

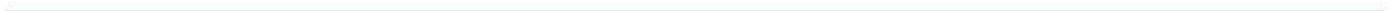


City of New Orleans, New Orleans, LA

HOME Investment Partnerships Program

**Office of Audit, Region 6
Fort Worth, TX**

**Audit Report Number: 2017-FW-1012
September 6, 2017**





To: Cheryl Breaux, Director of Community Planning and Development, 6HD
//signed//
From: Kilah S. White, Regional Inspector General for Audit, 6AGA
Subject: The City of New Orleans, New Orleans, LA, Did Not Always Properly Administer Its HOME Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the City of New Orleans' HOME Investment Partnerships program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



Audit Report Number: 2017-FW-1012

Date: September 6, 2017

Audit Report Title: The City of New Orleans, New Orleans, LA, Did Not Always Properly Administer Its HOME Program

Highlights

What We Audited and Why

We audited the City of New Orleans' HOME Investment Partnerships program in response to a citizen complaint alleging that the City did not monitor its HOME-assisted projects and in accordance with our annual audit plan. Our objective was to determine the validity of the complaint allegations and whether the City administered its HOME program in accordance with Federal and HUD requirements.

What We Found

The complaint had merit as the City did not always properly monitor or administer its HOME program in accordance with requirements. For 13 projects reviewed, the City did not ensure that 4 projects had regulatory agreements, preventing the City from enforcing the affordability and other program requirements. For the remaining nine projects, the City did not always ensure that (1) rents remained within rent limits, (2) it performed initial tenant income eligibility certifications, and (3) it conducted property inspections and onsite monitoring visits. In addition, the City did not track or accurately report unit vacancies and properly report and use its program income. These conditions occurred because the City (1) did not follow the program requirements, (2) lacked supervisory management of staff, (3) did not have adequate written policies and procedures, and (4) had poor record-keeping practices. As a result, the City failed to protect more than \$7.5 million in HOME funds disbursed; detect \$82,800 in rent overpayments; ensure that affordable housing was available and offered to low-income households; and ensure that program participants lived in decent, safe, and sanitary housing. In addition, the City could not provide HUD with reasonable assurance that it properly managed its HOME program, putting more than \$9.3¹ million in available HOME funds at risk for mismanagement.

What We Recommend

We recommend that HUD's Director of the New Orleans Office of Community Planning and Development require the City to develop and implement written procedures and take actions to better ensure that it spends more than \$9.3 million. In addition, we recommend that HUD require the City to (1) repay more than \$1.8 million, (2) support or repay more than \$5.8 million, and (3) develop and implement, and revise its written procedures and management controls.

¹ See the Scope and Methodology section for the calculation of this amount.

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Background and Objective

The HOME Investment Partnerships program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act as amended. The program was designed to create decent, safe, sanitary, and affordable housing, with primary attention to rental housing, for low-income households. The program regulations are contained in 24 CFR (Code of Federal Regulations) Part 92 and the HOME Investment Partnerships Program Final Rule. The U.S. Department of Housing and Urban Development (HUD) awards HOME funds annually as formula grants to participating jurisdictions² to fund a wide range of activities, which include building, buying, and rehabilitating affordable housing for rent or home ownership or providing direct rental assistance to low-income households.

Shortly after HOME funds become available each year, HUD informs eligible participating jurisdictions of their earmarked amounts. Participating jurisdictions must have a current and approved consolidated plan, which includes an action plan that describes how the participating jurisdiction will use its HOME funds. The program's flexibility allows States and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, or rental assistance or security deposits. Households must meet certain low-income limited criteria published by HUD to receive HOME assistance. HOME funds are managed through HUD's Integrated Disbursement and Information System (IDIS), which disburses funds that are allocated or reallocated and reports information on the use of HOME funds in the U.S. Treasury account.

The City of New Orleans is located at 1340 Poydras Street, New Orleans, LA. The City, mostly through its Affordable Housing, Intake, and Construction units, manages the HOME program. As a participating jurisdiction, the City is responsible for the overall administration and oversight of HOME program funds. From 2011 through 2016, HUD allocated more than \$14.6 million and disbursed more than \$5.3 million in HOME funds to the City for its HOME activities. See table 1.

Table 1: HOME funding allocated and disbursed

Program year	Allocated amount	Disbursed
2011	\$ 5,754,744	\$ 3,493,183
2012	1,590,094	1,026,190
2013	1,589,390	296,210
2014	1,937,744	41,743
2015	1,857,185	302,206
2016	1,964,846	194,488
Total	14,694,003	5,354,020

² A participating jurisdiction is designated by HUD in accordance with 24 CFR 92.105 and responsible for ensuring that all HOME funds are used in accordance with general administrative requirements.

From 1992 through December 15, 2016, the City disbursed HOME funds in the form of grants to 54 nonprofit and other organizations to rehabilitate rental housing at 67 projects. Through written regulatory agreements, the City required the organizations to comply with all HOME program regulations. In October 2016, we received a citizen complaint alleging that the City failed to monitor and oversee federal, state, and city dollars given to non-profit organizations to provide affordable housing.

Our audit objective was to determine the validity of the complaint allegations and whether the City administered its HOME program in accordance with Federal and HUD program requirements.

Results of Audit

Finding: The City Did Not Always Properly Administer Its HOME Program

The City did not always properly monitor or administer its HOME program in accordance with requirements. For 13 projects reviewed, the City did not ensure that 4 projects had regulatory agreements, preventing the City from enforcing the affordability and other program requirements. For the remaining nine projects, the City did not always ensure that (1) rents remained within rent limits, (2) it performed initial tenant income eligibility certifications, and (3) it conducted property inspections and onsite monitoring visits. In addition, the City did not track or accurately report unit vacancies and properly report and use its program income. These conditions occurred because the City (1) did not follow the program requirements, (2) lacked supervisory management of staff, (3) did not have adequate written policies and procedures, and (4) had poor record-keeping practices. As a result, the City failed to protect more than \$7.5 million in HOME funds disbursed; detect \$82,800 in rent overpayments; ensure that affordable housing was available and offered to low-income households; and ensure that program participants lived in decent, safe, and sanitary housing. In addition, the City could not provide HUD with reasonable assurance that it properly managed its HOME program, putting more than \$9.3 million in available HOME funds at risk for mismanagement.

The City Did Not Ensure That It Had Properly Filed Regulatory Agreements

The City did not always have properly filed regulatory agreements in place, which were needed to enforce the affordability requirements. Regulations at 24 CFR 92.252(e) required the City to ensure that HOME-assisted rental units be occupied by low-income households and remain affordable for a minimum period of affordability, ranging from 5 to 20 years.³ Regulations at 24 CFR 92.504(c)(3)(ii) required the City to enforce the requirements by using deed restrictions, covenants running with the land, use restrictions, or other mechanisms approved by HUD. To meet the requirements, the City used regulatory agreements for its HOME funded projects.

However, of 13 projects reviewed, the City did not have regulatory agreements in place for 4, for which it disbursed more than \$1.8 million in HOME funds for 30 rental units. The review also confirmed the complainant's allegations that the original project owners at these four projects sold the properties (see table 2) without the City's knowledge or approval. Without the regulatory agreements, the City could not enforce the affordability requirements, making those 30 rental units unavailable to low-income families. Further, the City could not enforce other HOME requirements, such as rent limits, tenant eligibility, and property inspections and onsite monitoring, once the properties were sold.

³ The number of years required for affordability was based upon the funding amount and activity type.

In September 2016, the City mailed letters to the new project owners requesting the execution of regulatory agreements and compliance with the affordability requirements. However, as of April 2017, the new project owners had not responded. The required period of affordability ended for one in March 2017 and for another in August 2017 without resolution. See table 2.

Table 2: Projects sold or transferred without a regulatory agreement

Project name	Contract disbursement	HOME Units	Original project owner	New project owner	Sale date	Required period of affordability
HOPE Rental-Havana Street Project	\$155,383	4	HOPE ⁴	Gay & Les, LLC	10/06/2006	04/01/2002 to 03/31/2017
Marlborough Gate Apartments	300,000	4	NHS ⁵	Maple Ventures, LLC	05/23/2013	08/14/2002 to 08/13/2017
Mazant Development	675,000	10	HOPE	Mazant Properties, LLC	09/05/2013	04/01/2004 to 03/31/2024
Jordan Manor ⁶	699,454	12	Galilee Housing Initiative and Community Development	Academy Place, LLC	09/30/2015	05/06/2011 to 05/05/2026
Total	1,829,837	30				

The City Failed To Ensure Compliance for Nine Projects Reviewed

For 9 of 13 projects reviewed, the City executed and properly filed regulatory agreements, but did not always ensure that (1) units rents remained within the limits, (2) it properly performed initial tenant income eligibility certifications, and (3) it conducted property inspections and onsite monitoring visits.

The City Did Not Enforce Rent Requirements

The City did not always ensure that rents remained within the HOME rent limits. To assure compliance with the rent and occupancy requirements, the City required project owners to submit project compliance reports annually for review and approval. To keep rents affordable, HUD published maximum rent limits annually on its website. Regulations at 24 CFR 92.252(f)(2) also required the City to provide the updated rent limits to the project owners. While the City ensured that projects submitted the required compliance reports, a review of the compliance reports determined that rents exceeded the rent limits at one project in 2014, resulting in tenant and subsidy overpayments totaling \$82,800. See table 3. In addition, the City did not have adequate documentation to support that it provided updated rent limits to project

⁴ Homeownership Opportunities for People Everywhere (HOPE)

⁵ Neighborhood Housing Services (NHS)

⁶ The Jordan Manor project was seized on June 23, 2015, by a bank, which sold the property to the current property owner on September 30, 2015.

owners each year for any of its projects from January 2011 to November 2016. Therefore, the City did not ensure that projects provided affordable housing.

Table 3: Project that exceeded HOME rent limits

Project owner	Project name	Total units	Units exceeding rent limits	Year	Total rent overpayments
UNITY of Greater New Orleans	Rosa Keller	60	30	2014	\$82,800
Total					82,800

The City Did Not Always Properly Perform Initial Income Eligibility Certifications

The City did not always properly perform initial tenant income eligibility certifications. Regulations at 24 CFR 92.203(a) and (b) required the City to determine the income eligibility of program applicants to meet the program’s income targeting requirements. In addition, 24 CFR 92.203(d)(2) required a reexamination of household income if more than 6 months had passed since the initial income eligibility determination. The City’s HOME manual also required its intake staff to verify the project owner’s eligibility determination before leasing units. To meet the requirement, project owners collected required documentation and submitted it to the City for verification. However, the City did not properly certify the eligibility for 2 of 15 tenants. Specifically,

- For one, the income documentation was more than 6 months outdated at the time of certification. In addition, the file did not contain adequate documentation to support the City’s income calculation, such as a completed employment verification form and income calculation worksheet. Despite these deficiencies, the City certified eligibility. Further, the City did not certify this tenant’s eligibility until 9 months after the tenant occupied the unit.
- For one, the City did not perform the verification until 9 months after the tenant occupied the unit.

The City Did Not Perform Property Inspections as Required

The City did not perform property inspections as required. Regulations at 24 CFR 92.504(d)(1) required the City to perform onsite inspections of HOME rental housing for compliance with the property standards. Regulations at 24 CFR 92.504(d)(1), 24 CFR 92.504(d)(1)(ii)(A), and 24 CFR 92.209(i) required the City to perform property inspections in specific years, based upon the size of the projects and the unit types⁷ and at the time of project completion. However, between January 2011 and November 2016, the City either did not perform inspections in the required years or at the time of project completion (for example, final inspection) for nine projects. In addition, although three units failed inspection, the City did not have documentation showing

⁷ Tenant-based rental assistance housing units had to be inspected initially and annually. We identified one tenant-based rental assistance unit at the Greater Treme Consortium, Inc.-Robertson Street project. Property inspections had to be performed on a sample of units every 3 years for projects with 1 to 4 units, every 2 years for projects with 5 to 25 units, and annually for projects with 26 or more units.

that it performed reinspections or that the project owners had resolved the deficiencies. Further, the City duplicated inspections for some units and did not inspect other units at the same property and could not identify all unit types. See table 4. Without performing the inspections, the City could not support that the units were eligible for lease under HOME and that tenants lived in decent, safe, and sanitary housing.

Table 4: Property inspection deficiencies

Project name	Deficiencies	Questioned costs ⁸
Treme Cottages	No annual inspections in 2016; final inspections performed for only 16 units, and final inspections not performed for 4 units leased in 2013.	\$1,800,000
Rosa Keller	No final inspections for 50 units leased in 2012, no annual inspections in 2014, 8 units inspected twice, and 26 not inspected.	1,450,000
Iberville Project Phase II-Bienville Basin	No final inspections for seven units leased in 2015 and final inspections performed on only 2 of 9 units.	1,273,795
OIC ⁹ 5-Pauger Street	2-year inspections not performed before 2015.	444,300
OIC1-N. Dorgenois Street	One unit inspected three times, and two units not inspected.	250,000
Greater Treme Consortium, Inc.-Robertson Street	Reinspections not performed for failed inspections on two units, 1 unit inspected twice, 1 not inspected	187,193
Robert Wolfe-HOME Rental Project	No final inspections	150,000
Greater Treme Consortium Inc.-Dumaine Street	3-year inspections not performed after 2012, reinspection not performed for a failed inspection on one unit.	112,807
OIC2-Painters Street	No property inspections	50,000
Total		5,718,095

The City Either Did Not Perform or Lacked Documentation for Its Onsite Monitoring Visits

The City did not have documentation showing that it performed onsite monitoring visits at its projects as required. Regulations at 24 CFR 92.252(f)(2), 24 CFR 92.504(d) and HUD's Monitoring HOME guidebook¹⁰ required the City to monitor projects for compliance with income and rent restrictions, affirmative marketing and fair housing, and property condition standards during the affordability period. Regulations at 24 CFR 92.504(a) and (d) required the

⁸ Total HOME disbursements to the project.

⁹ Opportunities Industrialization Center (OIC)

¹⁰ Monitoring HOME Guidebook, Chapter 1: HOME Monitoring Basics, section D, pages 5-6

City to perform onsite monitoring in specific years, based upon the size of the projects and the unit types.¹¹ However, City staff stated that the City did not perform onsite monitoring for any of the projects before 2008. In addition, for eight projects, the City did not comply with the monitoring requirements during our audit period.¹² Specifically, the City

- either did not have documentation or lacked adequate documentation, such as tenant review forms or a monitoring checklist, for monitoring visits conducted at three projects;¹³
- missed required years of monitoring for four projects;¹⁴ and
- did not document corrective action taken and the corresponding results for one project¹⁵ that had not properly certified its tenants' eligibility.

The City Did Not Track or Accurately Report Rental Unit Vacancies

The City did not track or accurately report its HOME rental unit vacancies. Regulations at 24 CFR 92.351 required the City to ensure that project owners promoted fair housing and outreach to all potentially eligible households, necessitating that the City obtain, track, and report unit vacancies. To meet this requirement, the City's contract agreement with project owners required the project owners to inform the public about housing availability and inform the City of vacated units. In addition, the City's regulatory agreements with the project owners required them to maintain records of vacant units to allow the City to monitor its marketing of the vacant units and ensure compliance with the requirements.

However, City staff stated that the City did not track rental unit vacancies at its projects. Instead, the City learned of vacancies during scheduled monitoring visits or when certifying initial tenants for eligibility. It also relied upon the project compliance reports submitted annually to view the vacancies and did not require project owners to provide monthly vacancy information. Therefore, the City could not readily determine the number of unit vacancies. Further, City staff confirmed the complainant's allegations that the City had inaccurate information in its vacancy report¹⁶ published monthly on HUD's website.

The City Did Not Comply With Program Income Requirements

The City did not comply with requirements for reporting and disbursing program income. Regulations at 24 CFR 92.503(a) required the City to deposit all program income into the HOME fund local account. Regulations at 24 CFR 92.502(a) required the City to report program income

¹¹ Onsite monitoring was required for a sample of units every 3 years for projects with 1 to 4 units, every 2 years for projects with 5 to 25 units, and annually for projects with 26 or more units.

¹² Our audit period covered 2011 through 2016.

¹³ These three projects included Greater Treme Consortium Inc.-Robertson Street, OIC2-Painters Street, and Greater Treme Consortium, Inc.-Dumaine Street.

¹⁴ These four projects included OIC1 N. Dorgenois Street, OIC5-Pauger Street, Rosa Keller, and Treme Cottages.

¹⁵ Iberville Project Phase II-Bienville Basin

¹⁶ The vacancy report is named the PR-47 HOME Vacant Units Report.

in IDIS.¹⁷ Regulations at 24 CFR 92.502(c)(3) required the City to disburse program income before drawing funds from its allocated HOME funds.

A review of the City's IDIS reports determined that the City did not properly use its available program income. Specifically, although the City received \$3.9 million in program income in October 2011, it did not report this income in IDIS until January 2012. In addition, in January 2012, the City drew down \$151,102 and in February 2012, \$116,484 from its HOME local funds instead of using its available program income as required.

In August 2012, HUD cited the City for failing to report the \$3.9 million in program income in a timely manner and making the inappropriate drawdowns. As corrective action, HUD required the City to review its monitoring procedures, take appropriate steps to strengthen the control environment for the receipt and expenditure of program income, and submit a written plan of action to prevent the recurrence of this violation. In response, the City revised its program income monitoring procedures to include a pre-draw checklist. However, in August 2016, the City again did not follow requirements as it made 15 drawdowns of more than \$1.2 million from its HOME local funds between June and August 2016 instead of using its available \$1 million¹⁸ in program income as required. In addition, it did not report the \$1 million in program funds until August 2016.

The City Did Not Follow Requirements, Lacked Supervisory Management of Staff, Did Not Have Adequate Written Procedures, and Had Poor Record-Keeping Practices

In addition to not following program requirements, the City lacked supervisory management of its staff, did not have adequate written policies and procedures, and had poor record-keeping practices. Regulations at 24 CFR 92.504(a) held the City responsible for managing the day-to-day operations of its HOME program and ensuring that HOME funds were used in accordance with all program requirements and written agreements. In addition, 24 CFR 92.508(a) required the City to establish and maintain sufficient records to enable HUD to determine whether it met program requirements.

The City lacked adequate supervision of its program staff as it did not have an intake unit manager – needed to oversee the monitoring process – from 2005 through 2016. In addition, the City did not have adequate written policies and procedures. From 1995 until 2014, the City used a general policies and procedures guide for all of its housing and neighborhood development programs, which did not include much detail regarding the HOME program. In 2011, the City requested technical assistance from HUD and HUD provided a consultant through its College of Experts at no cost to the City to revamp its policies and procedures manual. However, the manual delivered in 2014 did not detail specific steps for executing the program after project completion and connecting areas of responsibility for staff and departments.

¹⁷ HUD's Integrated Disbursement and Information System is a nationwide database used to manage and account for disbursement of HOME funds to participating jurisdictions and to collect, consolidate, and report information regarding HOME program performance.

¹⁸ The City received this program income in June 2016.

The City had poor record-keeping practices and did not have documentation readily available for review. Specifically,

- The City maintained files among three intake staff members instead of a master file organized by project name. As a result, the City's program file records for its onsite monitoring visits lacked organization, consistency, adequate details, and supporting documentation. Available supporting documentation had date discrepancies and lacked details, such as discussions with project owners or tenant interactions.
- Property inspection reports did not always include supervisory reviews and approvals, even for units with failed inspections. Inspection checklists omitted dates of last inspection.
- The City did not maintain a database or tracking system for monitoring visits or property inspections but, instead, relied upon various reports and file documentation. The use of such database or tracking system would have helped the City in the planning, scheduling, and completion of monitoring visits and property inspections.
- The City did not maintain an accurate, comprehensive unit listing for all projects. File documentation, such as contract agreements, project compliance reports, and rent schedules, conflicted with the City's listing as related to unit quantity, unit addresses, and projects.
- The City either did not maintain, have readily available, or provide comprehensive listings of tenant move-in and move-out dates, tenant-based rental assistance units, and rents charged by project.

Without following requirements and having adequate policies and procedures, supervisory management of staff, and good record-keeping practices, the City could not ensure program compliance and the accuracy of project information.

Conclusion

Because the City did not always follow requirements, lacked supervisory management of its staff and adequate written policies and procedures, and had poor record-keeping practices, it could not support that it properly administered its HOME program. As a result, the City did not always (1) have properly filed regulatory agreements, (2) ensure that a HOME-funded project rents remained within the HOME rent limits, (3) perform initial tenant income eligibility certifications, (4) conduct property inspections and onsite monitoring, (5) track or accurately report rental unit vacancies, and (6) properly report and use program income. As a result, the City failed to protect more than \$7.5¹⁹ million in HOME funds, detect \$82,800 in rent overpayments, and provide affordable housing to low-income families. In addition, the City could not provide HUD with reasonable assurance that it properly managed its HOME program, putting more than \$9.3 million in available HOME funding at risk for mismanagement.

¹⁹ The \$7.5 million includes ineligible costs of \$1,829,837 and unsupported costs of \$5,718,095. See Recommendations 1B, 1D, and Appendix A.

Recommendations

We recommend that the Director of HUD's New Orleans Office of Community Planning and Development require the City to

- 1A. Develop and implement a HUD-approved written plan and procedures and take actions that will correct and prevent the deficiencies noted in the finding, improve program administration effectiveness, strengthen the control environment, ensure compliance with HUD regulations and its own policies and procedures, and ensure that it has the continuing capacity to carry out its HOME program activities as required. Implementing this recommendation should ensure that the \$9,339,983²⁰ in HOME funding available to the City is better used.
- 1B. Repay its program from non-Federal funds \$1,829,837 for the four projects that were sold and failed to meet the affordability requirements.
- 1C. Support that rents were within the rent guidelines or repay tenants and/or HUD from non-Federal funds for rent overpayments of \$82,800 at Rosa Keller.
- 1D. Support that all HOME-assisted units at the Greater Treme Consortium, Inc.-Robertson Street, Greater Treme Consortium, Inc.-Dumaine Street, Iberville Project Phase II-Bienville Basin, OIC1-N. Dorgenois Street, OIC2-Painters Street, OIC5-Pauger Street, Treme Cottages, Robert Wolfe Construction-HOME Rental Project, and Rosa Keller projects meet HUD housing property standards or repay its program from non-Federal funds \$5,718,095 disbursed in contract costs.
- 1E. Establish and implement procedures for identifying and resolving property ownership transfers by the HOME organizations and projects and to ensure ongoing compliance with program requirements by project owners.
- 1F. Establish and implement procedures to ensure that project owners submit required project compliance reports and rents are provided annually to the project owners and that it maintains documentation showing compliance.
- 1G. Establish and implement procedures for ensuring that it performs initial income eligibility determinations, has supervisory review of determinations, and maintains adequate supporting documentation.
- 1H. Develop and implement adequate written procedures and management controls to ensure that it conducts property inspections and onsite monitoring as required, including but not limited to establishing protocols for collecting and maintaining adequate documentation.
- 1I. Update the IDIS PR-47 HOME Vacant Units Report to include accurate and current data and continue this practice periodically.

²⁰ See the Scope/Methodology section for the calculation of this amount.

- 1J. Implement adequate procedures and controls to ensure the timely reporting of program income and that it appropriately spends program income.
- 1K. Develop tools to improve record-keeping practices and maintain appropriate databases to track data related to property inspections, onsite monitoring, unit vacancies, HOME program participants, available units, tenant-based rental assistance units, and rents.

Scope and Methodology

We performed our audit from December 2016 through June 2017 at the City's office located at 1340 Poydras Street, New Orleans, LA, and our offices in Baton Rouge and New Orleans, LA. The audit generally covered the period January 1, 2011, through November 30, 2016. We expanded and limited our audit scope as determined necessary.

To meet the audit objective, we reviewed

- Laws, regulations, and HUD handbook and guidance relevant to the City's HOME program.
- The City's consolidated plan, consolidated annual evaluation and performance report, funding approval and HOME agreements, contract agreements including amendments, and regulatory agreements.
- HUD monitoring reports and IDIS activity and performance reports covering program years 1992²¹ through 2016.
- IDIS report PR27²² covering program years 1992 through 2016.
- Public search information for the sale or transfer of properties associated with HOME projects.
- The City's organizational structure and written policies and procedures.
- The City's project files and documentation related to rent and income limits, property inspections, onsite monitoring, and program income.

We also interviewed the City's and HUD's staff.

For the affordability period review, of 67 rental housing projects (54 organizations), with contract disbursements totaling more than \$51 million, we selected 13 projects (10 organizations), with contract disbursements totaling \$7.5 million as of June 2017,²³ to determine whether the City ensured compliance with the affordability requirement. We initially chose the eight projects listed in the citizen complaint. We then expanded the sample to include an additional 5 projects, by incorporating those projects with contracts between January 2011 and November 2016, for a total of 13 projects. Using this same sample of 13 projects, we

1. Reviewed the file documentation for 100 percent of the associated 148 project units to determine whether the unit rents were within the Federal guidelines published by HUD.

²¹ IDIS system information from program year 1992 and forward is automatically included when certain reports are generated. Therefore, our review of information from 1992 and after pertains to the IDIS reports only.

²² The IDIS PR27, Status of HOME Grants Report, contains financial information on HOME grants, subgrants, and subfunds, including commitments, program income, disbursements, project commitments/disbursements, and administrative funds.

²³ June 2017 is outside our review scope. However, we expanded the scope to incorporate the latest available contract disbursement data for the reviewed HOME projects.

2. Randomly selected 15 HOME units for review of the tenant file documentation for tenants whose initial income certifications were completed within our review period to determine whether the tenants' income eligibility was supported.
3. Reviewed the inspection documentation for 100 percent of the associated 148 units to determine whether the City completed the required final inspections upon project completion and planned inspections according to the frequency schedule.
4. Reviewed the file documentation for all 13 projects to determine whether the City monitored the projects for compliance with requirements.

Although this approach did not allow us to project the results of the sample to the population, it was sufficient to meet the audit objective.

We conducted an overall data reliability assessment of the City's project data, which included the names of the associated project owners, unit addresses, and contract amounts. We performed the assessment by comparing the information on the City's data reports, including rental inventory and unit listing documents, to other documentation in the project files, such as, regulatory agreements, contracts, and project compliance reports, as available. Our assessment determined that the contract amounts and unit information included on the data reports did not always agree with the other file documentation. However, upon obtaining clarification from the City and considering the additional file documentation, such as contracts and project compliance reports, we were generally able to use the City's data to achieve our review objective. Therefore, through file reviews, we determined that the computer-processed data related to the organizations' project files used for our review of affordability periods, property inspections, and onsite monitoring reviews were generally reliable. We did not perform a data reliability assessment related to tenant income eligibility information as computer-processed data were not provided or used.

As of June 2017, the IDIS report showed that between 2011 and 2016, HUD allocated more than \$14.6 million to the City for its HOME program, of which more than \$5.3 million had been disbursed. To determine the amount of funds to be put to better use, we subtracted the disbursed amount from the allocated amount to arrive at the City's \$9.3 million in available HOME funds for use in its HOME program.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of policies and procedures used to ensure that program requirements are met.
- Reliability of data for accurately reporting in HUD reports.
- Compliance with applicable Federal requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

The City did not follow program requirements; did not have adequate written policies and procedures; lacked supervisory management of staff; and had poor record-keeping practices (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			\$9,339,983
1B	\$1,829,837		
1C		\$ 82,800	
1D		5,718,095	
Total	1,829,837	5,800,895	9,339,983

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, requiring the City to develop and implement written policies and procedures and management controls and take actions that would correct and prevent the deficiencies noted in the finding would better ensure that the City spends its available \$9.3 million in HOME funds in accordance with the requirements for rent, tenant eligibility, and housing property standards.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

OFFICE OF COMMUNITY DEVELOPMENT
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR

ELLEN M. LEE
DIRECTOR

August 7, 2017

Ms. Kilah S. White
Regional Inspector General for Audit
HUD OIG Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

RE: City of New Orleans HOME Program Compliance Review

Dear Ms. White:

The City of New Orleans is in receipt of the discussion draft audit report concerning the HOME program dated July 27, 2017. This on-site audit was conducted by the U.S. Department of Housing and Urban Development, Office of Inspector General from December 2016 through June 2017. The audit generally covered the period January 1, 2011 through November 30, 2016.

The City's response to the draft audit report is attached. The City takes the findings and concerns outlined in discussion draft audit report very seriously and will work continuously with HUD representatives to ensure full compliance with program requirements. If you have any questions or further information is required, please feel free to contact me or Ronald Fomerette, Jr., Fiscal Compliance Manager at (504) 658-4252 or by email at reformerette@nola.gov.

Sincerely,



Ellen M. Lee
Director of Housing Policy and Community Development

EML/ref
Enclosures

cc: Taisha Phifer
Cheryl S. Breaux
Shanitra Marshall
Keesha S. Broussard
Cynthia D. Weatherspoon
Tracey Carney
Earl Randall

Jeffery P. Hebert
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Auditee Comments

**City of New Orleans, LA Response to HUD OIG Audit Report
Number 2017-FW-10XX**

The City of New Orleans currently manages 38 active housing projects including 28 HOME- assisted activities and 10 activities not funded through the HOME program. These activities represent a total investment of \$26 million in resources available to the City including \$20 million in HOME funds. This \$26 million of public resources is leveraged with \$196 million in private capital to produce 739 of a total of 1138 homeownership, rental, and home repair opportunities to help meet the affordable housing needs of low-income New Orleans residents.

Though many of the findings cited in the audit report are connected to activities that preceded the current administration, the City acknowledges its responsibility to ensure compliance with HOME program requirements irrespective of Mayoral administration. In recent years the City has taken multiple steps to resolve outstanding issues and improve its administration of the HOME program that benefits hundreds of families in New Orleans each year.

Finding #1: The City Did Not Ensure That It Had Properly Filed Regulatory Agreements:

The City did not always have properly filed regulatory agreements in place, which were needed to enforce the affordability requirements. Regulations at 24 CFR 92.252(e) required the City to ensure that HOME-assisted rental units be occupied by low-income households and remain affordable for a minimum period of affordability, ranging from 5 to 20 years. 24 CFR 92.504(c)(3) (ii) required the City to enforce the requirements by using deed restrictions, covenants running with the land, use restrictions, or other mechanisms approved by HUD. To meet the requirements, the City used regulatory agreements for its HOME funded projects. However, of 13 projects reviewed, the City did not have regulatory agreements in place for 4, for which it disbursed more than \$1.8 million in HOME funds for 30 rental units.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

City of New Orleans Response:

Despite the absence of executed regulatory agreements associated with four HOME-assisted activities, the City did perform initial tenant eligibility certification prior to leasing and continued to monitor income certification and conduct HQS inspections subsequent to initial lease-up. During this time, documentation confirms low-income residents did benefit from HOME investments. The City has additional documentation to support its position that these activities benefitted low-income participants. Because the documentation contains confidential tenant information, the City will provide the documentation as requested.

Comment 1

To ensure that HOME funds are secured and compliance requirements are established on HOME-assisted projects, Regulatory Agreements are currently being executed and recorded as a deed restriction on the assisted property immediately after the HOME contract has been executed. This process assures all HOME-assisted projects meet the requirements at 24 CFR 92.504(c)(3)(ii).

Finding #2: The City Did Not Enforce Report Submission and Rent Requirements:

The City did not always ensure that project owners submitted required rent and occupancy reports and rents remained within the HOME rent limits. To assure compliance with the rent and occupancy requirements, the City required project owners to submit project compliance reports annually for review and approval. To keep rents affordable, HUD published maximum rent limits annually on its website. Regulations at 24 CFR 92.252(f) (2) also required the City to provide the updated rent limits to the project owners. However, the City did not ensure that one project owner submitted the compliance report for 2013 and three project owners submitted the compliance reports for 2015.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

City of New Orleans Response:

The City disagrees with this finding.

Comment 2

*Report Submission – The City is providing copies of the project compliance reports (**Attachment I**) for the four projects cited in the draft audit report – UNITY of Greater New Orleans – Rosa Keller (2013), OIC1 (2015), OIC2 (2015), and OIC5 (2015).*

Rent Requirements - Three activities are cited in the OIG report for overpayment of rent – UNITY of Greater New Orleans - Rosa Keller; GTC, Inc. - Robertson Street; and GTC, Inc. - Dumaine Street.

Comment 3

*The 45 units cited in the report for overpayment at UNITY of Greater New Orleans - Rosa Keller were supported through Project Based Vouchers (vouchers) issued from the LA Housing Corporation (30) through UNITY of Greater New Orleans and the Housing Authority of New Orleans (15). HOME regulations at 92.252 (b) (2) allow HOME-assisted units to charge rent at the voucher rate even when those rents exceed the established HOME rent limits. The City is providing supplemental information to a previous submission supporting the use of 45 project based vouchers at the Rosa Keller apartments (**Attachment II**) as requested by HUD OIG.*

Comment 4

*The GTC, Inc. – Robertson Street activity consists of four units at 908(A)/(B)-910(A)/(B) N.Robertson Street. Projects that contain fewer than five HOME-assisted units are not subject to the provision at 24 CFR 92.252(b). A copy of the IDIS activity set-up screen is provided (**Attachment III**).*

Comment 4

*The GTC, Inc. – Dumaine Street activity consists of one unit at 1531 Dumaine Street. Projects that contain fewer than five HOME-assisted units are not subject to the provision at 24 CFR 92.252(b). A copy of the IDIS activity set-up screen is provided (**Attachment IV**).*

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Auditee Comments

Finding #3: The City Did Not Always Properly Perform Initial Income Eligibility Certifications:

The City did not always properly perform initial tenant income eligibility certifications. Regulations at 24 CFR 92.203(a) and (b) required the City to determine the income eligibility of program applicants to meet the program's income targeting requirements. In addition, 24 CFR 92.203(d) (2) required a reexamination of household income if more than 6 months had passed since the initial income eligibility determination. The City's HOME manual also required its intake staff to verify the project owner's eligibility determination before leasing units. To meet the requirement, project owners collected required documentation and submitted it to the City for verification. However, the City did not properly certify the eligibility for 2 of 15 tenants.

City of New Orleans Response:

*While the City acknowledges that the timeliness of certifying the eligibility for the two tenants listed in the report could have been improved, both tenants were determined to be income- eligible for the HOME-assisted units. The City is providing copies of tenant eligibility certification (**Attachment V**) for the two tenants listed in the report.*

Finding #4: Property Home Inspections:

The City did not perform property inspections as required. Regulations at 24 CFR 92.504(d) (1) required the City to perform onsite inspections of HOME rental housing for compliance with the property standards. Regulations at 24 CFR 92.504(d) (1), 24 CFR 92.504(d) (1) (ii) (A), and 24 CFR 92.209(i) required the City to perform property inspections in specific years, based upon the size of the projects and the unit types and at the time of project completion. However, between January 2011 and November 2016, the City either did not perform inspections in the required years or at the time of project completion (for example, final inspection) for nine projects. In addition, although nine units failed inspection, the City did not

Comment 5

**Ref to OIG
Evaluation**

Auditee Comments

Comment 6

have documentation showing that it performed reinspections or that the project owners had resolved the deficiencies. Further, the City duplicated inspections for some units and did not inspect other units at the same property and could not identify all unit types. Without performing the inspections, the City could not support that the units were eligible for lease under HOME and that tenants lived in decent, safe, and sanitary housing.

City of New Orleans Response:

Four of the nine projects cited for lack of final inspection were either new construction (Rosa Keller, Iberville Project Phase II - Bienville Basin, Robert Wolfe - HOME Rental Project) or substantial rehabilitation (Treme Cottages) developments. These developments require compliance with the International Building Codes (IBC) first adopted by the City in 2003 and updated to the 2006 codes by state action in 2008. Enforcement of the IBC falls under the purview of the City's Department of Safety and Permits. The IBC standard far exceeds that required under the HOME program HQS standard. In addition to Safety and Permits' ongoing monitoring for compliance with building code standards during the construction period, the Office of Community Development's Construction Unit also performs on-site inspections minimally twice-weekly during the construction period.

Comment 6

Upon completion of construction that meets all standards, the Department of Safety and Permits issues a Certificate of Occupancy (COO) certifying that all units contained in the building meet building code standards. Prior to a HOME project closeout where the City has committed HOME funds for construction activities, OCD inspectors also perform a final inspection to ensure compliance with City codes and HOME contract requirements. An Acceptance of Work Completion certificate is issued upon passage of the final inspection.

Comment 6

Certificates of Occupancy and Acceptance of Work Completion documents certify that all units in a building are complete, code

**Ref to OIG
Evaluation**

Auditee Comments

Comment 6

compliant, and ready for occupancy. OCD issues its Acceptance of Work Completion only when the entire HOME project has been completed.

*There may be instances in a multiple-building project where a unit or building will be occupied based on the issuance of the Certificate of Occupancy even though the entire project has not been completed. The City has provided the Certificates of Occupancy and Acceptance of Work Completion documents for Rosa Keller, Iberville Project Phase II - Bienville Basin, Treme Cottage, and Robert Wolfe - HOME Rental Project (**Attachment VI**).*

Comment 7

*For the remaining five projects cited in the report – (OIC1, OIC2, OIC 5, GTC, Inc. – Dumaine Street, GTC, Inc. – Robertson Street), all inspections have either been completed or are scheduled for completion by August 31, 2017. The inspection schedule is included (**Attachment VII**). The City will provide documentation of inspections and any needed follow-up actions. On July 17, 2017 the City provided documentation that inspections on units assisted under the HOME Tenant Based Rental Assistance (TBRA) program were conducted by the project sponsor. That documentation includes the listing of the units, occupants, inspection dates, and move-in dates. The City administers several TBRA programs under varying funding sources that are all classified as “TBRA” irrespective of the funding source. The unit cited in the draft audit report is not funded through the HOME program.*

Comment 8

Finding #5: The City Either Did Not Perform or Lacked Documentation for Its Onsite Monitoring Visits:

The City did not have documentation showing that it performed onsite monitoring visits at its projects as required. Regulations at 24 CFR 92.252(f)(2), 24 CFR 92.504(d) and HUD’s Monitoring HOME guidebook required the City to monitor projects for

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Evaluation**

Auditee Comments

Comment 9

compliance with income and rent restrictions, affirmative marketing and fair housing, and property condition standards during the affordability period. Regulations at 24 CFR 92.504(a) required the City to perform onsite monitoring in specific years, based upon the size of the projects and the unit types. However, City staff stated that the City did not perform onsite monitoring for any of the projects before 2008. In addition, for eight projects, the City did not comply with the monitoring requirements during our audit period.

City of New Orleans Response:

The City has updated its HOME monitoring policies and procedures (Attachment VIII) to ensure all projects are effectively monitored to ensure compliance with income and rent restrictions, affirmative marketing and fair housing, vacancy tracking, and property condition standards prior to occupancy and during the affordability period.

Finding #6: The City Did Not Track or Accurately Report Rental Unit Vacancies:

The City did not track or accurately report its HOME rental unit vacancies. Regulations at 24 CFR 92.351 required the City to ensure that project owners promoted fair housing and outreach to all potentially eligible households, necessitating that the City obtain, track, and report unit vacancies. To meet this requirement, the City's contract agreement with project owners required the project owners to inform the public about housing availability and inform the City of vacated units. In addition, the City's regulatory agreements with the project owners required them to maintain records of vacant units to allow the City to monitor its marketing of the vacant units and ensure compliance with the requirements.

City of New Orleans Response:

The City has updated its HOME monitoring policies and procedures (Attachment VIII) to ensure all projects are effectively monitored to ensure compliance with income and rent restrictions, affirmative

Comment 9

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Evaluation**

Auditee Comments

Comment 9

marketing and fair housing, vacancy tracking, and property condition standards prior to occupancy and during the affordability period.

Comment 9

Since 2015, the City has reduced the number of activities listed as vacant in IDIS from 214 to 76. Many of the 76 remaining activities were completed over a decade ago and now require information not required at that time to close these activities. In 2016 and again in recent weeks the City requested HUD IDIS technical assistance to accurately record and close-out rental unit vacancies. HUD has stated it will provide the City with technical assistance upon completion of the final OIG report.

Finding #7: The City Did Not Comply With Program Income Requirements:

In August 2012, HUD cited the City for failing to report the \$3.9 million in program income in a timely manner and making the inappropriate drawdowns. As corrective action, HUD required the City to review its monitoring procedures, take appropriate steps to strengthen the control environment for the receipt and expenditure of program income, and submit a written plan of action to prevent the recurrence of this violation. In response, the City revised its program income monitoring procedures to include a pre-draw checklist. However, in August 2016, the City again disregarded the requirements as it made 15 drawdowns of more than \$1.2 million from its HOME local funds between June and August 2016 instead of using its available \$1 million in program income as required. In addition, it did not report \$1 million in program funds received in June 2016 until August 2016. Further, the City had not used any of its program income as of May 2017 and continued to make drawdowns from its HOME local funds.

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Evaluation**

Auditee Comments

Comment 10

City of New Orleans Response:

The City disagrees with this finding.

*On December 2, 2016 HUD issued an Interim Rule with an effective date of January 3, 2017 regarding HOME Commitments. The Interim Rule also affected other administrative areas of the HOME program including but not limited to expenditure deadlines and the use of local account funds (program income, recaptures, repaid funds). Applicable pages extracted from the HUD's Office of Affordable Housing webinar of January 12, 2017 are attached (**Attachment IX**).*

Comment 10

According to the Interim Rule, local account funds no longer have to be disbursed before Treasury account funds. The specific example presented as part of the webinar mirrors the situation of the \$1 million in program income received by the City in 2016. As required by the Interim Rule, the City is including the \$1,000,000 of program income in the 2017 action plan; the City will commit the program income prior to committing any 2017 grant funds; the City will commit program income by the commitment deadline in 2019; and the City will disburse program income before grant funds if committed to the same activity. These actions will maintain the City's current compliance with program income requirements.

Finding #8: The City Misunderstood or Disregarded Requirements, Lacked Supervisory Management of Staff, Did Not Have Adequate Written Procedures, and Had Poor Record- Keeping Practices:

In addition to misunderstanding or disregarding program requirements, the City lacked supervisory management of its staff, did not have adequate written policies and procedures, and had poor record-keeping practices. Regulations at 24 CFR 92.504(a) held the City responsible for managing the day-to-day operations of

**Ref to OIG
Evaluation**

Auditee Comments

Comment 11

its HOME program and ensuring that HOME funds were used in accordance with all program requirements and written agreements. In addition, 24 CFR 92.508(a) required the City to establish and maintain sufficient records to enable HUD to determine whether it met program requirements.

City of New Orleans Response:

The City takes very seriously its responsibility to be good stewards of the resources to which it has been entrusted. Many of the findings cited in the audit report are connected to activities that date back as far back as 2002 and are therefore more challenging to resolve because of changes in leadership and staffing, loss of institutional memory, and damaged records. However, the City acknowledges its responsibility to ensure compliance with HOME program requirements irrespective of Mayoral administration.

Comment 11

In recent years the City, supported by HUD technical assistance in some cases, has developed and enhanced written policies and procedures for federal grant administration applicable to both the Office of Community Development and other City departments with responsibilities in programmatic and fiscal administration. An organizational structure has been in place for the past two years that provides appropriate levels of supervisory management and reporting responsibilities. To build its capacity to effectively manage federal, state, and local resources staff will continue to participate regularly in HUD-sponsored trainings and webinars and receive all programmatic updates electronically transmitted to grantees.

Comment 11

The City will immediately codify its implementation of a comprehensive monitoring process that creates the synergies between existing monitoring and compliance roles and responsibilities that result in better programmatic outcomes.

**Ref to OIG
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Auditee Comments

Comment 11

These procedures will also enhance the City's ability to identify challenges earlier in the project life cycle in order to provide appropriate technical assistance and interventions that move projects toward successful completion and ongoing performance. The City expects to use the information gained from its monitoring to problem solve not only at the project level but at the HOME program level.

Comment 11

Each day the City works to develop and implement initiatives that benefit New Orleans residents. The Office of Community Development particularly focuses on meeting the housing and living environment needs of residents of lower-income. The City appreciates and remains committed to working with HUD to strengthen its ability to provide high levels of service to those residents most in need.

OIG Evaluation of Auditee Comments

Comment 1 The City stated that despite the absence of executed regulatory agreements with four HOME-assisted activities, it performed initial tenant eligibility certification prior to leasing, monitored income certification, and conducted Housing Quality Standards (HQS) inspections after the initial leasing. The City further stated that it has additional documentation to support its position that these activities benefitted low-income participants and that it would provide documentation as requested.

However, during the exit conference, the City stated these compliance checks were completed before the properties were sold. Despite the City's claims, it did not have regulatory agreements in place and could not provide documentation showing that these four projects met the affordability and other HOME requirements between 2011 and 2016, as required. Therefore, the City did not ensure compliance with the HOME affordability requirements for four HOME projects totaling \$1,829,837.

Comment 2 The City disagreed with the finding that it did not enforce report submission and rent requirements and provided copies of its project compliance reports for the four projects cited in the audit report. We reviewed the additional documentation and agree that the City ensured compliance with the report submissions. As such, we revised the report to remove this issue.

Comment 3 The City stated that the 45 units cited in the report for overpayment at the UNITY of Greater New Orleans - Rosa Keller project were supported through project based vouchers issued from the LA Housing Corporation (LHC) (30 units) through UNITY of Greater New Orleans and the Housing Authority of New Orleans (HANO) (15 units). The City further stated that HOME regulations at 24 CFR 92.252(b)(2) allow HOME-assisted units to charge rent at the voucher rate even when those rents exceed the established HOME rent limits. The City provided supplemental information to a previous submission supporting the use of 45 project based vouchers at Rosa Keller.

We reviewed the additional documentation provided by the City and agree that rent overpayments did not occur for 15 units in 2014 and 2015 and 30 units in 2015. However, the City did not provide sufficient documentation to support that rent overpayments did not occur at 30 units in 2014. Specifically, the City provided a contract agreement between Unity of Greater New Orleans and the Department of Health and Hospitals establishing 30 units as Low-Income Housing Tax Credits (LIHTC) permanent supportive housing for a three-year period beginning June 2012, which included year 2014. The contract agreement did not list the unit numbers needed to verify if the rents were exempt for 2014 for the HOME units. In addition, according to the City's June 29, 2015, amendment

to its contract with LHC, the original contract²⁴ was not effective until March 1, 2015, after the 2014 rent period.

We revised the report to remove the questioned costs for rent overpayments associated with the 15 units for 2014 and 2015 and 30 units for 2015. Since we did not have sufficient documentation to verify Rosa Keller's exempt status related to its LIHTC housing units and contracted rents for year 2014, the questioned costs for 30 units in 2014, totaling \$82,800 remained in the report. The City will need to provide documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

- Comment 4 The City stated that the Greater Treme Consortium, Inc.-Robertson Street and – Dumaine Street projects were not subject to the rent limitations established at 24 CFR 92.252(b) because each project contained less than five HOME-assisted units and it provided documentation showing the number of units for each project activity. We reviewed the additional documentation provided by the City and agree that the rents were not subject to the rent limitations. As such, we removed the questioned costs associated with these projects from the audit report.
- Comment 5 The City acknowledged that the timeliness of certifying the eligibility for the two tenants listed in the audit report could have been improved; however, both tenants were determined to be income eligible for the HOME-assisted units. The City also provided copies of the tenant eligibility certifications. We reviewed this same documentation during the audit, which (1) for one tenant, the City lacked adequate documentation to support its income calculation and the City did not certify the tenant's eligibility until nine months after the tenant occupied the unit, and (2) while we determined that the other tenant was eligible, the City did not certify the tenant's eligibility until nine months after the tenant occupied the unit, as discussed in the audit report. As such, we stand by our original conclusions.
- Comment 6 The City stated that four of the nine projects cited for lack of final inspection were either new construction or substantial rehabilitation developments. The City also stated that these projects required compliance with the International Building Codes (IBC), which exceeds what is required under the HOME HQS standard. The City further stated that the Certificate of Occupancy (COO), issued by the Department of Safety and Permits, and the Acceptance of Work Completion (AWC) certificate, issued upon passage of the final inspection, certify that all units in a building are complete, code compliant, and ready for occupancy; and that the Office of Community Development's inspectors perform a final inspection to ensure compliance with City codes and HOME contract requirements. With its response, the City provided copies of COO and AWC form documents.

²⁴ The City did not provide the original LHC contract agreement.

However, the City did not provide documentation showing how the IBC standards exceeded those required of the HOME HQS standards. In addition, the COO and AWC forms did not certify that the projects met the HOME HQS standards, and all HOME contract and federal requirements related to property standards. Specifically, the COO stated that *'Certificates of Occupancy are issued subject to the laws, ordinances, and regulations enforced by the Department of Safety & Permits and the laws, ordinances, and regulations of other agencies, both State and City, where applicable.'*; and the AWC stated *'All repairs were found to be completed in accordance to the specification write-up approved by the Office of Community Development for the aforementioned property'*. Further, the City did not provide documentation supporting that it performed the final HQS inspections. As such, we could not validate that these documents were acceptable to meet the HOME property standard requirements or that the inspections were completed as required. Therefore, we stand by our original conclusions. The City will need to provide documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

Comment 7 The City stated that for the remaining five projects cited in the report, all inspections have either been completed or are scheduled for completion by August 31, 2017, and included the inspection schedule. The City also stated it will provide documentation of inspections and any needed follow-up actions. Due to the volume of documentation and extensive clarification needed to verify that the inspections were completed, we did not request the additional documentation. The City will need to provide final documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

Comment 8 The City stated that on July 17, 2017, it provided documentation that inspections on units assisted under the HOME Tenant Based Rental Assistance (TBRA) program were conducted by the project sponsor. That documentation included the listing of the units, occupants, inspection dates, and move-in dates. The City further stated that it administers several TBRA programs under varying funding sources that are all classified as "TBRA" irrespective of the funding source and the unit cited in the draft audit report is not funded through the HOME program.

However, the documentation provided by the City showed only the initial inspections performed on the TBRA units, and not the annual inspections, as required. In addition, since the City did not provide documentation showing the funding source for the TBRA units, we could not verify that the unit cited in the report was not funded through the HOME program. As such, we did not remove this issue from the audit report and we stand by our original conclusion.

Comment 9 The City stated that it updated its HOME monitoring policies and procedures to ensure all projects are effectively monitored for compliance with income and rent restrictions, affirmative marketing and fair housing, vacancy tracking, and property condition standards prior to occupancy and during the affordability

period. The City also stated that it has updated its IDIS vacant activities and requested HUD IDIS technical assistance to accurately record and close-out rental vacancies. We acknowledge the City for taking steps to address the issues identified in the audit report. The City will need to provide final documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

- Comment 10 The City disagreed and referred to HUD's Interim Rule (published December 2, 2016, and effective January 3, 2017) which made changes to the HOME Program commitment and expenditure requirements. The City stated that according to the Interim Rule, it no longer had to disburse the local account funds before Treasury account funds.

The Interim Rule referenced by the City was effective January 3, 2017, and was not applicable when the City made the inappropriate drawdowns between June and August 2016. However, we removed the statement regarding its use of program income after January 2017, since the interim rule was in effect. Other than this revision, we stand by our original conclusions.

- Comment 11 The City acknowledged its responsibility to ensure compliance with HOME program requirements and act as good stewards of the resources it receives. Accordingly, the City stated that it has developed and enhanced its written policies and procedures, set up an organizational structure which provides levels of supervisory management and reporting responsibilities, and ensures staff continue to participate regularly in HUD-sponsored trainings and webinars. Further, the City stated it would immediately work to implement a comprehensive monitoring process which would result in better programmatic outcomes.

We acknowledge the City for taking steps to address the issues identified in the audit report. The City will need to provide final documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.