



## Travis County Commissioners Court Agenda Request

**Meeting Date:** September 17, 2013

**Prepared By/Phone Number:** Christy Moffett, LMSW 854-3460

**Elected/Appointed Official/Dept. Head:**

Sherri E. Fleming, County Executive of Travis County Health and Human Services & Veterans Service

**Commissioners Court Sponsor:** Judge Samuel T. Biscoe

### **AGENDA LANGUAGE:**

Receive an update on the timeliness performance of the Community Development Block Grant funding through HUD.

### **BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS:**

As part of the mandate from Congress, HUD is required to determine whether Community Development Block Grant (CDBG) grantees carry out their program in a timely manner. A grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant. If the grantee exceeds the amount allowed at that 60-day mark, they are considered to be non-compliant. For Travis County, the timeliness test occurs every August.

If the grantee fails to meet the timeliness requirements for two consecutive years, HUD can reduce the grant amount available for the next program year by the exact amount of the credit balance in excess of 1.5 times the annual grant. For the second year, the County is out of compliance with timeliness, with a ratio of 2.38, and was offered an informal consultation to discuss the factors that have contributed to its non-compliance. Please see Attachment A for the letter from HUD.

On September 9, 2013, County Judge Sam Biscoe, Sherri Fleming, and Christy Moffett participated in a conference call with HUD Officials from the San Antonio Field Office and Washington, DC. Please see Attachment B for a summary of Travis County's response to HUD with regard to its timeliness.

HUD is not required to withhold any of the County's funding if they agree with the County that it can move into compliance with timeliness. If HUD chooses to assist the County into moving into compliance by withholding funding for next year, it will be for the full grant amount of \$909,925. The County is expected to hear back within the next 10 days.

### **STAFF RECOMMENDATIONS:**

The Department has focused on implementing the CDBG program with three key goals in mind: 1) implement programs that meet community needs; 2) protect the County through compliance; and 3) spending the funds in a consistently timely manner. Two out of the three goals have been successfully achieved over the past seven years with timeliness being the key struggle for the program.

Now that all of its key programs have started, especially home rehabilitation, the Department feels that timeliness will be able to be consistently achieved in the coming years.

No recommendations or action is needed at this time.

### **ISSUES AND OPPORTUNITIES:**

The CDBG Program completed its second successful monitoring visit from HUD this year. In June 2013, HUD conducted a monitoring on the County's CDBG program. As in April 2010, no findings were made, however, a concern about slow spending was noted. Please see Attachment C for the monitoring report.

The County is not extending the contract with the homebuyer assistance non-profit, which terminates on September 30, 2013, so approximately \$700,000 will need to be reprogrammed in the next couple of months.

No matter the decision made, the County's ability to apply for funding in Program Year 2014 is not impacted.

### **FISCAL IMPACT AND SOURCE OF FUNDING:**

It is possible that next year's grant award totaling \$909,925 will not be available to the County in an effort to move the County into immediate compliance with a 1.5 timeliness ratio. There is enough funding from the homebuyer assistance program, that did not perform as anticipated, to fund both the final phase of the Lake Oak Street Improvement Project and provide additional funds to the Home Rehabilitation Project. For the

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to [agenda@co.travis.tx.us](mailto:agenda@co.travis.tx.us) by **Tuesdays at 5:00 p.m.** for the next week's meeting.

public services and administration funding in Program Year 2013, the Department would look internally to keep those programs whole.

**REQUIRED AUTHORIZATIONS:**

None.

cc:

Leslie Browder, PBO

Diana Ramirez, PBO

Jason Walker, Purchasing Office

Caula McMarion, TCHHS&VS

DeDe Bell, Auditor's Office

Steven Manilla, TNR

Cynthia McDonald, TNR

Mary Etta Gerhardt, County Attorney's Office

Jessica Rio, PBO

Cyd Grimes, Purchasing Office

Kathleen Haas, TCHHS&VS

Nicki Riley, Auditor's Office

Janice Cohoon, Auditor's Office

Lee Turner, TNR



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING  
AND DEVELOPMENT

AUG 26 2013

The Honorable Samuel T. Biscoe  
Judge of Travis County  
P.O. Box 1748  
Austin, TX 78767-1748

Dear Judge Biscoe:

**SUBJECT: Offer of Informal Consultation  
Noncompliance with Timely Expenditure Requirements  
Community Development Block Grant (CDBG) Program**

Pursuant to a review, HUD has determined that Travis County is not carrying out its CDBG program in a timely manner. A grantee is allowed, under the CDBG regulations at 24 CFR 570.902, *Review to determine if CDBG-funded activities are being carried out in a timely manner*, to have a balance no greater than one and one-half (1.5) times its annual grant remaining in the line-of-credit 60 days prior to the end of the program year. HUD has a longstanding policy of reducing the future year's grant of a grantee that continues to be untimely.

The 60-day ratio for Travis County, as measured on August 2, 2012, was 2.38. The last 60-day test conducted for Travis County on August 2, 2013, indicated a balance remaining in the county's line-of-credit amounting to 2.61 times its Fiscal Year (FY) 2012 grant and, therefore, the county was again in non-compliance with the 1.5 performance standard. The failure to meet the 1.5 standard may result in a reduction of the county's FY2013 grant by 100 percent of the amount in its line-of-credit in excess of 1.5. Based on the new 60-day ratio of 2.61, the amount of this reduction is \$994,939 as shown in the enclosure. The amount in excess of the 1.5 requirement is greater than the county's FY2013 CDBG allocation of \$909,925. Therefore, the potential grant reduction will not exceed the FY2013 grant allocation. The county may avoid a sanction if it demonstrates to HUD's satisfaction that its untimeliness resulted from factors beyond the county's reasonable control.

Under the provisions of 24 CFR 570.911, *Reduction, withdrawal, or adjustment of a grant or other appropriate action*, Travis County is entitled to an informal consultation prior to the actual reduction of its FY2013 grant. Therefore, I am inviting you and members of your staff knowledgeable in this issue to attend a meeting at HUD Headquarters, 451 Seventh Street, SW, Washington, DC, at a date and time convenient for you and your staff. If you prefer, this meeting may be held by teleconference. The Department would like for the informal consultation to take place no later than September 10, 2013. Please contact Sarah Rodkey, Entitlement Communities Division, with the date and time the county would like the informal consultation to be held. Ms. Rodkey can be reached at (202) 708-3878.

The purpose of the consultation is to provide Travis County an opportunity to demonstrate that factors beyond its reasonable control caused delays in program implementation that affected timely performance or to demonstrate that HUD's finding of noncompliance is incorrect.

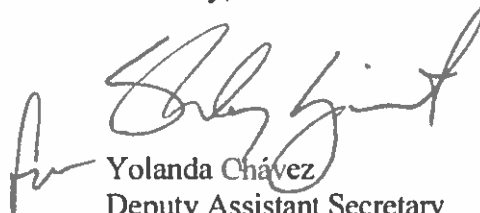
Please be prepared to address **in detail** the factors related to the action(s)/activity(ies) that caused the noncompliance, or, if applicable, the factors that demonstrate compliance. These issues should include:

- The problem, as defined by the specific factor(s) beyond the county's control, why it was beyond Travis County's control, and how it caused untimely performance and/or affected the timeliness of expenditures for other parts of the county's CDBG program over the affected time period.
- The duration of the problem: when it began and when it is expected to end.
- The CDBG amount of each activity affected by the problem; explain, if applicable, why these funds were not reprogrammed after the problem occurred.
- Other actions implemented to ameliorate the effects this problem had on project-specific and program-wide timely performance, when the county undertook them, and what effect they have had and/or will have on timely performance (including the extent to which CDBG funds on hand have been obligated for specific activities).
- If the "factor(s) beyond the county's control" had not happened and funds were drawn down at the anticipated rate, would Travis County have met the 1.5 standard? Provide the calculation and the information the county used to reach that conclusion.

Please provide a written response to the factors that you deem relevant to the county's performance, no later than three business days before the informal consultation date, with a copy to Elva Garcia, Community Planning and Development Division Director, HUD San Antonio Field Office, so HUD will be in a better position to discuss this matter with you. The response should be emailed to [Sarah.L.Rodkey@HUD.gov](mailto:Sarah.L.Rodkey@HUD.gov) and [Elva.F.Garcia@hud.gov](mailto:Elva.F.Garcia@hud.gov). Following this informal consultation, HUD will advise you in writing of its decision. Should Travis County decline to participate in the informal consultation, the county's FY2013 CDBG entitlement award will be reduced to zero at the time of grant award.

Please feel free to contact Ms. Rodkey or Steve Johnson, Director, Entitlement Communities Division, at (202) 708-1577, if you have any questions regarding the informal consultation.

Sincerely,

  
 Yolanda Chávez  
 Deputy Assistant Secretary  
 for Grant Programs

Enclosure

TRAVIS COUNTY, TEXAS  
COMPLIANCE WITH 1.5 TIMELINESS STANDARD  
60-DAY RATIO ON AUGUST 2, 2013

Line of Credit Balance as of August 2, 2013

FY 2012 Grant Balance	\$ 896,341
FY 2011 Grant Balance	790,136
FY 2010 Grant Balance:	<u>+ 656,949</u>
Total Grant Balance	\$2,343,426

New 60-Day Ratio Calculation:

60-Day Ratio =  $\frac{\text{Total Grant Balance}}{\text{FY 2012 Grant}} = \frac{\$2,343,426}{\$896,341} = 2.61$

Amount Over Timeliness Threshold:

Amount in Excess = (New 60-Day Ratio - 1.5) (FY 2012 Grant)  
= (2.61-1.5)(\$ 896,341) = \$994,939

FY 2013 Potential Reduction: The potential grant reduction will not exceed the FY2013 grant amount of \$909,925.



## Travis County Health and Human Services and Veterans Service

CDBG Program

P.O. Box 1748

Austin, Texas 78767

PH (512) 854-4100 FAX (512) 854-4115

[www.co.travis.tx.us/cdbg](http://www.co.travis.tx.us/cdbg)

### **Attachment "B"** **Summary of Timeliness Response to HUD**

The primary reasons the County did not meet its most recent timeliness test are related to the homebuyer assistance project that did not perform as expected – closing only one loan to date, and a series of implementation struggles with the owner occupied home rehabilitation project. Both projects are new programs for CDBG, funded with money dating back to 2008 to present.

Both projects' implementation schedules were set up to assist the County in achieving timeliness.

#### **Homebuyer Assistance Program**

For the Homebuyer Assistance Program, eleven applications were ready to close in April 2013, but all 11 were tied to FHA funding. The non-profit was unsuccessful in acquiring FHA approval for the program.

Of those 11 deals, they were able to demonstrate to the mortgage lender that they could use conventional financing along with the homebuyer assistance product to make a successful closing. The funder was not comfortable continuing with the remaining 10 deals without the support of FHA financing.

While the non-profit continued to search for local banks to work with and was able to get Chase Bank to approve the program, by then the program was too far into its contract with no demonstrated success on any level of magnitude. The one loan that closed in April will be the program's only successful loan.

In August 2013, the County sent a letter to the non-profit notifying them of our intent to let the contract expire and close out procedures. The contract should be closed out by November 30, 2013.

#### **Owner Occupied Home Rehabilitation Program**

As CDBG staff readied to release the RFS, they discovered that we didn't have everything they needed. The County found a small consulting firm to provide some in-house training so that we could finalize the RFS.

The program was ready for implementation in April 2013; however, the first round of site specific determinations was not ready until May 23rd.



## Travis County Health and Human Services and Veterans Service

CDBG Program

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Site specific environmental determinations were started in January 2013. The County received some guidance from the Regional office about contaminants and toxins needing to be checked at the State and Federal level. As a result of the guidance to check at the State level, the first house was not cleared until May 23, 2013. HUD gave us permission to stop checking at the State level on July 18, 2013. Between May 23 and July 18, CDBG staff cleared 7 houses for repair. From July 19 – Aug 23, roughly one month, 19 houses were cleared, a 271% increase. At this point, we have a successful process in place for completing environmental clearances and are now completely caught up such that the non-profit is no longer waiting on the County to clear enough houses for them to repair.

Since March, the program has received applications for 73 homes, but started with a waiting list of 48 people. Of the 73 applicants, 44 applicants have been denied, have withdrawn their applications, or have been non-responsive. As of today's date, the non-profit has completed repairs on 7 houses, work on 2 more houses is to begin this week, 5 have been bid and are under negotiations to start soon, and 6 need initial inspections and will be ready for construction bid within the next 10 days.

### Achieving Compliance

If the Homebuyer Assistance Program has been able to receive FHA approval and if the environmental issue has been avoided, an additional \$927,984 would have been spent by July 30, 2013, putting the CDBG program within \$66,000 of being timely (a ratio of 1.51). An additional \$332,000 would have been drawn by the end of the program year putting the County well into compliance.

If the County is able to retain its funding for next year, below is an anticipated expenditure table for the major programs assuming that the unspent homebuyer assistance funds are reprogrammed to home rehabilitation:

Project	Anticipated Amount Spent		
	December 2013	March 2014	July 2014
<b>Home Rehabilitation</b>	\$ 523,000	\$ 400,000	\$ 400,000
Lake Oak Estates Street Project Ph 1	\$326,598		
Lake Oak Estates Street Project Ph 2			\$425,000
Social Work Expansion	\$15,000	\$15,000	\$15,000
Fair Housing Counseling & Tenant's Rights Administration & Planning	\$5,000	\$12,000	\$12,000
	\$25,000	\$30,000	\$50,000
<b>Total</b>	<b>\$894,598</b>	<b>\$457,000</b>	<b>\$902,000</b>

The County anticipates spending over \$2.25 million by July 2014. This would have the County with a ratio of about 1.0.





**AUG 19 2013**

Ms. Sherri E. Fleming  
Executive Manager  
Travis County HHSVS  
P.O. Box 1748  
Austin, Texas 78767

**U.S. Department of Housing and Urban Development**  
San Antonio Field Office, Region VI  
Office of Community Planning and Development  
H.F Garcia Federal Bldg/U.S Courthouse  
615 E. Houston Street, Suite 347  
San Antonio, Texas 78205-3601  
Phone (210) 475-6820 Fax: (210) 472-6825  
[www.hud.gov](http://www.hud.gov) [www.espanol.hud.gov](http://www.espanol.hud.gov)

Dear Ms. Fleming:

**SUBJECT: Monitoring Report – Travis County Community Development Block Grant  
(CDBG) Program – June 25-28, 2013**

An on-site monitoring review of the County's CDBG Program was conducted by CPD Representative David Rios and Financial Analyst Dewell Fears, from June 25-28, 2013. Monitoring reviews are designed to evaluate a grantee's HUD-assisted programs and to ensure compliance with program requirements. Monitoring activities also serve as the primary means by which the Department carries out our statutorily mandated responsibilities.

The enclosed report summarizes our conclusion of our on-site monitoring review. We wish to thank you for the professional courtesy and cooperation extended to us by your staff. Should you have any questions, please contact David Rios, CPD Representative at (210) 475-6800, extension 2314.

Sincerely,

A handwritten signature in blue ink, appearing to read "Elva F. Garcia".

Elva F. Garcia, Director  
Office of Community Planning  
and Development

cc: The Honorable Samuel T. Biscoe  
Judge, Travis County

Christy Copeland Moffett, CDBG Senior Planner

**MONITORING REPORT  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**GRANTEE NAME:** Travis County

**PROGRAM REVIEWED:** Community Development Block Grant

**TYPE OF REVIEW:** Site Visit

**DATE OF REVIEW:** June 25 – 28, 2013

**HUD STAFF CONDUCTING REVIEW:**

David Rios CPD Community Planning &  
Development (CPD) Representative

Dewell Fears Financial Analyst

**GRANTEE STAFF INTERVIEWED:**

- Sherry Fleming – County Executive Director, Health and Human Services/Veterans Services
- Christy Moffett – CDBG Planning Project Manager
- Janice Cohoon - Financial Analyst IV
- Lee Turner –Senior Engineer
- Elena Rivera – CDBG Planner

**SCOPE OF REVIEW:** Based on a sampling of CDBG activities funded in program 2011 Consolidated Performance and Evaluation Report (CAPER), the activities selected for review and covered in this monitoring report included Public Facility Improvements and Housing. Additionally, a financial review and a limited review of the Fair Housing and Equal Opportunity (FHEO) requirements were also conducted. The primary purpose of this review was to determine whether activities are delivered in accordance with CDBG requirements. The Projects were selected at random and reviewed for eligibility, compliance with national objectives, subrecipient agreements, related monitoring and HUD's Integrated Disbursement and Information System (IDIS) data input. Based on the sample of activities reviewed, the files were found to be in good order and well documented. The following projects were reviewed:

**PUBLIC FACILITIES AND IMPROVEMENTS**

- **Lake Oak Estates Street Improvement Project Phase1: IDIS Activity # 35  
Funded Amount: \$145,000.00**

This activity provides for street improvements in the Lake Oak Estates neighborhood area. This design and planning phase of the project (Phase I) is nearing completion. The County has allocated \$326,598.00 for the construction portion of the project (Phase II) which is expected to go out for bid within 30 days.

The location of the service area is located in one of the unincorporated areas of Travis County. The County determined that the available census data at the time did not reflect current relative income levels for the service area. As a result the County elected to conduct a primary survey to show that in fact the service area met the Low Mod Area (LMA) income eligibility requirements. It is HUD's policy to accept information obtained by the grantee from the use of a survey however the grantee must first obtain HUD's approval of the survey instrument which must include the methodology that will be used in conducting the survey. A review of the supporting documentation showed that the survey instrument and methodology was approved by the San Antonio HUD Field Office on February 26, 2010. The survey was conducted during March 2011 and our review indicated that the County conducted the survey using the approved methodology. The results of the survey did determine that 85.7% of the residents residing in the service area met HUD's low-mod income eligibility requirements and therefore meeting the LMA national objective requirements. Additionally, an on-site inspection determined that the service area was primarily residential in character and there was no substantial evidence that the activity failed to benefit low-and moderate income persons in the identified areas. A review of HUD's IDIS found that this activity has been correctly classified.

**Technical Assistance Provided:** During our monitoring review it was noted that current County policy prohibits the use of CDBG funds for street improvement projects on streets that have already been accepted into the Travis County Road Maintenance Program. We informed Ms. Christy Moffett, CDBG Senior Planner, that although local policy could establish such stringent policy, it was HUD's position that CDBG funds could in fact be used for these accepted roads. The following guidance was provided:

**HUD Guidance:** CDBG funds may be used by Travis County for CDBG eligible County public street improvement projects. Projects such as street overlay, seal coating and other street coating techniques are considered eligible public facility improvements by HUD and are, therefore, eligible for CDBG funding upon meeting a national objective. The street improvement project must be used for a purpose in which the benefits are available *to all the residents in a particular area* that is primarily residential, and at least 51% of those residents (or less if grantee qualifies to use the exception rule) are L/M income persons. **Ineligible Activity:** The general rule is that any expense associated with repairing, operating or maintaining public facilities, improvements and services *is ineligible*. Examples of maintenance and repair activities for which CDBG funds may not be used for street projects include filling of pot holes or cracks and the replacement of expended street lights.

## HOUSING

**Homeowner Rehabilitation Program:** The County's Rehabilitation program assists qualified low-mod individuals in the rehabilitation of Single Family Owner Occupied residential homes which provides a great service and benefit to those qualified individuals. The program is managed and overseen by the sub-recipient, Meals on Wheels and More. The County uses the Part 5 Annual Income method in determining income eligibility. Our review indicated that the subrecipient is doing a good job in

accurately verifying and documenting the income eligibility determinations and no discrepancies were noted. We reviewed the project records of the only three homes in the program where construction had actually started. Those records indicated that the subrecipient is taking the appropriate steps to ensure that all requirements such as inspections, permits, code compliance, quality of work, etc, are met. On-site visits were made to the three homes to assess the work completed, obtain comments from the owners on the County's program and their degree of satisfaction with the actual work done on their homes. Our visit determined that all the homeowners were very pleased with the work and much appreciative of the County's rehab program. An inspection of the properties seemed to indicate that all worked paid for with CDBG was being done or completed in a satisfactory manner.

It must be noted that the implementation of this program has been extremely slow. This is particularly highlighted by the fact that this program was funded in 2008, 2009, 2011 and 2012 for a total amount of \$1,088,731.80 and the only work completed at the time of monitoring was on the three homes noted above. The County's inability to implement this program in a timely manner is a significant factor in the County not meeting the CDBG required expenditure deadlines in 2012 and again in 2013. However, the results of our monitoring also determined that the program is now fully implemented and finally heading in the right direction. The County has developed a program that seems to be well organized and now has the potential to expend CDBG funds very quickly. We found that the subrecipient is well versed in housing construction and seems to have the operations capacity and ability to make this program very successful.

**Technical Assistance Provided:** During our monitoring review it was noted that the County's process for conducting the site specific environmental review as required by 24 CFR Part 58.5 was very lengthy and causing major delays in the start of the construction process. Our monitoring review determined that the root of the problem was the County's use of HUD's Environmental Worksheet titled , "Worksheet for Preparing 24 CFR 58.5 Statutory Checklist". This worksheet is derived from HUD's Region VI Environmental Office Compliance Guidebook dated June 2012. Specifically, within that worksheet, the Contamination and Toxic Substances State requirements of that checklist were causing the delays. As written, the worksheet requires a grantee to obtain the required Contamination and Toxic Substance information from the Texas Commission for Environmental Quality (TCEQ). However, due to TCEQ's organization structure, such information was very difficult to obtain and caused long periods (months) of delays. After our monitoring review this office met with Ms. Barbara Britton, HUD's Region VI environmental office to obtain further guidance on the use of the Contamination and Toxic Substances worksheet requirements. The following guidance, which we believe will greatly reduce the time spent on environmental reviews, was provided to to the County.

**Guidance:** The County was informed that it must continue to complete the Contamination and Toxic Substances worksheet requirements. However, for site specific single family occupied rehabilitation activities the State requirement portion of the Contamination and Toxic Substances worksheet are not applicable and therefore will not be required to be completed. We continue to advise the County that it address any

environmental issues that are raised by the actual site visits to each home prior to starting any rehabilitation work on the home.

**Direct Homeowner Assistance Program:** In an effort to make housing affordable to first-time home purchasing families whose annual household income is at or below 80 percent of the Area Median Income (AMI), the Travis County Direct Homeowner Assistance Program makes Shared Appreciation Gap Financing and Down payment Assistance loans available. Our review of the program files determined that a subrecipient agreement had been established with the company HomeBase who is responsible for carrying out this activity on behalf of the County. The subrecipient agreement clearly establishes a coherent set of performance standards for tracking the accomplishment of this activity. The Shared Appreciation Gap Financing program allows households earning 80% or less of the area median income to obtain funds (up to \$30,000) to reduce the sales price to an amount affordable to the household. Actual assistance amounts are calculated based on actual family need. The loan is a 0% interest, 30-year note with no required annual or monthly payments. Upon resale, refinancing, lease or other transfer of title, the loan must be repaid in full plus a percentage of the houses appreciation value. The Down Payment Assistance program allows households earning 80% or less of the area Median Family Income (MFI) to obtain funds up to \$8,000 to cover down payment and reasonable closing costs. The loan is forgiven at a pro-rata rate of 20% for each year of homeownership. The loan is fully forgiven at the end of 5 years. A minimum household investment of \$500 is required.

Our monitoring review determined that only one family has been qualified and funded with CDBG funds since HomeBase was awarded the contract in September 2012. The project file which is kept at the subrecipient's location was requested and reviewed for regulatory compliance. Our review of the project file determined that the activity's national objective was correctly classified as *low-and moderate-income housing activities* (LMH). The client file was well-organized, complete and contained income verification to assess client eligibility in accordance with requirements at 24 CFR 570.208(a)(3). The information provided by the County verified compliance with eligibility requirements and we determined that the activity benefitted a low- and moderate-income client and all benefits received were in accordance with the Program Policies and Procedures Manual. Additionally, the reviewed client files indicated that the County provided less than 50% of mortgagee's required down payment in accordance with 24 CFR 570.201(n).

Similar to the County's Rehabilitation program, the implementation of this program has been extremely slow. However, unlike the Rehab program the results of our monitoring review determined that the program is stalled. The subrecipient agreement required HomeBase to expend 40% of the funds by January 2013. Our records review determined that no funds were expended at the end of January 2013 and the 1<sup>st</sup> expenditure (\$2,921.88) was not recorded in HUD's Integrated Disbursement Information System (IDIS) system until April 1, 2013. One factor that had negative implications on the ability of HomeBase to expend CDBG funds quickly was the processing of FHA loans. HomeBase learned from the HUD Denver Homeownership Center sometime during March 2013 that it was not qualified to provide secondary financing on FHA loans. As a result HomeBase was not authorized to process FHA loans for several families it already qualified as income eligible under the CDBG program. Subsequent attempts by

HomeBase to receive approval from the HUD Denver Office proved to be unsuccessful. As of August 9, 2013, our IDIS reports indicate of the \$794,945.00 allocated for this program, only \$39,599.00 has been expended which is less than 5%. Based, on our discussions with the subrecipient and County staff, we do not expect the subrecipient to be close to expending 100% of the funds as required by the agreement by the September 30, 2013 deadline.

A look back at the history of this program shows that the program was originally funded in 2009 and implementation was delayed by the County due to other competing priorities. A major setback occurred in May 2011 when the original subrecipient determined that it did not have the capacity to administer the program and was subsequently removed. On September 11, 2012, more than a year later, the contract with HomeBase was approved. The FHA issue addressed above certainly had a negative effect on HomeBase expenditure ratios. However, the fact that it has not been able to find other qualified families who are not using FHA loans is concerning. In light of the County's inability to meet the required CDBG expenditure deadlines, the County must consider whether this program can continue to move forward. We request that the County address this situation immediately.

### **LEAD BASED PAINT COMPLIANCE**

Regulatory criteria: 24 CFR Part 35, Lead-Based Paint Poisoning Prevention in Certain Residential Structures. The regulatory guidance states that whenever Federal funds, such as CDBG, are used to assist housing units built before 1978, steps must be taken to address lead hazards. We reviewed the records of all three homes that were assisted and determined that all the homes were built after 1978 and therefore exempt from the lead based paint requirements.

### **SUBRECIPIENT MANAGEMENT**

We conducted a review of two subrecipient agreements (Meals on Wheels and More and HomeBase) to determine compliance with 24 CFR Part 570.503. A review of files revealed that subrecipient activities were described in detail and that the subrecipient agreements contained the scope of work specifying services to be provided. Overall the subrecipient agreements contained all of the required elements in accordance with 24 CFR 570.503. As stated in previous paragraphs above, both programs have been slow to expend CDBG funds and therefore annual monitorings of the subrecipients have not occurred due to lack of activities. We did determine however that the County is ensuring that CDBG funds are being used in accordance with all program requirements by meeting regularly with their subrecipients. Our review determined that the County is providing monitoring and oversight of their subrecipients and we expect increased monitoring activities to occur in the Rehab program as that program continues to expand.

## FINANCIAL MANAGEMENT

A review of the County's financial management system was conducted to determine compliance with the CDBG Program requirements set forth at 24 CFR 570.502, applicability Uniform administrative requirements which incorporate the requirements of 24 CFR Part 85, OMB Circular A-87, A-110 (implemented at 24 CFR Part 84) A-122 and A-133. A Sample of eight vouchers was selected for review:

Voucher #s:	5522706	Amount: \$19,463.26
	5533783	Amount: \$6,504.08
	5547247	Amount: \$2,068.00
	5557196	Amount: \$1,256.07
	5377046	Amount: \$31,996.68
	5377046	Amount: \$10,552.19
	5406255	Amount: \$3,996.28
	5428210	Amount: \$5,152.96

The County's financial management system appropriately records amounts budgeted for eligible activities, recording encumbrances/obligations when contracts are executed, purchase orders issued, and maintains excellent source documentation to validate all expenditures.

A grant file containing award documentation is maintained. A separate fund is set up for each grant. Obligations are set up as a budget and expenditures are recorded in the general ledger.

Expenditures in accounting records are identified by a project number which identifies each eligible activity in IDIS.

The CDBG grant is administered on a reimbursement basis. A review of the County's Federal Cash Transactions Reports that are submitted to HUD Quarterly did not identify any problems. The auditor's office provided HUD staff with an organizational chart that sets forth the lines of responsibilities and duties for key employees. There is appropriate segregation of duties. They also provided a copy of Bond Coverage Requirements and Internal Controls policies. Based on a review of these policies, the vouchers listed above, and the backup documentation to support the expenditures, it was determined that the County's controls provide reasonable assurance that transactions are properly documented, recorded, and auditable.

Based on a review of financial information (draw downs, unexpended balances) recorded in HUD's financial management systems (IDIS and Line of Credit Control System (LOCCS)), it was determined that the information in obligations and expenditures reconciled with the County's accounting records.

The County's auditor's office currently draws down CDBG funds for reimbursement on a monthly basis. At present, the County does not have revenue-generating activities that require establishing revenue accounts to record program income. Although, the County does plan to implement new programs that could possibly generate program income. The

County will have subrecipients issue on a monthly basis a program income report. CDBG staff will be responsible for collecting the report and notifying the Auditor's office. During monitoring of the subrecipient, determination of program income will be made. The subrecipient agreement will outline if program income is retained and remitted to the County and provide timelines for doing so. Additionally, subrecipients will be required to provide supporting documentation. Program Income provisions set forth in accordance with 24 CFR 570.504, are found in the Subrecipient Agreement in Section 9.11.

Charges to the CDBG Program for salaries and wages were based on documented payrolls with appropriate certifications and acknowledged by a supervisory official.

The County is presently in compliance with audit reporting requirements and General Accepted Accounting Principles (GAAP). A review of the County's Single Audit for Year Ending September 30, 2012 indicated a finding, 2012-1, but was not found to be significant to any HUD programs nor internal control in nature.

Review of the County's subrecipient monitoring procedures indicates that policies and procedures are in place to ensure that subrecipients comply with OMB Circular A-133 audit requirements. The County provided sample Single Audits from three subrecipients; Austin Habitat Humanity – Land, HomeBase and Meals on Wheels and More.

The County considers auditing services a professional service; therefore, by statute, it is not required to go out to bid. However, the County has a voluntary Historical Underutilized Business (HUB) program and strongly encourages all its prime contractors and consultants to utilize minority and woman-owned subcontractors and sub-consultants. HUB language, goals and forms are part of the formal solicitation process which later becomes part of the overall contract. The County assists bidders, respondents and proposers in finding HUBs as necessary. They have also developed HUB Specialized Listings that are posted on the County's website.

### **OTHER PROGRAM REQUIREMENTS**

A limited review of the Fair Housing and Equal Opportunity Requirements was conducted. The information obtained from this review was forwarded to our Office of Fair Housing and Equal Opportunity (FHEO) for their review and subsequent action if any. Should you have any questions regarding the Fair Housing Program, please contact Mr. Joe Castillo, Director of the Office of Fair Housing at (210) 475-6800, Ext. 2309.

### **OVERALL PROGRAM MANAGEMENT**

The management of the County's CDBG program funds is the responsibility of the CDBG Program Office which is headed by Ms. Christy Moffett, Senior Planner. Ms. Sherri E. Fleming, Executive Manager, Travis County Health and Human Services and Veteran Services is Ms. Moffett's supervisor and has overall oversight responsibility of the CDBG program. The program's administrative records were in very good order and contained all supporting documentation required to make determinations on project eligibility and national objective compliance requirements. Although we recognize the County's exceptional administrative recordkeeping systems, the timely expenditure of



CDBG funds is critical and management must adopt new strategies to insure a successful program with no loss of funding.

### **CONCERN**

**Condition:** The CDBG Regulation at 24 CFR 570.902 allows CDBG entitlement grantees to have a balance no greater than 1.5 times their annual grant remaining in their line-of-credit 60 days prior to the end of their program year. Travis County's 60 day test was conducted on July 31, 2013 and determined that the County timeliness ratio on this date was 2.66 which means that the County's is out of compliance for the 5<sup>th</sup> time in the past 6 years.

**Cause:** We believe that the long delays in the implementation of both the Housing Rehab program and the Direct Homeowner's Assistance program were major contributing factors. Additionally, the Homeowner's Assistance program continues to be a stalled project and therefore is a major cause and contributor to the County's timeliness issues.

**Effect:** The result of the County not meeting the timeliness test ratio on July 31, 2013 could be the reduction of the FY13 grant by 100% of the amount in excess of 1.5 times the annual grant. This amount would equal to \$1,044,140.21.

#### **Recommendation:**

1. We recommend that the County consider expanding their future street improvement projects.
2. We recommend the Subrecipient for the Rehab Program elevate their outreach efforts to ensure maximum applications are submitted for Rehab assistance.
3. Management must re-evaluate the Direct Homeowner's Assistance Program.
4. The County should consider funding more public service projects as historically these types of activities have expended funds in a timely manner.
5. We caution the County, as it moves forward with future projects, to review time periods carefully, to ensure not only compliance, but that funds will be expended in a timely manner.



## Travis County Health and Human Services and Veterans Service

CDBG Program  
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Austin, Texas 78767  
PH (512) 854-4100 FAX (512) 854-4115  
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### CDBG Timeliness Briefing

A grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant. For Travis County, the timeliness test occurs every August. The County had a ratio of 2.38 in August 2013.

The primary reasons the County did not meet its most recent timeliness test are related to the homebuyer assistance project that did not perform as expected – closing only one loan to date, and a series of implementation struggles with the owner occupied home rehabilitation project. Both projects are new programs for CDBG, funded with money dating back to 2008 to present.

#### Homebuyer Assistance Program

For the Homebuyer Assistance Program, eleven applications were ready to close in April 2013, but all 11 were tied to FHA funding. The non-profit was unsuccessful in acquiring FHA approval for the program.

Of those 11 deals, they were able to demonstrate to the mortgage lender that they could use conventional financing along with the homebuyer assistance product to make a successful closing. The funder was not comfortable continuing with the remaining 10 deals without the support of FHA financing.

While the non-profit continued to search for local banks to work with and was able to get Chase Bank to approve the program, by then the program was too far into its contract with no demonstrated success on any level of magnitude. The one loan that closed in April will be the program's only successful loan.

In August 2013, the County sent a letter to the non-profit notifying them of our intent to let the contract expire and close out procedures. The contract should be closed out by November 30, 2013.

#### Owner Occupied Home Rehabilitation Program

As CDBG staff readied to release the RFS, they discovered that we didn't have everything they needed. The County found a small consulting firm to provide some in-house training so that we could finalize the RFS.

The program was ready for implementation in April 2013; however, the first round of site specific determinations was not ready until May 23rd.

Site specific environmental determinations were started in January 2013. The County received some guidance from the Regional office about contaminants and toxins needing to be checked at the State and Federal level. As a result of the guidance to check at the State level, the first house was not cleared until May 23, 2013. HUD gave us permission to stop checking at the State level on July 18, 2013. Between May 23 and July 18, CDBG staff cleared 7 houses for repair. From July 19 – Aug 23, roughly one month, 19 houses were cleared, a 271% increase. At this point, we have a successful process in place for completing environmental clearances and are now completely caught



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up such that the non-profit is no longer waiting on the County to clear enough houses for them to repair.

Since March, the program has received applications for 73 homes, but started with a waiting list of 48 people. Of the 73 applicants, 44 applicants have been denied, have withdrawn their applications, or have been non-responsive. As of today's date, the non-profit has completed repairs on 7 houses, work on 2 more houses is to begin this week, 5 have been bid and are under negotiations to start soon, and 6 need initial inspections and will be ready for construction bid within the next 10 days.

### Informal Consultation

We accepted an informal consultation with HUD that was to be completed before Sept. 10 so it was held on Sept 9. The attendees on the call included:

Travis County: County Judge Sam Biscoe, Sherri Fleming, County Executive for HHS/VS, and Christy Moffett, CDBG Planning Project Manager.

HUD San Antonio Field Office: Elva Garcia, Director, Community Planning and Development (CPD) Division, David Rios, CDP Representative, and Dewell Fears, Financial Analyst

HUD Washington, D. C. Office: Yolanda Chavez, Deputy Assistant Secretary for Grant Programs, Lindsey Spadoni, Attorney –Advisor, Office of General Counsel (OGC), Angela Loc, Law Clerk, OGC and Sarah Rodkey, CPD Specialist.

### Achieving Compliance

If the grant is withheld, it will be for one year. We have sufficient funds to meet our projects and will absorb the administrative costs in the HHS budget. We are still expected to complete our projects and move forward. The home rehabilitation project will be out of funding by May 2014. Withholding the grant, forces the County to become timely.

If the grant is funded, we must spend \$1,875,915.69 by July 31, 2014 to meet timeliness. Staff expects to meet this requirement as long as programs meet their project timelines.