U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
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Fort Worth, TX 76102
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T.C. Broadnax, City Manager
City of Dallas
Dallas City Hall, 4EN
1500 Marilla
Dallas, Texas 75201

APR 1 1 2017

Dear Mr. Broadnax:

SUBJECT: Monitoring Report – HOME Investment Partnerships Program

The purpose of this letter is to transmit the results of the monitoring review of the City of Dallas' HOME Investment Partnerships Program (HOME). The review was conducted on-site during the period of February 27 thru March 3, 2017. A summary exit conference was held with city staff on March 3, 2017 and a final exit conference was held via teleconference on March 30, 2017.

Our review of the city's HOME activities focused on the city's management and oversight of its HOME-assisted activities along with its on-going monitoring of previously funded HOME activities. While the city's HOME Program has been very productive in recent years with respect to the number of units produced and low-income households assisted, our review identified significant deficiencies in overall program management and oversight.

Enclosed you will find the summary monitoring report which identifies 12 compliance findings. Each of the findings identifies the required corrective action that the city must take to clear the finding. Two of the findings will require city staff to research the activities reviewed and provide additional supporting documentation before a final corrective action can be identified. Please note that several of the corrective actions advise the city not to move forward with any new HOME activities until the finding is cleared.

Please review the enclosed report and provide a written response within 45 days of the date of this letter. Should you have any questions please have your staff contact Ellen Melendez, Senior Community Planning and Development Representative at 817.978.5958 or via email at ellen.m.melendez@hud.gov.

Sincerely,

Shirley J. Henley
Director

Enclosure:
cc: Bernadette Mitchell
Cynthia Rogers-Ellickson

ON-SITE MONITORING REPORT

HOME Investment Partnerships Program
Dallas, Texas
MXXMC480203
February 27 – March 3, 2017

OVERVIEW

Monitoring is the principal means by which HUD ensures that programs and technical areas are carried out efficiently, effectively, and that the programs comply with applicable laws and regulations. It assists grantees in improving their performance, developing or increasing capacity and enhancing their management and technical skills. In determining which grantees will be monitored, the Department uses a risk-based approach to rate grantees, programs and functions, including assessing the Department's exposure to fraud, waste and mismanagement.

SUMMARY OF RESULTS AND CONCLUSIONS

This report details the results of the monitoring review and identified 12 compliance findings. A finding is a deficiency in program performance based on a statutory, regulatory or program requirement for which sanctions or other corrective actions are authorized. Required corrective actions are identified for all findings, and findings require a written response within 45 days of the date of this report. Please note that in several findings the city is advised not to move forward with any new HOME activities covered by that requirement until the finding is cleared by this office.

Exhibits from the ***Community Planning and Development Monitoring Handbook 6509.2*** were used to guide the review; they are available at:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/cpd/6509.2

SCOPE OF REVIEW

The monitoring review examined activities undertaken through the city's Mortgage Assistance Program (MAP), Housing Development, and Tenant-Based Rental Assistance (TBRA) Programs along with the process used to certify Community Housing Development Organizations (CHDOs). It also included an examination of the steps being taken by the city to ensure ongoing compliance in the city's HOME-funded rental housing portfolio. This was undertaken through the review of city policies/procedures, funding agreements, file documentation and program reporting.

Areas Reviewed and Results

Program Reporting:
In preparing for the monitoring review project set-up and completion information entered by city staff in the Integrated Disbursement Information Center (IDIS) was examined along with information reported by the city in its Consolidated Annual Performance and Evaluation Report (CAPER). During the on-site component of the review this information was compared with the city's funding agreements, project files, and participant records. These reviews identified several deficiencies which led to the issuance of this finding.

Finding #1 – Program Reporting

Condition: Information contained in IDIS for numerous projects does not match what is contained in the city's files. City staff were creating duplicate activities when a household was assisted under multiple program components and new activities were being created when project budgets were revised. Where a household participates in the Mortgage Assistance Program (MAP) and the purchase involves a unit developed under the Housing Development Program two activities are being created in IDIS. Households that were assisted under the Tenant-Based Rental Assistance (TBRA) Program were set-up under multiple activity numbers as opposed to being funded by a single activity. Project set-ups are not being revised when funding agreements are amended.

Criteria: 24 CFR 92.502; 24 CFR 92.509

Cause: City staff are not familiar with the reporting and data entry requirements for HOME and IDIS and it does not appear there is sufficient supervisory oversight of data entry to ensure quality and accuracy.

Effect: Project information at the activity level in IDIS does not reflect the actual tasks completed. Household information is being duplicated and the number of households assisted is being overstated. Information in the CAPER is inaccurate and citizens are not being made aware of actual production.

Required Corrective Action: The city must immediately undertake a review of the data in IDIS for all HOME projects funded or completed over the past five years and make revisions as needed. The revisions must include consolidating duplicate activities, revising setups to accurately reflect the information contained in the HOME agreement and cancelling duplicate activities. It is recommended that the city put forth sufficient local resources to have an independent third party undertake the review, outline the corrections needed, and provide training to city staff.

Within 45 days of this letter the city must provide a plan for completing the revisions and a timetable, not to exceed six months, to accomplish all tasks.

Written Agreements:
Prior to undertaking activities utilizing HOME funds the city is required to execute very specific agreements with the entity to which it provides the HOME assistance. The HOME regulations at 24 CFR 92.504(c) detail the content requirements based upon the entity receiving the funds.

The city's written agreements with its CHDOs and nonprofit developers in many cases did not contain sufficient detail regarding the activities to be undertaken, costs to be incurred, HOME affordability requirements, and in some cases the ultimate end use of the units. Without this level of detail, the city cannot properly manage the day-to-day operation of its HOME Program and ensure compliance with the HOME requirements. Examples include:

- The agreement for Activity 12304, EDCO, called for the construction of 7 rental units. The set-up in IDIS is for two units. The agreement does not require that at least 20% of the units be occupied by households at or below 50% of median income per 92.252(b). The agreement does not indicate who will be responsible for utilities. The agreement did not identify the specific rents to be charged based upon the city's underwriting of the project and only references that rents shall not exceed the High HOME rents. The HOME affordability provision that the project is subject to is incorrectly cited as 92.254 which is for homeownership and not rental housing.

- The agreement for Activity 12203, Neighborhood Builders CDC, allows for the construction of either HOME-assisted rental units and/or units for homeownership. The agreement does not identify the number of units for each activity nor a budget for each activity. The agreement does not specifically identify how the affordability requirements of 92.252 and 92.254 respectfully will be enforced. The agreement does not spell out the specific requirements for converting rental units to homeownership through their sale to existing in-place tenants.

- The agreements for Activities 11793 and 11687 were amended to allow for the units to be used as rental housing. The amended agreements lacked detail with respect to ongoing rents, project cash flow, affordability and the sale of the units to in-place tenants for homeownership.

Finding #2 – Written Agreements with Developers

Condition: The agreements executed by the city with its non-profit housing development organizations and with the owners of HOME-assisted projects do not contain sufficient detail to manage the day to day activities and ensure long term compliance.

Criteria: 24 CFR 92.504(c)(3)

Cause: HOME funding agreements are not being reviewed against the applicable requirements of 92.504(c) to ensure the required content is contained in the agreement.

Effect: Agreements are being executed that lack the specificity for city staff to manage the day to day requirements of the program and ensure compliance with the HOME regulations. The

current agreements may prevent the city from enforcing the HOME requirements and could leave the city subject to repayment of the HOME investment from local funds.

Required Corrective Action: The city must undertake a review of the written agreements it has executed over the most recent 5 program years and amend those agreements so that they accurately reflect the HOME requirements that are applicable to the type of activity funded.

The city must revise its funding agreements to ensure that they meet the HOME requirements prior to any additional projects moving forward.

Within 45 days of this letter the city must provide a plan for completing the revisions and a timetable not to exceed six months to accomplish all tasks.

The city should refrain from committing additional HOME funds until such time as the agreements have been revised and approved by this office.

Finding #3 – Written Agreements with Homebuyers

Condition: The city is not currently executing HOME-specific funding agreements with the households being assisted under its homeownership component.

Criteria: 24 CFR 92.504(c)(5)

Cause: The current program design is reliant on the private sector lenders to compile documentation and determine the qualifications of the homebuyer. City staff are not executing an agreement with the homebuyer outlining the applicable HOME requirements that the assistance is subject to.

Effect: The city does not have a method to enforce the HOME requirements and cannot show that the homebuyer has been advised of their responsibilities under the program.

Required Corrective Actions: Within 45 days of the date of this letter the city must complete the following corrective actions:

- Prior to assisting any additional households under its homebuyer program the city must develop a written homebuyer agreement meeting the requirements of 92.504(c)(5).
- Implement policies to ensure that the agreement is executed between the city and the homebuyer prior to the commitment of HOME funds.
- The revised policies and agreement must be submitted to this office for review and approval.

Underwriting & Subsidy Layering:

The HOME regulations at 24 CFR 92.250(b) require that prior to committing HOME funds to a project the city must evaluate the project in accordance with guidelines that it has adopted for determining a reasonable level of profit or return on an owner's or developer's investment in a project and must not invest any more HOME funds, alone or in combination with other

governmental assistance, than is necessary to provide quality affordable housing that is financially viable for a reasonable period.

Our review of the underwriting policies and procedures adopted by the city for its HOME-funded housing development program found that they do not contain sufficient detail to ensure that excessive subsidies are not provided and that return on investment to developers is reasonable.

The underwriting for Activity 12304 indicates gross operating income of $39,420 per year and net operating income of $26,470. This would put average rents at $469 per month. The written agreement allows the developer to charge the High HOME rents which at the time of underwriting were $921 per month. Using the assumptions in the city's underwriting this would put gross operating income at $77,364 per year with a net operating income of $64,414. The city's underwriting states that net operating income will be used to capitalize replacement reserves but there are no provisions on the use of the reserves. In either scenario there is an excessive return on the HOME investment.

The file for Activity 12290, Builders of Hope, did not contain the required assessment of current market demand. Where market studies were provided by the developer there was no evidence that staff verified that the information was valid.

Activity 12303 – ICDC – This activity was funded for the construction of single family homes for homeownership. In the case of one unit it appeared that homebuyer could only document $375 per month in income and ownership to the unit was transferred to the household despite a lack of resources to own, maintain, and insure the property. An inquiry was made of city staff and the monitors were advised that the property was 'gifted' to the household due to their special situation. Information in the file indicated that the buyer could have been a victim of domestic violence so the property address is not shown in the report. It has been communicated to the city's housing director.

Under the city's Mortgage Assistance Program, city staff are relying on the subsidy amount requested by the lender as opposed to applying its written underwriting guidelines and determining the amount of assistance provided on a case by case basis.

Finding #4 – Underwriting & Subsidy Layering

Condition: The underwriting policies and subsidy layering guidelines currently utilized by the city for its HOME-assisted activities are not being applied in a manner that limits the HOME subsidy to the minimum amount required and they are not being applied in a consistent manner. There does not appear to be sufficient oversight of the underwriting process nor is there adequate analysis of market demand. The city could not provide justification for the house that was gifted under Activity 12303 or for the subsidy provided for Activity 12304.

Criteria: 24 CFR 92.250(b)

Cause: The city's current underwriting and subsidy layering guidelines are not being properly applied to projects. The city cannot justify the reasonableness of costs and staff are not reviewing the market studies submitted to ensure the validity of the data submitted.

Effect: Developers of HOME-assisted housing may receive excessive returns on investment. HOME subsidies may be provided that exceed what is required for the project thus limiting the resources that are available for other activities. HOME projects could be undertaken where market demand does not support the need for the type of housing funded.

Required Corrective Action: Within 45 days of the date of this letter the city must complete the following actions:

- Prior to committing HOME funds to any projects the city must revise its underwriting and subsidy layering guidelines for each component of its HOME Program along with the procedures for conducting the analysis and supervisory review of the final determinations. The city must also formalize procedures for the analysis of market studies submitted by developers that includes management review. These guidelines and procedures must be submitted to this office for review.

- For the property identified under Activity 12303 as having been gifted to the household the city must provide documentation as to how the transaction was allowable under its program design and contained in the approved funding agreement with the developer. Should the city determine that the activity is allowable, documentation of the city's cost reasonableness determination conducted prior to the transfer must be provided.

- The city must submit justification for the subsidy provided under Activity 12304 along with an updated cashflow analysis.

Housing Inspections:

The property condition standards for different types of HOME-assisted projects are contained at 24 CFR 92.251. Under 24 CFR 92.508(a)(3) the city is required to maintain records supporting all required inspections and that the property in question meets the applicable condition standard.

Our review of the city's housing development activities found that the city lacked detailed inspection reports to document construction progress and to support that individual units were constructed in accordance with the plans and specifications approved by the city. While the city presented approved draw requests, inspection logs, pictures and various permit inspection tags, there were no detailed inspections supporting construction progress and final completion in accordance with the construction specifications.

For the city's HOME-funded MAP program the minimum property standards worksheet currently in use by city staff does not contain sufficient detail to support that all areas and rooms in the unit were inspected and found to meet the program requirements.

Finding #5 – Housing Inspections

Condition: Detailed inspection reports are not being maintained to support that units constructed under the housing development program are being completed in accordance with the plans and specifications. Inspection reports for the MAP program do not contain sufficient detail to confirm that all areas of the unit were inspected and met program requirements.

Criteria: 24 CFR 92.251; 24 CFR 92.508(a)(3)

Cause: Lack of detailed inspection reports.

Effect: The city cannot confirm that units constructed under its program were built in accordance with the plans and specifications approved for the project. Contractor and developers could use lower quality materials and building components to increase their profit margins. The city cannot document the actual use of funds without supporting inspections. The city cannot confirm that homebuyers of existing units are purchasing an eligible property. Without such documentation, the city could be placed in the position of repaying the HOME funds invested in the units.

Required Corrective Action: Prior to moving forward with any additional HOME-funded activities the city must develop construction inspection protocols to document that its new construction and rehabilitation projects are being constructed in accordance with the approved plans and specifications. These protocols must include detailed inspection reports for both the housing development program and MAP. This corrective action must be completed and submitted to this office for review and approval within 45 days of the date of this letter.

Ongoing Compliance Monitoring:
During the period of affordability, the city must perform on-site inspections of HOME-assisted rental housing to determine compliance with the property standards of 24 CFR 92.251 and to verify the information submitted annually by the owners in accordance with the requirements of 24 CFR 92.252. The city must establish written procedures for conducting the inspections, resolving deficiencies, and the frequency of inspections. At minimum, an inspection must be performed within 12 months of project completion and every 3 years thereafter. When deficiencies are identified during an inspection a follow-up inspection is required within 12 months to confirm that corrective actions have been completed.

Finding #6 – Ongoing Compliance Monitoring

Condition: Finding #6 – The city's current procedures for the ongoing monitoring of HOME-assisted rental housing do not contain sufficient detail to document compliance with the HOME property condition standards and affordability requirements. The city has also not developed risk-based monitoring procedures in accordance with 92.504(a).

The on-site monitoring reports do not reflect that a review is being conducted of tenant files to confirm compliance with HOME rent and utility schedules, that unit mix is being maintained, and how deficiencies are resolved.

The monitoring procedures do not require an initial on-site inspection of HOME-assisted rental housing within the first 12 months of project completion.

The monitoring procedures do not require follow-up onsite inspections to ensure that deficiencies have been corrected.

The city has not established procedures for assessing the financial condition of HOME-assisted rental properties having 10 or more units at least annually.

The project files reviewed did not contain required annual reports from property owners on rents and occupancy along with an owner's certification of compliance with property condition standards.

Criteria: 24 CFR 92.251(f); 24 CFR 92.504(d)

Cause: The current monitoring procedures do not meet the regulatory requirements and proper oversight is not being maintained on HOME-assisted rental housing.

Effect: Rental properties could deteriorate and units could be rented to ineligible households or at rents that exceed the program requirements. Affordable housing could be lost and the city could be placed in the position of having to repay the HOME investment.

Required Corrective Action: Within 45 days of the date of this letter the city must develop and implement procedures maintaining proper oversight of its HOME-assisted rental properties. Upon completion of the procedures they must be submitted to this office for review.

Within 60 days of the date of this letter the city must obtain reports from the owners of each HOME-assisted rental property on the rents and occupancy of the HOME-assisted units. City staff must complete a review of each report to identify whether the property owner is in compliance with the HOME regulations.

In consultation with this office the city must develop a schedule for the monitoring of each HOME-assisted rental unit based upon the completion date in IDIS.

Converting Rental Units to Homeownership:
The HOME regulations at 24 CFR 92.255 allow for the conversion of HOME-assisted rental units to homeownership if they are sold to an existing in-place tenant that qualifies as low-income. A tenant that elects not to purchase or cannot qualify to purchase their rental unit cannot be evicted or refused lease renewal based upon that decision.

Finding #7 – Conversion of Rental Units

Condition: In reviewing the city's files for Activity 11793, NBCDC, 3 of the files reviewed indicated that the single-family rental units had been sold to households that were not in-place tenants in accordance with 24 CFR 92.255. Activity 11745, Southfair CDC, had units that were

occupied by tenant households at completion of construction which were later converted to homeownership. There was no evidence in the file to support that these units were sold to eligible in-place tenants.

Criteria: 24 CFR 92.255(a)

Cause: The city's HOME funding agreements for these activities did not contain a provision that limited any homeownership conversion to in-place tenants. City staff did not ensure that the eligibility of each conversion was documented prior to the sale.

Effect: HOME-assisted rental units may have been sold to ineligible households resulting in costs being disallowed. Existing tenants may have been denied lease renewal when they decided not to purchase the units resulting in the tenants being displaced by the property owner.

Required Corrective Action: Within 45 days of the date of this letter the city must identify all HOME-assisted rental housing activities where units have been converted to homeownership. For each of the units that were sold the city must provide evidence of the purchaser's address at the time of sale. If the purchaser's residence is identified as the unit being converted a copy of the lease that was in place at that time must also be provided.

Within 60 days of the date of this letter the city must amend all HOME funding agreements for its rental activities where homeownership conversion is anticipated so that requirements of 24 CFR 92.255(a) are clearly stated.

Once the above steps have been taken a decision will be made as to whether further corrective actions are required.

Tenant-Based Rental Assistance (TBRA):

Finding #8 - TBRA Project Delivery Costs

Condition: The city set-up individual TBRA activities for the costs associated with the caseworker and housing inspectors administering the TBRA program. Costs other than those for conducting unit inspections and determining participant eligibility appear to have been charged as activity delivery costs instead of program administration and general oversight. It also appears that ineligible costs not related to program administration, such as case management, may have been charged to the TBRA program. It should be noted that the city is no longer funding this program.

Criteria: 24 CFR 92.209(a)

Cause: At the time these activities were funded, the city's TBRA policies and procedures did not identify any limitations on TBRA project delivery costs, and the time distribution records for staff costs charged to IDIS activities 12230 and 12232 do not provide enough detail to determine which functions were charged to these activities.

Effect: It is likely that ineligible HOME costs and costs eligible only as program administration and general oversight were charged as TBRA project costs.

Required Corrective Action: The city must determine how much of the HOME funding drawn for activities 12230 and 12232 were for property inspection and determining income eligibility of HOME TBRA clients. Within 45 days of the date of this letter, the city must submit its determination, along with the methodology used. After review this office will determine the amount of eligible TBRA costs to be moved to TBRA activities, and the amount of ineligible TBRA costs to be moved to HOME administration activities or repaid with non-federal funds.

Finding #9 – TBRA Operations

Condition: Our review of the city's TBRA program determined that most aspects of the program were compliant with the HOME regulations. However, the city's income eligibility determinations and the tenants' leases in the sample of files reviewed were not in compliance with the HOME regulations.

Income calculations in three of the four tenant files reviewed were not supported by the source documentation in the file. It appears that there may have been an error in the spreadsheet used by the city to calculate annual income, and that the error was not detected.

Leases in all four of the tenant files reviewed contained a prohibited lease term, and although the rental assistance payment agreement identified prohibited lease terms, none of the leases reviewed included an addendum voiding those terms. The city's policies and procedures for HOME TBRA identified the requirement that the city review leases; however, the timing of that review was unclear and there was no evidence in the sample of files reviewed that the city had completed a review of the lease.

Criteria: 24 CFR 92.203(a)(2) and 92.253(b)

Cause: The city's HOME TBRA program was designed to provide transitional housing for homeless individuals and families, and the program was administered as part of the city's Continuum of Care-funded homeless assistance programs. The city did not adequately identify or enforce the HOME program requirements in its policies and procedures or in the implementation of its HOME TBRA program.

Effect: When income was re-calculated as part of the monitoring review for three tenants, it was determined that the changes in annual income did not affect client eligibility as all three households were under 60 percent of the area median income at entry. However, failure to ensure income is calculated correctly could have resulted in HOME funds being used for clients that are not eligible for assistance. Failure to review the lease between the tenant and landlord can result in taking prohibited action against tenants receiving HOME TBRA.

Required Corrective Action: The city last funded HOME TBRA in its 2015 Action Plan. Since the city is not providing ongoing funding for this activity, no corrective action is required and the finding is closed. However, if the city budgets funds for HOME TBRA in a future Action Plan,

it should ensure that its TBRA policies and procedures comply with the HOME regulations and that staff are trained on those requirements. Technical assistance on TBRA was provided during the review, and this office will be available for additional technical assistance if the city decides to re-start this program.

Homeownership Affordability:
HOME Participating Jurisdictions that undertake homeownership activities are required by 24 CFR 92.254(a)(5) to identify the method that will be used to enforce affordability for the required term. The City of Dallas has selected the resale requirement for units assisted under its Housing Development Program while households participating under MAP are subject to recapture.

Our review identified several issues with the city's implementation of its affordability restrictions:

- The resale provisions as implemented do not provide for the homeowner to receive a fair return on investment as required by 24 CFR 92.254(a)(5)(i).
- The recapture provisions as implemented do not correctly state the approach used for shared net proceeds.
- When a household purchases a unit constructed under the Housing Development Program and is assisted under MAP the project files reflected that the project was subject to both resale and recapture.

Finding #10 – Homeownership Affordability

Condition: The affordability provisions currently in place for the city's Housing Development Program and MAP do not fully comply with the HOME requirements.

Criteria: 24 CFR 92.254(a)(5)

Cause: The deed restrictions used for resale do not provide for a fair return on investment to the homebuyer. For households participating under MAP the method for determining shared net proceeds is not defined. Where a household participates under both program components both standards are applied.

Effect: Assisted households may not receive the correct amount of proceeds when a unit is sold during the affordability period. Households seeking to purchase units from the Housing Development Program may be discouraged from participating as it appears from the current wording of the resale restriction that they cannot receive equity from the property.

Required Corrective Action: Within 45 days of this letter the city must revise both its resale and recapture provisions so that they are consistent with the program requirements. Prior to implementation the city must submit both for approval. In addition, the city must take steps to avoid the imposition of duplicative requirements when an activity involves both programs.

Lead-Based Paint:
Activities assisted under the HOME Program that involve pre-1978 housing are subject to the lead-based paint requirements at 24 CFR Part 35. Acquisition activities such as direct homeownership are subject to 24 CFR 35 Subpart K. Activities that involve rehabilitation are subject to 24 CFR Subpart J.

Finding #11 – Lead-Based Paint

Condition: While the city's program guidelines identify the need to conduct visual assessments of painted surfaces in pre-1978 housing assisted under MAP, there was no documentation of one being conducted in the files for the three pre-1978 units that were included in the file sample. Similarly, when minor rehabilitation was undertaken using Community Development Block Grant (CDBG) funds there was no documentation in the file to support that an evaluation was conducted.

Criteria: 24 CFR 35.1015; 24 CFR 35.930

Cause: The inspection forms currently used by the city lack a section for the inspection of painted surfaces. The minor rehabilitation program lacks a similar level of review.

Effect: Pre-1978 units could be assisted under the program where defective paint is present. Rehabilitation work could be undertaken in such units in a manner that is not consistent with the requirements creating the potential for lead contamination.

Required Corrective Action: Within 45 days of the date of this letter the city must revise its inspection checklists so that a visual assessment is conducted and documented for any pre-1978 units assisted under MAP. For any rehabilitation projects involving pre-1978 units the city must establish a procedure to document that it has properly evaluated the work under the Rule. The city was provided a sample Lead Requirements Worksheet to assist it in this task.

Income Certifications:
The city is currently using the adjusted gross income definition for IRS Form 1040 to determine participant eligibility. For the city's MAP applicants, it requires the submission of their most recent tax return along with a verification of employment (VOE) form completed by the lender. The city is not requiring applicants to submit two months of source documentation for income in accordance with 92.203(a)(2).

Finding #12 – Income Certifications

Condition: City staff are not currently reviewing participant eligibility through a review of at least two month's source documentation. Tax returns and VOE forms are being provided by the lender and it does not appear that city are verifying the information provided. Tax returns and VOE forms are not source documentation.

Based upon the information in the files no instances of ineligible households were identified.

Criteria: 24 CFR 92.203(a)(2)

Cause: The city is relying on the lenders to perform key administrative tasks. Source documentation of income is not being reviewed by city staff.

Effect: Ineligible households could be assisted, costs could be disallowed and repayment of funds could be required from the city.

Required Corrective Action: Prior to committing or disbursing HOME funds for any additional homeownership projects the City must adopt formal procedures for the review of a household's income through an examination of appropriate source documentation.

Community Housing Development Organizations (CHDOs):

The city requires nonprofit organizations seeking CHDO funding to submit qualification documentation annually or when funds are applied for. While city staff perform a fairly comprehensive review of each organization's qualifications, the city's checklist needs to be strengthened in the evaluation of whether the organization is under the influence or control of entities seeking profit or gain. The criteria are:

- Is neither controlled by, nor under the direction of, individuals or entities seeking to derive profit or gain from the organization. A community housing development organization may be sponsored or created by a for-profit entity, but:
- The for-profit entity may not be an entity whose primary purpose is the development or management of housing, such as a builder, developer, or real estate management firm.
- The for-profit entity may not have the right to appoint more than one-third of the membership of the organization's governing body. Board members appointed by the for-profit entity may not appoint the remaining two-thirds of the board members;
- The community housing development organization must be free to contract for goods and services from vendors of its own choosing; and
- The officers and employees of the for-profit entity may not be officers or employees of the community housing development organization.