to all audit reports within 30 days of receipt.

### **Concern 2**

The Down Payment Assistance Manager prepared a spreadsheet recording the affordability periods for down payment assistance contracts from 1993 thru 2012. A sample of down payment loan contracts was reviewed for the scope period. The sample contracts' affordability periods were recorded accurately and the recipients' file information was listed correctly.

When reviewing the Affordability Spreadsheet we noted that there was no indication of a management review.

### **Recommendation**

Even though the results of the sample testing should satisfy HUD's audit concerns; management still should confirm that the Affordability Periods Spreadsheet has been reviewed.



**Concern 3**

The HUD expenditures are not being effectively monitored to ensure the timeliness of the draw down requests. The total average lapse time between the invoice date and draw down request date for CHDO, HOP, Rehabilitation, and TBRA funds is detailed in the chart below. The actual draw-down requests are not occurring during the month that the expenditures are incurred. Consequently, there is a significant time lapse in the County receiving the HUD funds.

<b>DAYS LAPSED DURING THE H.O.M.E. PAYMENT REQUEST PROCESS</b>				
<b>Program</b>	<b>Average Days Lapse Between Invoice and Check</b>	<b>Average Days Lapse Between Check and Draw Down Request</b>	<b>Average Days Lapse Between Draw Request and Actual Draw Down</b>	<b>Total Average Days Lapse</b>
Community Housing Development Organizations (CHDOs)	9	56	27	92
Homeownership Program (HOP)	8	36	7	51
Housing Rehabilitation	16	34	22	72
Tenant Based Rental Asslstance (TBRA)	23	35	15	73
<b>Total Average Days Lapse</b>	<b>14</b>	<b>40</b>	<b>18</b>	<b>72</b>

**Recommendations**

Management should review and revise their policies and procedures to increase the efficiency of its programmatic and financial reviews and the timeliness of submitting draw requests for HUD related expenditures. This action will improve cash flow management and timely update IDIS reporting.

We would like to thank the management and staff of the Fulton County Housing and Community Development Department for their cooperation and assistance during this monitoring process.

*\*Note-Responses from HHS were not included in this audit report as they were not received from the department at the time of issuance of this report.*