

**DEPARTMENT OF HOUSING
GRANTS MANAGEMENT
FOLLOW-UP FOR THE PERIOD JULY 1, 2006 TO JUNE 30, 2007**

Introduction

The Housing Department (Housing) receives and manages several federal grants that are subject to the Single Audit under OMB Circular A-133. In the Single Audit Report for fiscal year ended June 30, 2007, the County's external auditor issued a qualified opinion on two grants administered by Housing, the Home Investment Partnerships Program (HOME) and the Community Development Block Grants/Entitlement Grants (CDBG). In the external auditor's opinion the grants did not comply in all material respects with the grant requirements. The external auditors also reported questioned costs of \$8,963,555 for one of these grants.

The qualified opinion relates to the following two findings or conditions that were also considered material weaknesses:

Finding 2007-02: The County did not perform the required inspections on the HOME projects during the fiscal year. Our review of the completed projects noted 21 HOME projects were subject to the inspection requirement during the current fiscal year.

Findings 2007-03: During our audits of the Community Development Block Grants and the HOME Investment Partnerships Program, we noted that the County did not submit the required HUD 60002 reports for the period July 1, 2006 to June 30, 2007.

Purpose and Scope

Due to the significance of the conditions reported above, the Audit Division performed a review in collaboration with Housing to ensure that procedures are operating effectively to avoid future reportable conditions.

Our procedures and findings are as follows:

- A. Reviewed a sample of HOME projects occupied by tenants receiving HOME-assisted tenant-based rental assistance, as required by the Code of Federal Regulations (CFR) Title 24 Parts 92.251, 92.525 and 92.504(b) to verify Housing performed on-site inspections for fiscal year ended June 30, 2008.

Housing is required to perform on-site inspections to determine compliance with HUD's Housing Quality Standards. However, due to a departmental consolidation, Housing failed to perform the required inspections for fiscal year 2006-2007. As a result, Housing has enhanced their monitoring procedures by electronically calendaring the required inspections to ensure their completion.

No exceptions were found as a result of applying this procedure.

- B. Reviewed the most recent monitoring report performed by the U.S. Department of Housing and Urban Development (HUD) for reported findings.

There were no CDBG statutory or regulatory findings as a result of HUD's review.

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- C. Reviewed Housing's policies and guidelines related to the HOME and CDBG programs for compliance with regulations and guidelines issued by HUD.

Housing's "HOME Monitoring Guidelines" states monitoring of projects containing 5 to 24 units and 25+ units is to be performed every two years and annually, respectively. Title 24 of the CFR Part 92.504(d) requires projects containing 5 to 25 units and 26+ units to be performed every two years and annually, respectively. Therefore, Housing's current policy is more restrictive than necessary. We understand Housing's guidelines will be revised to match the CFR.

No exceptions were noted as a result of applying this procedure.

- D. Obtained Housing's "Section 3 Annual Summary Report" (HUD 60002) for the 2007 reporting period and reviewed for compliance with Title 24 of the CFR Parts 135.3(a) and 135.90.

As a direct recipient of HUD Section 3 financial assistance, Housing is required to file a Section 3 Report by January 10th of each year. Housing filed the HOME and CDBG Section 3 Reports by the January 10th deadline; however, it appears the Grant Number and Awards reported were for grants for fiscal year 2007-2008, not 2006-2007. The reports filed were for the Reporting Period "Quarter 2 of Fiscal Year 2007."

HUD defines the standard reporting period as their fiscal year, which is from October 1 through September 30. Housing intended this period to cover their own fiscal year of July 1, 2006 through June 30, 2007, which corresponds to the grants' program year established by HUD. Since Housing filed their fiscal year 2006-2007 reports using the fiscal year 2007-2008 grant information, the External Auditor determined this to be noncompliance with the requirements and reported a material weakness and qualified the compliance opinion for the HOME and CDBG programs. There were no expenditures to report for fiscal year 2006-2007 and there has been no notification of noncompliance from HUD. Housing will ensure that such reporting errors do not occur in the future.

No other exceptions were noted as a result of applying this procedure.

- E. Reviewed the March 2008 Compliance Supplement issued by the Office of Management and Budget for the HOME and CDBG programs for changes in compliance requirements.

There were no changes noted in the compliance requirements effective for fiscal year 2008.

Based upon the procedures performed, we conclude that Housing has adequate processes to satisfy compliance requirements applicable to the Federal grants it administers.

We wish to express our appreciation for the courtesy and cooperation extended to us during the course of the review.

County of San Mateo Controller

Redwood City, California
May 29, 2008