



City of Dallas, Dallas, TX

HOME Investment Partnerships Program

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

**Audit Report Number: 2018-FW-1004
May 8, 2018**



To: Shirley J. Henley, Director, Community Planning and Development, 6AD

//signed//

From: Kilah S. White, Regional Inspector General for Audit, 6AGA

Subject: The City of Dallas, TX, HOME Investment Partnerships Program Was Not Always Administered in Accordance With Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Dallas' 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: 2018-FW-1004

Date: May 8, 2018

The City of Dallas, TX, HOME Investment Partnerships Program Was Not Always Administered in Accordance With Requirements

Highlights

What We Audited and Why

We audited the City of Dallas' HOME Investment Partnerships program, specifically, its reconstruction program. A City auditor's report, multiple news articles, and U.S. Department of Housing and Urban Development (HUD) monitoring reviews identified issues with the City's Federal funds and record keeping. Our audit objective was to determine whether the City followed HOME regulations and its own policies and procedures when it reconstructed 13 homes and correctly administered its matching contributions.

What We Found

The City did not follow HOME regulations and its own policies and procedures in its reconstruction program or its administration of its match contributions. The City did not (1) follow environmental regulations, (2) properly assess contractors or ensure that they followed contract terms, (3) check the eligibility status of subcontractors, (4) sign loan agreements, or (5) support and calculate participant income correctly. These conditions occurred because City staff did not have adequate training or direction on environmental requirements and the City hastily reprogrammed \$1.02 million to its reconstruction program without proper planning because it believed the money would be recaptured by HUD. As a result, the City rushed projects without ensuring that it followed HOME regulations or its own policies. Therefore, it misspent more than \$1.3 million to reconstruct 13 single-family homes. Also, the City did not meet all HOME requirements for its match contributions. This occurred because the City did not believe it had to meet HOME requirements as the properties receiving match contributions were not HOME funded. As a result, it claimed more than \$2.9 million in ineligible match contributions.

What We Recommend

We recommend that the Fort Worth Office of Community Planning and Development Director require the City to (1) repay HUD more than \$1.3 million that it misspent reconstructing homes, (2) perform environmental reviews in accordance with HUD regulations, (3) hire a qualified entity to determine the structural integrity of the reconstructed houses, (4) provide a plan to cover the costs of any potential warranty work needed on the properties, (5) develop procedures to include the review of subcontractors, (6) repay more than \$2.9 million in match contributions, and (7) ensure that its employees understand and comply with the HOME income requirements.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding: The City Did Not Follow HOME or Its Own Requirements.....	4
Scope and Methodology.....	15
Internal Controls.....	17
Appendixes.....	18
A. Schedule of Questioned Costs	18
B. Auditee Comments and OIG’s Evaluation.....	19
C. Required Warranties	24

Background and Objective

The City of Dallas, an entitlement grantee, received annual allocations of HOME Investment Partnerships program¹ funds authorized under the Cranston-Gonzalez National Affordable Act as amended from the U.S. Department of Housing and Urban Development (HUD). HUD allocated funds by formula among eligible State and local governments (participating jurisdictions) to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing. Participating jurisdictions could use HOME funds, among other things, to carry out multiyear housing strategies through acquisition, rehabilitation, new construction of housing, and tenant-based rental assistance. The City must match no less than 12.5 cents² of every HOME dollar it spends on affordable housing, and the contributions must come in the form of a permanent contribution to affordable housing. The City received more than \$8 million for fiscal years 2016 and 2017.

The City's HOME activities included a reconstruction program that provided forgivable loans of up to \$103,000³ for demolition costs and onsite reconstruction for eligible homeowners. Eligible participants included individuals of 62 years of age or older or persons with disabilities.⁴ For eligible participants, the City provided a list of contractors from which they could choose. The loan agreement was between the homeowner and the City. The construction contract was between the homeowner and the selected contractor.

Our audit objective was to determine whether the City administered its HOME program in accordance with HUD regulations and its own policies and procedures. Specifically, we reviewed the reconstruction of 13 homes to determine whether the City met HOME and contractual requirements. Additionally, we reviewed matching contribution requirements for its HOME funds to determine whether the City correctly administered the claimed amount.

¹ HUD's Office of Community Planning and Development administered the HOME program.

² Generally the amount is 25 cents per HOME dollar spent, but the City got a waiver.

³ In 2015, the City increased the loan amount from \$103,000 to \$110,000 for one loan in our sample.

⁴ The City also set aside 10 percent of its HOME funds to be used to assist persons younger than 62 years of age or without a disability.

Results of Audit

Finding: The City Did Not Follow HOME or Its Own Requirements

The City did not follow HOME regulations and its own policies and procedures in its reconstruction program or its administration of its match contributions. The City demolished and reconstructed 13 homes and did not (1) follow environmental regulations, (2) properly assess contractors or ensure that they followed contract terms, (3) check the eligibility status of subcontractors, (4) sign loan agreements, or (5) support and calculate income correctly. These conditions occurred because City staff did not obtain necessary training or comply with guidance received and supervisors did not ensure compliance. Further, the City hastily reprogrammed \$1.02 million to its reconstruction program without proper planning because it believed the money would be recaptured by HUD. The City rushed projects without ensuring that it followed HOME regulations or its own policies. As a result, the City misspent more than \$1.3 million to reconstruct 13 single-family homes. Also, for its match contributions, the City did not (1) execute written agreements imposing affordability requirements, (2) monitor HOME match-eligible housing, or (3) document that the match was made only to the affordable housing units. Consequently, it had more than \$2.9 million in ineligible match contributions because it did not follow HOME regulations.

The City Did Not Follow Environmental Regulations

The City did not follow environmental regulations. Specifically, it did not perform environmental reviews⁵ or maintain an environmental review record containing all required documents.⁶ This condition occurred because City staff did not have adequate training⁷ or direction on environmental requirements. The City was required to perform an environmental review of all HUD-assisted projects to ensure that the proposed projects did not negatively impact the surrounding environment and that the property site itself would not have an adverse environmental or health effect on end users. The City spent more than \$1.3 million to reconstruct 13 single-family homes without performing the required environmental reviews.

The City used a tiered approach for the reconstruction environmental reviews. Tiering is a means of making the environmental review process more efficient by allowing parties to eliminate repetitive discussions of the same issues.⁸ A tiered review consists of two stages: a broad-level review (tier I) and later site-specific reviews (tier II). The tier I reviews should identify and evaluate the issues that can be fully addressed and resolved before the City selects

⁵ 24 CFR (Code of Federal Regulations) 58.10

⁶ 24 CFR 58.38

⁷ HUD training attendance records showed that only one of the five inspectors performing the review had been to training.

⁸ 24 CFR 58.15

specific sites.⁹ In addition, it must establish the standards, constraints, and processes to be followed in the tier II reviews. As individual sites are selected, the tier II reviews evaluate the remaining issues based on the policies established in the tier I review. Together, the tier I and all tier II reviews collectively comprise a complete environmental review addressing all required elements.

The City Generally Did Not Perform Environmental Reviews

The City generally did not perform its tier II environmental reviews as required. It was required to address and document each site's compliance with 14 statutory items¹⁰ and 3 compliance items.¹¹ However, of the 14 statutory items, the City addressed and documented only the items for historic properties and floodplain management. Of the three compliance items, the City addressed and documented only the flood disaster protection and coastal barrier improvement. The reviews relied on a "written strategy" generated by the City's Housing Department staff. The strategy outlined the requirements in the statutory checklist.¹² For the items not covered in the tier I review, the City was required to perform additional steps. However, the City did not include supporting documentation showing that the property complied with environmental requirements.¹³

The City Did Not Maintain a Complete Environmental Review Record

The City's environmental review record did not include all required documents. HUD required the City to maintain an environmental review record containing all documents, including public notices, written determinations or environmental findings, decision-making procedures, and actions taken pertaining to each project. Contrary to this requirement, the City's documentation was scattered throughout its departments. Further, the staff responsible for the tier II reviews were not aware that a tier I review existed. Instead, the staff generated a strategy for tier II that was intended to address the required statutes, including those addressed in tier I.

The City Did Not Properly Assess a Contractor or Ensure That It Followed Contract Terms

The City did not properly assess a contractor to ensure that it had the ability and financial capacity to fulfil its contractual responsibilities. Despite indications that Dry Quick Restoration, LLC, had limited financial capacity, the City took no further steps to ensure that Dry Quick had sufficient capacity to complete eight projects¹⁴ concurrently. Further, the City did not adequately

⁹ An example of a statutory item that could be addressed in a tier I review in the City's program would be coastal zone management. Dallas is more than 200 miles from the Texas coast, so this item could be addressed upfront before the individual sites are selected.

¹⁰ These 14 items are included on the statutory checklist for compliance with 24 CFR 58.5. For the reconstruction program, the City was not required to address the statutory requirements for air quality or explosive and flammable operations.

¹¹ These three items are included on the compliance checklist for 24 CFR 58.6, Other requirements.

¹² The written strategy was a document generated by the Manager II, Inspection Services. It contained information regarding the statutory requirements. Although the strategy indicated that the environmental review would be tiered, the manager stated that he did not know a tier I review existed.

¹³ For example, statutes required that the property comply with noise control and abatement requirements. Only one of the files reviewed contained documentation. And in that one instance, the calculation was incorrect.

¹⁴ Seven of eight reconstruction projects included HOME funds. One was funded by Community Development Block Grants and not included in our sample.

monitor Dry Quick or ensure that it followed contract terms in performing the reconstruction projects. In addition, the City tried to avoid its responsibility by including clauses in its contracts stating that it was not responsible for the contractor's failure to carry out work in accordance with requirements. However, those same contracts designated the City as the homeowner's attorney with the power to endorse the name of the homeowner on any check or other instrument to transfer funds to the contractor for work properly performed. Further, the City had the authority to override a homeowner's objection to pay the contractor for unsatisfactory work. As a result, the City paid Dry Quick almost \$700,000 for seven reconstruction projects that were completed late and not in accordance with contract terms.

The City Did Not Properly Assess a Contractor

The City did not properly assess the contractor, Dry Quick, to ensure that it had the experience and financial capacity to fulfil its contractual responsibilities. The City's policy¹⁵ required that new contractors with no previous experience with the City receive limited capacity until they completed at least one or two successful projects. However, the City allowed Dry Quick to exceed limited status and start eight reconstruction projects at once. Further, the City had indications¹⁶ that Dry Quick had limited financial capacity and took no actions to address this risk.¹⁷ This deficiency resulted in the City's relying upon a contractor with limited financial capacity to undertake the majority of the reconstruction projects.

The City Did Not Adequately Monitor Dry Quick

The City did not adequately monitor Dry Quick to ensure that its reconstruction projects complied with the contract requirements or that homeowners were not financially overburdened during the reconstruction of their homes. Specifically, the City did not ensure that Dry Quick

- completed its projects on time,
- completed its projects in a professional manner,
- provided the required warranties,
- submitted the required paperwork, and
- followed the City's allowed draw schedule for payment.

Reconstructions Exceeded Construction Deadlines

Dry Quick exceeded the contract completion date on all of its reconstruction projects by 9 to 18 months. This condition likely occurred because Dry Quick did not have the capacity to begin eight projects concurrently and complete them in a timely manner. Further, the City did not take appropriate action to mitigate capacity issues or enforce contract terms. In addition to poor contract administration, the delays caused a hardship for the homeowners that the program was

¹⁵ The City's policy required contractors to satisfactorily complete one or two projects before being approved to operate at full financial capacity. A contractor was allowed to have no more than two projects underway until full status was authorized.

¹⁶ The contractor's file contained an internal email indicating a City official expressed concerns about Dry Quick's financial capacity.

¹⁷ The file contained an approved waiver for Dry Quick to exceed the limited status. However, the waiver stated that the Inspection Services Division ensured the quality and financial capacity of the contractor.

designed to help. The eligible homeowners were 62 years of age or disabled and had very limited income.¹⁸ During reconstruction, homeowners were responsible for any relocation costs. Therefore, homeowners had to obtain housing for an unanticipated extended period due to the 9- to 18-month delays. The City should have been more diligent in ensuring that the projects were completed in a timely manner to avoid unnecessary hardships.

Reconstruction Projects Were Not Completed in a Professional Manner

The Dry Quick reconstruction projects were not completed in a professional manner. Many of the Dry Quick reconstructed homes were incomplete and had defects or signs of substandard work. For example, at one house, the frame extended beyond the slab by several inches, and Dry Quick used brick mortar to support an exterior wall. (See photographs below.)



The frame of the house extended over the slab by inches.

¹⁸ The highest income reported by any of these participants was \$25,056.



An exterior brick wall was supported by what appeared to be brick mortar.

In addition, two houses reconstructed by Dry Quick had flooding issues. For one house, it appeared that the flooding was because the air conditioner condensate line had been installed above the back patio. (See photographs below.) At both houses, the back patios sloped toward the house, causing water to puddle and leak into the home.



The air conditioning condensate drain line emptied onto the back patio. Although the house was new, condensation was consistently draining onto the patio according to the homeowner. In addition, the back patio sloped toward the home. This issue caused water to seep into the home. The homeowner had a bucket on the patio to stop the water from getting into the house. (See photograph below.)



A bucket was placed on the patio by the homeowner to collect air conditioner drainage.

In addition to structural issues with the homes, it did not appear that the yards were graded or cleaned before the contractor left. Many of the yards observed contained construction debris and trash. One homeowner stated that the yard could not be mowed due to the construction debris. Also, there were large pieces of broken concrete left at one house. (See photographs below.)



The debris left in the yards of the homes included a large piece of pipe coming out of the backyard.



The contractor left debris in a lot next to the home. The debris included large pieces of broken concrete.

Dry Quick Did Not Provide Warranties

Dry Quick did not provide warranties or warranty documentation for any of the seven reconstruction projects. The City required Dry Quick to provide warranties on mechanical and structural components as well as workmanship, materials, and fixtures.¹⁹ Dry Quick was also required to register the homeowners online for any potential extended warranties available. Dry Quick's failure to provide these warranties represented a material breach of contract. In addition to being contractually required, the State of Texas required certain warranties.²⁰

It did not appear likely that Dry Quick would be able to cover any warranty work on the properties. Some subcontractors had filed liens against the properties for nonpayment, and Dry Quick told the City that it did not have the money to settle the claims. In addition, some of the warranties covering structural components of the house are required for 10 to 25 years. Yet there was no documentation showing that those warranties existed.

Dry Quick Did Not Submit Required Paperwork

Dry Quick did not submit required paperwork, such as lien waivers, bills paid affidavits, and an updated list of subcontractors. The contract required that Dry Quick provide lien waivers and bills paid affidavits from each individual or entity for which payment was sought. However, the files contained only some of the lien waivers. Further, the only invoices in the file were from Dry Quick. Lastly, Dry Quick did not provide updated lists of subcontractors as required.²¹

¹⁹ See appendix C for warranties.

²⁰ Texas Property Code, Title 16, chapter 430, required certain warranties and stated that the warranties could be no less stringent than the standards required by HUD programs as set forth in 24 CFR Sections 203.202 – 203.206.

²¹ Texas Property Code, Title 5, also requires that an updated list of subcontractors be provided to the owner no later than the 15th day after the date on which a subcontractor or supplier is added or deleted.

Dry Quick Did Not Follow the City's Allowed Draw Schedule

The City did not hold Dry Quick responsible for following its normal draw schedule for payment. The contract documents stated that Dry Quick was allowed to make five draws, not including retainage. However, the City allowed Dry Quick to make as many as 13 draws for each project due to Dry Quick's limited financial capacity and its inability to pay for work without making additional draws.

The City Hastily Reprogrammed Funds for Reconstruction Projects

Many of the deficiencies with the reconstruction projects occurred because the City hastily reprogrammed \$1.02 million.²² On August 26, 2015, the City Council authorized the funds to start construction on the houses because it believed the money would be recaptured by HUD. During this period, the City Council reduced the amount of funding for an individual house from \$110,000 to \$103,000, causing some contractors not to participate. As a result, the City may not have had sufficient time to plan these projects.

The City Did Not Comply With Other HOME Requirements

The City did not comply with other HOME requirements. Specifically, it did not meet all HOME requirements imposed on match contribution projects, obtain a signed agreement, check subcontractors' eligibility status, or properly support or calculate income. This condition occurred because the City did not believe match contribution projects had to meet any requirements other than providing money for affordable housing and because of a lack of attention to detail. As a result, the City had more than \$2.9 million in ineligible match contributions, as well as unsigned contracts, no process to check for subcontractors on the federally excluded list, and unsupported income documentation.

Match Properties Did Not Meet All HOME-Imposed Requirements

The City did not meet HOME requirements²³ imposed on non-HOME-assisted projects used as HOME match contributions. Specifically, the City did not (1) execute a written agreement that imposed HOME affordability requirements, (2) monitor HOME match-eligible housing to ensure income eligibility compliance, and (3) document that the match was made only to the affordable housing units in mixed-income projects. The City did not believe that it had to meet HOME requirements as the properties receiving the match contributions were not HOME-funded projects. However, HOME regulations require that HOME affordability requirements apply to HOME match contribution projects. HUD reported the same type of finding in an onsite monitoring report in 2017.²⁴ HUD's finding stated that during the period of affordability, the City must perform onsite inspections and verify information submitted annually by the owners. As a result, the City claimed \$2,967,568 in match contributions that did not meet HOME requirements.

²² The \$1.02 million paid for 11 of the 13 homes included in our sample.

²³ 24 CFR 92 219 and 24 CFR 92 252

²⁴ Costs identified in HUD's report were not include in this report.

The Loan Agreements Were Not Signed

In 10 of 13 reconstruction projects, the loan agreement was not signed by the prior city manager or prior city attorney. HUD regulations stated that the City must enter into a written agreement before disbursing HOME funds.²⁵ The City had a similar finding in a HUD monitoring review, dated June 15, 2017. The City stated at the time that the loan agreement was not rerouted to the appropriate signing officials for signature. The majority of the unsigned loan agreements appeared to be attributable to the rush by the City to reprogram money as this issue did not occur in the 2016 reconstruction loan documents. As a result, the 10 loan documents may have been invalid.

The City Did Not Check the System for Award Management for Subcontractors

The City did not check the System for Award Management (SAM) in 12 of 13 projects reviewed to determine whether subcontractors were on the Federal excluded list. HUD regulations²⁶ required that the City ensure that no suspended or ineligible contractors worked on federally funded projects. The City believed it was responsible to check only for the prime contractor on the SAM list. Later, the City checked for subcontractors and in two instances, found subcontractors on the list for Internal Revenue Service registration failure but did not document any action taken. As a result, the City may have indirectly paid subcontractors that were excluded from receiving Federal awards.

The City Did Not Support and Calculate Income Correctly

The City did not support or calculate income correctly for 4 of 13 instances. This condition occurred because of the rush to encumber reconstruction funds and the City's lack of attention to detail. As a result, the City could not ensure that homeowners always met eligibility requirements.

The City did not calculate income correctly for two families. HUD regulations required that the City calculate the annual income of the family.²⁷ In one of the two instances, the City calculated income incorrectly because it did not recalculate income, although updated income documentation was included in the file. In the other instance, when the City averaged income for one homeowner,²⁸ it used tax returns, which were not considered income source documentation.²⁹ HUD noted this same finding in a 2017 monitoring review. This condition occurred because the homeowner's original contractor terminated his September 2015 contract in November 2015 and the process had to begin again, including City Council approval. In September 2016, the City completed the process, and a new contractor began the reconstruction project. In the interim, the homeowner's income rose to \$50,817, which exceeded the 2016 HOME eligibility requirement of \$40,150. As a result, to meet the eligibility requirements the City averaged the homeowner's income.³⁰

²⁵ 24 CFR 92.504.(b)

²⁶ 24 CFR 92.350(a) and 2 CFR 200.213

²⁷ 24 CFR 92.203(d)(2)

²⁸ This homeowner was not 62 years of age or disabled.

²⁹ 24 CFR 92.203(a)(2)

³⁰ This was the only instance in which the City averaged the income.

The City did not obtain current income documentation for two families. HUD required that the participating jurisdiction reevaluate income if more than 6 months had elapsed since the family qualified as income eligible.³¹ The City provided HOME assistance to homeowners in 2015 and 2016 without updating income documentation. The City could not explain the oversight. As a result, the City could not ensure that all recipients were income eligible.

Conclusion

The City did not follow HOME regulations and its own requirements in its reconstruction program or its administration or calculation of its match contributions. As shown in the table below, the City demolished and reconstructed 13 homes and did not (1) follow environmental regulations, (2) properly assess contractors or ensure that they followed contract terms, (3) check the eligibility status of subcontractors, (4) sign loan agreements, or (5) always obtain current income documentation.

Summary of deficiencies

IDIS* number	Did not follow environmental regulations	Did not search for subcontractor on Federal excluded list	Unsigned loan agreement	Lacking warranty	Unsupported and incorrectly calculated income	Total HOME, CDBG,** and liens paid
12278	x	X	x			\$108,146
12309	x	X	x	x		102,842
12310	x	X	x	x	x	103,000
12311	x	X	x	x		102,071
12312	x	X	x	x		102,821
12313	x	X	x	x		92,700
12314	x	X	x	x		103,000
12316	x	X	x	x		92,700
12317	x	X	x		x	103,000
12318	x	X	x			103,000
12630	x	x			x	103,000
12631	x	x				103,000
12633	x				x	103,000
Total	13	12	10	7	4	1,322,280

* IDIS = Integrated Disbursement and Information System

** CDBG = Community Development Block Grant

These conditions occurred because the City staff did not obtain necessary training or comply with guidance received and supervisors did not ensure compliance. Further, the City hastily reprogrammed \$1.02 million to its reconstruction program without proper planning because it believed the money would be recaptured by HUD. Also, for its match contributions, the City did not (1) execute written agreements imposing affordability requirements, (2) monitor HOME match-eligible housing, or (3) document that the match was made to only the affordable housing units. As a result, the City misspent more than \$1.3 million to reconstruct 13 single-family

³¹ 24 CFR 92.203

homes. In addition, the City had more than \$2.9 million in ineligible match contributions because it did not follow HOME regulations.

Recommendations

We recommend that the Fort Worth Office of Community Planning and Development Director require the City to

- 1A. Repay its HOME program from non-Federal funds \$1,322,280, which it misspent reconstructing homes.³²
- 1B. Ensure that staff responsible for environmental reviews understands and complies with environmental requirements.
- 1C. Hire a qualified entity to determine and correct deficiencies related to 13 reconstructed homes, including the structural integrity of the homes.
- 1D. Provide a detailed plan for covering the cost of any potential warranty work needed on these 13 properties for the entire statutory warranty period.
- 1E. Support or reduce its match contributions by \$2,967,568 and review its HOME match contributions for the past 5 years for compliance with HOME regulations and report the results to the Fort Worth Office of Community Planning and Development.
- 1F. Develop and adopt policies and procedures to address HOME match contribution requirements.
- 1G. Ensure that the loan agreements are signed and valid legal instruments.
- 1H. Develop policies and procedures, to include the review of all subcontractors in SAM.
- 1I. Ensure that its staff understands and complies its policies and procedures including HOME income requirements.

³² Specifically, the City should repay \$1,170,081 to its HOME program and \$152,199 to its Community Development Block Grant program.

Scope and Methodology

We performed our audit work between August 2017 and March 2018 at the Dallas City Hall located at 1500 Marilla Street, Dallas, TX, and at the HUD Fort Worth office located at 801 Cherry Street, Fort Worth, TX. The audit period was January 1, 2015, through December 31, 2017. We expanded the audit period as needed to accomplish our objective.

To accomplish our objective, we

- Reviewed relevant HOME program requirements and applicable Federal regulations to gain an understanding of the HOME administration requirements, including match requirements.
- Reviewed relevant HUD environmental requirements.
- Reviewed the City's policies and procedures pertaining to its reconstruction program.
- Reviewed the reconstruction loan agreement and Texas Property Code.
- Reviewed prior audits and reviews performed by the city auditor and HUD.
- Interviewed staff from the City's Housing-Community Services Department, the City's Budget and Management Services Department, the Office of the City Auditor, and HUD.
- Obtained an understanding of the City's management controls and procedures through interviews with City Housing-Community Services Department employees.
- Reviewed the City's consolidated annual performance and evaluation reports, action plans, and grant agreements for HOME fiscal years 2012 to 2016.
- Conducted onsite observations of the 13 reconstruction homes in our sample in January and February 2018.
- Interviewed 10 homeowners during the onsite observations of the 13 reconstruction homes.³³
- Reviewed the application, construction, and environmental files maintained for the 13 reconstruction properties.
- Reviewed the City's tier I and tier II environmental documentation.
- Reviewed the contractor's application and financial files.
- Obtained and reviewed reports from HUD's Integrated Disbursement and Information System to obtain a universe of HOME projects.

³³ One interview was conducted over the phone. The homeowner was not home at the time of the onsite observation but called later for an interview.

- Obtained and reviewed payments to the contractors and liens paid on the 13 reconstruction homes.
- Reviewed supporting match contribution documentation.
- Reviewed City Council resolutions pertaining to the 13 reconstruction homes and the reprogramming of HOME funds from the City's HOME housing development loan program to the reconstruction program on May 27, 2015.

We reviewed 100 percent of the 13 homes that the City reconstructed during the audit period.

Scope Limitation

During our review of the City's environmental review documentation, City staff altered a statutory checklist. The alteration was made to make the property "exempt." It was essential that the files provided an accurate and true representation of the original documentation generated. We informed the City of the tampering, and the City's housing director sent an email to City staff, explaining that "original documents should never be deleted or altered."

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:

- Compliance with applicable laws and regulations – Policies and procedures implemented by the City to ensure that it complied with environmental requirements.
- Effectiveness and efficiency of operations – Policies and procedures implemented by the City to ensure that it effectively administered its HOME program activities, including monitoring its contractors to ensure that they followed guidance and contract terms.
- Compliance with applicable laws and regulations – Policies and procedures implemented by the City to ensure that it administered and adequately documented its HOME program activities in compliance with HUD requirements, including its match contributions

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The City did not have adequate controls to ensure that it followed environmental requirements.
- The City did not have adequate controls to ensure that contractors followed guidance and contract terms.
- The City did not have adequate controls to ensure the proper administration and documentation of its HOME program, including its match contributions.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1A	\$1,322,280
1E	2,967,568
Totals	4,289,848

- 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



April 23, 2018

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

RE: Office of Inspector General Draft Audit Report (City of Dallas HOME Reconstruction Activities)

Dear Ms. White:

The City of Dallas is in receipt of the draft audit report (the "Draft Report") and your accompanying letter dated April 4, 2018 prepared by the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) following its recent audit of the City's HOME Investment Partnership Program (HOME), which focused on the City's reconstruction activities that occurred between January 2015 and December 31, 2017. The City appreciates the opportunity to review the Draft Report and to provide you with our perspective on the nine recommendations described therein.

1A. Repay its HOME program from non-Federal funds \$1,322,617, which it misspent reconstructing homes.

The City rejects this recommendation. The recommendation ignores the fact that the City administered the reconstruction of 13 homes after staff conducted environmental reviews. Homeowners of 13 units that were previously dilapidated and beyond repair have been provided reconstructed homes. While, mistakes were made, construction was delayed, and documentation was deficient, the \$1,322,617 expended on the homes were invested in the labor and materials used to construct the homes where the homeowners reside today. The City will allocate non-federal funds to address needed repairs to the homes and ensure that the homeowners receive all terms identified in their reconstruction contracts. This could include mitigation of any findings resulting from conducting the appropriate environmental reviews. Based on a preliminary review of two files by HUD's Environmental Officer, it appears that there is room to address this in conjunction with the third-party review of the properties utilizing the City's Office of Environmental Quality.

The environmental reviews performed on the 13 reconstructed homes while deficient still provide an opportunity to complete the appropriate reviews and address any issues. For example, the City can complete the correct form and ensure all applicable information is provided; the City can also use HEROS on tiered environmental reviews to minimize unintended omissions. In the future, the City will improve the process and training of staff charged with carrying out environmental reviews. However, the discussion described in the report says the City did not perform environmental reviews and uses this assertion to conclude that HOME funds were misspent and should be repaid. The City believes the evidence provided does not support the conclusion made. The City requests an opportunity to cure its deficiencies through training and internal controls rather than repayment.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

1B. Ensure that staff responsible for environmental reviews understands and complies with environmental requirements.

The City accepts this recommendation. Environmental review training is ongoing, staff utilize HUD trainings, both in person and via webinars. The City is also consolidating tiered environmental reviews under the Office of Environmental Quality to: (1) create a separation of authority between construction and rehabilitation managers and environmental review staff and (2) provide additional support to the environmental review staff who will be managed by environmental scientists trained in state and local environmental regulations. The Office of Financial Services (OFS) will continue to serve as the Environmental Officer for the City, reviewing all tier 1 environmental reviews for federal grants, ensuring compliance with the City's Environmental Review Policy and Procedure Manual.

Comment 2

1C. Hire a qualified entity to determine and correct deficiencies related to 13 reconstructed homes, including the structural integrity of the homes.

The City accepts this recommendation. The City will hire a structural engineer to assess the structural integrity of the 13 reconstructed homes and estimate the cost of additional repairs needed. Once complete, a new contractor will be hired to make the repairs as prescribed. The City will keep the homeowners abreast of the process and work to make the necessary repairs in a timely fashion.

Comment 2

1D. Provide a detailed plan for covering the cost of any potential warranty work needed on these 13 properties for the entire statutory warranty period.

The City is actively reviewing the status of all express and implied warranties related to the 13 reconstructed homes. Each reconstructed home has 33 construction components. The City will address all relevant warranties with the general contractor. Any applicable warranties from subcontractors will be addressed with the general contractor and the City may seek assignment of them. The City will address subcontractors directly as necessary. For manufacturers' warranties, the City will seek to obtain them from the general contractor and will reach out to the manufacturers directly if necessary to obtain the relevant warranties. The City will provide warranty information and documentation to the homeowners. The City will devise a plan in consultation with HUD to cover all necessary work and repairs not covered by existing warranties.

Comment 3

1E. Support or reduce its match contributions by \$2,967,568.

The City accepts this recommendation. The City uses general funds and bond funds to meet the HOME match requirement on an annual basis. In Fiscal Year 2017, the City's match requirement was set at \$370,849 and the City allocated more than \$15 million in match funds. The City will reduce its reported match contribution as directed.

Comment 2

1F. Develop and adopt policies and procedures to address HOME match contribution requirements.

The City accepts this recommendation. While the City has a history of offering above and beyond the required HOME match contribution, the City will improve how match dollars are reported and tracked from the execution of a written agreement to compliance monitoring across the affordability period. The City instituted HUD approved underwriting standards in 2017 that track sources of funds, which includes match funds, in

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

the project proforma. The integration of match dollars at the project level will help ensure HOME regulations are applied to all reported match dollars and simplify the tracking process for HOME match contributions. The City's underwriting guidelines are included in the City's comment submission to this report (Exhibit 2).

1G. Ensure that the loan agreements are signed and valid legal instruments.

The City accepts this recommendation. The City uses a triparty agreement—the City, the Homeowner and the Contractor—to administer Home Repair activities, which includes reconstruction projects. While it would have been ideal for the City to have signed the 13 agreements, the City believes the 13 agreements are valid legal instruments enforceable without the City's signature once the homeowner and contractor sign. Under the direction of the City's Internal Controls Office, new protocols are being developed for executing contracts. All Home Repair and Reconstruction contracts will be signed on regularly scheduled days. Homeowners, contractors, the City Attorney and City Manager will be expected to participate in the regularly scheduled signing days and staff will be trained under the new protocols. The 13 contracts discussed in this report will be amended to reflect the repairs recommended by a third party structural engineer. Amendments will be signed by all parties on regularly scheduled contract signing days.

1H. Develop policies and procedures to include the review of all subcontractors in SAM.

The City accepts this recommendation. The City is redesigning its Home Repair Program to ensure contractors and subcontractors are properly vetted prior to being authorized to participate in the program. The vetting process will include a more thorough evaluation of background, experience and financial capacity. Staff currently review contractors in SAM, check references and make site visits to evaluate workmanship, but moving forward, a committee of financial, compliance, development and construction experts will evaluate all prospective contractors and subcontractors before granting approval to participate in the City's Home Repair program.

Experience has shown that pricing and timely repayments are key factors in attracting qualified contractors with the financial capacity needed to complete reconstructions in a timely manner. Working on multiple homes at once is not a concern when contractors have the appropriate capacity to carry out the work in a timely manner. Therefore, moving forward, the City will right size its reconstruction contracts to allow for reconstruction work to be done in bulk while still ensuring the workmanship is compliant with the City's building standards.

1I. Ensure that its staff understands and complies with the HOME income requirements.

The City accepts this recommendation. Income eligibility documentation will be reviewed at the time the homeowner applies for assistance to the City's Home Repair program and reviewed again prior to executing a contract. Those income requirement documents that are more than six months old will be updated to comply with HUD regulations. The steps to verifying income qualifications will be addressed through the City's internal controls. Staff are aware of the income requirements and will work to ensure the income documentation does not expire prior to execution of a contract.

The City is also taking steps to provide staff with a more broader training foundation. The City sent staff to a HOME Essentials in-person training course in March 2018 and staff are participating in the HUD-sponsored HOME webinars when they are offered. Training and staff development will be regularly offered to staff and steps will be taken to achieve measurable improvement in staff capacity.

Comment 2

Comment 3

**Ref to OIG
Evaluation**

Auditee Comments

If you have questions regarding this matter, please contact Raquel Favela at (214) 671-5257

Sincerely,



T.C. Broadnax, City Manager

Cc: Raquel Favela, Chief of Economic Development and Neighborhood Services 
David Noguera, Director of Housing and Neighborhood Revitalization
Chan Williams, Assistant Director

OIG Evaluation of Auditee Comments

Comment 1 The City disagreed with recommendation 1A. The City stated that the funds were used to demolish dilapidated and beyond repair homes with reconstructed homes. The City acknowledged its mistakes and deficiencies. The City further indicated that it would allocate non-federal funds to address needed repairs and to ensure that homeowners receive all terms identified in their contracts including mitigation of any findings resulting from conducting the appropriate environmental reviews. The City requested an opportunity to cure the deficiencies through training and internal controls rather than repayment of federal funds.

We appreciate that the City will take actions to ensure that it complies with requirements and ensure that the homeowners will receive everything under the contract. Since the City did not refute the finding that it misspent the funds, we maintain our position and recommendation that the City repay its HOME program from non-Federal funds that it misspent reconstructing homes. The City should work with HUD to resolve the noncompliance with requirements and ensure that the homeowners receive all contracted items.

Comment 2 The City agreed with recommendations 1B, 1C, 1D, 1F, 1G, and 1H. We appreciate that the City has outlined a corrective action plan to resolve the deficiencies and help the homeowners negatively impacted. The City will need to work with HUD to ensure that the plan is implemented and the deficiencies corrected.

Comment 3 The City agreed with recommendations 1E and 1I. Based upon its and HUD's response, we modified the recommendations to include that the City review the prior 5 years of match contributions and ensure that its staff understands and complies with its policies and procedures. The City should report to HUD the results of the review of its match contributions and work with HUD to ensure that its policies and procedures are implemented and the deficiencies corrected.

Appendix C

Required Warranties

Required warranties		
Warranty	Construction contract	Section 19 reconstruction program construction requirements
Materials, fixtures, equipment, workmanship	1 year	18 months
Mechanical delivery systems (plumbing, electrical, heating, ventilation, air conditioning)	2 years	
Major structural components	10 years	
3 rd -party foundation		10 years
Warranty of habitability	10 years	
Labor, material, and equipment		18 months
Roofs, mechanical equipment, major appliances		Must be registered online with the manufacturer to gain the extended warranty. Mechanical equipment will be registered online with the manufacturer for no less than 10 years. Proof of registration must be provided to the housing inspection at the final punch list. ³⁴ Major appliances include water heaters, ranges, dishwashers, and refrigerators (if applicable).
Mechanical service agreement		The contractor will provide an 18-month mechanical service (maintenance) agreement from a 3 rd party. The contractor is required to ensure that the service agreement is scheduled and completed twice a year – spring and fall – and provide two minimum merv 9 ³⁵ air filters to the homeowner in the spring and fall for 18 months.
Roofing material	Minimum 25 years	Manufacturer warranty and installation required online with manufacturer

³⁴ A punch list is a document prepared near the end of a construction project listing work not conforming to contract specifications that the contractor must complete prior to final payment.

³⁵ Merv refers to the maximum efficiency reporting value for air filters.