

**ESSENTIAL SINGLE-FAMILY REHABILITATION LOAN POOL
– DISASTER RECOVERY**

State Authorization: GS122E

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.

Auditors may request documentation of monitoring visits by the State Agencies.

I. PROGRAM OBJECTIVES

The goals of the Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR) are: 1) to enable organizations skilled in low-income housing rehabilitation to aid those victims of the floods that followed Hurricane Matthew, Tropical Storms Julia and Hermine for whom all available recovery resources were sought, but deemed insufficient, to adequately address rehabilitation needs; and, 2) to alleviate housing conditions that pose an imminent threat to life or safety.

The Objectives of the Program are: to promote recovery assistance to flood victims; to serve households at or below 100% of area median incomes; to assist homeowners in safely rehabilitating their flood-damaged homes; and, to create a responsive disaster recovery single-family housing rehabilitation program that complements other recovery assistance resources.

II. PROGRAM PROCEDURES

1. *General.*

Local governments, 501(C)(3) nonprofit organizations, and regional councils are invited to apply to the North Carolina Housing Finance Agency (“NCHFA”) for funding under ESFRLP-DR to serve owner-occupied homes in disaster-affected

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counties. Successful applicants ("ESFRLP-DR Loan Pool Members") are contracted through Funding Agreements, to operate the program within their service areas in accordance with published Program Guidelines. Members have access to funds through membership in the Essential Single-Family Rehabilitation Loan Pool ("ESFRLP-DR").

Members receive ESFRLP-DR Program Guidelines as part of an Administrator's Manual which also contains copies of all required ESFRLP-DR report forms, documents, and are granted access to the ESFRLP-DR Portal available on line. Some Program forms are also available online at the Agency's website NCHFA.com. An alphabetical index is included for easy searching and cross-referencing. (References below to specific sections of the on-line Program Guidelines are indicated by the letters "PG" followed by section and paragraph numbers, e.g., "PG 3.2".)

Funding for the Essential Single-Family Rehabilitation Loan Pool – Disaster Recovery (ESFRLP-DR) cycle is from the State appropriated North Carolina Housing Trust Fund (HTF) and authorized by the General Assembly through the Disaster Recovery Act of 2016. The HTF does not have a CFDA number. Program Guidelines and procedures are designed to meet regulatory requirements of all funding sources. Sub-grantees must also comply with the NC State financial audit provisions provided in GS 159-34 (for units of local government that are subject to the audit and other reporting requirements of the Local Government Commission) or 143c-6-23 (for non-state entities), as well as the requirements of the State Single Audit Act.

Likewise, the Member's adopted Assistance Policy may be more stringent than state requirements. Where it is more stringent, this all-important document takes precedence. Generally, Members 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.

2. Monitoring of Recipients by NCHFA.

In addition to remote monitoring through review of activity in the ESFRLP-DR portal, NCHFA monitors member 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 ESFRLP-DR project (see PG 3.11). A monitoring checklist guides the review, which includes a review of at least three

ESFRLP-DR 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.

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III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the State agency noted by “Y.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y

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").

Members must limit hard costs and soft costs to a maximum of \$25,000 per dwelling unit for manufactured housing units that are not real property. The maximum amount of Program assistance attributable to hard costs is \$40,000 per housing unit classified as real property. The minimum amount of Program funds that can be spent on rehabilitation hard costs for any assisted dwelling unit is \$5,000.

Program support costs are limited to a maximum of \$10,000 per unit. See P.G. 2.1.9 & P.G. 2.1.10 for details.

Suggested Audit Procedures

Verify through a review of documentation that hard cost disbursements match those reported on Unit Completion forms in the ESFRLP-DR Portal and ESFRLP-DR funds disbursed by the member were used exclusively for eligible hard costs and program support costs.

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2. Allowable Costs/Cost Principles

See paragraph III.1. 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

Verify through a review of documentation that hard cost disbursements match those reported on Unit Completion forms in the ESFRLP-DR Portal and ESFRLP-DR funds disbursed by the member were used exclusively for eligible hard costs and program support costs.

3. Cash Management

Members must establish a Federally-insured master account to hold and disburse all funds within 12 days of receipt from the Agency (PG 3.3). ESFRLP-DR funds are disbursed on a reimbursement basis only, so any interest earned on the deposits should be minimal. ESFRLP-DR funds are requested through a detailed requisition process in the ESFRLP-DR portal. A detailed “Invoice Log” is included in the portal that clearly documents all invoices per requisition to account for the disposition of all funds requested.

4. Conflict of Interest

Members 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

There are six major requirements to be eligible for ESFRLP-DR assistance: 1) The housing unit to be rehabilitated with ESFRLP-DR funds must be located in Members service area, and must be owner-occupied; 2) The gross annual household income must not exceed 100% of the Area Median Income for the County; 3) The home must have received at least \$5,000 of damage from either Hurricane Matthew, Tropical Storms Julia and/or Hermine; 4) The construction cost of rehabilitation charged to the ESFRLP-DR Program cannot exceed the Program maximum for the type of home; 5) The homeowner cannot have been approved to receive a loan from the Small Business Administration to repair damages to their home due to Hurricane Matthew, Tropical Storms Julia and/or Hermine; and, 6) The homeowner must work with Member to properly document

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any FEMA assistance received for home repair due to Hurricane Matthew, Tropical Storms Julia and/or Hermine to ensure no duplication of benefits.

Members must maintain on file documentation from third-party sources indicating that all homeowners benefiting from program assistance have household incomes below 100% of the area median. (A chart in the Administrator's Manual lists the income levels by household size.) In addition, members' selection of beneficiaries must be done in accordance with their adopted Assistance Policies (see PG 4.1). To the maximum extent practicable, members 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 3.7).

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 - Acquisition of equipment or real property with ESFRLP-DR funds is not an eligible use of funds; therefore, guidelines on equipment and real property management do not apply.

7. Matching, Level of Effort, Earmarking

Under the ESFRLP-DR, members are required to dedicate matching local funds to their proposed projects in an amount equal to, or greater than, the amount (if any) proposed in their approved application for funding. The amount of match to which a recipient has committed can be found in their copy of their Application for Funding. Units are tracked on a unit-by-unit basis and there is no quarterly reporting required.

Suggested Audit Procedures

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

8. Period of Performance

Funding Agreements allow ESFRLP-DR Members to reserve funds for units from the pool, depending on availability, on a unit-by-unit, first come, first served basis in accordance with PG 3.2 up until December 31, 2018. Any funds, not committed under contract (pursuant to Section 3 of the Program Guidelines) to a unit as of December 31, 2018, must be withdrawn from deposit and returned to the Agency. All units must be completed and closed out by June 30, 2019. All rehabilitation hard costs must be obligated to specific rehabilitation jobs by the end of the December 31, 2018 (the Date of Completion). Members then have six months in which to complete all project activities, submit a Certification of Completion and Final Cost form to NCHFA (on the form provided in the

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Administrator's Manual), and return any unused program funds, including interest earned on ESFRLP-DR deposits. Extensions are rare and valid only if a completion date extension has been approved by NCHFA.

Suggested Audit Procedures

Verify that the length of time the recipient has been working on a project does not exceed June 30, 2019 or that the recipient has received an approved extension from the Agency.

9. Procurement and Suspension and Debarment

Procurement. As with selection of beneficiaries, ESFRLP-DR procurement requirements (PG 3.7) emphasize having a written policy and a fair, open and competitive process. Most ESFRLP-DR-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 ESFRLP-DR 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. ESFRLP-DR members are subject to no regulations or guidelines respecting suspended or debarred contractors.

Suggested Audit Procedures

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

10. Program Income

ESFRLP-DR funds are disbursed on a reimbursement basis, so no interest should accrue.

Suggested Audit Procedure

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

11. Reserve

12. Reporting

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A Unit Completion Report is sent through the Agency ESFRLP-DR internet portal and reviewed by NCHFA case manager on a unit by unit basis as the unit is completed. Members must also submit a Certification of Completion and Final Cost report prior to the expiration of the Funding Agreement.

13. Subrecipient Monitoring

NCHFA staff will monitor Member performance in accordance with P.G. 3.11. Members are required to monitor staff and contractor performance in accordance with P.G. 3.9. Members must also ensure that contractors are neither suspended nor debarred.

14. Special Tests and Provisions

As with all rehabilitation work, construction contract amendments ("change orders") are commonplace with ESFRLP-DR-funded work. Because change order prices are negotiated outside of the competitive arena, they present a challenge to Members' systems of internal control. It is a must that more than one staff member approve each change order, and that some test of cost reasonableness be applied.

Suggested Audit Procedure

Verify that an adequate system of internal controls is in place to ensure against impropriety with respect to change orders.