Western Rhode Island Home Repair Program

Review Report

June 2013

Dennis E. Hoyle, CPA
Auditor General

Office of the Auditor General
General Assembly - State of Rhode Island

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JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Gordon D. Fox, Chairman

Senator M. Teresa Paiva Weed
Senator Dennis L. Algiere
Representative Nicholas A. Mattiello
Representative Brian C. Newberry

We were directed by Speaker Fox, at the request of Representative Michael Marcello, to perform a review of the Western Rhode Island Home Repair Program (WRIHRP).

The WRIHRP was a consortium formed by three communities – Foster, Glocester, and Scituate to utilize federal Community Development Block Grant funding passed-through the State of Rhode Island to operate a home repair program for qualified lower-income individuals residing in each of the participating communities.

We have completed our review and our report is contained herein as outlined in the Table of Contents.

Sincerely,

Dennis E. Hoyle, CPA
Auditor General

Western Rhode Island Home Repair Program

Review Report

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The Western Rhode Island Home Repair Program (WRIHRP) was an effective and well intentioned consortium formed by the Towns of Foster, Glocester, and Scituate to utilize federal Community Development Block Grant (CDBG) funding to assist lower-income homeowners in repairing and making improvements to their homes. In May 2012, State CDBG program administrators suspended WRIHRP and each participating community from incurring additional obligations/expenditures related to their housing rehabilitation programs. This was in response to uncertainty regarding WRIHRP's compliance with federal and state CDBG program regulations.

We performed a review of the WRIHRP to assess its financial status, compliance with CDBG program requirements, and overall financial and operating procedures. At the time of our review, the WRIHRP was largely inactive as operations had been suspended.

Although WRIHRP administered the program, CDBG funds were awarded to each community with the WRIHRP acting as an "agent" on each community's behalf. Ultimately, compliance with federal requirements governing the expenditures of the CDBG funds was the responsibility of each municipality. Accordingly, each participating municipality should have exercised greater financial and operational oversight of the WRIHRP to ensure compliance with State and federal program requirements.

The goal and intent of sharing administrative costs through a consortium was sound; however, the accounting policies and procedures followed by WRIHRP were not sufficient to meet all the multiple objectives of demonstrating compliance with federal Community Development Block Grant funding and related program income and demonstrating each community's proportionate share and allocation of shared project costs. Certain costs should have been variable and based upon activity levels rather than treated as "fixed" costs.

WRIHRP, as an entity, never had an annual financial audit of its financial statements which was a critical weakness in operating practices and procedures. CDBG program activity of the individual towns was subject to audit, to varying degrees, as part of the town's annual financial audit. Annual independent financial audits are an indispensable management practice that should have been part of the by-laws of the organization and would have provided opportunities for an objective assessment of WRIHRP's accounting practices and provided valuable financial and compliance information to each of the participating municipalities.

WRIHRP routinely executed legal documents such as promissory notes, contracts with providers, mortgage deeds, liens, and release of liens, etc. but did not have continuing legal assistance/resources available in the drafting or recording of such documents. Entities involved in contracting and lending activities to this extent would typically have either engaged or have access to legal counsel to advise on these issues.

When WRIHRP began issuing loans rather than just funding grants for home repairs, its program accounting became more complex and consequently outside assistance should have been sought to ensure accounting practices and loan procedures were sufficient to demonstrate compliance with program requirements.

We observed that one property in the Town of Glocester was improved by WRIHRP loans totaling $62,000. This involved multiple applications and interrelated projects to address a home in extremely poor condition resulting in unhealthy living conditions. While the intent of helping the homeowner was clear and well intentioned, financing improvements to this extent on an individual property appears to be somewhat outside the norm for the program. One concern is that WRIHRP, in approving such projects, did not search the title to learn of other existing liens on the property which could impact the likelihood of repayment even upon transfer of the property at some future point in time.

When consistent with the primary intent of the program, which is granting or loaning funds for home repairs typically within the $5,000 to $15,000 range, we would concur that title searches and other more formalized and conventional lending documentation requirements may not be warranted. However, lending amounts over a certain level should involve consideration of the likelihood of repayment, the existence of other priority liens and encumbrances on the subject property, as well as consideration of whether the scope of required work and financing need is actually consistent with the objective of the program. WRIHRP's most recent policy limited projects to no more than 25% of the assessed property value. For the project described above as well as other projects, the cost of the home improvements exceeded 25% of the assessed value of the home.

WRIHRP was required to comply with all applicable federal and state compliance requirements of the CDBG program. Among these was a State requirement that limited administrative program costs to 20% of federal awards. Compliance with this requirement was to be measured by awards made to each community for the home repair program (not in the aggregate for WRIHRP as a whole) and by federal award year. WRIHRP's actual accounting and financial reporting procedures did not facilitate or ensure compliance with CDBG program requirements; specifically those limiting administrative expenditures.

Each community had one assigned program inspector and the inspectors were to be compensated on a per project basis with an "inspection fee" paid to perform the necessary inspections related to that project. Instead, the annual budget for the each inspector was divided into 26 biweekly payments to compensate the inspectors more on even "salary-like" basis. There was no reconciliation or "true-up" to determine if the amounts actually paid to the inspectors were consistent with a per project inspection fee based on actual activity. Based on the actual project activity observed during the period covered by our review, it appears that the amount paid to the inspectors would have been less if compensated solely on a per inspection basis.

Since CDBG program grants were made to each individual municipality, program income generated was required to be tracked by municipality as well. We found that WRIHRP's tracking of program income should have been enhanced with a clearer delineation of the expected use, by community, of available amounts. State and federal CDBG regulations require that program income be used before requests for new CDBG program funding. Requests for new CDBG funding for both home repair costs and WRIHRP administrative costs did not consistently reflect the use of program income by community.

While home-repair program activities using CDBG program funding will likely continue in each of the communities, the WRIHRP consortium will not continue. To accomplish the orderly dissolution of the WRIHRP, the participating communities should request the State's Office of Housing and Community Development to appoint a temporary "custodian" of the funds and records pending full closure of the WRIHRP's activities. Given that any remaining cash assets arose from either CDBG grants and/or program income generated from those grants we recommend that all cash assets of the WRIHRP, which total approximately $128,000, revert to the State of Rhode Island as the CDBG pass-through entity. Additionally, we recommend that each community receive documentation for its loans and assess what legal actions are required to ensure liens are legally enforceable.

The State's Office of Housing and Community Development can improve its administration of the CDBG program by enhancing information available to subgrantees to ensure compliance. This should include detailing the specific State policy requirement and providing interpretive guidance. Additionally, when consortiums or collaboratives are formed, similar to the WRIHRP, the State should designate the required legal form of organization and annual audit requirements.

The Office of Housing and Community Development should also enhance the after-award reporting required of subgrantees as part of its compliance monitoring. The Office of Housing and Community Development was not able to provide us with definitive documentation that supported their claim of WRIHRP's likely noncompliance with the administrative expenditure limitations.

OBJECTIVE

The objectives of our review of the WRIHRP included assessing its financial status and financial and operating procedures and overall compliance with CDBG program requirements.

SCOPE AND METHODOLOGY

The scope of our review generally covered the period July 1, 2010 to March 31, 2013 and was less in scope than if performing an audit resulting in the expression of an opinion on the financial statements of the WRIHRP. Expressing an opinion on the financial statements in accordance with generally accepted auditing standards requires that management prepare and accept responsibility for the financial statements. WRIHRP management could not prepare or assume responsibility for the financial statements/schedules – the WRIHRP had suspended operations and there were no active employees. Further, since the entity had never been audited; opening balances on the schedules were unaudited.

We summarized financial activity from the WRIHRP's general ledger and bank statements. We confirmed cash balances and confirmed loan balances with borrowers. We reviewed documentation available at the WRIHRP's office regarding program expenditures, procurement of services, applications for WRIHRP services, and loan documentation. We reviewed minutes of the meetings of the Executive Board of the WRIHRP and in selected instances accessed the land evidence records for the purpose of reviewing recorded documentation emanating from WRIHRP activities.

Previous staff and board members were available as needed to allow us to complete our review; however, the inactive status of the program limited our access to program records to some extent. Our review process also included meetings with State of Rhode Island's Office of Housing and Community Development which administers the CDBG program, representatives of each of the participating communities, and members of the Board of the WRIHRP.

The schedules prepared by us from the books and records of the WRIHRP attempt to segregate activity applicable to each participating community. CDBG program funds drawn from the State of Rhode Island are readily identifiable by community and projects funded are similarly identifiable. Allocable costs are shown in the schedule as allocated by WRIHRP and as included in the general ledger of WRIHRP. We did not reallocate administrative costs based on any other allocation methodology.

The scope of our work was not sufficient to allow us to make a determination as to whether the WRIHRP or each community complied with compliance requirements applicable to the Community Development Block Grant Program and accordingly we do not express an opinion on compliance with those requirements.

BACKGROUND

The Western Rhode Island Home Repair Program (WRIHRP) was formed in 1987 as a consortium by the Towns of Foster, Glocester, and Scituate to utilize federal funding available through the Community Development Block Grant (CDBG) Program to assist homeowners in repairing and making improvements to their homes.

In 1994 WRIHRP was established as a non-profit corporation; however, five months later, the corporate charter lapsed and its organizational and legal form (e.g., non-profit or quasi-governmental entity) has since been unclear. The WRIHRP is governed by a six-member volunteer, non-compensated Board of Directors – two from each of the participating communities. WRIHRP maintained its primary administrative office within Glocester Town Hall but also maintained part-time satellite offices in Scituate and Foster.

The principal source of funding for the program is federal CDBG funding passed through the State – each community's allocation is available only for projects in that community. Administrative expenditures are also funded through CDBG funding provided to each participating community. Program income which is essentially derived from loan repayments or other repayments upon property transfer from homeowners benefiting from the program is restricted for the same purposes as the original funding.

Homeowners are assisted by direct grants or loans to fund a specific eligible home project. Homeowners seeking assistance submitted an application to the program which ultimately was presented to the Board for consideration. For presentation to the Board, applicant personal information was redacted to enhance confidentiality and objectivity. Funding preference was given to projects/homes which posed the greatest danger to the health and safety of the homeowners. Eligible project expenditures were originally limited to a fixed dollar amount ($15,000 prior to 2008 and then $25,000). In 2010, the WRIHRP Board established a new limit based on 25% of the appraised property value. Eligible home repair projects include roof repair, septic systems, heating systems, lead abatement, plumbing, and other various renovations. Beginning in 2005, WRIHRP began a mobile home replacement program for the Town of Glocester, in part to meet that Town's affordable housing initiatives.

WRIHRP provided assistance and funded home improvements in three ways. The first is a deferred loan which does not require repayment until title to the property is transferred - at such time the entire grant/loan amount becomes payable but without interest. The second is a zero percent monthly payment loan - homeowners are required to make monthly payments of principal only. The third is a three percent monthly payment loan - homeowners are required to make monthly payments that include interest. The term of the zero and three percent loans can range between 10 and 25 years. Income guidelines based on annual income as well as household size are used to determine whether the homeowner is entitled to a deferred (transfer of title) loan, or a zero or three percent loan.

WRIHRP Statistics – July 1, 2010 – March 31, 2013

Since July 1, 2010, the WRIHRP made 41 loans/grants totaling $552,567 to improve 31 homes.

Type of Grant/Loan	Foster		Glocester		Scituate	
	#	Amount	#	Amount	#	Amount
Deferred (transfer of title) loans/grants	10	$ 97,311	15	$ 102,927	7	$ 87,102
0% Monthly Payment Loans	0	-	7	178,959	0	-
3% Monthly Payment Loans	0	-	2	86,268	0	-
Total	**10**	**$ 97,311**	**24**	**$ 368,154**	**7**	**$ 87,102**

The WRIHRP had five employees – an Executive Director, an administrative assistant, and three inspectors, one for each participating community.

Program Suspension by the State of Rhode Island - Office of Housing and Community Development, Department of Administration

On May 22, 2012, the State's Office of Housing and Community Development instructed "the Towns of Foster, Glocester, and Scituate to suspend any additional obligations/expenditures related to their Housing Rehabilitation programs". The suspension was primarily triggered by administrative expenditure limit compliance and overall financial management issues observed during a routine site visit by State CDBG program monitors. This further resulted in concerns about whether WRIHRP program staff were clear about federal and state regulations and limitations imposed on the CDBG funding including the use of program income.

The suspension resulted in the program becoming largely inactive through the time of this report. Employees were laid-off at the close of May 2012 but some continued on a volunteer basis until September 2012. No new projects commenced subsequent to the receipt of the instructions of the State's Office of Housing and Community Development on May 22, 2012. During this interim period, the chairperson of the WRIHRP Board has acted as the administrator to receive collections on loans. The principal administrative office of the WRIHRP, which is located in Glocester Town Hall, continues to house the financial and program records.

Community Development Block Grant (CDBG) program

The federal Community Development Block Grant (CDBG) program (CFDA 14.228) provides communities with resources to address a wide range of community development needs. The primary objective of the program is to develop suitable urban communities by providing decent housing mainly for low to moderate income households.

The federal government awards grants to the State of Rhode Island. The CDBG program is administered by the State's Office of Housing and Community Development – Department of Administration. The State makes sub-awards to municipalities based on applications and requests for funding consistent with allowable activities of the CDBG program. Sub-awards to municipalities are made on a competitive basis. Total CDBG funds made available to the State of Rhode Island are typically between $4 and $5 million annually.

The State made sub-awards to each of the municipalities comprising the WRIHRP consortium. Each municipality then provided those funds to the WRIHRP to be used for qualifying home repair projects in their respective communities. In essence, the WRIHRP acted as the agent for each of the communities in administering the CDBG funding for home repair purposes. Each municipality was the grant recipient and remained responsible for ensuring compliance with federal program requirements.

Western Rhode Island Home Repair Program
Statement of Net Assets - March 31, 2013
(Unaudited)

	Foster	Glocester	Scituate	Unidentified	Total
Assets:					
Cash (Note 3)	$ 2,372	$ 68,671	$ 55,681	$ 916	$ 127,640
Loans receivable: (Note 4)					
Loan repayment required	39,258	455,532	22,449		517,239
Deferred (transfer of title) loans	196,466	298,057	204,708		699,231
Total	**238,096**	**822,260**	**282,838**	**916**	**1,344,110**
Liabilities:					
Unpaid invoices - administrative				146	146
Total				**146**	**146**
Net assets - March 31, 2013	**$ 238,096**	**$ 822,260**	**$ 282,838**	**$ 770**	**$ 1,343,964**

Western RI Home Repair Program
Schedule of Cash Receipts and Disbursements
for the period July 1, 2010 to March 31, 2013
(Unaudited)

	Foster	Glocester	Scituate	Burrillville	Unidentified	Total
Cash balances - July 1, 2010:						
Cash - checking	$ 39,385	$ 65,078	$ (10,243)			$ 94,220
Cash - savings	39,723	187,472	54,603			281,799
Total	**$ 79,108**	**$ 252,551**	**$ 44,360**	**$ -**	**$ -**	**$ 376,019**
Receipts:						
CDBG grant proceeds (Note 5)	133,383	155,375	168,800	7,712		465,269
Collection on loans - interest and principal (Note 6)	8,052	105,723	38,289		916	152,979
Town appropriations (Note 10)		4,500	2,000			6,500
Bank interest	40	198	73			312
Total	**141,474**	**265,796**	**209,162**	**7,712**	**916**	**625,060**
Disbursements:						
Home Repair	108,849	198,742	132,189			439,781
Other Program Disbursements (Note 9)						
Mobile Home		140,667				140,667
Food Pantry	5,000	3,000	1,500			9,500
CH Land Trust		12,750	1,500			14,250
Hemlock Village						
Grant 08-12-25	13,804					13,804
Grant 10-12-27	53,833					53,833
Scituate Health Alliance			10,000			10,000
Total program disbursements	**181,486**	**355,160**	**145,189**	**-**	**-**	**681,835**
Administrative costs: (Note 7)						
Personnel	31,688	87,688	46,916	6,985		173,276
Retirement Plan - IRA (Note 8)	973	1,695	1,532	194		4,394
Advertising	663	766	985	200		2,613
Office Supplies	656	748	545	294		2,243
Bank service fees	167	167	167			502
Insurance	1,850	1,780	1,780			5,409
Other	728	1,673	728	38		3,167
Total administrative costs	**36,725**	**94,516**	**52,652**	**7,712**	**-**	**191,605**
Total Disbursements	**218,211**	**449,676**	**197,841**	**7,712**	**-**	**873,439**
Cash balances - March 31, 2013:	**$ 2,372**	**$ 68,671**	**$ 55,681**	**$ -**	**$ 916**	**$ 127,640**

NOTES TO FINANCIAL SCHEDULES

Note 1 – Organization

The Western Rhode Island Home Repair Program (Program) was established in 1987 and operated pursuant to a Consortium Agreement entered into by the Towns of Foster, Glocester, and Scituate. Each participating community delegated certain responsibilities related to the administration of federal Community Development Block Grant (CDBG) funds passed through the State of Rhode Island for the operation of a lower-income home repair program.

The Program was incorporated as a non-profit entity in 1994; however, the corporate charter was subsequently cancelled in 1995.

The Program's governing body consisted of a six member volunteer, non-compensated board of directors – two members from each community.

The Town of Burrillville was not a member of the consortium but sought administrative assistance from the WRIHRP. The activity reflected in the accompanying schedules for the Town of Burrillville is for reimbursement of administrative costs related to technical assistance.

Note 2 – Basis of Presentation

The financial schedules for the Western Rhode Island Home Repair Program (WRIHRP) were prepared from the books and records of the WRIHRP.

The financial schedules have been prepared on a cash basis which is a basis of accounting other than generally accepted accounting principles. Opening cash balances attributed to each participating community were unaudited.

Note 3 – Cash Balances

The WRIHRP has one checking account and one savings account for program activities – separate bank accounts are not maintained for the activity of each participating town. Allocation of opening cash balances at July 1, 2010 by town is as reflected in WRIHRP's accounting records. Cash receipts and disbursements for the period covered by the schedule have been allocated by participating town based on WRIHRP's accounting records and other available information.

Ending cash balances represent combined checking and savings account balances.

Note 4 – Loans Receivable

The loans receivable balances are classified into two line items – payment loans receivable and deferred (transfer of title) loans receivable. Payment loans receivable are comprised of the outstanding zero and three percent interest loans while for deferred loans repayment is required only when and if title to the property is transferred.

Amounts represented in loans receivable are derived from the records of the WRIHRP. Subsequent collections of loan payments have been received since operations ceased. These collections have been included in the totals for loans receivable as of March 31, 2013.

No allowance for uncollectible loan receivable balances has been provided in the accompanying schedules.

Note 5 – Grant Proceeds

Receipts from grant proceeds are from the Community Development Block Grant (CDBG). Amounts shown on the Schedule of Cash Receipts and Disbursements are derived from records of the WRIHRP but were compared to the State's accounting records. Generally, CDBG funds are drawn as needed to fund program and administrative expenditures. CDBG awards were made directly to each Town within the consortium. Upon receipt of the CDBG funds paid by the State, each participating town transferred the CDBG program funds to the WRIHRP.

Note 6 – Program Income

Program income is comprised of collections on loans. This includes monthly payments received from homeowners with zero and three percent loans as well as payments received from deferred (transfer of title) loans.

Program income receipts include both principal and interest amounts received from borrowers.

Some program income receipts could not be identified by participating community - the amount in the unidentified column represents a deposit into the savings account for which documentation, as to source of collection was unavailable.

Note 7 – Allocation of administrative costs to participating municipalities

Administrative costs allocated to each participating community are presented based on the allocation made by WRIHRP and as reflected in the WRIHRP's general ledger.

Administrative staff salaries were allocated as follows: 50% to the Town of Glocester, and 25% each to the Towns of Foster and Scituate. Salaries of program inspectors were allocated to the town in which they were assigned. Other administrative costs were allocated (a) directly were determinable, (b) equally in some instances, or (c) in the same manner as administrative staff salaries.

Note 8 – Retirement Plan – Individual Retirement Account

Employees of WRIHRP were eligible to participate in a simple Individual Retirement Account with an employer matching contribution of up to three percent of salary.

Note 9 - Other Program Expenditures

Mobile Home – WRIHRP began a mobile home replacement program in 2005 in the Town of Glocester, as part of an overall effort to expand affordable housing in that community. Homeowners are able to finance the cost of a new mobile home and related placement and connection costs

Hemlock Village – CDBG program funds were used to improve an elderly housing facility in the Town of Foster.

Food Pantry – CDBG funding benefitting local food pantries flowed through the WRIHRP.

CH Land Trust – Disbursements to the Community Housing Land Trust are related to the Mobile Home Replacement Program. When a mobile home is purchased, the Community Housing Land Trust offers a monitoring service agreement for a period of thirty years. The fee for a monitoring service agreement is a one-time payment for each mobile home purchase. This agreement provides annual monitoring and reporting requirements that must be submitted to RI Housing each year.

Note 9 - Other Program Expenditures (continued)

Scituate Health Alliance - The disbursements to the Scituate Health Alliance were related to health and dental services provided to low income residents of Scituate. The WRIHRP was allowed to draw money from CDBG funds and use those funds to provide health and dental services to residents who did not have health insurance. All funds received by CDBG related to these health and dental services were passed through the WRIHRP to the Scituate Health Alliance.

Note 10 - Town Appropriations

The Towns of Glocester and Scituate made appropriations to the WRIHRP for the purpose of administering the program.

Note 11 – Activity Subsequent to March 31, 2013

Subsequent to March 31, 2013, the WRIHRP collected and deposited receipts totaling approximately $3,800 through May 31, 2013.

ORGANIZATIONAL AND GOVERNANCE ISSUES

ORGANIZATIONAL STATUS

The WRIHRP began operations in 1987 but was later established as a non-profit corporation in 1994. Subsequently, that status lapsed and it is no longer registered with the Secretary of State as a non-profit corporation. WRIHRP's organizational status is unclear. While not technically a non-profit corporation it acts similar to one but also acts similar to a governmental entity since it is in essence an extension of each of the three communities that provide and pool their allocation of CDBG federal funds passed-through the State of Rhode Island.

The uncertainty in organizational status complicated our ability to assess the appropriate accounting framework from which to evaluate the Program's operations.

Although WRIHRP administered the program, ultimate responsibility for the Community Development Grant Funds awarded by the State of Rhode Island remained with each community. The funds were awarded to each community with the WRIHRP acting as an "agent" on each community's behalf. While it appears this relationship was understood, the accountability structure put in place did not fully meet that objective. Ultimately, compliance with federal requirements governing the expenditures of the CDBG funds was the responsibility of each municipality. Accordingly, each participating municipality should have ensured greater financial and federal program compliance oversight to better meet their responsibilities as subrecipients of CDBG program funding.

Due to its unclear legal form and status there remains a question as to whether legal documents (e.g., mortgage deeds, promissory notes, liens, release of liens, etc.) recorded on properties improved through the program and recorded in the land evidence records of each participating municipality are valid and legally binding.

NO ANNUAL FINANCIAL STATEMENT AUDIT OF WRIHRP

The WRIHRP never had an annual financial audit of its operations or financial statements. Since each Town was the subrecipient of federal CDBG funds passed through the State, the towns recorded some aspects of their CDBG program activity in their financial statements and to varying, but limited, degrees some of that activity was subject to audit through the town's annual audit. However, there was no annual financial audit of the WRIHRP as an entity.

Regular annual financial audits of WRIHRP should have been required by the Board of Directors and by each of the participating communities to ensure the reliability of reported financial information and to also provide the Board and each of the participating Town's with appropriate information on the suitability of the program's accounting practices, control procedures, and key financial information.

Annual independent financial audits are an indispensable management practice that should have been part of the by-laws of the organization. This was a critical weakness in operating practices and procedures. Routine annual audits could have provided recommendations to improve and enhance accounting procedures, operating practices, and compliance with federal program requirements.

In addition, given that the WRIHRP was administering federal funds (CDBG funding) on behalf of each community, additional compliance procedures should have been included as part of an annual audit to provide assurance to each community that WRIHRP was complying with federal requirements applicable to CDBG funding.

Due to the lack of annual audits, there was no independent reporting of financial and program compliance information on the WRIHRP back to each of the communities. The lack of annual audits severely diminished the Board's ability to exercise appropriate oversight of the Program.

Given the relative size of the program, the dollar threshold requiring a federal "Single Audit" (OMB Circular A-133) may not have been triggered and consequently, the cost of the audit may not have been a cost reimbursable under the federal CDBG program. However, there are benefits of an annual audit, even if funded separately from the federal CDBG program by the consortium member communities.

WRIHRP OPERATED WITHOUT ONGOING LEGAL COUNSEL RESOURCES

WRIHRP routinely executed legal documents such as promissory notes, contracts with providers, mortgage deeds, liens, and release of liens, etc. WRIHRP did not have continuing legal assistance/resources available in the drafting or recording of such documents. We were informed that WRIHRP did seek legal guidance at times, primarily to develop templates for the various legal documents that were used within the Program.

We acknowledge that full or part time counsel would have further exacerbated challenges in meeting the administrative expenditure limits of the CDBG funding. However, entities involved in contracting and lending activities to the extent WRIHRP was would typically have either engaged or have access to legal counsel for the purpose of advising on these issues.

ACCOUNTING POLICIES AND PROCEDURES

LACK OF UNIFORM AND STANDARDIZED ACCOUNTING PRACTICES

The accounting policies and procedures followed by WRIHRP were not sufficient to meet all the multiple objectives of demonstrating compliance with federal Community Development Block Grant funding and related program income and demonstrating each community's proportionate share and allocation of shared project costs.

Accounting procedures were well intentioned but not always consistent with standard accounting practices or generally accepted accounting principles. For example, when WRIHRP began issuing loans rather than grants for home repair projects the accounting grew more complex but without the understanding and assistance to account for it in the proper way. Additional external guidance on how to appropriately account for the loans receivable, maintain current loan receivable balances and track and bill delinquent loans was needed. Accounting software specific to the loan process would have been desirable.

Annual independent audits would have provided an opportunity for WRIHRP's accounting procedures to be evaluated and measured against standard practices.

CONTROL PROCEDURES WERE INSUFFICIENT

Segregation of duties in smaller organizations can be difficult due to the obvious lack of additional personnel to distribute responsibilities. Accordingly, most if not all of the accounting, cash receipt, cash disbursement, and banking functions were performed by one individual. This creates rather than restricts opportunities for accounting errors not being detected and for misappropriation of funds. We observed that WRIHRP's policy was to require dual signatures on checks; however, standard practice was to pre-sign one of the required signatures on a group of blank checks which diluted if not eliminated the effectiveness of the intended control.

As discussed previously, WRIHRP did not have annual financial audits of its financial statements. Coupled with weakened control procedures largely resulting from a lack of segregation of duties this resulted in a considerably weakened control environment.

ALLOCATION OF ADMINISTRATIVE COSTS TO PARTICIPATING COMMUNITIES

The operating expenses of administering the WRIHRP were allocated to each participating community's share of CDBG funding. The State's CDBG program guidelines limit administrative costs to 20% of awards and program income. Such limits are applied based on each grant award year – funding may be available and expended from multiple award years within the same period.

We found that some administrative costs were allocated on a fixed percentage basis (either equally to each community or on a 25%/50%/25% basis) and others were allocated based on a budgeted basis without reconciliation and adjustment for actual activity levels. For example, site inspectors were to be compensated on a per application/project site inspection basis. In practice, the inspectors were budgeted for a certain activity level and were paid on an equal bi-weekly basis throughout the year. There was no documented reconciliation of the amount paid on a regular biweekly basis with the amount of inspections actually performed at the per inspection rate. Additionally, other costs, such as the executive director's salary, were apportioned on a 25%/50%/25% basis. No reconciliation or adjustment was made if actual proportionate activity was different from these estimates.

The Program did not have procedures and controls in place to ensure compliance with federal and State CDBG program requirements – specifically those relating to the limitation of administrative costs charged to the each participating community's award by year.

Demonstrating compliance with the limitation on administrative expenditures became more complex when program income grew. For WRIHRP, program income is generated primarily through collections on loans either through regular loan payments or payments made upon transfer of title for the improved property. These amounts become available to be used for the same purposes as the original federal CDBG funds.

It appears the likely intent was to establish a "revolving loan fund" when the Program began issuing loans. However; the accounting was not consistent with that intent. Amounts in the savings account were not necessarily just program income or equivalent to a "revolving loan fund". The Office of Housing and Community Development has instructed communities or entities that are providing loans with CDBG program funding to establish a formal revolving loan fund.

ADMINISTRATION OF LOANS

WEAKNESSES IN THE ADMINISTRATION OF WRIHRP LOANS

WRIHRP funded home repairs in multiple ways; (1) through direct grants or deferred loans which did not require repayment unless title to the property changed within a defined time period following the improvement, and (2) through loans that carried either a 0% or 3% interest rate depending upon the borrower's income. At March 31, 2013, WRIHRP had 117 individual loans outstanding.

We found the following weaknesses in WRIHRP's loan program administration:

- WRIHRP did not utilize loan accounting software to facilitate accounting for the loans or maintain a subsidiary ledger detailing loan balances and activity on each loan;
- statements detailing outstanding loan balances were not routinely provided to borrowers;
- a loan amortization schedule was created at loan origination; however, no adjustment was made to the loan amortization schedule for missed or late payments;
- WRIHRP could have improved its tracking of delinquent loan balances and collection activities;
- mortgage liens were recorded on improved properties; however, the legal status of the lien may be questionable due to WRIHRP's uncertain status as a "legal" entity;
- loan balances included in WRIHRP's general ledger could potentially be incomplete or inaccurate due to the lack of controls over tracking individual loan balances; and
- WRIHRP did not utilize an attorney to prepare loan documents; participate in the loan closing process, or research title to the property to learn of other liens or encumbrances on the property.

When WRIHRP began issuing loans rather than just funding grants for home repairs, program accounting became more complex and consequently outside assistance should have been sought to ensure accounting practices and loan procedures were sufficient to demonstrate compliance with program requirements.

Observations on Specific Loans

We confirmed the existence, terms, and outstanding balance of WRIHRP loans receivable and received responses from 68% of the homeowner/borrowers.

Some confirmations were returned as undeliverable which prompted further inquiry since the loans typically require full repayment if the borrower relocates or transfers title to the improved property. In one instance, it appears a bank foreclosed on the property which extinguished the WRIHRP's lien on the property. The loan is now unsecured and likely uncollectible. WRIHRP's loan accounting records did not reflect this change.

In another instance, title to the property was transferred; however, it did not result in payment of the loan. Whether the circumstances of the transfer would not have required pay-off the lien to WRIHRP is unclear.

We also noted that one property in the Town of Glocester was improved by loans through the WRIHRP totaling $62,000. This involved multiple applications and interrelated "projects" that were processed over the course of 12-18 months. Available documentation demonstrated the WRIHRP's very responsive effort to address a home in extremely poor condition resulting in unhealthy living conditions. We acknowledge this was an extreme situation where the scope of work continued to evolve as other improvements were made. Based on documentation in the WRIHRP's files, the situation may have required a comprehensive social services solution in addition to, or in place of, a comprehensive home renovation.

While the intent of helping the homeowner was clear and well intentioned, financing improvements to this extent on an individual property appears to be somewhat outside the norm for the program. One concern is that WRIHRP, in approving such projects, did not search the title to learn of other existing liens on the property which could impact the likelihood of repayment even upon transfer of the property at some future point in time.

When consistent with the primary intent of the program, which is granting or loaning funds for home repairs typically within the $5,000 to $15,000 range, we would concur that title searches and other more formalized and conventional lending documentation requirements may not be warranted. However, lending amounts over a certain level should involve consideration of the likelihood of repayment, other priority liens and encumbrances on the subject property, as well as consideration of whether the scope of required work and financing need is actually consistent with the objective of the program.

**Compliance with WRIHRP's program guidelines –
some loans exceeded 25% of the property's assessed value**

WRIHRP had adopted a policy which limited projects to no more than 25% (most recent policy adopted in 2010) of the assessed property value. For the Glocester home project described above, the project exceeded 25% of the assessed value of the home.

We noted four other instances where the loan/grant amount ranged from 55% to 78% of the assessed property value – well in excess of the current 25% policy limit. In some instances, these loans/grants were made prior to the adoption of the 25% assessed property value limit (a dollar limit was previously adopted); however, the loan amount relative to the total property value is still noteworthy. All of these properties were mobile home repairs within the Town of Glocester.

WRIHRP did not issue policy guidelines for its Glocester mobile home replacement program

WRIHRP administered a mobile home acquisition/replacement program for the Town of Glocester which was part of the Town's efforts to achieve targeted affordable housing objectives. WRIHRP did not formalize its policies and procedures for this aspect of program operations through issuance of guidelines. Formalization and communication of policies and procedures is desirable to ensure consistency in administration of the program.

COMPLIANCE WITH FEDERAL CDBG PROGRAM REQUIREMENTS

WRIHRP was required to comply with all applicable federal and state compliance requirements of the CDBG program. Among these was a State requirement that limited administrative program costs to 20% of federal awards. Compliance with this requirement was to be measured by awards made to each community for the home repair program (not in the aggregate for WRIHRP as a whole) and by federal award year.

On May 22, 2012, the State's Office of Housing and Community Development instructed "the Towns of Foster, Glocester, and Scituate to suspend any additional obligations/expenditures related to their Housing Rehabilitation programs". The suspension was primarily triggered by administrative expenditure limit compliance and overall financial management issues observed during a routine site visit by State CDBG program monitors. This further resulted in concerns about whether WRIHRP program staff were clear about federal and state regulations and limitations imposed on the CDBG funding including the use of program income.

WRIHRP's actual accounting and financial reporting procedures did not facilitate or ensure compliance with CDBG program requirements; specifically those limiting administrative expenditures. WRIHRP needed a more detailed accounting and reporting process to ensure compliance with this requirement and to adequately track and report program and administrative expenditures by municipality and federal award year. Additionally, program income which was generated from collections on loans also needed to be appropriately factored into the administrative limit calculation.

Clearly, ensuring compliance with the administrative expenditure limits of the program could be challenging due to uncertainty regarding (1) the expected volume of projects in each community and (2) the actual progress and timing of home repair projects and related disbursements.

The WRIHRP budgeted administrative costs based on an expected level of program activity in each community. Salaries of the five employees were paid biweekly and were allocated based on the budget which reflected the expected program volume of home repair projects and mobile home acquisitions.

Each community had one assigned program inspector. As explained to us, the inspectors were to be compensated on a per project basis with an "inspection fee" paid to perform the necessary inspections related to that project. Instead, the annual budget for the each inspector was divided into 26 biweekly payments to compensate the inspectors more on an even "salary-like" basis. Had the inspectors actually been compensated based on actual inspections performed, this aspect of administrative cost would have been variable and in direct proportion to actual activity levels. There was no reconciliation or "true-up" to determine if the amounts actually paid to the inspectors were consistent with a per project inspection fee based on actual activity.

Based on the actual project activity observed during the period covered by our review, it appears that the amount paid to the inspectors would have been less if compensated solely on a per inspection basis. In the aggregate, inspectors were paid approximately $47,000 during the period covered by our review (July 1, 2010 to March 31, 2013). Based on the 41 projects initiated during that time and assuming an inspection fee of $500 per project, total compensation to the inspectors would have been $20,500. A proposal put forth by WRIHRP subsequent to its suspension by the State actually proposed inspection fees of $225 for a single project and $345 for a comprehensive project. A comparison of actual inspector compensation and a per project inspection fee comparison by community follows:

	Actual Compensation paid to inspector assigned to community - July 1, 2010 to March 31, 2013 *	Number of inspections	Estimated compensation if paid on a fee per inspection basis ($500)
Foster	$ 4,190	10	$ 5,000
Glocester	26,170	24	12,000
Scituate	16,528	7	3,500
Total	$ 46,888	41	$20,500

* In some instances, inspectors assigned to one community would inspect a project in another community and an accounting adjustment was made to reallocate those costs.

Compensation of the inspectors on a more "salary like" basis rather than an inspection fee basis likely contributed to WRIHRP's challenges in complying with the 20% administrative program cost limit.

All CDBG funds received by each community were transferred through the WRIHRP even though some of the funding was not for repair activities (e.g., Food Pantry, Scituate healthcare, Hemlock Village – Town of Foster). There is no apparent reason why these non-home related funds needed to flow through the WRIHRP. In these instances there was no allocation to WRIHRP by the State's Office of Housing and Community Development in awarding the CDBG program funds for administration costs.

Definitive determination of compliance with the 20% administrative limitation was not maintained by WRIHRP and the State's Office of Housing and Community Development did not provide us with specific documentation regarding compliance with that provision. An analysis was prepared by a joint effort of the Towns of Foster and Glocester to assess compliance with this program requirement – we did not audit or validate that analysis.

Assessing compliance is complicated by the fact that the determination is made by award year; however, expenditures from that individual award could actually span multiple fiscal years. Analyses to definitively determine compliance would require extensive effort that may not be warranted at this point unless required by the State's Office of Housing and Community Development.

Another complicating factor in the administrative expenditure limit calculation is the inclusion of program income generated principally from loan collections. WRIHRP did not formally establish a revolving loan fund but intended, and was required to use, program income in furtherance of the program. The Office of Housing and Community Development indicated that they would award funding for administrative expenditures related to the use of program income in order to maintain and not reduce the balance of a revolving loan fund.

Since CDBG program grants were made to each individual municipality, program income generated was required to be tracked by municipality as well. We found that WRIHRP's tracking and programming of program income should have been enhanced with a clearer delineation of the expected use, by community, of available program income. State and federal CDBG regulations require that program income be used before requests for new CDBG program funding. Requests for new CDBG funding for both home repair costs and WRIHRP administrative costs did not consistently reflect the use of program income by community.

CDBG program funding was reported within the financial statements of each municipality participating in the WRIHRP. Audit communications resulting from the annual audit of the Town of Glocester's financial statements for the fiscal year ended June 30, 2012 included a management letter comment as shown on the next page.

Town of Glocester – Audit Report for the Fiscal Year Ended June 30, 2012

Observation: Community Development Block Grant Fund

During our audit we noted that some of the accounting activity for the CDBG fund was not being recorded or was not being updated for year-end presentation. We are aware that the Community Development Block Grant program was being run by the Western Rhode Island Home Repair Agency and the State of Rhode Island has currently suspended their operations, which caused many of the issues noted below:

We noted that:

1. Loan detail scheduled did not agree to the balances on the general ledger
2. Grant year activity is not being tracked on a grant by grant year basis
3. Audit evidence documentation was difficult to find.

Recommendation:

We recommend that the Town work with the State of Rhode Island to form a corrective action plan that will provide for the accounting and internal control environment required by Generally Accepted Accounting Principles so that the CDBG program can resume its mission.

CONCLUSIONS AND RECOMMENDATIONS GOING FORWARD - WRIHRP

The WRIHRP was an effective and well intentioned program that fulfilled a necessary mission in each of the participating communities. The goal and intent of sharing administrative costs among the towns through a consortium was sound. However, enhanced financial oversight was needed to ensure that WRIHRP had controls in place to meet the programmatic limits on administrative costs reimbursed through the program. Certain costs should have been variable depending upon activity levels rather than fixed costs. Additional accounting and compliance guidance was necessary to appropriately factor program income received from program operations into the compliance matrix. Further, accounting and compliance matters became more complicated when the program began issuing loans of various types and repayment provisions. Lastly, independent annual financial audits would have provided opportunities for an objective assessment of WRIHRP's accounting practices and provided valuable financial and compliance information to each of the participating municipalities.

Based on discussions with each of the participating municipalities, it appears the functionality of using federal CDBG program funds to operate a home-repair program in each of the communities will likely continue; however, not through a municipal collaborative or consortium. The Towns of Scituate and Foster have opted to have a private-non-profit entity operate and administer their home-repair program. The Town of Glocester intends to operate their program internally.

Accordingly, we have not offered recommendations on a go-forward basis specific to the operation of the WRIHRP but have highlighted practices, in the preceding sections, which we believe should have been enhanced or contributed to WRIHRP's suspension (by the State) from participation in CDBG program funding.

Going forward, each municipality in utilizing CDBG funding to finance their home-repair program must meet the federal compliance requirements applicable to that program and the requirements of the State Department of Administration which is the pass-through entity. Since it is likely that each municipality will operate its home-repair program individually or in a different manner, each town must customize its control procedures to ensure compliance with federal CDBG program requirements. Similarly, each town must have an appropriate monitoring process in place which should include independent audits to ensure compliance.

The WRIHRP has been inactive since suspension by the State in 2012 except for collections on loans.

As of March 31, 2013 assets of the WRIHRP consisted of amounts held in a checking and savings account and loans receivable. Since the WRIHRP will formally cease operations, the remaining assets must be distributed and arrangements must be made to copy or transfer program and loan files applicable to each participating community. WRIHRP records should also be archived to meet applicable federal and state recorded retention guidelines.

Given that any remaining cash assets in the custody of WRIHRP arose from either CDBG grants and/or program income generated from those grants (e.g., collections on loans made with CDBG funds), we recommend that all cash assets of the WRIHRP revert to the State of Rhode Island as the CDBG pass-through entity. Such returned funds would be restricted by the State for use within the CDBG program and be available for redistribution for CDBG eligible expenditures.

All loan receivable assets are readily identifiable by participating community. We recommend that each community collect applicable documentation for each loan and then assess what actions are necessary to ensure the

Town's interest is appropriately recorded in the land evidence records. As collections continue on these loans, such program income will be available to each community for use within their CDBG eligible program activities.

To accomplish the orderly dissolution of the WRIHRP, the participating communities of the WRIHRP should request the State's Office of Housing and Community Development to appoint a temporary "custodian" of the funds and records pending full closure of the WRIHRP's activities.

RECOMMENDATIONS FOR THE STATE'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT

While our focus was on the WRIHRP, we had the following observations and recommendations for the State's Office of Housing and Community Development which administers the State CDBG program and is the pass-through entity for CDBG funding provided to local municipalities.

Improve information available to grantees regarding administrative expenditure limits and required compliance requirements

The communication of administrative expenditure limits applicable to the CDBG program subgrants was included in contracts between the State's Office of Housing and Community Development and each municipality. However, we noted that other information regarding this limitation and related guidance to facilitate compliance was not widely available. We were informed that this limitation was a State requirement and not one that emanated from federal CDBG program regulations. In general, we believe the State's Office of Housing and Community Development could enhance information available to subgrantees to ensure compliance. This should include detailing the specific State policy requirement and providing interpretive guidance (definitions, how program income generated by the program affects the administrative expenditure limitations, questions and answers, etc.).

We observed that other states provide more information on key program compliance requirements through their websites and other published program materials to assist grantees in meeting CDBG program objectives and compliance measures.

Recommendation

1. Enhance policy guidance provided to sub-grantees regarding the State's administrative expenditure limits.

Delineate Required Form of Organizational Structure for Consortium/Collaborative Entities

As previously discussed, the legal form of the WRIHRP was unclear. The State's Office of Housing and Community Development as the pass-through entity should designate the required legal form of consortiums/collaboratives that are formed to administer CDBG program funding for multiple municipalities. This is necessary to ensure the appropriate relationship exists between the State, each municipality and the consortium, accounting and auditing requirements of the entity are clear, and loan documents, liens and other program legal documents are valid and enforceable.

Recommendation

2. Designate the required form of organizational structure (e.g., incorporated non-profit entity) for consortiums established to administer CDBG program funding from multiple municipalities.

Require Audits of Consortium Entities that administer CDBG funds for multiple municipalities

The federal government has audit requirements that are applicable to governmental and non-profit entities that expend federal awards. Consistent with the aforementioned designation of a legal form of organization, the State's Office of Housing and Community Development should require specific audit requirements for consortium/collaborative entities administering CDBG program funds to ensure appropriate financial controls and controls over compliance have been established and are operating effectively. In some instances this may require audits which would not ordinarily be required under the federal Single Audit Act or OMB Circular A-133. These specific audit requirements are necessary to prevent the lack of audit coverage observed with respect to the WRIHRP. Additionally, when audits of the municipalities included CDBG funds, the focus was just on that community's CDBG funding and not from the perspective of WRIHRP.

As noted previously, routine audits of the WRIHRP would have provided opportunity for independent assessment of the adequacy of WRIHRP's accounting and compliance controls and procedures.

Recommendation

3. Impose an annual audit requirement, notwithstanding existing federal single audit requirements, for consortium entities administering federal CDBG program funding.

Enhance tracking and communication of administrative expenditure limits by federal award year to facilitate compliance

As previously described, the tracking and determination of compliance with administrative expenditure limitations must be performed on a grant award year basis. Since expenditures are often made from multiple open awards within the same fiscal period, the assessment and documentation of compliance becomes more complicated. The Office of Housing and Community Development should enhance the after-award reporting required of subgrantees as part of its compliance monitoring. The Office of Housing and Community Development was not able to provide us with definitive documentation that supported their claim of WRIHRP's likely noncompliance with the administrative expenditure limitations.

Recommendation

4. Improve the tracking of compliance with administrative expenditure limits at the State level to support a definitive determination of compliance by sub-grantees.