

Account, including documentation of the source of the funds used for this repayment. In addition, it must make the required corrections in IDIS.

FINDING NO. 8: The City's subrecipients, HOH and HHFC, charged expenses to the HOME program that did not comply with the cost principles in OMB Circular A-122.

STANDARD: 24 CFR 92.505(b); 24 CFR 92.508(a)(6)(ii); 24 CFR 84.21.

DISCUSSION: The HOME rule at §92.505(b) makes applicable to nonprofit subrecipients receiving HOME funds the requirements of OMB Circular A-122, Cost Principles for Non-Profit Organizations, and sections of 24 CFR Part 84, including §84.21. The City's subrecipients, Housing Opportunities of Houston (HOH) and Houston Housing Finance Corporation (HHFC), charged expenses to the HOME Program that did not meet the general principles in A-122 requiring that all costs must be reasonable, allocable and allowable.

The City has a subrecipient agreement dated September 2003 with HHFC to administer a homebuyer assistance program. Under the agreement, HHFC is paid \$600 for administrative costs for each homebuyer subsidy issued under the program, and a \$200 homebuyer education fee per homebuyer. However, under the requirements of §84.21 and OMB Circular A-122, HHFC may only charge its actual costs and the costs must be allowable, reasonable and allocable in accordance with the general principles in A-122. (This agreement does not meet the conditions for lump sum grants under Part 84, Subpart E).

To carry out its responsibilities under its subrecipient agreement with the city, HHFC entered into a subrecipient agreement with HOH under which HOH is required to perform the duties and responsibilities of HHFC under the agreement between the city and HHFC. It is unclear why the City contracted with HHFC to administer its new construction homebuyer program, since HHFC subcontracted with HOH to perform essentially all vital program functions. Based on the City's contract with HHFC, it appears that it was contemplated that HHFC would subcontract work under the contract. There is nothing to show the costs charged by HHFC meet the general principles in A-122, including the requirement that the costs are reasonable.

Under the subrecipient agreement between HHFC and HOH, HOH is paid \$340 for each loan (out of the \$600 HHFC receives for administrative costs). However, under the requirements of §84.21 and OMB Circular A-122, HOH may only charge its actual costs and the costs must be allowable, reasonable and allocable in accordance with the general principles in A-122. (This agreement does not meet the conditions for lump sum grants under Part 84, Subpart E.)

The City also has a subrecipient agreement dated September 2003 with HOH to administer a homebuyer assistance program. The budget includes 90% of the cost of the lease, 100% of the computer costs, 90% of the copier lease, 50% of the audit cost, and 50% of supplies. It also includes a specified percentage of the salaries of listed employees, plus a fee of \$200 per homebuyer for education. The \$200 homebuyer education fee for each homebuyer cannot be charged to the HOME program because does not meet the requirements of A-122. We note that HOH's website [<http://www.housingoppohouston.com/FAQ.cfm>] says, "The HOH homebuyer

class is \$40 per household and the credit class is \$25 per person." It thus appears that the cost of the five hours of homebuyer education does not exceed \$40.

Moreover, because HOH is also administering the Homebuyer Assistance Program as a subrecipient of HHFC, 90% of the lease cannot be charged to the agreement between HOH and the City. The cost of the lease, computers, copier, audit, and supplies must be allowable and allocable in accordance with A-122.

REQUIRED CORRECTIVE ACTION: The City must reimburse its Treasury HOME Account from non-federal funds for the amounts disbursed since January 1, 2001 to HHFC and HOH and charged to the HOME program for expenses that did not meet the requirements of A-122 and §84.21; i.e., the \$600 and \$200 fee per homebuyer under the HHFC agreement, the \$200 per homebuyer fee under the HOH agreement, as well as lease, computers, copier, audit, and supplies charges. The City must provide to HUD documentation of the reimbursement, including the source of funds used for the reimbursement.

The City must ensure that HHFC and HOC have and follow financial management systems that include written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of A-122, and require accounting records, including cost accounting records, that are properly supported by source documentation. The city must use a qualified, independent CPA to review the subrecipients' financial management systems and provide a written certification to the city, with a copy to HUD, that these systems meet applicable standards.

FINDING NO. 9: The City and HOH did not properly account for program income (as defined at 24 CFR 92.2) received by HOH.

STANDARD: 24 CFR 92.503(a)(1); 92.505(b); 92.508(a)(5)(iii); 24 CFR 84.21

DISCUSSION: The HOME rule at §92.503(a)(1) requires program income to be used in accordance with the HOME requirements. The participating jurisdiction must deposit program income into its HOME Investment Trust Fund local account unless the participating jurisdiction permits, through its written agreement, a subrecipient to retain program income for additional HOME projects. The City's subrecipient HOH charges lenders a \$500 annual fee to participate as lenders in the homebuyer assistance program. With 125 lenders, this \$500 annual fee amounted to \$62,500 per year in program income. The City's written agreement with HOH allows HOH to retain program income to be used for eligible activities under the contract. However, the City and HOH never accounted for this program income in HOH's program budget. Moreover, there is no documentation that these program income funds were used in accordance with HOME requirements, as provided in §92.503(a)(1), §92.508(a)(5)(iii); and 24 CFR 84.21. In addition, if HOH charged homebuyers a \$40 fee for the homebuyer education class for which it was paid HOME funds, the \$40 fee per homebuyer is HOME program income.

REQUIRED CORRECTIVE ACTION: The City must deposit into its local HOME account from non-federal funds, the full amount of program income received by HOH in the form of