



U. S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

August 6, 2012

MEMORANDUM NO:
2012-FW-1804

MEMORANDUM FOR: Elva Garcia, Director
Office of Community Planning and Development, 6JD

FROM: //signed//
Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of San Antonio, TX, Did Not Administer Its Neighborhood Stabilization Program Grant in Accordance With Requirements

INTRODUCTION

In accordance with our goal to review Housing and Economic Recovery Act of 2008 grantees and because of weaknesses identified by the U.S. Department of Housing and Urban Development (HUD), the Office of the Inspector General (OIG) initiated a review of the City of San Antonio's activities funded by its Neighborhood Stabilization Program 1 grant. The objective was to determine whether the City administered its grant in accordance with program requirements.

METHODOLOGY AND SCOPE

We performed the audit work at the City's Office of Grants Monitoring and Administration, one local for-profit entity, and the OIG audit offices in Fort Worth and San Antonio, TX. The audit generally covered the period October 1, 2009, through September 30, 2011, but we expanded the scope as necessary to meet the audit objective. To accomplish the objective, we reviewed the following:

- Relevant criteria governing the Act, program regulations, and HUD's guidance;
- The City's grant agreement with HUD and its agreements with various entities;
- The City's grant expenditures included on its audited financial statements for fiscal year 2010;
- The City's organizational structure, policies, and procedures for the administration of program activities;
- Program activities at 21 residential properties, including 15 that had been sold and 6 that had not been resold during the review period;
- Bexar County Appraisal District public records for 5 residential properties; and

Office of Audit (Region 6)

819 Taylor Street, Suite 13A09, Fort Worth, TX 76102

Phone (817) 978-9309, Fax (817) 978-9316

Visit the Office of Inspector General Website at www.hudoig.gov

- The City's affordability policies, procedures, and provisions in its agreements with various entities and program participants.

We also conducted interviews with HUD staff, City staff, the staff of a local entity, and a representative from the Texas Department of Housing and Community Affairs.

BACKGROUND

The program was authorized under Division B, Title III, of the Act and provides grants to all States and selected local governments on a formula basis. The Act appropriated \$3.92 billion in program funds for emergency assistance in the redevelopment of abandoned, foreclosed-upon, and residential properties. The program was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Generally, program funds must be used to buy, rehabilitate, and resell foreclosed-upon and abandoned homes. Grantees may decide how to use the funds and what specific redevelopment activities to undertake, subject to program requirements.

RESULTS OF REVIEW

The City did not administer its program in accordance with program monitoring, cost eligibility, and affordability requirements. This condition occurred because the City did not understand the program rules. As a result, it could not support more than \$1.1 million in program expenditures, including more than \$1 million that it used to acquire, renovate, and resell residential properties without the required affordability provisions and \$124,555 for unsupported residential renovation reimbursements. The City also paid more than \$2.5 million for renovation contracts that it could not show were competitively procured or reasonably priced.

The City did not ensure that home buyers were aware of affordability provisions and did not execute agreements to ensure compliance with minimum affordability provisions. It provided various entities more than \$1.8 million in program funds to renovate and resell 15 residential properties. At nine of these properties, with renovation costs of more than \$1 million, the City did not properly notify home buyers of or execute agreements with the required affordability provisions. The lack of proper affordability agreements occurred because the City was apparently unaware of the requirements.

The City did not have support for \$124,555 in reimbursed renovation costs because it did not fully understand program requirements. It entered into agreements with six local for-profit and nonprofit entities to acquire, renovate, and resell residential properties to eligible program participants. The City reimbursed more than \$1.8 million in program funds to the 6 local entities for renovation costs related to the 15 resold residential properties. It reimbursed \$219,003 to one local entity for the renovation of seven residential properties. Of that amount, the City did not have support for \$124,555, or about 57 percent, of the amount paid to the local entity for renovation reimbursements.

The City did not have support for \$2.5 million in development contracts. This condition occurred because the City did not take steps to ensure that its developers did not receive undue enrichment from development contracts. The City entered into contracts totaling more than \$5

million with the developers of three multiple-unit housing developments. It reviewed support for \$2.5 million in construction costs for one of the three properties. However, it did not take steps to monitor the remaining \$2.5 million in renovation contracts at the other two housing developments.

The HUD San Antonio Office of Community Planning and Development began a monitoring review of the City's program activities shortly after we began our review. We worked closely with the San Antonio office and discussed issues identified in both reviews. During our field work, the San Antonio office began working with the City to initiate corrective actions to address the identified deficiencies. In particular, the San Antonio office developed strategies to ensure that the City notified homeowners about affordability provisions and executed agreements for the required affordability periods.

AUDITEE RESPONSE

We provided a draft memo to the City and HUD on July 11, 2012, and requested the City provide a written response by July 30, 2012. We held the exit conference on July 12, 2012, and the City provided a written response on July 26, 2012. The City is working with HUD to address the deficiencies identified in the OIG review. The complete text of the City's response is included in appendix A.

RECOMMENDATIONS

The San Antonio office is working with the City to develop corrective actions to address the compliance issues identified in our review. Therefore, no further OIG involvement is warranted.

APPENDIX A

Auditee Comments

CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

July 26, 2012

Mr. Gerald R. Kirkland
Regional Inspector General for Audit
Office of Inspector General
U.S. Dept. of Housing and Urban Development
819 Taylor St. Suite 13A09
Fort Worth, TX 76102

Re: Response to Office of Inspector General Draft Audit Report

Dear Mr. Kirkland:

This correspondence provides a response to the Department of Housing and Urban Development's Office of the Inspector General (OIG) draft audit report of the City of San Antonio's Neighborhood Stabilization Program which received federal funding of \$8.6 Million in 2009. Although official notification regarding the draft audit report and requested exit conference was received on July 16, 2012 by the City Manager's Office, City staff attended an exit conference with staff from the OIG on July 12, 2012. Please accept this correspondence as the City's official response to the draft audit report in preparation for the final OIG audit report.

In November 2011, the Office of the Inspector General (OIG) initiated a review of the City's activities funded with Neighborhood Stabilization Program (NSP) funds. The review covered the general period of October 1, 2009 through September 30, 2011. While the OIG review was taking place, the Department of Housing and Urban Development's Office of Community Planning and Development (CPD) initiated a separate concurrent monitoring review of the City's NSP Program. As a result of the monitoring reviews, both the OIG and CPD found similar deficiencies in the administration of the City's NSP program.

The final results of the CPD monitoring review were received by the City on June 21, 2012. Upon receipt of the monitoring results, the City immediately responded and completed the appropriate CPD recommended corrective actions. The City of San Antonio addressed and resolved issues identified by CPD and provided documentation ensuring that proper affordability provisions were placed on each property. Of the 15 residential homes that had been sold at the time of the review, the City was unable to ensure proper affordability provisions for only one residential property, and a repayment of \$116,740 was subsequently made to HUD. The City has also provided adequate support information to CPD for the \$2.5 million in development contracts and is working with CPD to gather documentation supporting \$124,555 in residential renovation reimbursements. Finally, in order to help prevent such issues from occurring in the future, the City has worked to enhance its monitoring and compliance review process through the hiring of a newly created Compliance Manager position, the development of an NSP monitoring checklist

Page 1 of 2

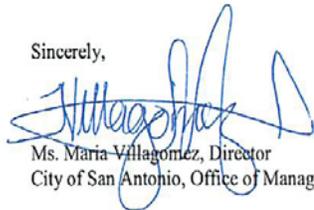
"AN EQUAL OPPORTUNITY EMPLOYER"

tool (compiled through a combination of resources from the NSP Resource Exchange and CPD Grantee Monitoring Handbook), and the creation of a staff monitoring calendar that includes regular NSP monitoring.

The City has worked with CPD to resolve all identified issues. As stated in the draft OIG audit report, "because the City has worked closely with the local HUD CPD Office to resolve the issues identified, no further OIG involvement is warranted."

The City of San Antonio places a high priority in ensuring federally sourced funding is utilized in a manner consistent with achieving the programmatic goals of its grant programs while complying with federal, state, and local law. As such, the City is continuing to build a strong partnership with the local HUD Office of Community Planning and Development in order to ensure effective use of federal grant resources.

Sincerely,



Ms. Maria Villagomez, Director
City of San Antonio, Office of Management and Budget

Enclosure

cc: Sheryl Scully
City of San Antonio, City Manager

Mr. Peter Zanoni, Assistant City Manager
City of San Antonio, Office of the City Manager

Mr. Tadd G. Wille, Grants Administrator
City of San Antonio, Office of Grants Monitoring and Administration