



# Housing Rehabilitation Programs Audit



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**April 10, 2024**

# Housing Rehabilitation Programs Audit

## Executive Summary

### Objective

This audit was conducted to determine whether adequate controls exist to help Housing administer Rehabilitation programs in accordance with applicable regulatory requirements; document and monitor program activities; and disburse funds for eligible, reasonable, and adequately supported costs.

### Background

The Housing Services Division (Housing) within the City of Charlotte Housing and Neighborhood Services Department administers the City's affordable housing programs that provide various services for families residing in the city. This includes several housing repairs programs for low-income city residents funded by grants from multiple entities.

### Conclusion

Housing and Neighborhood Services (HNS) has administered the rehabilitation program in accordance with regulatory requirements. Consistent verification of key controls is needed.

### Highlights

***Housing and Neighborhood Services did not fully execute key controls.***

- Key controls not executed:
  - Eligibility requirements not verified.
  - Notice to Proceed approval missing.
  - Satisfaction agreement not completed between contractor and homeowner.
  - End of project checklist sign-off
- Auditors noted the following missing documentation:
  - Deed Restriction
  - Subcontractor certification
  - Manufacturer warranty
  - Site visits
  - Punch list completion
  - Contractor lien release
  - Financial closeout summary

### Actions Planned

Housing and Neighborhood Services agrees with the recommendation and will institute action plans to strengthen control measures and file management practices through staff training, checklist review, policy review update, and implementing an OnBase software solution.

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## Objective

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This audit was conducted to determine whether adequate controls exist to help Housing administer Rehabilitation programs in accordance with applicable regulatory requirements; document and monitor program activities; and disburse funds for eligible, reasonable, and adequately supported costs.

## Background

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The Housing Services Division, within the City of Charlotte Housing and Neighborhood Services Department, administers the City’s affordable housing programs providing various programs and services for families residing in the city. The City, guided by the Housing Charlotte Framework and in partnership with nonprofits, housing developers and other community partners, works to address a variety of housing issues. This includes programs such as:

- Down payment assistance,
- Housing rehabilitation, and
- Commercial gap financing for below-market-rate housing development.

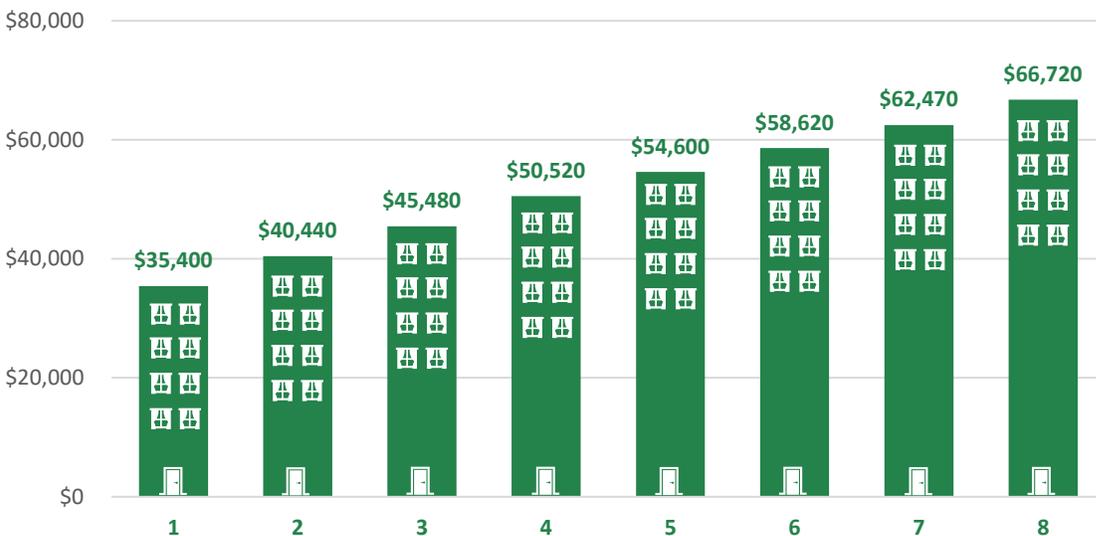
The housing rehabilitation programs provide several housing repair options for low-income City residents. They are funded by the Community Development Block Grant (CDBG), the HOME Investment Partnership Program (HOME) and the Lead-Based Paint Hazard Control Grant (LHCG) from the U.S. Department of Housing and Urban Development (HUD), along with Lowe’s Home Improvement and the City of Charlotte. The different types of rehabilitation programs and the services provided are listed below:

Safe Home Emergency Repair	Addresses immediate threats to the health and safety of residents of single-family housing.
TLC by CLT Targeted Rehabilitation	Provides moderate housing rehabilitation to remove code violations and improve handicap accessibility, energy efficiency and environmental safety.
Housing Preservation Program	Provides essential repair support to corridors selected for service.
Partner Housing Rehabilitation	Provides funding to non-profit partner for critical home repairs and housing rehabilitation options (Habitat for Humanity).

This audit focused on the Safe Home Emergency Repair program. The program assists low-income homeowners by completing repairs related to certain City Code violations, limited visual exterior improvements, addressing lead-based paint hazards (as required by Federal Statute), and removing other hazards that may affect the health and safety of the occupants. Examples include replacing or repairing roofs, addressing electrical and plumbing issues, fixing flooring, dealing with structural problems, replacing windows and doors, conducting exterior painting, and repairing kitchens and bathrooms.

The assistance is provided in the form of a HUD grant and requires a deed restriction to be placed on the property. All homes built before 1978 and enrolled in federally funded programs are required to be evaluated for lead-based paint hazards. Repairs are determined by a City Rehabilitation Specialist. Applicant-income must be within 60% of Charlotte’s AMI (Area Medium Income) to qualify. Income limits for the FY 2022 program are listed in the graph below.

### Max Income by Household Size (Effective July 1, 2021)



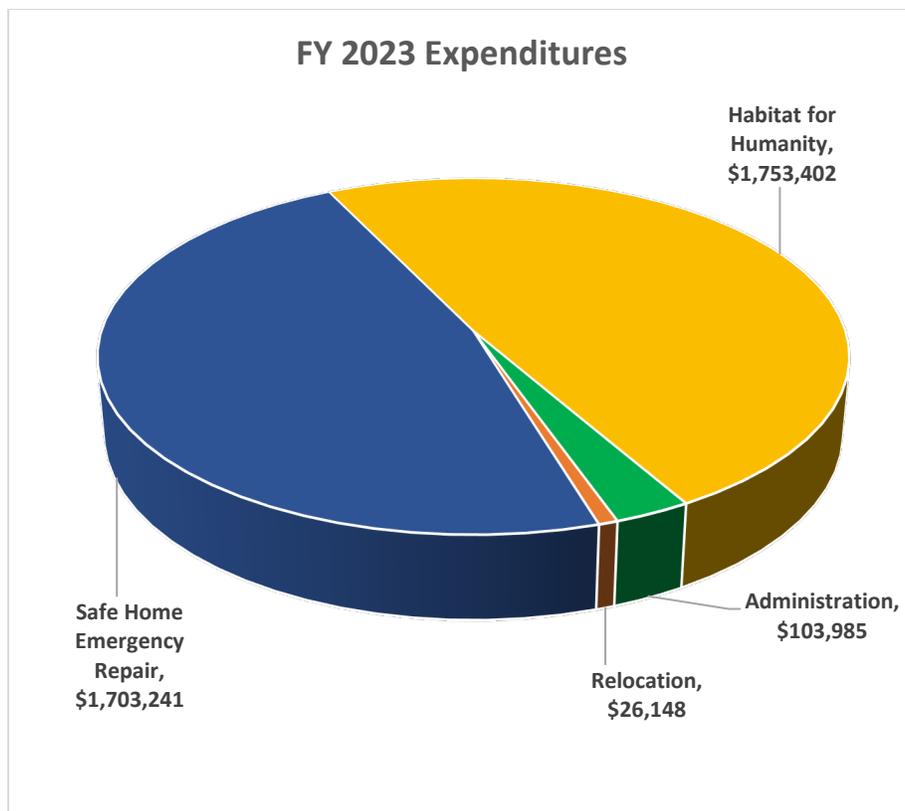
Homes enrolled in the Safe Home program are prioritized based on income and the following:

- Targeted Geographic Locations
- Elderly or Disabled household members
- Families with children under the age of six
- Eligibility for the Lead Hazard Control Program
- Veteran head of households
- All others

The City is not able to grant assistance under the Safe Home Program if estimated repairs exceed \$47,500. The program requires that all code violations be mitigated. Vendors are selected through an RFP (Request for Proposal) process to perform rehabilitation work.

To ensure affordability, a deed restriction is placed on the property for up to 15 years, depending on the cost of the rehabilitation. Deed restrictions require payback of invested funds if the deed changes hands during the affordability period. Heirs or purchasers may assume the deed restriction but only if the new occupant meets the income requirements of the program.

Housing reported \$3,586,777 in FY 2023 rehabilitation expenditures to HUD. A breakdown of those expenditures is shown below. Habitat for Humanity is a subrecipient of the City. Housing monitors the assigned vendor contracts for repairs, completion of work and payment to vendors. Housing also assisted homeowners with relocation costs while rehabilitation work was being performed.



## Findings and Recommendations

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### *1. Housing and Neighborhood Services did not fully execute key controls.*

Housing and Neighborhood Services (HNS) has standard operating procedures in place that outline the processes required to ensure compliance with program requirements. The procedures outline department, homeowner, and contractor responsibilities.

Housing completed 39 projects in FY 2022 and FY 2023. Auditors judgmentally selected nine projects from the completed list based on project size and vendor used.

While auditors noted that disbursements for the nine projects were for eligible expenses that were reasonable and properly supported, staff did not execute the following key controls:

- **Verification of income eligibility.** Housing staff must verify that each applicant's income meets program requirements. One project tested did not have documentation of proof of income verification. Auditors determined that the homeowner was likely an eligible applicant based on review of the repair feasibility report. This report, completed by a Rehabilitation Specialist and approved by a Housing Manager, notes that the property met all criteria for the Safe Home program.
- **Issuance of a Notice to Proceed.** Housing provides vendors with a signed Notice to Proceed after all prerequisites have been completed. The notice to proceed documents that Housing has verified the feasibility of repairs, evaluated the contractors' repair estimates, and authorized the selected contractor. Housing did not issue a signed Notice to Proceed for one of the nine selected projects. Auditors verified that the vendor contract had been finalized and the pre-construction meeting was held with the homeowner, indicating that Housing authorized the repairs despite the missing Notice to Proceed.
- **Signed Satisfaction Agreements.** The contractor and homeowner sign a Satisfaction Agreement to indicate that all repairs have been completed. Housing did not retain signed Satisfaction Agreements for three projects. Auditors verified with one homeowner that all work was completed satisfactorily. For another project, auditors observed that a signed punch list indicated that all work was completed. Auditors were not able to contact the remaining homeowner.
- **Universal Checklist Sign-Off.** Housing supervisory sign-off on the universal checklist indicates that key controls were performed, and all necessary documentation is included in the project file. Housing supervisory staff did not complete and sign the universal checklist for four of the nine selected projects.

The lack of control execution could result in ineligible recipients and unauthorized or incomplete repairs.

**Project Documentation**

Project files are divided into six sections documenting the project life and include the universal checklist at completion. Auditors reviewed the nine selected project files and noted the following missing documentation (in addition to the control documents listed above):

<i>Project Section</i>	<i>Missing Documentation</i>	<i>Occurrence</i>
<i>Section III</i>	<i>Deed restriction</i>	<i>1</i>
<i>Section V</i>	<i>Subcontractor certification</i>	<i>4</i>
<i>Section V</i>	<i>Manufacturer warranty</i>	<i>2</i>
<i>Section V</i>	<i>Site Visits</i>	<i>4</i>
<i>Section V</i>	<i>Punch list completion</i>	<i>2</i>
<i>Section VI</i>	<i>Contractor lien release</i>	<i>2</i>
<i>Section VI</i>	<i>Financial closeout summary</i>	<i>2</i>
<i>Total</i>		<i>17</i>

During the review period, Housing staff faced an unexpected challenge as their offices were temporarily displaced due to a plumbing failure. This necessitated the boxing and relocating project files to offsite location resulting in difficulties locating certain files during the audit process. Although HNS standard operating procedures provide compliance guidance for the selection and completion of rehabilitation projects, Housing staff could not locate the documentation supporting the execution of these controls.

**Recommendation:** Housing Manager should consistently verify that housing specialists complete the checklist. This should include verifying that key control documentation is retained.

**Value Added:** Compliance; Risk Reduction

**HNS Response:** HNS agrees with the recommendation. We are committed to strengthening our control measures and file management practices and have set the following action plans:

**Staff Training:** Implement immediate refresher training for current staff members to reinforce our internal control processes and ensure adherence to established policies and procedures.

**Checklist Review:** Add an additional layer of checklist review by Housing Operations Manager prior to project close out and perform an assessment 60 days after the project closes to ensure improvements.

Policy Review and Update: We are committed to reviewing and updating all relevant policies to align with industry best practices and regulatory requirements by June 30, 2024.

New Software: We are implementing a new OnBase software solution to address concerns about file completeness and accuracy. We anticipate that the OnBase workflow will be fully operational, resulting in significant improvements in file management, completeness, and accuracy by October 31, 2024.

## Conclusion

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Housing and Neighborhood Services (HNS) has administered the rehabilitation program in accordance with regulatory requirements. Consistent verification of key controls is needed.

## Distribution of Report

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This report is intended for the use of the City Manager's Office, City Council, and Housing and Neighborhood Services. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).

## Scope, Methodology, and Compliance

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### Scope

This audit reviewed the controls established and implemented by Housing and Neighborhood Services to administer the Housing Rehabilitation program for the period July 1, 2021 to June 30, 2022 and July 1, 2022 to June 30, 2023. This review does not include projects completed by Habitat for Humanity.

### Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed Housing Rehabilitation Division Manager and staff,
- Reviewed the City and HUD requirements for the program,
- Obtained an understanding of the current practices for the program,
- Reviewed the policies and procedures for the program,
- Judgmentally selected FY22 and FY23 projects to test based on sample size and vendor criteria,
- Reviewed the supporting documentation for contractor disbursements,
- Reviewed the monitoring that is completed for each applicant and contractor for selected projects, and
- Reviewed the CAPER (Consolidated Annual Performance & Evaluation) report presented to HUD by the Director of Housing and Neighborhood Services

### Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the processes used throughout the Housing Rehabilitation program and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks.

Internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix A.

## Appendix A

### The Five Components and 17 Principles of Internal Control

#### Control Environment

- 1) The oversight body and management should demonstrate a commitment to integrity and ethical values.
- 2) The oversight body should oversee the entity's internal control system.
- 3) Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- 4) Management should demonstrate a commitment to recruit, develop and retain competent individuals.
- 5) Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

#### Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

#### Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

#### Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

#### Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.