U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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Chicago, Illinois 60604-3507

OFFICE OF
COMMUNITY PLANNING & DEVELOPMENT

MAY 27 2016

Honorable Joseph Gottemoller
Chairman, McHenry County Board
ATTN: Mr. Dennis A. Sandquist
Director, Planning and Development
2200 N. Seminary Avenue
Woodstock, IL 60098

Dear Chairman Gottemoller:

Subject: Program Year-End Review Letter
2015 Program Year
McHenry County, Illinois

The provisions of the Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990, require the annual submission of performance reports by grant recipients receiving Federal assistance through programs covered under these Acts. Additionally, these Acts require that a determination be made by the Secretary, that the grant recipient is in compliance with the aforementioned statutes and has the continuing capacity to administer the programs for which assistance is received.

The Department is charged with making a comprehensive performance review of McHenry County's overall progress, at least annually, as required by the statutes and 24 CFR 91.525 of the regulations. The review consists of analyzing the County's consolidated planning process, reviewing management of funds, determining progress made in carrying out policies and programs, determining the compliance of funded activities with statutory and regulatory requirements, determining the accuracy of required performahce reports, and evaluating accomplishments in meeting key Departmental objectives.

This letter incorporates the Chicago Regional Office of Community Planning and Development's (CPD) review of McHenry County's 2015 Consolidated Annual Performance and Evaluation Report (CAPER), which consists of the County's 2015 Community Development Block Grant (CDBG) Program, HOME Investment Partnerships Program (HOME), and Neighborhood Stabilization Program (NSP-1) funded activities. This letter is organized to address specific elements: the Consolidated/Action Plan, grantee performance and overall evaluation, and conclusions.

HUD has determined that Mc Henry County has the continuing capacity to administer Community Planning and Development programs. However, HUD has also determined that corrections and revisions are needed to complete the CAPER. A specific evaluation of the County's performance can be found in the enclosed Appendix A - Annual Community

Assessment of Performance. Additional reporting information that the County submits in response to our assessment may impact our determination of continuing capacity.

HUD requests that you share this letter and the attachments with the residents of McHenry County, and that you provide us with the information outlined in Appendix B – CAPER Reporting Issues and Requested Revisions no later than 30 days from the date of this letter.

Should you have any questions on this or other related issues, feel free to contact Jerry L. P. Deese, Senior Community Planning and Development Representative, at (312) 913-8702 or Jerry.Deese@hud.gov.

Sincerely,

Ray E. Willis
Director

Enclosures: Appendix A - Annual Community Assessment of Performance
Appendix B – CAPER Reporting Issues and Requested Revisions

Annual Community Assessment of Performance
McHenry County, Illinois
Program Year 2015

Part I: Summary of the Consolidated Plan/Action Plan

5-Year Planning Documents

McHenry County's 2015 Program Year is the first year of its 2015-2019 Consolidated Plan. The County provided narrative information relating its five-year accomplishments, and 2015 activities, to goals and objectives set forth in the Consolidated Plan.

The narrative reflected that, overall, McHenry County is making acceptable progress toward the goals and objectives of its 5-year Strategic Plan. However, there was one goal in which the County failed to make any progress. The County expected to rehabilitate six (6) rental housing units during the 2015 Program Year, but it reported zero accomplishments. HUD will continue to monitor the progress of this goal during the next program year.

2015 Action Plan

The County's 2015 Annual Action Plan (AAP) was received on April 8, 2015. The Annual Action Plan was approved by HUD on May 18, 2015.

The Annual Action Plan set forth specific projects for funding that were consistent with the goals and priorities of the County's 5-year Strategic Plan. We find that the CDBG activities carried out during the program year were generally consistent with the 2015-2019 Consolidated Plan and 2015 Annual Action Plan.

HUD, however, noticed that the County failed to carry out some of the HOME activities proposed in the 2015 Program Year Annual Action Plan. This is the third consecutive year in which HOME activities have been canceled or failed to move forward.

Please provide an explanation on the steps the County is going to take to ensure that it will carry out the 2015 Action Plan proposed HOME activities. Please provide this information no later than 30 days from the date of this letter.

Part II: Summary of Grantee Performance – CPD Programs

Consolidated Annual Performance and Evaluation Report (CAPER)

The Consolidated Annual Performance and Evaluation Report (CAPER), received March 30, 2016, has been used as one of the primary sources of information for the assessment. The report was found to be, generally, complete.

In our review, we determined that additional information and/or corrections are needed to

complete the CAPER. Please review the summary of additional reporting information and corrections to be submitted in Appendix B following this assessment.

Management of Funds

McHenry County's Community Development Block Grant (CDBG) Allocation for 2015 was $1,336,571, with no reported Program Income during the Program Year. The County also received $433,030 in HOME Investment Partnership Program (HOME) funds.

The County did not report CDBG Program Income in Program Year 2014.

Community Development Block Grant Expenditures

A.) Timeliness

According to 24 CFR 570.902, HUD will review the performance of each entitlement to determine whether the County is carrying out its CDBG-assisted activities in a timely manner. This review is conducted sixty days prior to the end of the grantee's current program year. Before the funding of the next annual grant and absent contrary evidence satisfactory to HUD, HUD will consider an entitlement recipient to be failing to carry out its CDBG activities in a timely manner if: "*(1) Sixty days prior to the end of the grantee's current program year, the amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year; and (2) The grantee fails to demonstrate to HUD's satisfaction that the lack of timeliness has resulted from factors beyond the grantee's reasonable control.*"

In 2015, the County received $1,336,571 in CDBG funding. As of November 2, 2015, it was calculated that McHenry County had a balance in its Line-of-Credit (drawdown ratio) of 0.98 times ($1,306,445.69) its annual grant. This was considered to be timely.

B.) Compliance with the primary objective (70% low-moderate income benefit)

Pursuant to 24 CFR 570.200(a)(3), "*Entitlement recipients, recipients of the HUD administered Small Cities program in Hawaii, and recipients of insular area funds under section 106 of the Act must ensure that over a period of time specified in their certification not to exceed three years, not less than 70 percent of the aggregate of CDBG fund expenditures shall be for activities meeting the criteria under § 570.208(a) or under § 570.208(d)(5) or (6) for benefiting low and moderate-income persons.*"

As per IDIS PR-26 – CDBG Financial Summary Report, line 22 – "Percent Low/Mod Credit", in 2015 ninety-nine percent (99.91%) of the funds spent by the County benefited low- and moderate-income persons. This percentage is in compliance with the County's 2015 Overall Benefit Certification of at least seventy percent (70%) for the designated period.

C.) Limitation on Planning and Administrative (PA) Costs

Pursuant to 24 CFR Part 570.200(g), "*No more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs, as defined in § 570.205 and 507.206, respectively. Recipients of entitlement grants under subpart D of this part shall conform with this requirement by limiting the amount of CDBG funds obligated for planning plus administration during each program year to an amount no greater than 20 percent of the sum of its entitlement grant made for that program year (if any) plus the program income received by the recipient and its subrecipients (if any) during that program year.*"

As per IDIS PR-26 – CDBG Financial Summary Report, McHenry County did not exceed the twenty percent (20%) Planning and Administration Cap ($267,314.20) during its 2015 Program Year, with total reported Planning and Administration obligations of 16.25% ($217,172.46). McHenry County is in compliance with 24 Part 570.200(g).

D.) Public Services

Pursuant to 24 CFR 570.201(e)(1), "*The amount of CDBG funds used for public services shall not exceed 15 percent of each grant, except that for entitlement grants made under subpart D of this part, the amount shall not exceed 15 percent of the grant plus 15 percent of program income, as defined in § 570.500(a). For entitlement grants under subpart D of this part, compliance is based on limiting the amount of CDBG funds obligated for public service activities in each program year to an amount no greater than 15 percent of the entitlement grant made for that program year plus 15 percent of the program income received during the grantee's immediately preceding program year.*"

As per IDIS PR-26 – CDBG Financial Summary Report, McHenry County spent 10.31 percent ($137,793.36) of its entitlement grant ($1,336,571) for Public Services in 2015. The County did not report Program Income in Program Year 2014. This percentage is considered to be in compliance for the designated period.

McHenry County assisted eight (8) Public Services activities in the 2015 Program Year.

E.) Performance Reports

Pursuant to 24 CFR 91.520 (a), "*Each jurisdiction that has an approved consolidated plan shall annually review and report , in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan.*"

HUD's review of McHenry County's IDIS PR03 – CDBG Activity Summary Report (GPR), for the Program Year 2015, was found to have no outstanding Open activities from prior program years.

HUD, however, has a report called the IDIS PR59 – CDBG Activities At-Risk Dashboard Report. The Dashboard Report identifies CDBG activities that have not yet been completed by Grantees in the Integrated Disbursement and Information System (IDIS).

The System requires action on these activities. The System also flags and requires justifications by Grantees, and HUD approval for activities that are deemed at risk by HUD based upon the following criteria:

full circle

- Activities that had no draws for a year
- Activities that have no reported accomplishments for three years
- Activities that have 80 percent of their funding amount disbursed and no accomplishments reported
- Activities with draws that have been identified by grantees for cancellation.

A review of the IDIS PR59 Report – CDBG Activities at Risk Dashboard, conducted on April 18, 2016, showed that McHenry County had no flags and no activities at risk.

HOME Investment Partnerships Program

A.) Program Expenditures and Commitments

According to the HOME Program Final Rule at 24 CFR 92.500(d)(1)(B), HUD will reduce or recapture any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the PJ of HUD's execution of the HOME Investment Partnership Agreement.

Further, Within 24 months after HUD notifies the PJ of HUD's execution of the HOME Investment Partnerships Agreement, the PJ must reserve not less than 15 percent of the HOME allocation for investment only in housing to be developed, sponsored, or owned by CHDOs.

The HOME regulation at 24 CFR Part 92.500 (d)(1)(C) states that in addition to the two categories above, HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund Treasury account by the amount of:

"Any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnerships Agreement."

During the 2015 program year, HUD performed an analysis of the McHenry County's compliance with the 24-month commitment deadline for 2013 funds and the five-year expenditure deadline for 2010 funds.

Our analysis determined that the County met its 24-month deadline to commit all funds to eligible HOME projects and to reserve 15 percent of its allocation for designated Community Housing Development Organizations (CHDOs). We also determined that the County was in compliance with it expenditure deadline.

The HOME Deadline Compliance Status Report can be found at:
https://www.hudexchange.info/manage-a-program/home-deadline-compliance-status-reports/

For the current period, the Deadline Compliance Status Report of February 29, 2016 reflected a commitment shortfall of $374,948. HUD issued a letter to McHenry County on April 1, 2016, advising the County of the shortfall and the pending deadline of July 31, 2016 to enter all commitments into the IDIS System in order to be in compliance with the 2013 commitment deadline.

As of March 31, 2016, the Deadline Compliance Status Report reflected a zero ($0.00) commitment shortfall. However, please note that any cancellation of activities may negatively impact the County's ability to meet these requirements.

B.) HOME Expiring Funds

As required by the National Defense Authorization Act, after the sixth Fiscal Year of being appropriated, unexpended funds will cease to be available to HOME Participating Jurisdictions.

During the 2015 Fiscal Year, funding from the 2008 Fiscal Year appropriation was subject to recapture at the end of the Federal Fiscal Year. No funds were recaptured from McHenry County as a result of this policy.

For more information concerning this policy, please see HOME FACTS - Vol.2, No.2 (dated February, 2009). This policy can be found at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/library/homefacts/volumes/vol2no2

The HOME Expiring Funds Report can be found at:
https://www.hudexchange.info/manage-a-program/home-expiring-funds-reports/

Program Compliance and Performance

Community Development Block Grant

A.) Monitoring

The CDBG program was not monitored during Program Year 2015.

There are no unresolved Findings of Noncompliance from past Program Years.

B.) Technical Assistance

McHenry County did not receive Targeted Technical Assistance in Program Year 2015.

C.) Additional Program Compliance and Performance Comments

No other performance issues have been identified in the review of the 2015 CAPER. However, various items of concern have been identified and further clarification is requested in Appendix B of this report.

HOME Investment Partnerships Program

The HOME program was not monitored during Program Year 2015.

There are no unresolved Findings of Noncompliance from past Program Years.

Community Development Block Grant

The CAPER was well organized but various items regarding IDIS reporting require additional information and clarification.

A.) Required Narratives

The required narratives submitted by McHenry County were generally complete. No additional information is required at this time.

B.) IDIS Reporting

There are some questions in reference to various activities reported in the IDIS PR03 Report. These items are described in the enclosed Appendix B.

The IDIS PR 26 Report is in agreement with the CDBG funds allocated for the 2015 Program Year, and the information matches the numbers reported in the PY 2014 CAPER.

HOME Investment Partnerships Program

A.) Performance Snapshot Report

HUD produces a Snapshot report that reviews the overall status of the program in comparison to other Participating Jurisdictions (PJ) within the State of Illinois. The most recent Snapshot Report McHenry County's HOME program performance reflected that the County ranks 17 out of 18 In-State PJ's.

The 2015 PY Snapshot Report of McHenry's HOME program performance reflected the following:

- The County's percent of funds committed was 89.64% while the state average was 95.76%. (State Ranking 15)
- The County's leveraging ratio for rental activities was 0.53 while the state average was 3.31. (State Ranking 17)
- The County's percent of completed rental disbursements to all rental commitments was 100% while the state average was 100%. (State Ranking 1)
- The County's percent of completed CHDO disbursements to all CHDO reservations was 94.33 while the state average was 87.27%. (State Ranking 7)

The County had no red flags identified.

The HOME Performance Snapshot Report can be reviewed at:
https://www.hudexchange.info/manage-a-program/home-performance-snapshot-and-pj-rankings-reports/

B.) Open Activities Report

The HOME Open Activities Report identifies HOME-assisted activities that have been funded, and fully expended, but not completed in the IDIS System. The report also identifies activities that have been in "open" status in the IDIS System for an extended period of time without advancing to completion.

The Open Activities Report identified one (1) open activity from 2014, related to homeowner occupied rehabilitation, and it has been opened for more than a year. The report also identified nine (9) open activities from 2015. These nine activities related to homeowner occupied rehabilitation, homebuyer acquisition and rehabilitation, and rental rehabilitation.

Please review this report and ensure that any issues with these activities are addressed, and provide the status of these activities no later than 30 days from the date of this letter.

The HOME Open Activities Report can be found at:
https://www.hudexchange.info/manage-a-program/home-pjs-open-activities-reports/

C.) Vacant Units Report

The HOME Vacant Units Report identifies projects that have been undertaken with HOME funds but have been vacant for an extended period of time, which could reflect a troubled project, or a reporting discrepancy in the IDIS System.

The Vacant Units Report identified no projects lacking occupancy data.

The HOME Vacant Units Report can be found at:
https://www.hudexchange.info/manage-a-program/home-pjs-vacant-unit-reports/

A-133 Audit

A current version of the A-133 Audit has been submitted to the Federal Audit Clearing House.

The audit identified one Finding related to HOME Program. This Finding will be addressed in separate correspondence from this office.

In addition, there are six (6) unresolved Findings from previous audits. HUD addressed these Findings in a letter dated November 27, 2015.

As of the date of this letter, there is no record of the County's response. Please submit a response by no later than June 10, 2016.

Part III: Summary of Grantee Performance – CPD Supplemental Programs

Neighborhood Stabilization Program (NSP-1)

Management of Funds

In Program Year 2015, the County continued to administer its Neighborhood Stabilization Program (NSP-1) grant funds.

Per its most recent NSP-1 Quarterly Performance Report (QPR), submitted May 2, 2016, the County reported:

- $3,085,695.00 in Grant Funds
- $1,320,761.55 in Program Income Receipts
- $4,365,248.25 in Total Funds Drawn
- $3,044,486.70 in Program Funds Drawn
- $1,320,761.55 in Program Income Drawn
- $4,388,691.33 in Total Funds Expended

The County has a remaining balance of $41,208.30 in its Line of Credit. This balance is for one remaining activity (1/900 LH-25 Acquisition/Rehab). Funds for this activity are obligated under contract with Habitat for Humanity of McHenry County, for the acquisition, rehabilitation, and sale of two homes. In addition to NSP funds, HOME funds will be used for down-payment assistance. The County has acquired both properties, and the remaining balance will be used for rehabilitation. Completion for both homes is expected in late fall of 2016.

Program Compliance and Performance

The NSP Program was not monitored during the Program Year 2015.

There are no unresolved Findings of noncompliance from past Program Years.

Closeout Technical Assistance was provided in Program Year 2015. The County should be able to start closeout procedures once the remaining activity has been completed.

Part IV: Overall Evaluation and Conclusions

Our assessment of the 2015 Program Year found that McHenry County's CDBG activities were, generally, consistent with its Consolidated Plan and in compliance with the Statutes and operating regulations. McHenry County has the continuing capacity to administer Consolidated Plan-covered programs.

While HUD has rendered a determination of continuing capacity, additional reporting submissions made in response to this assessment may result in HUD identifying compliance and capacity issues that could impact the determination of continuing capacity. We are available to provide the County with technical assistance, as needed, in completing reporting revisions, and in addressing general administration issues related to the CPD programs.

Audit Requirement

The Office of Management and Budget (OMB) Circular A -133, Audits of States, Local Governments, and Non-Profit Organizations was issued pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. Non-Federal entities that expend $500,000 or more in a year in Federal awards shall have a single or program specific audit conducted for that year in accordance with the provisions of Subpart B of the Circular.

It is necessary that you provide a copy of this letter to your IPA/Auditor and instruct them to focus their next audit review on the financial reporting requirements of the Community Development Block Grant (CDBG) program.

CAPER Reporting Issues and Requested Revisions
McHenry County, Illinois
Program Year 2015

The purpose of the CAPER is not only to report to HUD the progress made in meeting program requirements, but also so that any average citizen can be able to understand the current conditions, cause and effects, action plan taken, and progress made to reach the County's strategic goals. The following is a list of comments and questions that the County should address.

For further guidance on the comments on this section, please refer to:

"*Guidelines for Preparing Consolidated Plan and Performance and Evaluation Report Submissions for Local Jurisdictions*" at:
http://www.hud.gov/offices/cpd/about/conplan/toolsandguidance/guidance/pdf/local_guidelines.pdf

Memorandum: "*Analysis of Impediments to Fair Housing Choice Reissuance*" at:
http://www.hud.gov/offices/fheo/library/finaljointletter.pdf

"*Fair Housing Planning Guide*" Vol. 1 at:
http://www.hud.gov/offices/fheo/images/fhpg.pdf

"Appendix A: IDIS Code Definitions" at":
http://archives.hud.gov/offices/cpd/systems/idis/library/idis_online_entitlements.pdf

I. Narrative Reporting

Integrated Disbursement and Information System (IDIS) Reports

Requirement: Grantees are instructed to "*use IDIS to comply with current reporting requirements. To initiate annual reporting, all grantees should update all current activities in IDIS to include all required financial and performance information (It is current Departmental policy that Grantees should update IDIS information quarterly).*"

Comment: There are some questions in reference to various activities in the IDIS PR03 Report.

HOME Investment Partnerships Program

Requirement: Grantees are required to provide narrative information on the following HOME related items:

Results on on-site inspections of rental housing activities

a. A list of projects that should have been inspected on site this program year based upon the schedule
b. An indication of which of these were inspected, and a summary of issues that were detected during the inspection
c. A description of how it will remedy the situation for those properties that were not inspected

Comment: The County failed to provide narrative information on the HOME related items. Please provide narratives addressing these items.

II. IDIS Reporting

Please comply with the corrections needed to complete this report.

PR03 – CDBG Activity Summary for Program Year 2015

IDIS Activity Number	Items in Question	Requested Information / Correction Needed
771	Open Activity - The funded amount is $194,951.21, with only $951.21 in funds drawn. The IDIS Matrix Code for this activity is 03K – Street Improvements. The Activity Description states: Full Circle Development will improve the property known as Creekside Apartments, a senior affordable housing apartment complex.	Please provide information on the status of this activity. Please provide information in the Activity Description stating the use of CDBG funds. (What is CDBG going to pay for?)
775, 776, 780	Open Activities with funds drawn	Please provide information on the status of these activities.