

**Performance Audit
City's Performance Under the HUD
Memorandum of Agreement
(April 1, 2013 – April 30, 2014)**

December 2014



**Office of the City Auditor
City of Kansas City, Missouri**

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Office of the City Auditor

21st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

(816) 513-3300
Fax: (816) 513-3305

December 17, 2014

Honorable Mayor and Members of the City Council:

This audit is required by a Memorandum of Agreement (MOA) between the U.S. Department of Housing and Urban Development (HUD) and the City of Kansas City, Missouri. The audit focuses on whether the Neighborhoods and Housing Services Department (NHSD) fulfilled the city's contractual obligations under the MOA from April 1, 2013 to April 30, 2014.

The city met most of the property development deadlines established to evaluate the city's development of properties previously held by the Housing and Economic Development Financial Corporation. Of the three building projects we reviewed, two projects met the deadlines for having development agreements signed, but one did not. All three projects met the deadlines for having construction started. One of the scattered site projects we reviewed met the "development agreement signed" deadline but management does not have documentation that it met the "construction started" deadline. The city is not always timely in requesting deadline extensions.

The city addressed most long-term reform measures required of the city in the MOA to resolve performance deficiencies in the city's administration of the Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) funds. The city, however, could improve its practices related to subrecipient contracts and fund reimbursement requests by not executing subrecipient contracts until HUD approves the subrecipients and by requesting fund reimbursements from HUD monthly.

As required by the MOA, this audit also reviewed NHSD's compliance with certain HUD program regulations. The city has not taken steps suggested by HUD to implement new HOME Community Housing and Development Organization (CHDO) regulations and one new homebuyer regulation. NHSD has not revised its CHDO certification checklist or CHDO contract template to reflect all regulatory changes. Although, changes to regulations related to CHDO will affect NHSD's current practices and require faster commitment of CHDO funds, NHSD does not have a tracking system in place to ensure they will meet new commitment deadlines for CHDO projects. NHSD does not have updated written policies and procedures for CHDOs.

The city's homebuyer assistance program, KC Dream Program, has implemented home purchase price limits consistent with new HUD regulations. It also has policies in place to protect homebuyers from predatory lending practices and to address HUD's loan refinancing regulations. The KC Dream Program

underwriting policy, however, does not base loan amounts on homebuyer financial need so that only necessary financial assistance is provided.

Based on the findings of our audit, we make recommendations intended to ensure compliance with the MOA's development deadlines and the city's approval of subrecipients; ensure faster reimbursement of grant funds for city expenditures; and ensure the city is prepared to implement the new HOME regulations and reduce future HUD monitoring findings of noncompliance.

The draft report was sent to the director of neighborhoods and housing services on October 20, 2014 for review and comment. His response is appended. The audit team for this project was Joan Pu and Sue Polys.



Douglas Jones
City Auditor

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

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Introduction

Objectives

We conducted this audit of the city's performance as required by the Memorandum of Agreement (MOA) between the U.S. Department of Housing and Urban Development (HUD) and the City of Kansas City, Missouri¹, and under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.²

This report is designed to answer the following question:

- Did the city fulfill its obligations under the Memorandum of Agreement between the city and HUD from April 1, 2013 to April 30, 2014³?

Scope and Methodology

Our review focuses on the city's performance under the HUD Memorandum of Agreement in meeting performance deadlines, implementing long-term reform measures, and implementing new regulations of the federal HOME Investment Partnerships Program (HOME). Our audit methods included:

¹ "Memorandum of Agreement for the Completion of Activities Under Federal Receivership and Ongoing Administration of the CDBG and HOME Programs Between the U.S. Department of Housing and Urban Development, Office of Community Planning and Development and the City of Kansas City, Missouri," April 1, 2013. Ordinance No. 130200 authorizes the City Manager to execute the memorandum of agreement.

² Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

³ Some projects included in the MOA had performance deadlines prior to the date the MOA was executed (April 1, 2013). Because those projects were part of the MOA, we included them in our review even though the deadlines preceded the MOA execution date.

- Interviewing city staff to understand the city's HOME and Community Development Block Grant (CDBG) program processes.
- Meeting with HUD and Neighborhoods and Housing Services Department (NHSD) staff to establish criteria to be used to evaluate compliance with MOA performance deadlines.
- Comparing project documentation to HUD's criteria to determine whether NHSD met the MOA's "development agreement signed," "construction started," and "construction completed" performance deadlines.
- Reviewing MOA provisions and HOME and CDBG federal regulations to identify standards with which to compare performance.
- Comparing deadline extension request dates to deadline dates to determine whether NHSD requested extensions before deadlines passed.
- Comparing dates on quarterly report submission memos to deadlines established for reports in the MOA to determine whether reports were submitted on time.
- Reviewing single-family home loan records to determine whether NHSD was monitoring loans to ensure compliance with HOME regulations and enforcing loans not in compliance.
- Reviewing multi-family rental records to determine whether NHSD monitored properties in accordance with HOME regulations.
- Comparing the training program submittal letter date to the submittal deadline to determine whether training materials were submitted on time.
- Reviewing training documentation submitted to HUD to determine whether staff completed training by the deadline.
- Comparing subrecipient contract execution dates to the date subrecipients were approved by HUD to determine whether NHSD executed subrecipient contracts before they were authorized.

- Comparing subrecipient contract execution dates to dates of subrecipient payments to ensure contracts were in place before payments were made.
- Determining whether NHSD received approval from HUD before adding activities to IDIS, HUD's online database, by reviewing authorization documentation.
- Comparing underwriting standards and procedures submittal letter date to the submittal deadline to determine whether the standards and procedures were submitted on time.
- Reviewing historic property monitoring records to determine whether NHSD monitored monthly or more frequently.
- Interviewing NHSD staff and reviewing the Community Housing Development Organization (CHDO) contract template and qualification checklist to determine whether NHSD incorporated HUD's suggested steps to meet new CHDO regulations into its HOME program.
- Reviewing KC Dream Program policies, lender and staff training documents, correspondence, subrecipient contract, and homebuyer documents to determine whether NHSD incorporated new purchase price limits, underwriting requirements, anti-predatory lending practices, and refinancing regulations into the KC Dream Program.

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.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Memorandum of Agreement. The city entered into a memorandum of agreement (MOA) on April 1, 2013 with HUD. The MOA establishes performance measures to evaluate the city's development of properties previously held by the Housing and Economic Development Financial Corporation (HEDFC). HEDFC was the city's largest subrecipient of grant funds. In March 2005, HUD issued HEDFC a Limited Denial of Participation for violation of HUD regulations. The city then filed a lawsuit against HEDFC in U.S. District Court seeking an order to compel HEDFC to return the CDBG and HOME program income and grant derived assets it was holding.

In May 2005, the court appointed a receiver to oversee HEDFC operations and to take possession and control of HEDFC assets. The city, the receiver, and HUD collaborated to develop, transfer, or liquidate the remaining HEDFC assets in accordance with HUD's program requirements. The city accepted the transfer and loan servicing responsibilities of all of the remaining loans originally in HEDFC's loan portfolios. Additionally, a number of HEDFC-owned properties once under receivership were transferred to the Economic Development Corporation Charitable Fund.

The court ordered receivership of HEDFC ended October 30, 2013. As a requirement for ending receivership, the city entered into a 10-year MOA with HUD for completion of projects under receivership. There are a number of HEDFC assets that have not been brought into compliance with HUD requirements. The MOA identifies those properties and establishes deadlines by which the city will ensure the properties are developed or completed in compliance with HUD's program regulations and requirements.

The MOA also identifies corrective actions to resolve performance deficiencies in the city's administration of CDBG and HOME funds. The city's Neighborhoods and Housing Services Department is responsible for fulfilling the MOA provisions and reporting to HUD on the city's progress.

The MOA requires the city auditor to conduct an annual performance audit on the city's performance under the agreement and the city's performance in following HUD program regulations. Instead of performing a full review of all regulatory criteria for all HUD programs, the Kansas City Regional Office of HUD recommended that, for 2014, the performance audit focus on certain critical regulatory criteria to

ensure that the city's HOME program policies and procedures incorporate recent changes to HUD's HOME program related to Community Housing Development Organizations (CHDO) and homeownership.

Community Development Block Grant (CDBG). HUD's CDBG program provides communities with resources to benefit low and moderate income persons, prevent or eliminate slums or blight, and address certain urgent needs in a community because those conditions pose an immediate threat to the health or welfare of the community. The program provides annual grants on a formula basis⁴ to local and state jurisdictions. The jurisdictions must maintain certain records. If an activity is carried out by a subrecipient, the jurisdiction must ensure that the required records are kept by the subrecipient.

HOME Investment Partnerships Program (HOME). The HOME program is designed to create affordable housing for low-income households. HUD provides formula grants to state and local governments. These jurisdictions can use grants in partnership with local nonprofit groups to provide home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers; build or rehabilitate housing for rent or ownership; or provide rental assistance to low-income people. HOME funds can be used for grants, direct loans, loan guarantees or other forms of credit enhancement, or rental assistance or security deposits. HUD establishes a line of credit for each jurisdiction through the HOME Investment Trust Fund that may be drawn upon as needed.

⁴ HUD determines the amount of each grant by using a formula comprised of several measures of community need, including poverty, population, and housing conditions.

Findings and Recommendations

Summary

The city met most of the property development deadlines established to evaluate the city's development of properties previously held by the Housing and Economic Development Financial Corporation. Of the three building projects we reviewed, two projects met the performance deadlines for having development agreements signed, but one did not. All three projects met the deadlines for having construction started. One of the scattered site projects we reviewed met the deadline to have a development agreement signed but management does not have documentation that it met the deadline to start construction. The city is not always timely in requesting deadline extensions.

The city addressed most long-term reform measures required of the city in the MOA. The city submitted quarterly status reports on time. It monitored outstanding HOME single-family loans to ensure the period of affordability was maintained and monitored HOME multi-family rental activities for compliance with HOME regulations. The city assisted technical assistance providers hired by HUD to develop department policies and procedures. It complied with the MOA training requirement. The city requested and received approval of its HOME project from HUD. It submitted acceptable underwriting standards to HUD. It is also developing written environmental procedures and monitored a historic property as required by the MOA. The City Auditor's Office conducted the performance audit as required the MOA.

The city, however, could improve its practices related to subrecipient contracts and fund reimbursement requests by not executing subrecipient contracts until HUD approves the subrecipients and by requesting fund reimbursements from HUD monthly.

The city has not taken HUD's suggested steps to implement new HOME Community Housing and Development Organization (CHDO) regulations and one new homebuyer regulation. NHSD has not revised its CHDO certification checklist to reflect regulatory changes and its CHDO contract template does not include a line for the date of signatures. Although, changes to regulations related to CHDO will affect NHSD's current practices and require faster commitment of CHDO funds, NHSD does not have a tracking system in place to ensure it will

meet new deadlines for committing to CHDO projects. NHSD does not have updated written policies and procedures for CHDOs.

The city's home loan assistance program, KC Dream Program, has implemented home purchase price limits consistent with new HUD regulations. The KC Dream Program underwriting policy, however, does not base loan amounts on homebuyer need so that only necessary assistance is provided. The KC Dream Program policy protects homebuyers from predatory lending practices and addresses the loan refinancing regulation.

City Met Most Performance Deadlines, But Not Always Timely in Requesting Extensions

The city met most performance deadlines. Two of the three building projects we reviewed met the performance deadlines for having development agreements signed, but one did not. All three met the deadlines for having construction started. One of the scattered site projects we reviewed had begun construction, but NHSD does not have sufficient documentation to show that it met the "construction started" deadline. The city is not always timely in requesting deadline extensions.

Most Performance Deadlines Met

The city did not meet one out of seven performance deadlines we reviewed; we could not determine whether it met the eighth deadline. The MOA lists 17 projects, each made up of multiple parcels of properties⁵ that the city is to develop in compliance with HUD's program regulations. (See Appendix A for a list of all the MOA projects and deadlines.) HUD established performance deadlines for the projects to help evaluate the city's efforts in developing the properties. HUD provided the City Auditor's Office with criteria to determine whether the city met the deadlines. (See Exhibit 1.)

⁵ These properties funded in whole or in part by the CDBG and HOME programs, were originally part of HEDFC's portfolio. This portfolio of properties was transferred from HEDFC to a receiver, and finally to the city.

Exhibit 1. HUD Criteria to Evaluate Deadline Performance

Deadline	HUD Criteria
Development agreement signed	Development agreement signed by all parties by the deadline.
Construction started	Notice to proceed or building/remodeling permit dated on or before the deadline or a dated photograph of the construction for at least one of the properties within the project.
Construction completed	Certificate of occupancy or its equivalent for all properties in the project.

Source: Community Planning and Development, Kansas City Regional Office, U.S. Department of Housing and Urban Development.

We reviewed 5 out of 17 projects to determine whether the projects met their performance deadlines. Three of the projects are planned building projects and two projects are groupings of scattered sites or vacant lots. The city is to develop the scattered sites in accordance with the city's guidebook for scattered sites⁶ and in compliance with HUD national objectives.

Building projects. Two of the three building projects we reviewed – Seven Oaks and NW Quadrant – met the “development agreement signed” deadline. The Tracy Infill project did not meet the deadline, because the city did not get the development agreement signed until over a year after the deadline. The deadline was before the date the MOA was executed. (See Exhibit 2.)

All three projects met the “construction started” deadlines based on remodeling or building permits issued by the city. Because the “construction completed” deadlines of the projects were beyond our review period, we did not assess their compliance.

Exhibit 2. Compliance with Project Deadlines through April 30, 2014

Project	“Development Agreement Signed” Deadline Met?	“Construction Started” Deadline Met?
Building Projects		
Seven Oaks	Yes	Yes
NW Quadrant	Yes	Yes
Tracy Infill	No	Yes
Scattered Site Projects		
Beacon Hill Area	Yes	Unable to determine
Non-Beacon Hill Area	Project repaid, deadlines no longer apply.	

Source: MOA, Neighborhoods and Housing Services Department, and KIVA.

⁶ *Guidebook for Infill Lot Improvement Strategies, Scattered Sites*, Kansas City, Missouri, updated November 29, 2012.

Scattered sites. NHSD met the “development agreement signed” deadline for the scattered site project at Beacon Hill by signing a 2011 contract with the Economic Development Corporation (EDC) and other entities.⁷ The contract describes property maintenance activities and some development activities for the scattered sites. NHSD management also said EDC performed development activities as the result of directions coming from regular contract meetings.

NHSD lacks documentation that it met the “construction started” performance deadline for the scattered site project at Beacon Hill. The city has developed the Beacon Hill project with raised garden beds, which is an appropriate use of scattered sites according to the scattered site guidebook. Although construction has started, as evidenced by the gardens, NHSD’s documentation of the construction start date was not adequate according to the criteria outlined by HUD for us to determine whether construction began by the deadline.

For the non-Beacon Hill area project, the city reimbursed its CDBG program account about \$350,000, the amount set forth in Exhibit C of the MOA, rather than develop the project. The city has removed the project from the MOA by choosing to repay the grant funds used to acquire the properties. Since the city has made the repayment, it does not need to meet the MOA performance deadlines.

Extension of Performance Dates Sometimes Requested after Missed Deadlines

The city requested some extensions for performance dates after missing the deadlines. The MOA states that the city may send a written request to HUD seeking an extension to performance deadlines. HUD considers the request if the city can demonstrate good cause for the delay. NHSD requested at least 20 written extensions during our review period. HUD approved all of the extension requests. However, we found a few instances where NHSD requested extensions after it missed the deadline including two deadlines that were before April 1, 2013, the date the MOA was executed. (See Exhibit 3.)

⁷ Re-Build Kansas City Neighborhoods – Implementation, Loan Servicing and Administration Contract, City of Kansas City, Missouri and Economic Development Corporation of Kansas City, Missouri, Land Clearance for Redevelopment Authority of Kansas City, EDC Charitable Fund, EDC Loan Corporation, May 24, 2011.

Exhibit 3. Projects with Extension Request Made after Deadline

Project	Deadline	Date Extension Requested	Number of Days Late
Tracy Infill	March 31, 2013	May 8, 2013	38
Colonnades	April 30, 2013	May 2, 2013	2
	July 15, 2013	July 17, 2013	2
Seven Oaks	March 29, 2013	May 1, 2013	33
Apartment	April 30, 2013	May 1, 2013	1

Source: MOA and Neighborhoods Housing and Community Services.

When the city fails to meet the performance deadlines or fails to receive deadline extensions, HUD can require the city to repay its CDBG or HOME program accounts with non-federal funds for an amount of money identified by HUD for the activity. In order to ensure city compliance with and avoid repayment of CDBG or HOME funds, the director of neighborhoods and housing services should ensure performance deadlines for building or scattered site projects identified in the MOA are met or request an extension before the deadline.

City Addressed Most Long-Term Reform Measures

The city addressed most long-term reform measures during our review period. The city submitted quarterly status reports on time. It monitored outstanding HOME single-family loans to ensure the period of affordability was maintained and monitored HOME multi-family rental activities according to regulations. The city assisted technical assistance providers hired by HUD to develop department policies and procedures. It complied with MOA training requirements. The city requested and received approval of its HOME project from HUD. It submitted acceptable underwriting standards to HUD. It is also developing written environmental procedures and monitored a historic property as required by the MOA. The City Auditor's Office conducted this performance audit as required by the MOA.

The city, however, could improve its practices related to subrecipient contracts and fund reimbursement requests by not executing subrecipient contracts until HUD approves and by requesting fund reimbursements from HUD sooner.

Quarterly Reports Submitted on Time

NHSD submitted quarterly status reports on time during our review period. The MOA requires that the city submit a quarterly status report to HUD to report on the status of each building project and scattered site

activity listed in Exhibit C of the MOA. The city must submit the quarterly status report beginning July 10, 2013, and by the 10th day of every October, January, April, and July thereafter, unless the city requests an extension.

NHSD Monitored HOME Loans and Rental Projects

The city monitored outstanding HOME single-family loans to ensure compliance with HOME regulations. It also complied with the MOA's monitoring requirements for HOME multi-family rental dwellings.

The city monitored outstanding HOME loans. The MOA requires the city to ensure that outstanding single-family HOME loans transferred to the city's loan servicer are compliant with HOME regulations. As part of this effort, the city is to ensure that the period of affordability for single-family loans is maintained, and commence enforcement actions if the period of affordability is not maintained.

Homes purchased with homebuyer assistance funds from the HOME program must qualify as affordable. HUD defines affordable homes as being single-family, modest, acquired by low-income families as the principal residence, and meeting affordability requirements for a specific period. To ensure affordability, the jurisdiction must impose either resale⁸ or recapture⁹ requirements on the housing for the affordability period, which is based on the amount of the loan. The jurisdiction is also responsible for ensuring that the homebuyer maintains the housing as his or her principal residence for the duration of the affordability period. HOME regulations require the jurisdiction to repay the HOME funds invested in the housing if the resale or recapture provisions and principal residency requirements are not followed.

The city's loan servicer and NHSD staff monitored the loans' period of affordability by sending affidavits to the homebuyers and checking utility records for confirmation that the buyer continued to own and live in the property. Of about 70 single-family loans, one loan is non-compliant with the period of affordability. In the city's June 30, 2014,

⁸ The resale provision means that during the affordability period of the property, the jurisdiction is required to ensure that if the homebuyer sells the property, either voluntarily or involuntarily (1) the property is sold to another low-income homebuyer who will use the property as his or her principal residence; (2) the original homebuyer receives a fair return on investment; and (3) the property is sold at a price that is "affordable to a reasonable range of low-income buyers."

⁹ The recapture provision permits the original homebuyer to sell the property to any willing buyer during the period of affordability if the jurisdiction is able to recapture all or a portion of the HOME-assistance provided to the original buyer.

Quarterly Report, NHSD reported that it is enforcing the period of affordability agreement by only releasing the city's lien on this property upon full payment of the loan by the homeowner.

NHSD complied with monitoring requirements for HOME multi-family rental activities. We reviewed NHSD monitoring files for multi-family rentals. The files included documentation of monitoring activities, housing inspections, and compliance reports that rental owners are required to submit according to a HOME regulation. NHSD monitored the multi-family dwellings with the required frequency during our review period, April 1, 2013 to April 30, 2014.

NHSD Assisted Technical Assistance Providers as Required

According to HUD regional management, NHSD satisfactorily assisted technical assistance (TA) providers hired by HUD. The TA was assisting NHSD to develop HOME, CDBG, and environmental policies and procedures. The MOA requires the city to assist technical assistance providers assigned by HUD, regarding the completion of projects and activities related to the HEDFC assets.

NHSD Met Training Requirements

NHSD developed and provided training required by the MOA and utilized some online training provided by HUD. The MOA requires that:

- The city develop a mandatory training program for staff involved with administering CDBG and HOME activities;
- The training program be submitted to HUD no later than June 30, 2013;
- The city submit to HUD certification of completion of this training for all existing staff by December 31, 2013. For new staff hired by NHSD, certification of completion of training must be submitted within 30 days of completion of training; and
- The city make use of HUD online training.

NHSD submitted a training program to HUD for its approval by the deadline. NHSD trained its staff administering HOME and CDBG activities and submitted certificates of training completion to HUD before the deadline. No new staff requiring training was hired during our review period. NHSD reported that a few staff also took advantage of HUD's online training.

Some Subrecipient Contract Practices Could Be Improved

NHSD executed three subrecipient contracts before they were approved. The department did not request fund reimbursements from HUD in a timely manner. It requested a total of about \$2 million of reimbursement in June 2014, almost a year after the city made the first payment to the subrecipients.

NHSD executed 3 out of 21 subrecipient contracts before receiving HUD's approval. The MOA requires the city to obtain written approval of subrecipients from HUD prior to executing CDBG/HOME subrecipient agreements. NHSD sent HUD a request to approve subrecipients on April 25, 2013. Although the department did not receive written approval of the subrecipients from HUD, HUD regional staff told us that the city can assume approval 30 days after the request if NHSD does not hear back from HUD by that time. Based on the submittal date, the city could assume HUD's approval as of May 25, 2013. The department executed three contracts before the department could assume that HUD approved them. (See Exhibit 4). Although HUD has never denied the city's choice of subrecipient, if HUD decided not to approve a subrecipient, the city would be responsible for any costs incurred with an unapproved subrecipient.

Exhibit 4. Subrecipient Agreements Executed Before HUD's Approval

CDBG/HOME Subrecipients	Date City Can Assume HUD's Approval	Contract Execution Date
Ivanhoe Neighborhood Council	5/25/2013	5/12/2013
Neighborhood Housing Services	5/25/2013	5/22/2013
Westside Housing	5/25/2013	5/12/2013

Source: Neighborhoods and Housing Service Department and CDBG and HOME records.

In order to remain in compliance with the HUD MOA and avoid incurring costs to the city that are not eligible for reimbursement, the director of neighborhoods and housing services should ensure CDBG/HOME subrecipients are approved by HUD before executing a contract.

NHSD did not request funding reimbursements in a timely manner.

NHSD complied with the MOA by only disbursing funds to eligible subrecipients with executed agreements. The department paid the subrecipients and then requested reimbursement from HUD. Although the city made the first payment to most of the subrecipients by August 2013, and paid them monthly afterwards, NHSD did not request any 2013 grant reimbursements from HUD until June 2014. (See Exhibit 5).

HUD regional staff told us that it is uncommon for local governments to draw down funds only once a year. Local governments usually draw HOME and CDBG money from HUD monthly and some even weekly. HUD regional staff said drawing funds from HUD monthly could give NHSD a better idea of the progress of subrecipients' activities and the remaining grant funds.

Exhibit 5. KCMO Subrecipients for Program Year 2013, Days Between First Payment Date and Fund Drawdown Date

CDBG/HOME Subrecipients	First Payment Date	Drawdown Date	Number of Days Between
Benilde Hall	6/21/2013	6/10/2014	354
Boys and Girls Club	7/10/2013	6/10/2014	335
Community Assistance Council	7/1/2013	6/10/2014	344
Guadalupe	7/10/2013	6/19/2014	344
Hispanic Economic Development Corporation	3/6/2014	6/19/2014	105
Homeless Services Coalition	6/21/2013	6/10/2014	354
Greater Kansas City Housing Information Center	8/1/2013	6/10/2014	313
Ivanhoe Neighborhood Council	8/15/2013	6/19/2014	308
Kansas City Community Gardens	8/14/2013	6/10/2014	300
Mattie Rhodes Center	6/28/2013	6/10/2014	347
Neighborhood Housing Services	5/23/2014	6/19/2014	27
Northland Neighborhoods	7/22/2013	6/19/2014	332
Operation Breakthrough	7/31/2013	6/10/2014	314
Palestine Senior	7/1/2013	6/10/2014	344
Restart	7/22/2013	6/10/2014	323
Sheffield Place	7/25/2013	6/10/2014	320
Synergy Services	6/28/2013	6/10/2014	347
United Inner City Services	7/1/2013	6/10/2014	344
Urban Rangers	9/3/2013	6/10/2014	280
WEB Dubois	7/1/2013	6/19/2014	353
Westside Housing	7/19/2013	6/19/2014	335

Source: PeopleSoft Financials and HUD IDIS.

If the city submitted its request for subrecipient reimbursements more frequently, the reimbursements of entitlement funds would repay the city and add to the city's cash flow. The city first uses CDBG or HOME program income it has collected from previous projects such as loan repayments. HUD then reimburses the city with "entitlement funds," which are new grant money HUD awards to the city. NHSD made a total of about \$2.1 million of reimbursement requests for the program year 2013, 37 percent of which (\$780,000) represents entitlement funds. The rest of the reimbursements are from program income. If the city

requested reimbursements from HUD sooner, the \$780,000 would be available to increase the city's cash liquidity and short-term investment earnings. Both the city controller and city treasurer said that city departments should request grant reimbursements as soon as possible or at least monthly.

In order to better track subrecipients' activities and remaining grant funds and to improve the city's cash flow, the director of neighborhoods and housing services should request reimbursement of CDBG/HOME grant funds from HUD at least monthly.

HUD Approved NHSD's New HOME Project

NHSD requested and received approval for its only applicable HOME project during our review period. The MOA requires the city to notify HUD of all new IDIS¹⁰ activity set-ups under the HOME program prior to expending any grant funds, except for homebuyer down payment assistance. HUD reviews the subject set-ups for compliance with applicable federal requirements. HUD notifies the city of the results of these reviews including that the setups have been completed properly and the city is permitted to draw grant funds for the subject projects.

Underwriting Standards and Procedures Submitted on Time

NHSD submitted written underwriting standards and procedures to HUD for review and approval on time. HUD staff found the submission to be consistent with the MOA requirements and had no negative comments on the submission.

The MOA also requires all new third-party commercial, industrial and multi-family housing projects and activities funded with CDBG or HOME grants be fully underwritten using standards acceptable to the city and HUD and submitted to HUD for review and approval. However, there were no HOME or CDBG third-party commercial, industrial, or multi-family housing projects and activities committed to during our review period, so we could not review any underwriting submissions for approval.

City Auditor's Office Conducted Required Audit

The MOA requires the City Auditor's Office to conduct an initial performance audit during the 2013-14 city fiscal year and report any

¹⁰ IDIS is HUD's real-time, online database that collects data and disburses funds. It is used for the CDBG, HOME, and other programs.

performance deficiencies and the actions taken to correct them. This audit fulfills the requirement.

NHSD Complied with HUD Environmental Requirements

NHSD prepared and submitted written environmental procedures to HUD's technical assistance provider according to the MOA requirements. The department is also monitoring a historic property to ensure the property remains secure.

NHSD is developing written environmental procedures. NHSD staff prepared and submitted written environmental procedures to HUD's technical assistance provider for review and comment. The MOA requires the city to develop written procedures approved by HUD to ensure that all environmental requirements are satisfied before committing HUD funds to a project or activity. NHSD staff is waiting for feedback from the technical assistance provider, so NHSD's environmental procedures have not received approval from HUD. HUD stated that it is not the fault of the city that the technical assistance provider has not completed the written procedures.

NHSD is monitoring a historic property as required by the MOA. The MOA requires that historic properties be consistently (at least monthly or more frequently, as appropriate) monitored to ensure that the property remains secure. There is one historic property that required monitoring, but since the city does not own the property, it does not have access to it. NHSD staff drove by monthly to observe whether the property appeared secure.

City Needs to Take Additional Steps to Implement New HOME Regulations

The city has not taken steps suggested by HUD to implement new Community Housing and Development Organization (CHDO) HOME regulations and one new homebuyer regulation.

City Needs to Address Community Housing Development Organization Regulatory Changes

NHSD has not completed HUD's suggested steps for implementing new HOME Community Housing Development Organization (CHDO) regulations. NHSD has not revised its CHDO certification checklist to reflect regulatory changes. NHSD's CHDO contract template does not include a line for the date of signatures. Although, changes to regulations related to CHDO will affect NHSD's current practices and

require faster commitment of CHDO funds, NHSD does not have a tracking system in place to ensure the city will meet new commitment deadlines for CHDO projects. NHSD does not have updated written policy and procedures for CHDOs.

NHSD has not revised its CHDO certification checklist to reflect regulatory changes. Before contracting with a Community Housing Development Organization, NHSD must certify that a nonprofit organization meets the definition of a CHDO. HUD regulations require that a portion of the city's HOME grant money be set aside for CHDOs. Although NHSD reviews the potential CHDO's qualifications using a checklist, it has not updated the checklist as suggested by HUD to include the revised HOME regulations including an expanded definition of "nonprofit status," the increase in staff capacity, and added restrictions on employees and officers of the chartering government or sponsoring for-profit entity. These changes went into effect August 23, 2013. NHSD could incorporate these regulatory changes into its current CHDO eligibility checklist to assist staff in complying with HUD's new regulations.

In order to help ensure NHSD follows HUD's regulations in certifying an organization meets the definition of a CHDO and has the capacity to own, develop, or sponsor housing each time it commits CHDO funds to an organization, the director of neighborhoods and housing services should revise the CHDO qualification checklist to reflect the new HOME CHDO regulations.

NHSD's CHDO contract template does not include a line for the date of signatures. A new CHDO regulation requires that signatories to written CHDO contracts date the document for it to constitute a valid commitment.¹¹ HUD's guidance on implementing the new CHDO regulations recommends jurisdictions update their CHDO contract template with a specific area for signatories to indicate the date. Placing a blank line on the contract next to signature lines, should serve as a reminder for signatories to consistently indicate the date they signed the contract.

In order for NHSD to comply with this HOME regulation, the director of neighborhoods and housing services should revise the CHDO contract template to include date lines next to all signature lines.

NHSD does not have a tracking system in place to ensure the city will meet new commitment deadlines for CHDO projects. To encourage completion of CHDO projects sooner, the new CHDO

¹¹ 24 C.F.R. §92.2(1).

regulations require jurisdictions to commit CHDO money within two years of receiving HOME grants. HUD's guidance on implementing the new CHDO commitment regulations recommends the city develop a tracking system of CHDO set-aside projects beginning with the project's planning stages to ensure the projects will be ready for commitment before the 2-year deadline. Within 24 months of receiving HOME grant money, the city must secure all necessary financing, establish a budget and a schedule for the construction, meet the underwriting and subsidy layering requirements, have a written agreement with a CHDO, and schedule construction or rehabilitation to begin within 12 months of signing the agreement. The city may not commit HOME funds to a CHDO project until all these requirements are met. NHSD staff said they currently use a spreadsheet to track projects that the city has committed to but do not have a tracking system for the planning stages of projects.

Although NHSD staff told us there are no significant changes with the HOME CHDO regulations that affect NHSD's current practice, the new HUD regulations will affect how the city uses CHDO money. Kansas City has not typically committed funds to CHDO projects within two years of receiving the funds, but with the new CHDO regulation the city will have to do so or risk losing the funds. The city has CHDO money going back to 2009 that is uncommitted to a project. The city will need to commit the money from previous years in addition to the new CHDO money to projects. To ensure the city meets the new CHDO regulations and does not risk losing grant money, the director of neighborhoods and housing services should develop a tracking system of CHDO set-aside projects beginning with the project's planning stages.

NHSD does not have updated written policies and procedures for CHDOs. HUD's guidance on implementing the new CHDO regulations recommends the city update its CHDO written policies and procedures. NHSD staff told us they do not have a written CHDO policy because the department follows the HUD regulations. HUD suggests policies and procedures that reflect processes for:

- Certifying that the CHDO meets the definition of community housing development organization;
- Documenting that CHDO has capacity relevant to its role;
- Selecting and qualifying CHDOs;
- Performing certification and assessment each time the city commits CHDO set-aside funds to a CHDO for a specific project;
- Committing funds to CHDO projects within 24-month time limits;

- Defining commitment of funds for down payment assistance;
- Verifying, prior to execution of a written agreement, that all necessary financing has been secured, a budget and schedule have been established, underwriting and subsidy layering have been completed, and construction is expected to start within 12 months.
- Committing specific amounts of HOME funds to specific CHDO projects.

Having current written policies and procedures is essential for effective management and to help NHSD comply with HUD regulations. For staff, written policies and procedures can communicate how the job should be performed and serve as a guide to enable staff to be consistent in their actions. In addition, written policies and procedures can outline the authority and responsibilities of individual employees; serve as a reference tool for infrequently encountered situations; and lessen the threat to continuity posed by employee turnover. While following HUD's regulations are critical to NHSD's successful implementation of the HOME program, the regulations alone do not say how to implement them.

In order to communicate to staff how Kansas City should work with CHDOs, provide consistency of actions, outline responsibilities, ensure compliance with HUD regulations, provide a reference tool, and lessen the institutional knowledge lost to turnover, the director of neighborhoods and housing services should develop written policies and procedures that incorporate the new HOME CHDO regulations.

Kansas City Dream Program Implemented New Purchase Price Limits and Some Sustainability Policies

The city's homebuyer assistance program, KC Dream Program, has implemented home purchase price limits consistent with new HUD regulations. The KC Dream Program underwriting policy, however, does not base loan amounts on homebuyer need so that only necessary assistance is provided. The KC Dream Program policy protects homebuyers from predatory lending and addresses the loan refinancing regulation.

NHSD has implemented purchase price limits consistent with new HUD regulations. Kansas City's home loan assistance program, the KC Dream Program,¹² has adjusted its home purchase price limits to fall at or below HUD's new purchase price limits, which is acceptable to HUD.

¹² The KC Dream Home Program assists low- to moderate-income first-time homebuyers and displaced homemakers purchase a home within Kansas City, Missouri. Assistance is provided in the form of a second mortgage loan at 0 percent interest, forgivable after a period of time.

HUD's HOME Investment Partnerships Program helps fund the KC Dream Program, so the Dream Program must follow HOME regulations. NHSD updated the program's written materials, including the Dream Program description on the city's website and program policy manual. NHSD incorporated the new purchase limits into the contract with the city's subrecipient that administers the KC Dream Program. The Dream program manager also communicated the new purchase limits in an email sent to NHSD staff, realtors, lenders, and other housing agencies.

KC Dream Program underwriting policy and procedures do not base loan amounts on homebuyer need. HUD's new HOME regulation requires homebuyer assistance programs to provide homebuyers with only the amount of assistance they need. The KC Dream Program provides eligible homebuyers a zero percent, forgivable loan, for 20 percent of the home's purchase price or \$20,000, whichever is less, to buyers in target areas¹³ and 10 percent of the purchase price or \$10,000, whichever is less, to buyers in non-target areas. KC Dream Program participants must qualify as low- or moderate-income first-time homebuyers, but some eligible participants may have more financial resources than others and not need the full loan amount. Although Kansas City provides varying percentages of assistance based on the house being in a target area or non-target area, the city's policy is not enough to address HUD's underwriting requirements for assistance based on need.

The Dream Program does have written policies and procedures for other underwriting requirements of the new HOME regulation, including housing and household debt, financial resources to sustain homeownership, assets available to acquire the housing, and monthly expenses of the family.

In order to comply with new HUD underwriting regulations, the director of neighborhoods and housing services should develop a written underwriting policy for the KC Dream Program that bases the amount of assistance to qualified homebuyers on financial need.

KC Dream Program policy protects homebuyers from predatory lending. HUD's new HOME regulation requires the city's homebuyer assistance programs to have a written policy to protect against predatory lending. The KC Dream Program has several policies in place that should help ensure a homebuyer participating in the program obtains a first mortgage that is free of predatory lending practices, such as balloon payments, high fees, and high interest rates. The KC Dream Program policy counters those practices by requiring homebuyers to use lenders

¹³ Areas that the city has chosen to focus resources on for maximum impact.

chosen by the city; a 15 or 30 year fixed rate FHA, VA, or conventional loan; and primary loan interest rate and fees that are reasonable and customary to the market. NHSD communicates these program requirements in its policies and procedures, training materials to lenders and city staff, and in its contract with the city's subrecipient that administers the KC Dream Program.

KC Dream Program policy addresses loan refinancing regulation.

HUD's new HOME regulation requires the city's homebuyer assistance program to have a written refinancing policy addressing the refinancing of the first mortgage so that the city can ensure that the terms of the refinanced loan are reasonable. KC Dream Program's policy manual states "the homebuyer shall not during the term of the loan, refinance said loan, without the city's prior written consent. Approvals for refinances are considered on a case by case basis, but the approval is contingent upon the demonstration that the proposed refinance request is in the homebuyer's best interest."¹⁴ The second mortgage documentation that the homebuyer signs stipulates that the city may require immediate repayment for the KC Dream Program loan if the first loan is refinanced without the lender's prior written approval.

Recommendations

1. The director of neighborhoods and housing services should ensure performance deadlines for building or scattered site projects identified in the MOA are met or request an extension before the deadline.
2. The director of neighborhoods and housing services should ensure CDBG/HOME subrecipients are approved by HUD before executing a contract.
3. The director of neighborhoods and housing services should request reimbursement of CDBG/HOME grant funds from HUD at least monthly.
4. The director of neighborhoods and housing services should revise the CHDO qualification checklist to reflect the new HOME CHDO regulations.

¹⁴ *Training and Operations Manual, KC Dream Program, City of Kansas City, Missouri, p. 15.*

5. The director of neighborhoods and housing services should revise the CHDO contract template to include date lines next to all signature lines.
6. The director of neighborhoods and housing services should develop a tracking system of CHDO set-aside projects beginning with the project's planning stages to ensure the projects will be ready for commitment before the two-year deadline.
7. The director of neighborhoods and housing services should develop written policies and procedures that incorporate the new CHDO HOME regulations.
8. The director of neighborhoods and housing services should develop a written underwriting policy for the KC Dream Program that bases the amount of assistance to qualified homebuyers on financial need.

Appendix A

Memorandum of Agreement Projects and Deadlines (Exhibit C of the MOA)

Exhibit C - Time Sensitive Performance Measures

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Beacon Hill							
Student Housing	2401 Troost	29-630-09-02-00-0-00-000	CDBG	05/24/2012	06/30/2013	09/30/2014	\$149,521.46
	2405 Troost - Flansburg	29-630-09-03-00-0-00-000					\$253,671.83
	2409/2419/2425 Troost	29-630-09-34-00-0-00-000 29-630-09-06-00-0-00-000 29-630-09-07-00-0-00-000					\$511.00
	2427 (Formerly 2431) Troost	29-630-09-08-00-0-00-000					\$14,336.60
	2435 Troost	29-630-09-09-00-0-00-000					\$16,892.60
	2437-39 Troost	29-630-09-10-00-0-00-000					\$21,549.20
	Total						
Tracy Infill (Single Family Development)	1302 E 26th St	29-630-22-19-00-0-00-000	CDBG	03/28/2012	03/31/2013	12/31/2017	\$94,725.74
	1311 East 25th St	29-630-22-02-00-0-00-000					\$64,964.54
	1312 E 25 St	29-630-11-19-00-0-00-000					\$92,454.90
	1315 E 26th St.	29-630-31-02-00-0-00-000 29-630-31-03-00-0-00-000					\$136,515.41
	2425 Tracy	29-630-11-07-00-0-00-000					\$18,662.15
	2430 Tracy	29-630-10-33-00-0-00-000					\$19,463.30
	2434 Tracy	29-630-10-44-00-0-00-000					\$23,176.05
	2436 Tracy	29-630-10-43-00-0-00-000					\$19,956.09
	2438 Tracy	29-630-10-46-00-0-00-000					\$39,676.19
	2442 West Paseo (post-replat) Per the City 8/2010, Address has an alias of 1331 E 24th , AKA MoDOT Tract Bc1)	29-630-11-45-00-0-00-000					\$62,675.84
	2524 W Paseo	29-630-22-28-00-0-00-000					\$29,220.02
	2528 West Paseo	29-630-22-27-00-0-00-000					\$40,405.13
	2451 Tracy	29-630-11-14-00-0-00-000					\$64,834.10

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Tracy Infill (Single Family Development)	2453 Tracy	29-630-11-15-00-0-00-000	CDBG	03/28/2012	03/31/2013	12/31/2017	\$76,716.11
	2455 Tracy	29-630-11-16-00-0-00-000					\$78,393.36
	2457 Tracy	29-630-11-17-00-0-00-000					\$60,008.49
	2459 Tracy	29-630-11-18-00-0-00-000					\$31,927.61
	2501 Tracy	29-630-22-03-00-0-00-000					\$77,085.70
	2503 Tracy	29-630-22-04-00-0-00-000					\$71,515.77
	2506 Tracy	29-630-21-33-00-0-00-000					\$96,432.20
	2516 Tracy	29-630-21-32-00-0-00-000					\$68,006.57
	2519 Tracy	29-630-22-09-00-0-00-000					\$132,139.37
	2534 Tracy	29-630-21-27-00-0-00-000					\$65,849.55
	2535 Tracy	29-630-22-12-00-0-00-000					\$62,576.75
	2541 Tracy	29-630-22-14-00-0-00-000					\$54,621.32
	2542 Tracy	29-630-21-25-00-0-00-000					\$70,802.86
	2545 Tracy	29-630-22-15-00-0-00-000					\$19,567.05
	2546 Tracy	29-630-21-24-00-0-00-000					\$19,535.46
	2547 Tracy	29-630-22-16-00-0-00-000					\$86,831.26
	2548 Tracy	29-630-21-23-00-0-00-000					\$72,863.87
	2549 Tracy	29-630-22-17-00-0-00-000					\$17,850.32
	2552 Tracy	29-630-21-20-00-0-00-000					\$25,164.19
	2554 Tracy	29-630-21-21-00-0-00-000					
	2600 Tracy	29-630-32-01-00-0-00-000					\$18,844.53
	2602 Tracy	29-630-32-27-00-0-00-000					\$62,113.41
	2604 Tracy	29-630-32-26-00-0-00-000					\$72,048.61
2607 Tracy	29-630-31-04-00-0-00-000	\$88,284.14					
2608 Tracy	29-630-32-24-00-0-00-000	\$103,353.57					
2609 Tracy	29-630-31-05-00-0-00-000	\$78,796.58					
2629 Tracy	29-630-31-09-00-0-00-000	\$80,102.27					

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Tracy Infill (Single Family Development)	2631 Tracy	29-630-31-10-00-0-00-000	CDBG	03/28/2012	03/31/2013	12/31/2017	\$35,380.86
	2634 Tracy	29-630-32-32-00-0-00-000					\$20,935.66
	2637-39 Tracy	29-630-31-13-00-0-00-000					\$17,423.56
	2442 Tracy- Shelton - Condemned	29-630-10-28-00-0-00-000					\$33,977.86
	2515 Tracy - CONDEMNED	29-630-22-08-00-0-00-000					\$23,546.90
	2400 Tracy	29-630-10-55-00-0-00-000					\$14,561.60
Total							\$2,543,986.82
NW Quadrant - 20 Single Family Lots + Northlawn Green Space	2400 Forest	29-630-09-35-01-0-00-000	CDBG	03/28/2013	06/30/2013	12/31/2016	\$24,624.80
	2404 Forest	29-630-09-35-02-0-00-000					
	2408 Forest	29-630-09-31-00-0-00-000					\$19,882.52
	2414 Forest	29-630-09-30-00-0-00-000					\$18,603.98
	2416 Forest	29-630-09-29-00-0-00-000					\$18,644.36
	2418 Forest	29-630-09-28-00-0-00-000					\$18,025.30
	2420-22 Forest	29-630-09-27-00-0-00-000					\$18,440.07
	2424 Forest	29-630-09-26-00-0-00-000					\$17,469.63
	2426 Forest	29-630-09-25-00-0-00-000					\$18,199.23
	2432 Forest	29-630-09-24-00-0-00-000					\$20,136.10
	2434 Forest	29-630-09-23-00-0-00-000					\$18,615.24
	2436 Forest	29-630-09-22-00-0-00-000					\$34,238.36
	2440 Forest	29-630-09-21-00-0-00-000					\$18,657.75
	2405-07 Forest	29-630-10-49-00-0-00-000					\$34,637.45
	2409 Forest	29-630-10-05-00-0-00-000					\$55,508.23
	2411 Forest	29-630-10-50-00-0-00-000					\$22,947.67
2419 Forest	29-630-10-51-00-0-00-000	\$96,429.51					
2425 Forest	29-630-10-10-00-0-00-000	\$21,175.52					

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
NW Quadrant - 20 Single Family Lots + Northlawn Green Space	2427 Forest	29-630-10-11-00-0-00-000	CDBG	03/28/2013	06/30/2013	12/31/2016	\$17,593.08
	2458 Forest – Fields	29-630-09-16-00-0-00-000					\$23,851.54
	1108 E 24 St - Ehinger/Heilman – Condemned	29-630-08-11-00-0-00-000					\$46,192.85
	1110 E 24 St – Thompson	29-630-08-12-00-0-00-000					\$19,836.94
	1112-14 E 24th & 2326 Forest - Condemned	29-630-08-13-00-0-00-000 29-630-08-14-00-0-00-000					\$17,537.50
	1220 E. 24th Street	29-630-10-59-00-0-00-000					\$28.76
	2515 Forest - Land Trust	29-630-21-10-00-0-00-000					\$18,065.88
Total							\$619,342.27
TMC Grocery Store	2601 Troost	29-630-33-02-00-0-00-000	CDBG	02/28/2013	03/31/2016	12/31/2017	\$73,626.62
	2613 Troost	29-630-33-03-00-0-00-000					\$173,554.24
	2622-24 Forest	29-630-33-12-00-0-00-000					\$127,733.55
	2636 Forest	29-630-33-16-00-0-00-000					\$25,377.32
	2615 Troost	29-630-33-04-00-0-00-000					\$68,193.87
Total							\$468,485.60
Mt. Prospect Area (Single Family Development)	1215 E. 22 nd	29-620-33-34-00-0-00-000	CDBG	01/31/2014	03/31/2014	11/30/2018	\$14,522.51
	1219 E. 22 nd	29-620-33-02-00-0-00-000					\$21,637.67
	1313 E. 22 nd	29-620-34-05-00-0-00-000					\$17,754.72
	1317 E. 22 nd	29-620-34-03-00-0-00-000					\$16,503.44
	1212 E. 23 rd	29-620-33-33-00-0-00-000					\$17,063.25
	1308 E. 23 rd	29-620-34-15-00-0-00-000					\$18,205.70
	1312 E. 23 rd	29-620-34-16-00-0-00-000					\$19,303.04
	1316 E. 23 rd	29-620-34-17-00-0-00-000					\$19,088.24
	1318 E. 23 rd	29-620-34-18-00-0-00-000					\$18,793.93
	2205 Lydia	29-620-35-03-00-0-00-000					\$16,584.23
	2209 Lydia	29-620-35-05-00-0-00-000					\$17,343.16

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Mt. Prospect Area (Single Family Development)	2211 Lydia	29-620-35-06-00-0-00-000	CDBG	01/31/2014	03/31/2014	11/30/2018	\$17,769.09
	2213 Lydia	29-620-35-07-00-0-00-000					\$17,349.56
	2218 Lydia	29-620-34-23-00-0-00-000					\$17,913.08
	2219 Lydia	29-620-35-10-00-0-00-000					\$17,935.84
	2204 Tracy 2208 Tracy 2212 Tracy	29-620-33-29-00-0-00-000 29-620-33-30-00-0-00-000 29-620-33-31-00-0-00-000					\$280,858.66
	2205 Tracy (AKA 2201-03 and 2205-07 Tracy)	29-620-34-06-00-0-00-000 29-620-34-27-00-0-00-000					\$80,249.81
	2213 Tracy	29-620-34-08-00-0-00-000					\$16,572.04
	2215 Tracy	29-620-34-09-00-0-00-000					\$514.63
	2216 Tracy	29-620-33-28-00-0-00-000					\$17,759.18
	2217 Tracy	29-620-34-10-00-0-00-000					\$20,409.32
	2220 Tracy	29-620-33-26-00-0-00-000					\$17,928.30
	2222 Tracy	29-620-33-25-00-0-00-000					\$19,311.11
	2224 Tracy 2226 Tracy	29-620-33-23-00-0-00-000 29-620-33-24-00-0-00-000					\$95,967.94
	2228 Tracy	29-620-33-22-00-0-00-000					\$17,530.66
	2229 Tracy	29-620-34-14-00-0-00-000					\$17,415.58
2318-24 Forest - Ehinger, Trst - Condemned	29-630-08-01-00-0-00-000 29-630-08-15-00-0-00-000 29-630-08-16-00-0-00-000	\$44,460.38					
Total							\$896,745.07
Alana Hotel Housing/ Commercial Project (2701 Troost)	2701 Troost	29-720-08-02-00-0-00-000	CDBG	01/31/2014	05/31/2014	09/30/2015	\$205,873.30
Total							\$205,873.30

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Troost at 25th Commercial	2639 Troost	29-630-33-07-00-0-00-000	CDBG	01/31/2014	05/31/2014	12/31/2015	\$249,608.31
	2619-29 Troost	29-630-33-05-00-0-00-000 29-630-33-06-00-0-00-000					\$527,312.76
Total							\$776,921.07
SCATTERED SITE PROPERTIES (Urban Garden/ Green Space)	2629 Vine	29-630-29-13-00-0-00-000	CDBG	03/05/2013	05/31/2013	05/31/2014	\$69,510.77
	2617-19 Vine	29-630-29-08-00-0-00-000					\$74,000.42
	2623 Vine	29-630-29-10-00-0-00-000					\$67,709.56
	2627 Vine	29-630-29-12-00-0-00-000					\$55,504.30
	2633-35 Vine	29-630-29-39-00-0-00-000					\$17,763.07
	2637 Vine	29-630-29-17-00-0-00-000					\$17,346.57
	2631 Vine	29-630-29-14-00-0-00-000					\$14,989.89
	No Address - SHEPARDS & BARNDOLLARS ADD ALL LY E OF VINE ST OF LOT 10 BLK 2	29-630-29-07-00-0-00-000					\$2.86
	2534 Paseo	29-630-23-11-00-0-00-000					\$42,932.47
	No Address - Hall's Hill - S 50' of Lot 6 Blk 4	29-630-11-40-00-0-00-000					\$4,062.12
2641-43 Flora – McFeders	29-630-30-11-00-0-00-000	\$88,162.54					
Total							\$451,984.57
Southwest Quadrant (Single Family Development)	2507-09 Forest	29-630-21-36-00-0-00-000	CDBG	01/31/2014	05/31/2014	12/31/2018	\$23,726.88
	2511 Forest	29-630-21-09-00-0-00-000					\$45,135.67
	2535 Forest	29-630-21-14-00-0-00-000					\$131,959.03
	2531 Forest	29-630-21-13-00-0-00-000					\$67,378.34
	2537 Forest	29-630-21-15-00-0-00-000					\$121,224.89
	2611 Forest	29-630-32-06-00-0-00-000					\$21,804.95
	2615 Forest	29-630-32-07-00-0-00-000					\$17,585.19
	2517 Forest	29-630-21-11-00-0-00-000					\$21,174.89

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
Southwest Quadrant (Single Family Development)	2629 Forest	29-630-32-11-00-0-00-000	CDBG	01/31/2014	05/31/2014	12/31/2018	\$36,181.99
	2633 Forest	29-630-32-12-00-0-00-000					\$87,593.29
	2639 Forest	29-630-32-13-00-0-00-000					\$78,062.54
	2641 Forest	29-630-32-14-00-0-00-000					\$118,238.52
	2626-2628 Forest	29-630-33-10-00-0-00-000 29-630-33-11-00-0-00-000					\$23,134.58
	2510 Forest – Hibbler	29-630-20-26-00-0-00-000					\$21,066.24
	2508 Forest – Black	29-630-20-18-00-0-00-000					\$19,554.50
	2522 Forest - Thornton/Hibbler	29-630-20-27-00-0-00-000 29-630-20-21-00-0-00-000					\$49,652.67
	1215 East 26th Street	29-630-32-02-00-0-00-000					\$91,099.03
	1206 E 27th St – Woods	29-630-32-15-00-0-00-000					\$17,293.28
Total							\$991,866.48
Commercial Property North of Student Housing Along Troost	2317, 2321, 2323 and 2327 Troost	29-630-08-17-00-0-00-000	CDBG	01/31/2014	05/31/2014	07/31/2016	\$73,283.92
		29-630-08-08-00-0-00-000					\$369,967.19
		29-630-08-09-00-0-00-000					
	29-630-08-10-00-0-00-000						
2301 -2315 Troost	29-630-08-03-00-0-00-000 29-630-08-04-00-0-00-000 29-630-08-05-00-0-00-000	\$568,097.22					
Total							\$1,011,348.33
Townhomes Along 27th Street	2640 Tracy aka 1220 E. 27th St.	29-630-32-16-00-0-00-000	CDBG	01/31/2014	05/31/2014	12/31/2018	\$95,254.33
Total							\$95,254.33
Subtotal Beacon Hill:							\$8,518,290.53
Scattered Site Properties							
	4347 Norton	31-410-01-12-00-0-00-000	CDBG	06/01/2013	06/30/2013	10/31/2013	\$2,788.40
	4336 Norton	31-410-02-16-00-0-00-000					\$3,501.68
	4412 East 43rd Street	31-230-20-50-00-0-00-000					\$7,430.68

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
	4234 Elmwood	31-230-21-20-00-0-00-000	CDBG	06/01/2013	06/30/2013	10/31/2013	\$4,578.50
	4616 E 43rd (formerly 4235 Elmwood)	31-230-22-24-00-0-00-000					\$5,805.88
	2221 Wabash	29-610-34-12-00-0-00-000					\$630.86
	2337 Olive	29-640-02-15-00-0-00-000					\$1,049.60
	CHIC - 2016 Wabash	29-610-23-24-00-0-00-000					\$6,972.11
	CHIC -2014 Wabash	29-610-23-25-00-0-00-000					\$3,293.55
	CHIC - 2012 Wabash	29-610-23-25-00-0-00-000 29-610-23-26-00-0-00-000					\$3,293.54
	2317 Brooklyn - CHIC -	29-640-04-05-00-0-00-000					\$4,155.20
	CHIC - 2628-30 Brooklyn	29-640-32-21-00-0-00-000					\$18,358.08
	2210 Brooklyn - WW/WP	29-610-38-12-00-0-00-000					\$3,153.06
	2112 East 24th Terrace	29-640-08-55-00-0-00-000					\$2,318.52
	2437 Brooklyn	29-640-16-03-00-0-00-000					\$2,217.26
	2024 Benton B - Mitchell, Edward	28-420-20-28-00-0-00-000					\$42,223.14
	1301 E 5th Street	12-730-16-02-02-0-00-000					\$10,655.65
	4404 Elmwood	31-520-10-25-00-0-00-000					\$2,713.61
	4315 Cypress	31-520-03-05-00-0-00-000					\$1,883.50
	4440 Cypress	31-520-09-15-00-0-00-000					\$1,959.50
	4324 Cypress	31-520-04-19-00-0-00-000					\$2,493.50
	4312 Cypress	31-520-04-22-00-0-00-000					\$2,709.90
	4432 Kensington	31-520-08-14-00-0-00-000					\$7,610.51
	4336-38 Kensington	31-520-05-17-00-0-00-000	\$3,237.53				
	4305 E. 44th Street	31-520-08-03-00-0-00-000	\$12,747.15				
	4210 E 43rd St	31-230-19-28-00-0-00-000	\$3,489.90				
	2747-49 Benton Blvd	28-920-05-23-00-0-00-000	\$30,787.87				
	2910-12 East 28th Street	28-920-05-25-00-0-00-000	\$26,839.71				

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
	808 Wabash	29-110-12-12-00-0-00-000	CDBG	06/01/2013	06/30/2013	10/31/2013	\$3,331.42
	2638 Brooklyn	29-640-32-19-00-0-00-000					\$1,561.95
	2636 Brooklyn	29-640-32-20-00-0-00-000					\$2,048.46
	2221 Wabash	29-610-34-12-00-0-00-000					\$630.86
	2809 Benton Blvd	28-920-08-21-00-0-00-000					\$28,520.50
	WW/WP - 2114 Wabash	29-610-32-18-00-0-00-000					\$9,141.42
	2504 E 23rd St (2500)	29-610-34-13-00-0-00-000					\$9,633.77
	2801 Benton Blvd	28-920-08-19-00-0-00-000					\$50,782.47
	2908 Lockridge	28-920-02-32-00-0-00-000					\$24,455.61
Total							\$349,004.85
Subtotal Scattered Site:							\$349,004.85
HOME Projects (Underway as of 12/1/12)							
Highland Place Apartments	1816 Highland		HOME	12/01/2012	12/31/2012	09/30/2013	\$29,427.35
	1820 Highland						\$21,977.35
	1822 Highland						\$22,027.35
	1824 Highland						\$27,603.81
	1826 Highland						\$18,477.35
	Additional Investment (Receivership PI)						\$2,666,946.07
Total							\$2,786,459.28
The Colonnades	2634 West Paseo	29-630-31-22-00-0-00-000	CDBG	04/15/2013	04/30/2013	06/30/2014	\$199,208.22
	1320 East 27th Street (aka 1322 E 27th)	29-630-31-21-00-0-00-000					\$199,746.47
	1312-14 East 27th Street	29-630-31-19-00-0-00-000					\$127,197.46
	1304-06 East 27th Street	29-630-31-31-00-0-00-000					\$206,031.73
	1308 E 27th St – Smith	29-630-31-18-00-0-00-000					\$19,893.21

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014)

Proposed Development	Address	Parcel	Program	Development Agreement Signed	Construction Started	Construction Complete	Potential Repayment Obligation for each parcel/property
The Colonnades	Additional Investment (Receivership PI)		HOME	04/15/2013	04/30/2013	06/30/2014	\$2,100,000.00
Total							\$2,852,077.09
Seven Oaks Senior Apartments**	Receivership PI		HOME	03/29/2013	04/30/2013	06/30/2014	\$800,000.00
Total							\$800,000.00
**Total amount listed includes only the HOME program income set-aside by the Receiver. This project also includes \$746,886.30 in HOME funds previously expended by the City that would be also subject to repayment.							
CDBG Projects (Underway as of 12/1/12)							
Registry Square	1121 E 44th St	30-620-09-01-0-00-000	CDBG	Completed by Receiver	Construction Underway	12/31/2014	\$90,877.20
	1115 E 44th St	30-620-09-02-0-00-000					
	1202 E 45th St	30-620-10-20-0-00-000					
	1210 E 45th St	30-620-10-42-0-00-000					
	1215 E 45th St (1215-1223) County name 1225 E 45th St	30-620-20-02-0-00-000					
	1221 Brush Creek Blvd (previously 1219 Brush Creek Blvd.)	30-620-23-01-0-00-000					
	1310-1312 Brush Creek Blvd	30-620-19-17-0-00-000					
	4402 Forest	30-620-09-31-0-00-000					
	4503 Tracy (4501 Tracy)	30-620-19-03-0-00-000					
Holy Temple Homes	Holy Temple Homes Apartments - Tracts A, B and C	31-210-16-01-00-0-00-000 31-210-18-01-00-0-00-000 31-210-06-02-00-0-00-000	CDBG	05/16/2012	10/31/2012	12/31/2015	\$522,990.45
Subtotal Underway:							\$7,052,404.02
Subtotal Repayment Liability (Development Activities): \$15,919,699.40							

Source: Exhibit C, Memorandum of Agreement for the Completion of Activities Under Federal Receivership and Ongoing Administration of the CDBG and HOME Programs, April 2013.

Appendix B

Director of Neighborhoods and Housing Services' Response

Note: The city auditor's comments regarding the director of neighborhoods and housing services' response can be found in Appendix C.



Neighborhoods and Housing Services Department

4th Floor, City Hall, Suite 402
 414 East 12th Street
 Kansas City, Missouri 64106-2768



Date: December 10, 2014
To: Doug Jones, City Auditor
From: John A. Wood, Director
 Neighborhood and Housing Services Department
Subject: City's Performance under the HUD Memorandum of Agreement Audit

1. Recommendation: The director of neighborhoods and housing services should ensure performance deadlines for building or scattered site projects identified in the MOA are met or request an extension before the deadline.

Response: Agree. To the extent possible, extension requests will be made prior to the deadline contained in the MOA.

2. Recommendation: The director of neighborhoods and housing services should ensure CDBG/HOME subrecipients are approved by HUD before executing a contract.

Response: Agree. NHSD requested [Attachment A] and will continue to request HUD's approval of subrecipients before executing contracts with the subrecipient. The goal is to receive HUD's approval of the City's recommended subrecipients so that CDBG/HOME funded contracts are executed by May 1.

3. Recommendation: The director of neighborhoods and housing services should request reimbursement of CDBG/HOME grant funds from HUD at least monthly.

Response: Agree in part. The Housing Division will draw funds from HUD at least quarterly. Because of HUD's requirement to prioritize expenditure of program income, it may be impractical to draw entitlement funds monthly.

4. Recommendation: The director of neighborhoods and housing services should revise the CHDO qualification checklist to reflect the new HOME CHDO regulations.

Response: Agree. Neighborhoods and Housing Services staff will incorporate the new HOME CHDO regulations in the CHDO qualification checklist.

See page 51, item 1 for the city auditor's comment.

5. Recommendation: The director of neighborhoods and housing services should revise the CHDO contract template to include date lines next to all signature lines.

Response: Agree. The CHDO contract template has been revised to include the date lines next to all signature lines (Attachment B). As stated during the audit, NHSD did not enter into a CHDO contract during the period under review; therefore, the revised template containing the date lines next to all signature lines was not required.

6. Recommendation: The director of neighborhoods and housing services should develop a tracking system of CHDO set-aside projects beginning with the project's planning stages to ensure the projects will be ready for commitment before the two-year deadline.

Response: Disagree. NHSD uses the "Guide to Requesting Funding Under the 20(15 [upcoming fiscal year]) Action Plan to procure CHDO projects. Procurement is done during the Consolidated Planning process. Only projects that are ready to be implemented receive funding; consequently, a system that tracks CHDO projects beginning with the planning stages is impractical.

See page 51,
item 2, for the
city auditor's
comment.

7. Recommendation: The director of neighborhoods and housing services should develop written policies and procedures that incorporate the new CHDO HOME regulations.

Response: Agree. NHSD will revise its CHDO policies and procedures to ensure compliance with the current federal regulations.

8. Recommendation: The director of neighborhoods and housing services should develop a written underwriting policy for the KC Dream Program that bases the amount of assistance to qualified homebuyers on financial need.

Response: Agree. The KC Dream Program policies and procedures have been revised to ensure compliance with all federal regulations (Attachment C).

Attachment A



Neighborhoods and Housing Services Department

Housing and Community Development Division

4th Floor, City Hall
414 E 12th Street
Kansas City, Missouri 64106

(816) 513-3036
Fax: (816) 513-3049

April 25, 2013

Dana Buckner, Region VII Director
Office of Community Planning and Development
U.S. Department of Housing and Community Development
Gateway Tower II, Room 200
400 State Avenue
Kansas City, KS 66101-2406

Dear Ms. Buckner:

SUBJECT: CDBG/HOME Subrecipient Contracting Approval

Pursuant to the Memorandum of Agreement for the Completion of Activities under Federal Receivership and Ongoing Administration of the CDBG and HOME Programs, the City hereby requests approval to contract with the following subrecipients to perform services as outlined in our 2013 Action Plan:

- (a) Planning Activities
 - Homeless Services Coalition

- (b) Public Service Activities
 - Housing Information Center
 - Community Assistance Council
 - reStart, Inc.
 - Benilde Hall
 - Sheffield Place
 - Operation Breakthrough
 - Mattie Rhodes Center
 - Urban Ranger Corps
 - United Inner City Services
 - Synergy Services
 - Boys and Girls Clubs
 - W.E.B. Dubois Learning Center
 - Palestine Senior Citizen Activity Center
 - Guadalupe Centers, Inc.

- (c) Housing Rehabilitation Activities

Dana Buckner

-2-

April 25, 2013

- Northland Neighborhoods, Inc.
- Neighborhood Housing Services
- Ivanhoe Neighborhood Council (owner-occupant and rental)
- Westside Housing Organization

(d) Neighborhood Redevelopment

- Kansas City Community Gardens

(e) Economic Development Activity

- Hispanic Economic Development Corp.

As part of the request for proposal process to develop the 2013 Action Plan, the City required extensive information on the administrative and financial capacity of an applicant as well as the viability of the project or activity. The proposals were reviewed and scored through the use of numerous criteria that were specifically designed to evaluate a respondent's capacity to undertake and complete the activities submitted for consideration.

The above agencies scored amongst the highest of those submitting proposals. Our scoring criteria awarded points for two criteria relating directly to administrative and financial capacity. These respondents scored favorably in those categories.

The City is confident that these selected subrecipients, using competitive procedures to the maximum extent feasible, have the overall organizational capacity to perform their respective contractual obligations.

Sincerely yours,



Stuart Bullington
Assistant Director

Attachment B

Attachment C

KC DREAM UNDERWRITING GUIDELINES

Introduction:

In an attempt to mitigate risk and to support sustainable homeownership, the City of Kansas City, Missouri has developed the following underwriting guidelines. It is the City's intent these guidelines will further aid the KC Dream Home Program to promote responsible lending as well as affordable homeownership.

KC Dream Home Program shall be underwritten as follows:

- Homebuyer's total household income cannot be more than 80% of AMI (Area Median Income);
- Homebuyer could not have owned a home within the past three (3) years unless the City specifically waives this in writing;
- Lender must present the homebuyer's fully executed purchase contract along with all required KC Dream forms and documentation to determine eligibility of homebuyer and property;
- Homebuyer and/or lender must first present approval letter to City showing the amount of loan he/she/they have been approved for with one of the KC Dream participating lenders so that City can determine down-payment assistance needed;
- The first mortgage loan must be fully amortized: no balloon loans allowed, no interest only loans allowed, and no adjustable rate mortgages allowed;
- All first mortgage loans must be FHA, VA, or Conventional loans;
- Homebuyer may not utilize purchase money Equity Lines of Credit (HELOC);
- The City's lien must be in second mortgage position unless the City specifically waives this in writing;
- Interest rates and fees for first mortgage loan must be reasonable and customary to the market; and in no case shall the interest rate exceed the then current MHDC (Missouri Housing Development Commission) interest rate by more than 1%;
- The purchase price of home cannot be more than its current (within 6 months) appraised value; and
- The maximum purchase price for an existing home is \$133,000.00; and the maximum purchase price for a new constructed home is \$150,000.00.

Underwriting Risk Mitigants, Need and Sustainability Analysis:

- Homebuyer's front-end ratio shall not exceed 33%, and the back-end ratio shall not exceed 42%;
- Homebuyer is allowed to have three (3) months of his/her/their total annual income as a depository asset and/or real estate asset, but any amount over the three (3) months total annual income threshold will be subtracted from the amount of approved KC Dream loan funds awarded;
- All loans shall be based on the actual down-payment assistance needed for the homebuyer to purchase the home;

- There shall be a maximum loan amount up to \$20,000.00 for a home purchased in a targeted area;
- There shall be a maximum loan amount up to \$10,000.00 for a home purchased in a non-targeted area;
- No cash deals are allowed with the KC Dream Home Program with the exception of homebuyers who must relocate due to city development projects; and

Refinancing Policy:

- Homebuyer shall not during the term of the loan refinance said loan, without the City's prior written consent. Approvals for refinances are considered on a case by case basis, but the approval is contingent upon the demonstration that the proposed refinance request is in the homebuyer's best interest. The following documentation is needed for the City to consider a refinance request: (1) Copy of signed loan application; (2) Copy of Good Faith Estimate; and (3) a \$50 check from the homebuyer payable to the City of Kansas City, Missouri for processing the refinance request.

Appendix C

City Auditor's Comments Regarding the Director of Neighborhoods and Housing Services' Response

This appendix is the city auditor's comments on the director of neighborhoods and housing services' response to the audit. The numbers listed for each comment refer to specific passages in the director's response, which can be found in Appendix B.

1. Comments related to recommendation 3:

Draws should be done monthly regardless of whether it is program income or entitlement funds. Monthly reimbursements, which are recommended by the city controller and city treasurer, help track remaining grant funds and improve the city's cash flow.

2. Comments related to recommendation 6:

HUD recommends tracking CHDO projects in their planning stage as a way to ensure sufficient projects are in the pipeline to meet the new HOME commitment requirements. Unless the city adequately plans for new CHDO projects and spends its CHDO money timely, the city risks losing the money.