
URGENT REPAIR PROGRAM

State Authorization: GS 122E
North Carolina Housing Finance Agency

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The auditor should **not** consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor **can** consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

I. PROGRAM OBJECTIVE

The goals of the Urgent Repair Program ("URP") are: 1) to alleviate housing conditions which pose an imminent threat to the life or safety of very low and low-income homeowners with special needs; and 2) to provide accessibility modifications and other repairs necessary to prevent displacement of very low and low-income homeowners with special needs, such as frail elderly and persons with disabilities. It is an objective of the URP to serve households with urgent repair needs which cannot be met through other state- or federally-funded housing assistance programs.

II. PROGRAM PROCEDURES

 1. *General.*

Local governments, 501(C) (3) nonprofit organizations and regional councils of government are invited to apply to the North Carolina Housing Finance Agency ("NCHFA") for funding under the Urgent Repair Program through competitive, quasi-annual funding cycles. Applications are rated and ranked based on service area need factors, project characteristics and organizational capacity. Successful applicants ("recipients") are contracted, through Funding Agreements, to operate the program within their service areas in accordance with published Program Guidelines, which vary from funding cycle to funding cycle.

Recipients receive copies of the Program Guidelines as part of an Administrator's Manual which also contains copies of all required URP report forms, grant documents, etc. (which also vary from cycle to cycle). The manual has tabs where Recipients should insert copies of their Application for URP Funding, executed Funding Agreement, adopted Assistance Policy and all relevant correspondence. An alphabetical index is

included for easy searching and cross-referencing. (References below to specific sections of the Program Guidelines are indicated by the letters “PG” followed by section and paragraph numbers, e.g., “PG 3.2”.) Recipients funded under more than one cycle (and their auditors) must take care to use the correct Guidelines, forms or documents for each individual cycle (referred to as URP94, URP97, URP98, URP99, etc.). All Recipients should also ensure that any NCHFA letters or memoranda, which have the effect of amending Program Guidelines, are being heeded.

Each cycle of the URP program is funded from a blend of one or both of two funds within the North Carolina Housing Trust Fund (“HTF”) (G.S. 122E, "North Carolina Housing Trust and Oil Overcharge Act") and as is the case with URP05, URP06 and URP07 from a blend of the afore mentioned funds and either 92 Financing Adjustment Factor (FAF”) or 95 FAF funds. The first source within the HTF is interest earned on funds appropriated by the State to the North Carolina Housing Trust Fund. The second HTF source is funding derived from the "Stripper Well" settlement. The Stripper Well funds can be used for energy-efficiency measures only. Program Guidelines and procedures for each cycle are designed to meet regulatory requirements of all funding sources used for that cycle. Where the recipient’s adopted Assistance Policy is more stringent than URP Program Guidelines, the Assistance Policy takes precedence.

Under the 2008 cycle of the Urgent Repair Program (URP08) projects are funded by one of two sources: State appropriated North Carolina Housing Trust Funds or FAF (Financial Adjustment Factor) funds. FAF funds are federal funds that were awarded as a result of the Stewart B. McKinney Homeless Assistance Act, by the United States Department of Housing and Urban Development. The Federal agency prefix for the US Department of HUD is 14. There is no extension number to the CFDA number. The name of the Federal program for FAF funds is the Stewart B. McKinney Homeless Assistance Act. Part B, Section 2 of the URP08 Funding Agreement details the specific source of funds used in funding the URP08 project, consistent with the required contract provisions outlined in 09 NCAC 03M.0703 (PG 1.3 Funding Sources).

The 2009 cycle of the Urgent Repair Program (URP09) projects are funded by one source: North Carolina Housing Trust Fund (HTF).

The 2010 cycle of the Urgent Repair Program (URP10) projects are funded by one of two sources: State appropriated North Carolina Housing Trust Funds or FAF (Financial Adjustment Factor) funds. FAF funds are federal funds that were awarded as a result of the Stewart B. McKinney Homeless Assistance Act, by the United States Department of Housing and Urban Development.

(Historical Note: After Hurricane Floyd in 2000, HUD suspended many restrictions on HOME Investment Partnership Program funding, allowing for a special cycle of URP to be offered in the affected eastern NC counties using HOME Match funds.)

2. *Monitoring of Recipients by NCHFA.*

In addition to remote monitoring through review of Activity Reports, NCHFA monitors recipient activity by assigning Rehabilitation Officers to work with all recipients, serving as "case managers" to ensure the success of their assigned projects. Case managers visit each recipient for on-site monitoring at least once during the course of their URP project (see PG 3.12). A monitoring checklist guides the review, which includes a review of at least three URP case files, plus thorough inspections of the three dwelling units those files represent. The emphasis is on the recipient's fidelity to their own written policies (their Assistance Policy, Procurement Policy, conflict of interest policy, etc.), and the appropriateness, completeness and cost-effectiveness of the repair/modification process.

III. COMPLIANCE REQUIREMENTS

1. Activities Allowed or Unallowed

Program funds may be used for two purposes only: 1) "Hard costs" (materials, labor, etc.) associated with repairs or modifications of eligible dwelling units; and 2) "program support" costs for activities ancillary to the rehabilitation work (inspections, work write-ups, cost estimates, etc.). More specific definitions of these cost categories are provided in the Program Guidelines at section 2.1, "Eligible Uses of Funds" ("PG 2.1"). Definitions vary slightly by funding cycle.

Unless specifically funded for disaster assistance ("URP-D"), recipients must limit hard costs to a maximum of \$5,000 per dwelling unit. Recipients may set more stringent limits, in their adopted Assistance Policies, than program limits.

Program support costs are limited, on a unit-by-unit basis, based on the amount of hard costs. Under URP94, that maximum was 10% of hard costs. Since URP97, a tiered approach has been used with levels of program support maximums based on ranges of hard costs. See P.G. 2.1.8 for details.

Expenditures are reported to NCHFA in detail on quarterly Activity Reports (supplied with the Administrator's Manual) on a unit-by-unit basis. Activity Reports cover even calendar quarters and are due at NCHFA by the last day of the month following the end of the calendar quarter (see PG 3.11).

Suggested Audit Procedures

- a. Verify through a review of documentation that hard cost disbursements match those reported on Activity Reports.
- b. Verify through a review of documentation that URP funds disbursed by the recipient were used exclusively for eligible hard costs and program support costs.

2. Allowable Costs/Cost Principles

See paragraph II.2. "Eligible Expenditures," above. The costs of any activities other than the two eligible activities – hard costs and program support costs – are unallowed (including assistance to rental properties).

Suggested Audit Procedures

- a. Verify through a review of documentation that hard cost disbursements match those reported on Activity Reports.
- b. Verify through a review of documentation that URP funds disbursed by the recipient were used exclusively for eligible hard costs and program support costs.

3. Cash Management

See Section 3 of the Program Guidelines, "Program Financial Administration". URP funds are fronted to recipients in amounts equal to 50% of their total allocations. Those funds must be held in an interest-bearing account and accounted for separately. In cases where a recipient fails to deposit program funds in an interest bearing account (and either apply the interest earnings to the project or return them to the Agency), NCHFA will typically impute the amount owed the Agency at project close-out by using the passbook savings rate.

The second half of the allocated funds is requisitioned by checking a box at the bottom of the first page of an Activity Report. Recipients are eligible to check this box when their balance of program funds on hand is less than 10% of all program funds received to date.

Suggested Audit Procedures

- a. Verify that fronted funds are held in an interest bearing account and that they can be accounted for separately.

4. Conflict of Interest

Recipients that are units of local government must comply with statutes (G.S. 14-234) that states that officials should not engage in activities or related transactions that would be considered a conflict. Nonprofits must comply with 1993 Session Law Chapter 321 Section 16. In addition, all recipients are obligated by the Funding Agreement to meet federal procurement standards requiring written conflict of interest policies (OMB circular A-102 for local governments and OMB circular A-110 for nonprofit agencies). Generally, recipients are constrained from organizational conflicts of interest or non-competitive practices among contractors that may restrict or eliminate competition or create the appearance of impropriety. NCHFA monitors this process; therefore, no testing is required by local auditors.

5. Eligibility

Recipients must maintain on file documentation from third-party sources indicating that all homeowners benefiting from program assistance have household incomes below 50% of the area median. (A chart in the Administrator's Manual lists the income levels by household size.) In addition, recipients' selection of beneficiaries must be done in accordance with their adopted Assistance Policies (see PG 4.1) which often specify more stringent income targeting, as well as targeting assistance to households with special housing needs, such as elderly, disabled, single-parent, etc. To the maximum extent practicable, recipients must control costs by promoting fair and open competition in the procurement of all goods and services. They must establish written procedures providing that procurement and contracting will be properly managed, with written contracts for all services (See PG 3.8).

Income eligibility is based on anticipated annual income as defined at section 2.4 of the Program Guidelines (PG 2.4). Because NCHFA on-site monitors will review income verification procedures and documentation during their review, no testing is required by the local auditor.

6. Equipment and Real Property Management

NA

7. Matching, Level of Effort, Earmarking

Under the URP program, recipients are required to dedicate matching local funds to their proposed projects in an amount equal to, or greater than, amount (if any) proposed in their approved application for funding. URP funds may NOT be used with other state or federal housing program funds, with the exception of funds from the Weatherization Assistance Program, (which includes the Heating Appliance Repair and Replacement program), Home and Community Care Block Grants provided by the North Carolina Division of Aging and Adult Services or the Independent Living program (P.G. 2.1.9). (URP-D recipients may also match URP-D funds with FEMA and/or SBA funds). However, those who pledge to match their URP funds with local funds or other non-state, non-federal resources, receive positive rating points in the competitive application process. Therefore, meeting the level of match proposed in a successful application becomes an important URP requirement. The amount of match to which a recipient has committed can be found in their copy of their Application for Funding (which should be kept in their Administrator's Manual).

Suggested Audit Procedures

Verify through a review of documentation that any matching funds reported on quarterly activity reports actually contributed to the reported repair/modification job(s).

8. Period of Availability of State Funds

Funding Agreements allow Recipients a maximum of 18 months to substantially complete their URP projects. All rehabilitation hard costs must be obligated to specific rehabilitation jobs by the end of the 18-month period (the Date of Completion). Recipients then have 45 additional days in which to complete all project activities, submit a Certification of Completion and Final Cost form to NCHFA (on the form provided in the Administrator's Manual), and return any unused program funds, including interest earned on URP deposits. Extensions are rare and valid only if a completion date extension has been approved by NCHFA.

Suggested Audit Procedures

- a. Verify that the length of time the recipient has been working on a project has been less than 18 months or that the recipient has received an approved extension from the Agency.

9. Procurement and Suspension and Debarment

Procurement. As with selection of beneficiaries, URP procurement requirements (PG 3.8) emphasize having a written policy and a fair, open and competitive process. Most URP-funded work is accomplished by private, for-profit construction contractors, which are procured through competitive sealed bids, competitive negotiation or non-competitive negotiation, depending on time constraints. Some recipients, however, manage their own crews, in which case they must submit written procurement standards to NCHFA for prior approval (to use staff labor and supervision, etc.). In all cases, written contracts must be used. See section 4.2 "Rehabilitation Procedures" for details of URP procurement requirements.

The integrity of the recipient's procurement process is reviewed by NCHFA's on-site monitors when competitive bidding is used, but not when staff labor is used.

Suspension and Debarment. URP recipients are subject to no regulations or guidelines respecting suspended or debarred contractors.

Suggested Audit Procedures

Verify that recipients who use staff labor for construction work are following competitive procurement practices for materials.

10. Program Income

URP assistance provided by recipients to homeowners is in grant form, thus no income from repayments is expected. However, URP funds must be deposited in interest-bearing accounts. The interest earned on such deposits is deemed program income and is considered part of the recipient's URP allocation. Interest income may be used for program-eligible activities during the URP performance period. Any balance of (unused) interest income must be remitted to NCHFA with the recipient's Certification of Completion and Final Cost (PG 3.5 and PG 3.13).

Suggested Audit Procedures

When URP funds are deposited with other funds, verify that an appropriate share of the combined interest earnings is being credited to the URP project.

11. Real Property Acquisition and Relocation Assistance

NA

12. Reporting

Recipients must submit an Activity Report for each calendar quarter regardless of their level of activity. Within 45 days of their Date of Completion, they must submit a Certification of Completion and Final Cost report (PG 3.13) along with a Final Activity Report. NCHFA case managers review these reports carefully upon receipt; therefore, no further work by the local auditor is necessary.

13. Subrecipient Monitoring

NCHFA staff will monitor recipient performance in accordance with P.G. 3.12. Recipients are required to monitor staff and contractor performance in accordance with P.G. 3.10.

Suggested Audit Procedure

Verify that the recipient has procedures in place for timely inspection of repair/modification work by a qualified individual.

14. Special Test and Provisions

NA