



Issue Date April 6, 2011
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Audit Report Number 2011-AT-1005
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TO: Mary Wilson, Director, Office of Community Planning and Development,  
Knoxville, TN, 4JD

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FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Nashville, TN, Metropolitan Development and Housing Agency Generally  
Complied With Neighborhood Stabilization Program 2 Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the Nashville Metropolitan Development and Housing Agency's (Agency) Neighborhood Stabilization Program 2 (NSP2). We selected the Agency for review based upon its receipt of a nearly \$30.5 million NSP2 grant under the American Recovery and Reinvestment Act of 2009. The Agency was the only NSP2 grant recipient in Tennessee.

Our objective was to evaluate the Agency's use of NSP2 funding, including the propriety of its activities, obligations, expenditures, and reports to the U.S. Department of Housing and Urban Development (HUD).

### **What We Found**

The Agency generally administered its NSP2 funds in accordance with HUD's requirements. It was executing its program in accordance with its approved application, its planned activities and expenditures were eligible and supported, and its reports to HUD were generally accurate and timely.

### **What We Recommend**

Since the Agency generally complied with NSP2 requirements, we did not recommend corrective action.

### **Auditee's Response**

We discussed the findings with Agency and HUD officials during the audit. We provided the draft report to the Agency on March 24, 2011, and because it was a no finding report, the Agency did not request an exit conference. The Agency did not provide written comments because the report contained no recommendations. It agreed with our conclusion in the report.

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## **BACKGROUND AND OBJECTIVE**

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The Neighborhood Stabilization Program 2 (NSP2) was established to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. NSP2 was authorized by Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (Recovery Act) and provides grants to States, local governments, nonprofits, and a consortium of public and/or private nonprofit entities on a competitive basis. The U.S. Department of Housing and Urban Development (HUD) awarded a combined total \$1.93 billion in NSP2 grants to 56 grantees nationwide. Under NSP2, grantees have 2 years from the date HUD signed their grant agreements to expend 50 percent and 3 years to expend 100 percent of their initial NSP2 allocation. There is no separate deadline for the obligation of funds for the program. In addition, the Recovery Act requires that not less than 25 percent of the funds be used to benefit individuals or families whose incomes do not exceed 50 percent of area median income.

The Metropolitan Development and Housing Agency (Agency), formerly known as the Nashville Housing Authority, was formed following a vote of approval by the City Council on October 31, 1938. Its primary objective is to provide safe and sanitary housing to low-income residents in and around Nashville, TN. A seven-member board of commissioners appointed by the mayor of Nashville governs the Agency. The Agency's executive director is responsible for the daily administration of the Agency. As of January 28, 2011, the Agency had seven open HUD community planning and development grants (including the NSP2 grant) awarded directly to the Agency and administered an additional 14 open community planning and development grants on behalf of the Metro Government of Nashville-Davidson County, including a \$4 million Neighborhood Stabilization Program 1 grant.

The Agency, in a consortium established with The Housing Fund, Urban Housing Solutions, and Woodbine Community Organization, was awarded Grant Number B-09-CN-TN-0024 for nearly \$30.5 million in new funding for NSP2 under the Recovery Act. This grant represents the only NSP2 grant awarded in Tennessee.

The Agency's program activities for its \$30.5 million grant focus on the acquisition and rehabilitation of abandoned or foreclosed-upon properties, new construction/redevelopment of vacant properties, and financing.

<b>Activity</b>	<b>Responsible entity</b>	<b>NSP2 funds</b>	<b>Projected # of units</b>
Establish financing mechanism	The Housing Fund	\$3,000,000	100
Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon to sell, rent, or redevelop such homes and properties	Metropolitan Development and Housing Agency, Woodbine Community Organization, Urban Housing Solutions, and The Housing Fund	\$15,700,000	205
Redevelop demolished or vacant properties as housing	Metropolitan Development and Housing Agency, Woodbine Community Organization, and Urban Housing Solutions	\$9,000,000*	140
Administration	All	\$2,770,000	
<b>Total</b>		<b>\$30,470,000</b>	<b>445</b>

\*\$5 million in additional financing has been secured for this activity from Pinnacle Bank.

As of January 27, 2011, the Agency had expended \$2.56 million of its award.

Our objective was to evaluate the Agency's use of NSP2 funding, including the propriety of its activities, obligations, expenditures, and reports to HUD.

## RESULTS OF AUDIT

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### The Agency Generally Administered Its NSP2 Grant in Accordance With Requirements

The Agency generally administered its NSP2 funds in accordance with HUD's requirements. It was executing its program in accordance with its approved application, its planned activities and expenditures were eligible and supported, and its reports to HUD were generally accurate and timely.

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#### **The Agency Generally Complied With Program Requirements**

The Agency selected properties that were eligible for NSP2 assistance and were located in a targeted census tract. It obtained properties at a minimum 1 percent discount, when required, and had environmental reviews completed and approved by HUD before the obligation of program funds. The Agency expended program funds for eligible activities and maintained adequate supporting documentation. It consistently followed Federal procurement regulations and its own procurement policies and procedures.

Our site visits to selected properties receiving NSP2 assistance confirmed that the properties existed, and rehabilitation work completed appeared reasonable with respect to the amount of expenditures incurred.

The NSP2 regulations require that recipients expend 50 percent of the initial allocation of program funds within 24 months of executing the grant agreement and 100 percent within 36 months. If rehabilitation and construction at 36 current properties progress as anticipated and the Agency continues to identify, acquire, and rehabilitate/develop additional properties during the next 11 months, it should be well positioned to meet the NSP2 expenditure deadlines.

#### **The Agency's Reports to HUD Met Requirements**

The Agency complied with reporting requirements. Its reports were generally timely and accurate and included required information. The Agency's reports were posted to its official Web site as required.

Although its reporting met requirements, the Agency lacked written procedures for the reporting process. We discussed this weakness with Agency management during our review and found that management was aware of the deficiency and had already taken action to resolve it. The Agency was including written reporting procedures as part of its comprehensive NSP2 manual.

## **Conclusion**

The Agency generally administered its NSP2 grant funds in accordance with program requirements. It was executing its program in accordance with its approved application, its planned activities and expenditures were eligible and supported, and its reports to HUD were generally accurate and timely.

## **Recommendations**

This report does not contain recommendations, and no further action is needed with respect to this report.

## SCOPE AND METHODOLOGY

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We performed our audit from January through March 2011 at the Agency's offices at 701 South Sixth Street, Nashville, TN. The audit covered the period February 2010 to January 2011.

To accomplish our objectives, we reviewed

- The NSP2 program notice, related HUD documents, and Agency program records dated from February 2010 to January 2011.
- The Code of Federal Regulations, HUD guidance, and other directives that govern NSP2.
- The Agency's approved NSP2 application, developer agreements with Woodbine Community Organization and Urban Housing Solutions, and consortium member agreement with The Housing Fund.
- The County's policies and procedures manuals, Line of Credit Control System draw requests, two latest audits, and organizational charts.

We interviewed Agency employees and HUD's Knoxville staff involved with oversight of the Agency's program.

We selected a nonstatistical sample of 13 properties purchased and/or being rehabilitated with NSP2 funds from a total universe of 36 properties. Our sample included ten acquisition/rehabilitation projects, one rehabilitation only project, and two new construction projects. The total amount expended for our sample size as of February 2, 2011, was just over \$1.3 million. This amount included nearly \$1.19 million in property acquisition and over \$151,000 in rehabilitation and development expenditures.

For our sample activities, we evaluated whether the property was eligible for program assistance, was located in a targeted census tract, was obtained at a minimum 1 percent discount if applicable, and had an environmental review completed and approved by HUD before the obligation of NSP2 funds. We determined whether procurement procedures were followed as required and whether expenditures were eligible and adequately documented. We also conducted site visits to each of the 13 properties to confirm their existence and determine whether rehabilitation work as of the date of our visit was reasonable with respect to the amount of expenditures incurred.

We reviewed the Agency's quarterly performance reports (reports) submitted to HUD's Disaster Recovery Grant Reporting system for accuracy, timeliness, and completeness. We also confirmed the Agency's posting of its reports to its official Web site.

All electronic data relied upon during the review were tested during the performance of the various review steps. We found the electronic data to be reliable.

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 objectives. We believe that the evidence obtained provides a reasonable basis for conclusions based on our audit objective.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls over compliance with laws and regulations.
- Controls over reliability of financial reporting.

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

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.