

MUNICIPAL AUDITING REPORT CITY OF ROANOKE



Home Rehabilitation Program Review Follow-Up March 9, 2016

Report Number: 16-012
Audit Plan Number: 16-022

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AUDIT OBJECTIVES & SCOPE

Audit Objectives:

1. To determine if the 2009 Energy Efficient Housing Rehabilitation Program was appropriately closed out with the U.S. Department of Housing and Urban Development [HUD].

Yes – The Community Resources Division has entered the final program costs into HUD's integrated disbursement and information system [IDIS] and the program was closed as of November 10, 2015. Eight (8) homes were rehabilitated under this program at a total cost of \$558,629.

2. To determine if management revised the City's home rehabilitation program guidelines as promised, including a waiver process that considers:

- strategic location of the proposed project within the target area,
- potential area benefit of the rehabilitation project,
- costs to comply with applicable federal, state and local regulations,
- cost per square foot compared to similar projects.

Management also committed that the Assistant City Manager for Community Development will review and approve each waiver.

Yes – Management adopted revised guidelines effective September 1, 2015. The project cap for owner occupied homes is \$100 per square foot. This enables the Community Resources Program Administrator to approve any application with projected costs below \$100 per square foot. For example, a 2,000 square foot home could receive as much as \$200,000 in grant assistance. Should a proposed project be expected to exceed \$100 per square foot, the guidelines require completing a waiver request form documenting the basis of the decision and the Assistant City Manager's approval [**Exhibit 1**]. No applications for major home rehabilitation projects were received from September 1, 2015, through February 23, 2016.

3. To determine if employees responsible for procurement and contract management within the Community Resources Division received additional procurement training, and; if the Community Resources Division established a process to ensure per project costs and unit costs specified in professional services contracts are not exceeded.

Yes – The City's Purchasing Division confirmed that employees in the Community Resources Division received additional procurement training. The Community Resources Division utilizes a spreadsheet to track expenditures by project and phase to help ensure per project costs do not exceed the maximums stated in a contract.

4. To determine if the final EEHR project was completed within the expected costs reported in the original audit, and; if the grantee is in compliance with the loan agreement.

Yes, with Exceptions – The final project costs totaled \$258,145 and were within 2.4% of the expected cost in the original audit report.

The Community Resources Division has processes in place to monitor compliance with residency, insurance, and property maintenance requirements. We verified that the grantee was in compliance with these requirements at the time of the audit. However, we determined that the grantee has not complied with the requirement to pay personal property taxes timely.

Audit Scope:

We reviewed the status of the Community Resources Division's action plans as of February 23, 2016.

End of Audit Objectives and Scope

BACKGROUND

During the 2014 annual audit of the City's financial reports, KPMG identified concerns related to timely spending of HUD funds and related reporting of expenditures to HUD. City management prepared a letter for HUD explaining the delays in spending and asking for an extension to meet spending requirements, which HUD granted. One of the significant programs highlighted in the letter was the Energy Efficient Home Rehabilitation [EEHR] Program that the City created in 2009.

According to the letter, the city had designated \$838,452 for the EEHR program but had only completed seven (7) homes at a total cost of \$260,976 by 2014. The letter went on to state that a bid of \$194,525 was accepted to rehabilitate one final home, after which the program would be closed out. Given the acknowledged issues with timely spending and reporting, along with the sizeable cost of the project relative to the combined cost of the prior seven (7) homes, an internal audit was initiated in May of 2015.

We completed the audit and issued the final draft of the report to management on July 7, 2015. The final report, with management's action plans, was presented to the Audit Committee on September 2, 2015. Management anticipated that all action plans would be completed by September 30, 2015.

End of Background

OBJECTIVE 1 - PROGRAM DISCONTINUANCE**Management Action Plan:**

The 2009 Energy Efficient Housing Rehabilitation Program is complete and will not be continued using internal management. The City will seek proposals from responsible outside agencies to fulfill this community need. All projects in the [EEHR] program will be completed, reported to HUD, and closed out by September 30, 2015.

Completed – Yes

Overview:

The Community Resources Program Administrator and the Community Resources Program Specialist verified the EEHR Program was closed out with HUD as of November 10, 2015. We reviewed the final entries in HUD's Integrated Disbursement and Information System [IDIS] confirming the program has been closed.

We also noted that the City's HUD Entitlement Grants Annual Plan for fiscal 2015-16 does not include any rehabilitation program in which the City serves as the lead agency. We searched for active construction and construction management contracts in the City's contract database listing the Community Resources Division as the responsible department. The only active contract was the one for the final EEHR home completed in July 2015. The funding associated with the contract has been entirely expended and no further payments can be made against it.

End of Objective 1

OBJECTIVE 2 – REVISION OF PROGRAM GUIDELINES

Management Action Plan:

Revise Housing Rehabilitation Program Guidelines: As part of the City's target area transition to the Loudon-Melrose/ Orange neighborhoods, staff and management will evaluate the current financial/investment limits and parameters (per project cap) to ensure that the program guidelines are sufficient to support the anticipated level of effort to effectively rehabilitate homes in this new target area and reflect experienced and anticipated construction/ rehabilitation market and material costs. Each time a new target area is determined, the guidelines for the Housing Rehabilitation Program will be evaluated and appropriately revised to address anticipated needs identified for that target area and any market changes in costs of materials, labor and related project inputs.

Further, staff will establish objective criteria for waiving any single-project cost/ investment cap established by the guidelines. Criteria should include, but not be limited to, evaluation of the existing structural conditions of the unit, and required compliance with federal, state and local regulations associated with the unit's rehabilitation; strategic location within the target area and potential area benefit of such rehab; and relationship of anticipated cost per square foot to rehabilitate (compared to similar projects) associated with the size and scale of the housing unit as it relates to the per-project cap. A scale will be assigned to each criterion and a minimum score will be established to determine project eligibility. A verbal justification/ description for each score will be included in the tabulation.

Further, the revised guidelines will require that a request for waiving any such per project cap guideline will be made by staff of the City's Community Resources Division to the Assistant City Manager for Community Development for review. Granting of any requested waiver will be solely within the purview of the City Manager or the Assistant City Manager for Community Development.

Completed – Yes

Overview:

The Community Resources Division amended the Housing Rehabilitation Guidelines effective September 1, 2015. The amended guidelines provide for a maximum per unit subsidy of \$100 per square foot for owner-occupied homes (for example, \$200,000 for a 2,000 square foot home). The guidelines also specify a \$15,000 maximum for investor-owned properties requiring a dollar for dollar match. Management did not document the basis on which per project caps were established and we did not independently evaluate the reasonableness of the caps.

In the event that a proposed project would exceed the current caps, the revised guidelines require the Community Resources Division to document the basis for waiving the caps. The following criteria are used as a basis for the waiver, with each criterion being assigned a point value based on a scale included in the *Waiver Request Form* **[Exhibit 1]**:

- Existing structural condition as determined by a Rehabilitation Specialist
- Historic requirements for rehabilitation
- Target area impact
- Cost per square foot for rehabilitation

Each criterion requires written justification for the category score, and a total overall score is assigned to determine eligibility. The *Waiver Request Form* must be signed and dated by the Assistant City Manager for Community Development to evidence approval.

While the Community Resources Division no longer manages major rehabilitation projects internally, outside agencies may apply with the City for funding to perform major rehabilitations. These applications are subject to the revised Housing Rehabilitation Program Guidelines. We reviewed a *Detail Listing of Commitments vs. Budget Sorted By Department*, as of February 23, 2016 and confirmed that there have been no project accounts established or funded for major rehabilitation programs.

End of Objective 2

OBJECTIVE 3 – CONTRACTING FOR PROFESSIONAL SERVICES**Action Plan:**

Ensure professional services performed for a multi-activity project are tracked to the specific activity and do not exceed contractual limitations. Provide follow-up training by the City's Purchasing Division to the Community Resources Division staff on aspects of proper procurement and contract administration procedures.

Completed – Yes**Overview:**

We searched the City's Contracts and Leases Database for all active professional services contracts managed by the Community Resources Division. We identified two [2] active professional services contracts in which payments were on a phase or per project basis. We evaluated the payments made on both contracts and determined that:

- Payment requests were appropriately analyzed prior to approval for payment.
- Payments were within contracted limits.

We also confirmed via discussion with the Community Resources Program Administrator and a Senior Buyer in the Purchasing Division, that training was conducted with the Community Resources Division employees, including:

- Invitation to Bid Process
- Contract Administration
- General Purchasing Processes

End of Objective 3

Objective 4: Project Completion and Monitoring

Action Plan:

Management did not provide a specific action plan related to the final EEHR Program project that was the focus of the original audit. The project was nearly completed at the time of the audit and the total costs were expected to be \$252,051. Given the significant investment represented by the project, we decided to confirm the final costs were consistent with expected costs and that terms of the agreement with the property owner were being monitored for compliance.

Completed – Yes, with Exceptions

Overview:

The project was completed in 2015 and is currently occupied by the grant recipient. The final construction costs increased slightly [\$5,540] over the expected costs, which also increased the construction management fees by \$554. The completed project's actual cost was \$258,145 which was within the amounts provided for in the contracts.

The project was structured as a 10-year, 0% interest forgivable loan. The homeowner is not required to repay the loan if, throughout the ten (10) year loan period, she complies with the loan requirements, including:

- Occupying the home as her primary residence.
- Maintaining sufficient insurance coverage to replace or repair the rehabilitated unit should there be a storm, fire or other natural event.
- Maintaining the home in accordance with local code and neighborhood standards.
- Paying real estate and personal property taxes on a timely basis.
- Not being involved in illegal drug or firearm distribution or storage.

The Community Resources Division used the annual verification form for the down payment assistance program to document the grant recipient's compliance with the residency requirements [**Exhibit 2**]. The first request to complete the verification was mailed to the grant recipient in January and a second notice was mailed in February. The grant recipient returned the completed verification on February 22, 2016.

The insurer providing coverage on the home provides verification of coverage directly to the Community Resources Division and will provide the City with a cutoff notice should the coverage be dropped due to non-payment. A current verification of coverage form is on file for this home.

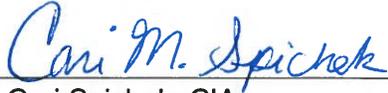
We reviewed the code violations listed for the project property and noted that no property maintenance, weeds or trash violations have been cited since construction was completed.

The grant recipient is current on her real estate taxes but has delinquent personal property taxes from 2014 and 2015 totaling \$387. The Community Resources Division has contacted the grant recipient and she has committed to pay the balance of her personal property taxes, including the assessment for tax year 2016, by the end of April.

End of Objective 4

ACKNOWLEDGEMENTS

We would like to thank the Community Resources Division, specifically Keith Holland and Crystal Hypes, for their assistance throughout this review. We would also like to thank Monica Cole, Senior Buyer, for her time and input.



Cari Spichek, CIA
Senior Auditor



Drew Harmon, CPA, CIA
Municipal Auditor

EXHIBIT 1 - WAIVER REQUEST FORM

Attachment B Waiver Request Form

Houses which cannot be safely or effectively rehabilitated under the \$100 per square foot cap may request waiver of said cap from the Assistant City Manager for Community Development. The following scale shall be used to determine whether it is in the City's best interest to invest funds over the per square foot cap in the home. The minimum total score must be 25 points in order for waiver to be granted.

| Criteria | Points/Category | Points/Category | Points/Category |
|--|---|--|--|
| Existing Structural Condition (as determined by the Rehabilitation Specialist) | 10 points: Moderate Structural Deficiency, not to the level of unsuitability for rehabilitation. | 5 points: Minor Structural Deficiency. | 0 points: No structural Deficiency. |
| Historic Requirements for rehabilitation | 10 points: In a historic district, or district considered for inclusion on the national register, requiring historic fixtures and features. | 5 points: In a neighborhood design district requiring NDD fixtures and features. | 0 points: Not in a historic or NDD district. |
| Target Area Impact | 10 points: The home is on a main thoroughfare with consistent traffic. | 5 points: The home is on a side street with moderate traffic. | 0 points: The home is on a dead end street or cul-de-sac and has little to no traffic. |
| Cost per Square Foot for Rehabilitation | 10 points: \$101 – \$130 per square foot. | 5 points: \$131-\$160 per square foot. | 0 points: \$161 and over per square foot. |

Justification for each category and the score given:

Existing Structural Condition: SCORE: ____ Justification:

Historic Requirements: SCORE: ____ Justification:

Target Area Impact: SCORE: ____ Justification:

Cost per Square Foot: SCORE: ____ Justification:

TOTAL SCORE: _____

Waiver Granted: _____

Waiver Denied: _____

Presented By: _____
(name) (title)

(signature) (date)

Approved By: _____
(name) (title)

(signature) (date)



Annual CDBG/HOME DPA Homeowner Verification Form

The U.S. Department of Housing and Urban Development (HUD) requires annual occupancy verifications for all participants in the Down Payment Assistance program. Failure to maintain the purchased home as the owner's principal residence (must live in the home at least 9 months out of each calendar year) may result in the forfeiture of loaned monies or foreclosure on the loan. As a result of these stipulations, which may be found in your signed deed of trust and/or promissory note, the following form must be completed yearly. Failure to complete this form may result in forfeiture or foreclosure of the loan.

To be completed by Owner:

Name: _____

Mailing Address: _____

Physical Address: _____

Certification for Calendar Year 2015.

Are all individuals named in the deed of trust currently living in the home? Yes No

Have any individuals named in the deed of trust lived outside of the purchased home in the last calendar year? Yes No

Have any individuals named in the deed of trust sold or transferred any interest in the property to another party during this calendar year? Yes No

Have any individuals named in the deed of trust rented any part of the home out to another individual or family? Yes No

Please read the following statement in its entirety and sign:

I hereby certify that the answers I have given to the above questions are true and accurate. I understand, under penalty of perjury, that if I have made any false statements I will be prosecuted to the fullest extent of the law. I further certify that I have used the home, shown as "physical address" above, as my primary residence during the above mentioned calendar year and that all conditions of my contract with the City of Roanoke have been met during this same year.

*******PLEASE PROVIDE A COPY OF YOUR LATEST UTILITY BILL*****
COMPLETE AND RETURN WITH UTILITY BILL BY FEBRUARY 12, 2016.**

Printed Name of Owner

Signature of Owner

Printed Name of HCR Rep.

Signature of HCR Rep.

**RETURN TO: City of Roanoke – HUD Community Resources
215 Church Ave., SW, Room 305 North, Roanoke, VA 24011
Fax: 540-853-6597 Email: brenda.thornton@roanokeva.gov**