

14.239-1

HOME INVESTMENT PARTNERSHIP PROGRAM

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**State Project/Program:**      **ESSENTIAL SINGLE-FAMILY REHABILITATION LOAN POOL  
FORMERLY NAMED SINGLE-FAMILY REHABILITATION LOAN  
POOL AND SINGLE-FAMILY REHABILITATION PROGRAM**

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U. S. Department of Housing and Urban Development

**Federal Authorization:**      **24 CFR 92**

**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.**

This compliance supplement must be used in conjunction with the OMB 2021 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

**I. PROGRAM OBJECTIVES**

The primary objective of the Essential Single-Family Rehabilitation Loan Pool (“ESFRLP”) is to make a long-term positive impact on the state’s stock of standard affordable housing by encouraging the moderate, but comprehensive, rehabilitation of existing scattered-site single-family housing units owned or occupied by very low- and low-income, elderly or disabled households.

## II. PROGRAM PROCEDURES

### 1. *General.*

Local governments, 501(C) (3) nonprofit organizations and regional councils of government are invited to apply to the North Carolina Housing Finance Agency ("NCHFA") for funding in Agency-designated counties under ESFRLP through competitive, quasi-annual funding cycles. Applications are rated and ranked based on past performance under like or similar projects and organizational capacity. Beginning with SFRLP10, funding will be made available to successful applicants proposing to serve Agency-designated counties across the state on a three year rotation.

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

ESFRLP Program Guidelines as part of an Administrator's Manual which also contains copies of all required ESFRLP report forms and documents, (which also vary from cycle to cycle) are available on line 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".)

Members funded under more than one cycle (and their auditors) must take care to use the correct Guidelines, forms or documents for each individual cycle (referred to as SFRLP14, SFRLP15, ESFRLP16 and ESFRLP17). All Members should also ensure that any NCHFA letters or memoranda, which have the effect of amending Program Guidelines, are being heeded.

Each cycle of ESFRLP is funded from one or more of the following resources: 1) the federal HOME Investment Partnerships Program ("HOME" -- CFDA 14.239); 2) State-appropriated funds designated as HOME program matching funds ("HOME Match"). Program Guidelines and procedures for each cycle are designed to meet regulatory requirements of all funding sources used for that cycle. In the case of HOME, ESFRLP guidelines exceed minimum federal requirements (24 CFR 92) in numerous specifics such as in rehabilitation standards, income targeting, and reporting requirements.

As of December 26, 2014, OMB issued guidance which states that all federal funds awarded prior to December 26, 2014 are subject to OMB A-133, whereas all federal funds awarded after that date are subject to the guidance of Super Circular OMB 2 CFR 200. Under the Super Circular, any sub-grantee that expends at least \$750,000 in federal funds during the fiscal year is subject to single audit. 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 either Federal or 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 Members by NCHFA.*

In addition to remote monitoring through review of requisitions, unit completion reports and case files, NCHFA monitors Member activity by assigning Rehabilitation Officers (“case managers”) to work with all Members to ensure the success of their assigned projects. Case managers visit each Member for on-site monitoring at least once during their ESFRLP project (see PG 3.11). A six-page monitoring checklist guides the review, which includes a review of at least a minimum number of ESFRLP case files, plus thorough inspections of the dwelling units associated with those files. A monitoring goal with a minimum number of reviewed case files and units inspected per project will be determined by the review of the Subrecipient’s capacity during the application process. The capacity indicator score includes a rating of the staff and/or consultant qualifications and experience and recent performance under other housing rehabilitation projects. Subrecipients with a superior capacity score will have at least three case files and unit inspections. Subrecipients with an acceptable capacity score will have at least five case files and unit inspections. Subrecipients with a problematic capacity score will have at least ten case files and unit inspections. If the Subrecipient completes less units than the monitoring goal for the project, all of the units will be monitored. Case managers may choose to review more than the minimum case files or units upon their discretion.

The emphasis is on the Member’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 rehabilitation process.

**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 federal agency, noted as “Y,” on the “Matrix of Compliance Requirements” located in Part 2 of the OMB 2021 Compliance Supplement; however, the State Agency may have added the Type and this is noted by “Y.” If the State determines that the federal requirement does not apply at the local level or if the State modifies the federal requirements, this is noted in the supplement under the type of compliance requirement. If the federal and/or State agencies have determined that the type is not applicable, it is noted by “N.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2020 Compliance Supplement, Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

If there is no program listed on the “Matrix” in Part 2 or Part 4, the State has determined the Type that is applicable. If a Type is determined direct and material, the auditor should refer to the requirements found in Part 3 and listed in this supplement.

| A                               | B                                   | C               | E           | F                                   | G                                     | H                     | I                                  | J              | L         | M                       | N                            |
|---------------------------------|-------------------------------------|-----------------|-------------|-------------------------------------|---------------------------------------|-----------------------|------------------------------------|----------------|-----------|-------------------------|------------------------------|
| Activities Allowed or Unallowed | Allowable Costs/<br>Cost Principles | Cash Management | 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           | N                                   | Y                                     | Y                     | Y                                  | Y              | Y         | Y                       | Y                            |

**A. Activities Allowed or Unallowed**

Program funds may be used for two purposes only: 1) "Hard costs" (materials, labor, etc.) associated with the rehabilitation of eligible dwelling units; and, 2) "soft costs" for activities ancillary to the rehabilitation work (inspections, work write-ups, cost estimates, etc.) accrued in the management of the ESFRLP project. More specific definitions of these cost categories are provided in the Program Guidelines at section 2.2, "Eligible Uses of Funds" ("PG 2.2"). Definitions vary slightly by funding cycle.

At this time hard costs per dwelling unit cannot exceed a set total per unit (\$30,000) unless the Member request additional funds per unit. For ESFRLP16, SFRLP17 and ESFRLP18 hard cost cannot exceed \$25,000. The hard cost maximum was raised to \$30,000 in the ESFRLP cycle. Members may set more stringent limits, in their adopted Assistance Policies, than Program limits, which vary by funding cycle (see PG 3.2).

Allowable Soft Cost are based on proposed budget's submitted by ESFRLP members and approved by the Agency. Starting with SFRLP13, there are no administrative funds. For SFRLP13-17, the soft cost are capped per the members approved soft cost budget.

**Suggested Audit Procedure**

Verify through a review of documentation that hard cost disbursements match those reported on Activity Reports, and that ESFRLP funds disbursed by the Member were used exclusively for eligible rehabilitation hard costs and soft costs.

**B. Allowable Costs/Cost Principles**

See paragraph III.1. "*Activities allowed or unallowed*", above. The costs of any activities other than the two eligible activities – hard costs and soft costs – are unallowed (including assistance to rental properties). See PG 2.2 for specific breakdown of eligible costs by category.

**C. Cash Management**

Where HOME funds are involved, recipients must establish a separate account and disburse all funds within 12 days of receipt from the Agency (PG 3.3). See 95.502(c)(2) of the Home Regulations. HOME and HOME Match funds are disbursed on a reimbursement basis only, so any interest earned on HOME deposits should be minimal. HOME and HOME Match funds are requested on a requisition for Home Program funds form. A detailed "Invoice Log" must be attached to each requisition to account for the disposition of all funds requested.

**D. Reserve**

**E. Eligibility**

Members must maintain on file third-party documentation that all homeowners benefiting from program assistance have household incomes below 80% of the area median. (A chart in the on line Administrator's Manual lists the income levels by county based on household size.) In addition, Members' selection of beneficiaries must be done in accordance with their adopted and NCHFA-approved Assistance Policies (see PG 4.1) which typically specify more stringent income targeting, as well as targeting assistance to households with special housing needs, such as elderly, veteran, disabled, households with a child 6 years old or under and where home contains Lead Based Paint hazards are also eligible.

Income eligibility is based on anticipated annual income as defined at section 2.4 of the Program Guidelines (PG 2.4). NCHFA monitors will review income verification procedures and documentation during their review.

**F. Equipment and Real Property Management**

Acquisition of equipment or real property with ESFRLP funds is not an eligible use of funds; therefore, federal guidelines on equipment and real property management do not apply at the local level.

**G. Matching, Level of Effort, Earmarking**

Units are tracked on a unit-by-unit basis and there is no quarterly reporting required.

**Suggested Audit Procedure**

Verify through a review of documentation that any matching funds reported on unit completion reports actually contributed to the reported rehabilitation job(s).

**H. Period of Performance**

Under ESFRLP Funding Agreements allow Members a maximum of 36 months to complete and closeout their ESFRLP units. For SFRLP all rehabilitation hard costs under the original allocation of \$175,000 (Raised to \$190,000 in 2019) must be obligated to specific units by the end of an 18-month period. Members must submit a Certification of Completion and Final Cost form to NCHFA. Once a Member completed two units, they are eligible to set-up and draw-down funds from the SFRLP "Pool". Units set-up under this pool must be set-up six months prior to expiration of Funding Agreement.

**I. Procurement and Suspension and Debarment**

As with selection of beneficiaries, ESFRLP procurement requirements (PG 3.7) emphasize having a written policy and a fair, open and competitive process. Most ESFRLP rehabilitation work is accomplished by eligible private, for-profit construction contractors, which are procured through competitive sealed bids. Where this is not the case, Members 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 procurement requirements.

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

**Suggested Audit Procedure**

Verify that Members who use staff labor for construction work are following competitive procurement practices for materials and tracking job costs as appropriate.

**J. Program Income**

ESFRLP funds from HOME are disbursed on a reimbursement basis, so no interest should accrue.

**Suggested Audit Procedure**

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

**K. Reserve**

### **L. Reporting**

A Unit Completion Screen is completed in the ESFRLP Portal and reviewed by NCHFA staff 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.

### **M. 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.

### **N. Special Tests and Provisions**

As with all rehabilitation work, construction contract amendments ("change orders") are commonplace with ESFRLP-funded work. Because change order prices are negotiated outside of the competitive arena, they present a challenge 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.

Real property acquisition is not an eligible activity under ESFRLP, nor is permanent relocation. Temporary and voluntary relocation may occur when the scope of rehabilitation work includes lead-hazard reduction activities that might create a temporarily unsafe environment. Certain eligible relocation expenditures are detailed in section 2.7 of the Program Guidelines.