Central City Housing Development Corporation - Satchmo Plaza

New Orleans, LA

Section 202 Direct Loan Program

Office of Audit, Region 6
Fort Worth, TX

Audit Report Number: 2016-FW-1004
July 27, 2016

To: Thomas Goade, Acting Director, Southwest Region Office of Multifamily Housing Programs, 6AH

//signed//

From: William W. Nixon, Acting Regional Inspector General for Audit, 6AGA

Subject: Central City Housing Development Corporation, New Orleans, LA, Did Not Always Operate Satchmo Plaza in Accordance With Its Regulatory Agreement and HUD 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 Central City Housing Development Corporation's Sections 202 and 8-funded project, Satchmo Plaza.

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 Web site. 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 817-978-9664.

Audit Report Number: 2016-FW-1004
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Central City Housing Development Corporation, New Orleans, LA, Did Not Operate Satchmo Plaza in Accordance With Its Regulatory Agreement and HUD Requirements

Highlights

What We Audited and Why

We audited Central City Housing Development Corporation's U.S. Department of Housing and Urban Development (HUD) Sections 202 and 8-funded project, Satchmo Plaza, as part of our annual audit plan to review multifamily projects. Our audit objective was to determine whether the Corporation met the requirements of its regulatory agreement and followed HUD requirements when operating the project.

What We Found

The Corporation did not always meet the requirements of its regulatory agreement and follow HUD requirements when operating its project. Specifically, it did not (1) maintain the project in good repair and condition, (2) make monthly deposits to its reserve fund for replacements, (3) spend funds for supported and reasonable costs, and (4) satisfy the HUD judgment against it. These conditions occurred because the project lacked financial stability and adequate oversight and controls. As a result, it subjected elderly and disabled tenants to dangerous health and safety risks and is at risk of losing its housing assistance payments contract. In addition, it underfunded its reserve fund for replacements by at least $8,600, paid $2,810 in questioned costs, and remained in violation of the regulatory agreement with the outstanding judgment. Further, it could not provide HUD reasonable assurance that it properly managed its project and funds, putting at least $314,184 at risk for mismanagement.

What We Recommend

We recommend that HUD require the Corporation to develop and implement a HUD-approved written plan and checklists to correct the project's physical condition and other deficiencies identified and prevent a recurrence of such issues to better ensure that it spends and manages at least $314,184 in accordance with requirements. We also recommend that HUD require the Corporation to (1) obtain a waiver or make retroactive deposits of $8,600 to its reserve fund for replacements, (2) repay $879 and support or repay $1,931, and (3) satisfy the judgment. Finally, we recommend that HUD evaluate the viability of the project and monitor the project's performance-based contract administrator.

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Background and Objective

The U.S. Department of Housing and Urban Development (HUD) Section 202 Direct Loan program provided direct Federal loans for a maximum term of 40 years under Section 202 of the Housing Act of 1959. The program was established to assist private, nonprofit corporations and consumer cooperatives in developing new or substantially rehabilitated housing and related facilities to serve the elderly, physically handicapped, developmentally disabled, or chronically mentally ill adults. The program also combined properties with HUD Section 8 program assistance to make rents affordable to low-income families and is known as the Section 202 and 8-funded program.

In 1980, HUD executed a $929,400 mortgage and note with the Central City Housing Development Corporation for a Section 202 direct loan to develop its project, Satchmo Plaza, located in New Orleans, LA. HUD regulates the Corporation's loan through a regulatory agreement that it executed at the time of the mortgage. The project must also comply with its Section 8 housing assistance payments contract with HUD since it receives its project rental income from HUD. Based upon its current contract, the Corporation is set to receive as much as $314,184 in subsidies and tenant rent payments over the next year.

The Corporation is a nonprofit organization and owner of the project, which is a 34-unit multifamily housing project for elderly and disabled persons. In 2014, the Corporation demolished 4 units due to damages sustained during Hurricane Katrina, leaving 30 units. The Corporation has been self-managed since 2006, and executed a contract with a housing consultant to oversee the operations of the project beginning in 2012.

Our objective was to determine whether the Corporation met the requirements of its regulatory agreement and followed HUD requirements when operating the project.

Results of Audit

Finding: The Corporation Did Not Always Meet HUD Requirements When Operating Its Project

The Corporation did not always meet the requirements of its regulatory agreement and follow HUD requirements when operating its project. Specifically, it did not (1) maintain the project in good repair and condition, (2) make monthly deposits to its reserve fund for replacements, (3) spend funds for supported and reasonable costs, and (4) satisfy the HUD judgment against it. These conditions occurred because the project lacked financial stability and adequate oversight and controls. As a result, it subjected elderly and disabled tenants to dangerous health and safety risks and is at risk of losing its housing assistance payments contract. In addition, the Corporation underfunded its reserve fund for replacements by at least $8,600, paid $2,810 in questioned costs, and remained in violation of the regulatory agreement with the outstanding judgment. Further, it could not provide HUD reasonable assurance that it properly managed its project and funds, putting at least $314,184[1] at risk for mismanagement.

The Project Was Not Maintained in Good Repair and Condition

The Corporation did not maintain the project's property buildings and tenant units in good repair and condition as required by 24 CFR (Code of Federal Regulations) 5.703 and the HUD regulatory agreement, paragraph 8. The project received overall failing scores for two consecutive physical inspections conducted in December 2014 and February 2016 by HUD's Real Estate Assessment Center (REAC).[2] Of the 72 deficiencies identified in the February 2016 inspection, 22 included health and safety violations, including tripping or sharp edge hazards, damaged doors, broken stairs, infestation, and eight dangerous health and safety deficiencies related to electrical hazards. Our January 2016 observation of units and the exterior of tenant unit buildings and general property grounds identified some of the same hazards reflected in the 2014 REAC inspection report, including broken steps, mold and mildew buildup, exposed wires, and exterior damage. (See illustrations 1 and 2.)

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1 We derived this estimate by multiplying the number of available units by the amount of the HUD-approved rent per unit times 12 months. See the Scope and Methodology section.

2 HUD's Real Estate Assessment Center improves the quality of HUD housing through physical inspections of all HUD housing to assess the condition and help ensure safe and sanitary conditions. The project received a score of 50c on December 3, 2014, and a score of 55c on February 8, 2016. A score of less than 60 is failing and 'c' means at least one life threatening health and safety deficiency was identified.

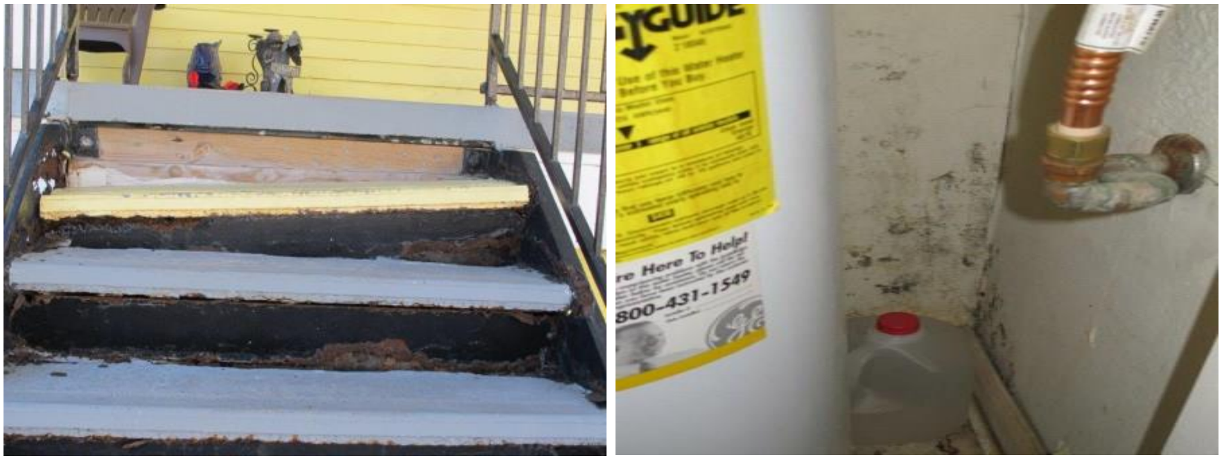


Illustration 1: Rusted staircase with broken step and mold and mildew buildup on walls

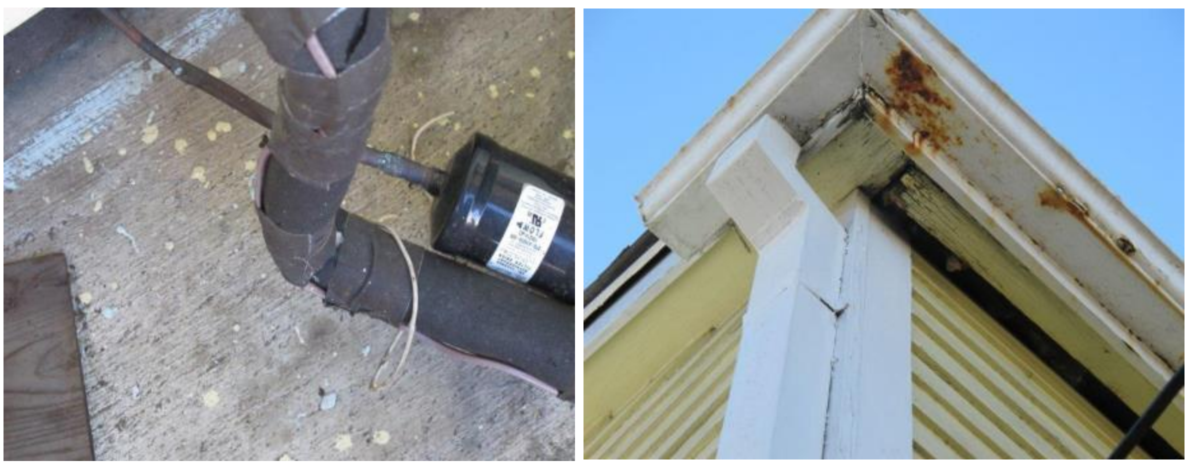


Illustration 2: Exposed wires, damaged gutters, and rotted exterior soffit boards

Due to the last inspection results, HUD issued a formal notice of default of the housing assistance payments contract and a compliance, disposition, and enforcement plan. HUD placed the Corporation on a 60-day corrective action plan in March 2016, which required the Corporation to correct all physical deficiencies or request a time extension based upon a repair plan. According to the Corporation, it completed the repairs for the health and safety deficiencies required to be completed within 24 hours on February 8, 2016 and planned to complete the repairs for the remaining REAC deficiencies using operating funds no later than May 13, 2016.

The housing consultant explained that the property needed major renovations and without capital improvement funds, the repeated issues would continue to exist and be cited in every inspection report. The Corporation proposed a redevelopment plan to HUD to address the physical deficiencies of the project, which included completing the more expensive major building exterior repairs. However, although HUD believed the project needed redevelopment, it had not agreed to the Corporation's plan as of May 2016 because it had concerns with the existing plan.

The Reserve Fund for Replacements Was Underfunded

The Corporation did not ensure that it fully funded its reserve fund for replacements. Regulations at 24 CFR 891.605 and the HUD regulatory agreement, paragraph 5, required the Corporation to maintain and make monthly deposits to this account in an amount determined by HUD. The Corporation could use these funds for extraordinary maintenance and repair and replacement of capital items, such as replacement of major appliances, central air conditioning and heating systems, or major repairs of roofs or plumbing. HUD required the Corporation to make a monthly deposit of $1,550. However, the Corporation either missed deposits or did not deposit the full amount between November 2014 and September 2015, resulting in the account being underfunded by $8,600. The housing consultant stated that the project did not make the deposits because it did not have sufficient operating funds.

Project Funds Were Disbursed for Questionable Costs

The Corporation made disbursements for questionable costs. Regulations at 2 CFR Part 230, appendix B, paragraph 16; 2 CFR Part 230, appendix A, paragraph 3; and the HUD regulatory agreement, paragraph 11(c), prohibited the Corporation from making payments for fines and penalties and required it to ensure that costs were reasonable and necessary for the project's operation. A review of supporting documentation for 14 disbursements determined that the Corporation generally ensured that it maintained adequate documentation for its disbursements. However, one disbursement included $1,931 paid from the project's funds to the State of Louisiana Department of Revenue for penalties and fees associated with unpaid payroll taxes for 2006, 2007, and 2011. The Department of Revenue invoice had some credits but did not specify whether those credits reduced the tax or the penalties and interest. To avoid action by the State, the housing consultant quickly paid the debt and believed that the funds spent were not HUD funds, thereby not subject to HUD requirements. Specifically, the housing consultant stated that the project's income consisted of 70 percent from HUD and 30 percent from its tenant portion of rent and all of the funds were deposited into the same checking account.[3] However, HUD considers tenant rent payments as project funds, subject to HUD requirements. A review of the bank statements showed that the Corporation also paid $879 in unreasonable bank overdraft, nonsufficient funds, and returned item fees from 2007 to 2010 due to negative balances held in its operating bank account.

A Judgment Against the Corporation Was Not Satisfied

The Corporation did not satisfy a judgment issued against it by HUD. In January 2010, HUD cited the Corporation and issued a judgment totaling $75,000 for failing to submit audited annual financial statement reports for fiscal years ending June 30, 2007, and June 30, 2008. HUD executed a repayment agreement with the Corporation in September 2011, which must be paid from nonproject funds. Because the Corporation is a non-profit organization and did not have a sufficient source of nonproject funds, the Corporation defaulted on the agreement terms after making one payment of $700, leaving a balance of $74,300. It did not make any additional

[3] During the exit conference, the housing consultant stated that this statement was hypothetical and she was not trying to use it to justify the reason that the funds were spent.

payments. By not satisfying or releasing the judgment, the Corporation violated the regulatory agreement terms.[4]

The Corporation obtained a court-ordered deferment of the judgment in June 2015 for $74,650 with an outstanding balance of $74,590. The court order did not have an expiration date; however, the Corporation will remain in violation of its regulatory agreement until it satisfies the judgment. The Corporation planned to request that HUD waive the judgment and allow it to reinvest the funds in the project or repay the judgment during the refinancing portion of the proposed redevelopment plan.

The Corporation Lacked Financial Stability and Adequate Oversight and Controls

The Corporation had the violations cited above because of the lack of financial stability and adequate oversight and controls.

The Corporation Lacked Financial Stability

The project did not have sufficient income to meet its monthly obligations. The 2014 through 2016 operating budgets showed that the project did not have enough income to cover its expenses. In the fiscal year 2014 budget, the project showed a deficit. In the fiscal years 2015 and 2016 budgets, the project showed a surplus; however, the budget is based on potential income at full occupancy that the project could not achieve because of the four units it demolished in 2014. By subtracting the vacancy income from the potential income, the budgets showed an operating deficit. (See table 1.) The housing consultant stated that the contract administrator[5] instructed her to include this vacancy amount, although the project would not receive this income.

Table 1: Fiscal years 2014 through 2016 project operating budget summary

	Years		
	2014	**2015**	**2016**
Total Income	$300,663	$349,320	$363,294
Minus total expenses	320,995	338,074	344,450
Total cash surplus-(deficit) reported	(20,332)	11,246	18,844
Minus vacancy income		(40,272)	(40,272)
Total operating surplus-(deficit)	**(20,332)**	**(29,026)**	**(21,428)**

Because of these financial constraints, the Corporation could not make necessary repairs to the project, and make required contributions to the reserve fund for replacements.

4 This was required by the HUD regulatory agreement, paragraph 10.
5 The Louisiana Housing Corporation, located in Baton Rouge, LA, is the Corporation's HUD-appointed performance-based contract administrator.

The Corporation Did Not Have Adequate Oversight and Controls

The Corporation had been self-managed since 2006. From 2006 to 2012, an executive director, who was also a board member, managed the project. Under this executive director, staff did not renew the housing assistance payments contract on time, which resulted in late reimbursements from HUD. This condition created financial hardships for the project, causing late payments to vendors, and led to negative balances in its operating bank account at times. This executive director also did not establish adequate written policies and procedures. Further, a letter from HUD, dated December 15, 2011, stated that the Corporation had not complied with HUD regulations and despite meeting with the executive director on many occasions, the property continued to remain noncompliant. Some of the compliance issues included (1) failure to file annual financial statements for 2007 through 2010, (2) delinquent mortgage payment, (3) below average management and occupancy reviews, and (4) failure to rehabilitate units. HUD also required the Corporation to obtain a new management agent, but attempts by the Corporation failed because of its small size and the issues that existed at the project. Therefore, in 2012, the Corporation dismissed the executive director and executed a contract with a housing consultant to oversee the operations of the project. The housing consultant's contract expires in November 2016. Other than the housing consultant, the project had only two other contracted positions, which included a part-time administrative assistant and an accountant.

In addition, the Corporation's board was not active, as it did not hold regular board meetings, and as of March 2016 had met only once or twice since August 2005. The Corporation also could not provide records to show who served as past board members. As of March 2016, the Corporation had three board members, two of whom had been members for 1 year. The board chairman stated that attempts to recruit additional board members had been unsuccessful due to a lack of community interest. Without regular board meetings and an adequate number of board members, the Corporation could not have (1) presentation of and voting on issues for project-related matters; (2) issuance and adoption of board resolutions, (3) review and approval of policies and procedures established and used for the operation of the project; and (4) reviews of contracts, budgets, audit and monitoring reports, and other financial and operational matters affecting the project. The board chairman stated that he met one on one with the previous executive director and met with the current housing consultant quarterly but did not have records showing the time, date, or a summary of the discussions or decisions made. The board chairman was also not familiar with the bylaws and articles of incorporation for the Corporation, and the board, including the chairman, had not received training or written guidance explaining their roles and responsibilities.

The housing consultant established written policies and procedures for controlling the project's accounting, operations, tenant selection, fair housing, and maintenance functions in January and April 2013. However, these policies did not have board approval and did not include procedures to ensure that the Corporation complied with its agreements and HUD requirements. For example, the policies did not include details or procedures for functions required by the regulatory agreement, including (1) operating fund establishment and uses, (2) reserve fund for replacements and residual receipts account establishment and uses, (3) segregation of project funds, and (4) submission of annual audited financial reports.

Without adequate funding, oversight, and controls, the redevelopment plan would not be effective, and the project could be exposed to mismanagement and experience further financial difficulties.

The Corporation Had Corrected Some Issues

The Corporation had corrected some of its past issues, including clearing a past due mortgage balance, submitting its annual audited financial statements and fully funding its security deposit account. For several months in 2005 following hurricane Katrina, the Corporation could not make mortgage payments, resulting in a past due amount of more than $17,000. With HUD's approval, the Corporation used its reserve funds to bring the mortgage loan current in June 2014. In addition, for fiscal years 2007 through 2013, the Corporation did not submit its annual audited financial statement to HUD within 90 days of its fiscal yearend as required by 24 CFR 5.801(c)(2). It submitted these reports between 6 years and 3 months late. However, for fiscal years 2014 and 2015, it submitted its annual audited financial statement reports on time. Further, from June 2010 through December 2012, the Corporation did not maintain a separate security deposit account, and from December 2012 to June 2015, it did not fully fund the security deposit account as required by 2 CFR 891.435(b) and the regulatory agreement, paragraph 7(f). It established a new security deposit account in December 2012 and fully funded it by June 2015. Lastly, it had demolished two properties with four units damaged during Hurricane Katrina, repaired two fire-damaged units, and renewed its expired housing assistance payments contract. While the Corporation had corrected these issues, it continued to struggle financially, and the project was in disrepair.

Conclusion

Because the Corporation lacked financial stability and adequate oversight and controls, it did not maintain units in good repair and condition, did not make required deposits to its reserve fund for replacements, paid ineligible penalties and interest and unreasonable fees, and had an outstanding judgment against it. As a result, it subjected its elderly and disabled residents to dangerous health and safety risks, putting it at risk for losing its housing assistance payments contract and other potential financial and legal actions, underfunded its reserve fund for replacements account by at least $8,600, incurred $2,810 in questioned costs, and remained in violation of the regulatory agreement with the outstanding judgment. In addition, it could not provide HUD reasonable assurance that it properly managed its project and funds, and $314,184 was at risk for mismanagement.

Recommendations

We recommend that the Acting Director of the HUD Southwest Region Office of Multifamily Housing Programs require the Corporation to

1A. Develop and implement a HUD-approved written plan and checklists that will correct the project's physical condition and other deficiencies outlined in the finding and prevent a recurrence of such issues to ensure compliance with HUD requirements. The written plan should include actions to (1) obtain a fully functioning board and operate in compliance with the Corporation's bylaws and any HUD requirements, (2) correct all hazardous and unsafe physical deficiencies, including those cited in the February 2016 REAC inspection; (3) revise its operating budget to ensure the most economical use of funds and that the project income covers operating expenses; (4) establish written board-approved policies and procedures; and (5) obtain HUD-approved training for management and the Corporation's board regarding their roles and responsibilities. The checklists should include systems and procedures to ensure that the Corporation meets all requirements, including but not limited to fully funding its reserve fund for replacements, spending funds for eligible costs, and submitting all required forms and documents. Implementing this recommendation should better ensure that the Corporation spends and better manages at least $314,184 in housing subsidies that it is set to receive in the next 12 months in accordance with requirements.

1B. Obtain a waiver or HUD approval to make retroactive deposits totaling $8,600 to the reserve fund.

1C. Request a HUD evaluation of the current required monthly reserve fund for replacements contribution amounts to ensure that the required contribution amount is feasible.

1D. Support that the credits reflected in the invoice from the Louisiana Department of Revenue offset the penalties and interest or repay $1,931 from nonproject funds.

1E. Repay $879 from nonproject funds paid for unreasonable overdraft, nonsufficient funds, and returned item fees.

1F. Repay the remaining balance of the judgment totaling $74,590 from nonproject funds.

We also recommend that HUD

1G. Evaluate the project's viability to determine whether further action is needed to secure HUD's and the tenants' interests. Should HUD determine that the project is viable, we recommend that HUD review the budget and subsidy numbers, and monitor the project's contract administrator performance to ensure that the project complies with all requirements.

Scope and Methodology

We conducted the audit at the Corporation's office in New Orleans, LA, and our offices in Baton Rouge and New Orleans, LA, from December 2015 through May 2016. The audit scope generally covered July 1, 2013, through September 30, 2015. We expanded the scope as necessary to accomplish our audit objective.

To accomplish our objective, we reviewed

- Relevant regulations and program guidance.
- The Corporation's articles of incorporation, bylaws, and mortgage and note.
- The project's written policies and procedures.
- Audited financial statements, operating budgets, disbursements, and check registers. We also reviewed bank statements covering January 2006 through December 2010.
- Tenant data and rent information and tenant file records.
- The project's (1) mortgage payments, (2) reserve fund for replacements, (3) residual receipts, (4) disbursements, (5) security deposit account, (6) tenant rent payments, (7) tenant eligibility, and the (8) physical condition of tenant units and property.
- REAC inspection reports and observed the physical condition of the property.
- HUD's monitoring reports.

We also interviewed HUD officials and persons associated with the Corporation and the project.

For the disbursement review, we selected 41 disbursements totaling $39,534 of the 828 disbursements totaling $565,999 reflected in the Corporation's check register reports made between July 1, 2013, and September 30, 2015. We selected a nonstatistical sample by focusing on disbursements of $1,000 or more and the highest payment amount of the payees because we wanted to select a small number of items of interest. We reviewed 14 of the 41 sampled disbursements totaling $23,507 to determine whether the Corporation maintained adequate supporting documentation and complied with the regulatory agreement and HUD requirements. Because we identified no major issues, we did not review the additional 27 disbursements. Through file reviews, we determined that the computer-processed data related to disbursements were generally reliable. Based on our method of selection, the results of our review apply only to the selected items and must not be projected to the portion of the population that was not tested.

To determine the physical condition of the project, we reviewed the inspection reports prepared by REAC. On January 11, 2016, we performed an onsite visit to the project to observe the deficiencies cited by the December 2014 REAC inspection report and determine whether those and other deficiencies existed.

To determine the estimated amount of funds to be put to better use, we multiplied the number of available units by the amount of the HUD-approved rent per unit times 12 months (See table 2.)[6]

Table 2: HUD-approved rent amounts for the project

Unit size	Number of units	Contract rent per unit	Monthly contract rent potential (number of units times contract rent per unit)	Annual contract rent potential (monthly contract rent potential times 12)
1 bedroom	26	$857	$22,282	$267,384
1 bedroom (large)	2	886	1,772	21,264
2 bedroom	2	1,064	2,128	25,536
Totals	**30**		**26,182**	**314,184**

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.

[6] In October 2016, the rent amount per unit may go up at the time of the housing assistance payments contract renewal.

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 compliance with the Section 202 regulatory agreement and HUD requirements;
- Relevance and reliability of information used for making decisions and ensuring that information in external reports, such as audited financial statements, is relevant, reliable, and timely; and
- Compliance with applicable Federal laws and regulations.

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 Corporation did not have adequate controls over the efficiency and effectiveness of program operations when it did not establish administrative controls to ensure compliance with the regulatory agreement and other HUD requirements (finding).

Appendixes

Appendix A

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

Recommendation number	Unsupported 1/	Unreasonable or unnecessary 2/	Funds to be put to better use 3/
1A			$314,184
1B			8,600
1C	$1,931		
1D		$879	
Totals	**1,931**	**879**	**322,784**

1/ 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.

2/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

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 Corporation to develop and implement a HUD-approved written plan and checklists that will correct the deficiencies outlined in the finding and prevent a recurrence of such issues, as well as ensuring compliance with HUD requirements, will better ensure that the Corporation spends and manages at least $314,184[7] in housing subsidies in accordance with requirements.

[7] We derived this estimated amount by multiplying the number of available units by the amount of the HUD-approved rent per unit times 12 months. See the Scope and Methodology section.

Further, putting $8,600 of required funds into the reserve fund for replacements would guarantee that funds will be available for future major repairs.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

WRITTEN RESPONSE TO

The Draft Report of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Central City Housing Development Corporation's Sections 202 and Section 8-funded project, Satchmo Plaza.

CENTRAL CITY HOUSING DEVELOPMENT CORPORATION
2020 Jackson Ave, 2nd Floor, New Orleans, La 70113

Background and Objective

Many of the findings in this report are the results from the repercussion of hurricane Katrina. CCHDC entered into a partnership agreement with HUD to provide affordable housing to the citizens of Central City in New Orleans, La, via (HUD) Sections 202 and Section 8-project based funded project, Satchmo Plaza. In this collaboration there are several contractual agreements signed to regulate and operate the project according to the HUD standards.

Satchmo Plaza was created in 1981 (More than 35 yrs. ago.) From inception until September, 2006 this project was managed by a third party property Management Company. During that period (25 yrs.), CCHDC had operated Satchmo Plaza in exceptional standards. It was not until 2005 when hurricane Katrina struck New Orleans and devastated the city that CCHDC started experiencing difficulties with Satchmo Plaza. Because of the devastation caused by Hurricane Katrina, Satchmo Plaza received severe damage to several of its units. The demands of this project, with not enough operating funds, were obviously overwhelming to the property management company. They decided to terminate their long-standing management contract with CCHDC leaving this non-profit housing agency without a professional housing management services.

CCHDC pursued other approved HUD property management companies from a list provided by the HUD New Orleans Field Office. Its efforts were unsuccessful because of the responsibilities to rebuild the project from hurricane Katrina as well as the lack of operating funds. With inadequate infrastructure in the City of New Orleans, and a nonexistence of property management companies; the Corporation has been self-managed since 2006, and executed a contract with a housing consultant to oversee the operations of the project beginning in 2012.

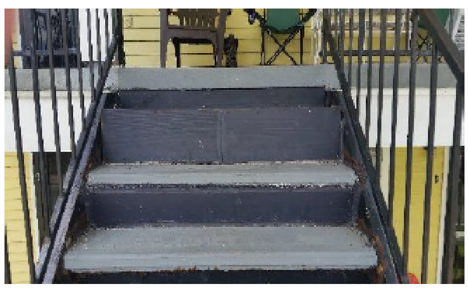
This housing consultant has more twenty (20) years of housing management experience with an emphasis on non-profit organizations. The new management team has been trained and certified by accredited affordable housing organizations such as National Affordable Housing Management Association **(NAHMA)** and National Center for Housing Management **(NCHM)**. CCHDC housing consultant holds a Certified Occupancy Specialist **(COS),** Tax Credit Specialist (**TCS**), Certified Housing Manager **(CHM)** and Certified Financial Analyst **(CFA)** along with experience in accounting.

The housing consultant was responsible for meeting with the Chief Project Manager and the Project Manager of Satchmo Plaza of HUD New Orleans Field Office to discuss and develop a comprehensive plan to eliminate all the non-compliance issues with HUD. As a team, the HUD New Orleans Field Office representatives and new management team for CCHDC embarked upon the journey of rebuilding Satchmo Plaza from the aftermath of hurricane Katrina. There were approximately eleven (11) major points of this Rebuild Plan. Those points are [1] complete a current HAP contract for 2012, [2] secure insurance property & flood insurance, [3] submit all past due annual financial statements and satisfy the past due mortgage payment, [4] get all units back into commence from the aftermath of hurricane Katrina, [5] secure duns number, [6] implement the use of EIV, [7] prepare & complete repairs for REAC inspection, [8] create a Redevelopment Plan for project with the creation of new board of directors and a capital improvement project, [9] Resolve the $75,000.00 HUD judgement, [10] complete the Redevelopment Plan and [11] hire a third party Property Management Company to manage Satchmo Plaza.

Comment 1

Comments on Findings

(1) **Maintain the project in good repair and condition**: The things listed in this report have been repaired. While the report point out items from the last two (2) previous REAC: 22 included health and safety violations, including tripping or sharp edge hazards, damaged doors, broken stairs, infestation, and eight dangerous health and safety deficiencies related to electrical hazards; all of these items have been corrected. (See illustration 1 & 2.) The Satchmo Plaza project is more than 35 years old and need a major capital improvement project. As it is noted in the background and objectives, above CCHDC has been working to complete the Rebuilding Plan and implement a Redevelopment Project.



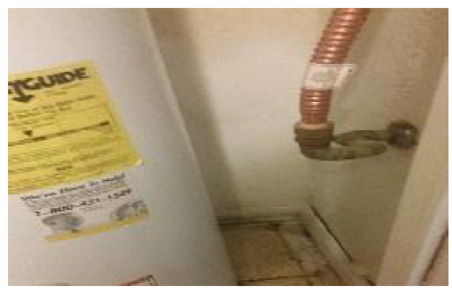
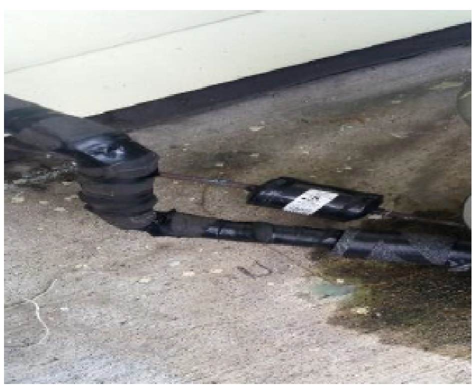


Illustration #1: Repaired of rusted staircase, treated and painted mold wall.



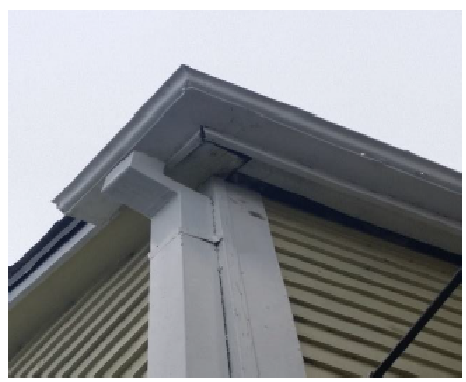


Illustration 2: Repaired of exposed wires, damaged gutter and replaced rotted exterior soffit boards

CCHDC has presented a plan to HUD for continuation of making repairs from the REAC inspection. ALL safety and hazard items have been addressed with all interior deficiencies. The major deficiencies are the capital improvement repairs, which will be addressed in the Redevelopment Plan.

Comment 2

(2) **<u>Make monthly deposits to its reserve fund for replacements</u>**: With the aftermath of hurricane Katrina, CCHDC have to spend operating funds on capital improvement items such as new HVAC units, hot water heaters, refrigerators, stove and extensive funds to prepare for REAC inspections. (See attached Illustration #3)

Comment 3

(3) Spend funds for supported and reasonable cost, one disbursement included $1,931 paid from the project's funds to the State of Louisiana Department of Revenue for penalties and fees associated with unpaid payroll taxes for 2006, 2007, and 2011: These were past due funds to the State of Louisiana for an employee for Satchmo Plaza. The State of Louisiana had an amnesty program to pay past due bills without the penalties and interests. It was during this period that CCHDC sought to eliminate its overdue obligation with the State. CCHDC is requesting the supported documents from the State of Louisiana Department of Revenue. Once these documents are received it will be forward to HUD.

Comment 2

(4) Satisfy the HUD judgment against it, The Corporation obtained a court-ordered deferment for judgement with an outstanding balance of $74,590: when the Rebuilding Plan was created with the HUD New Orleans Field Office this judgement was put on deferment to CCHDC in the aftermath of hurricane Katrina. It is the goal of CCHDC to settle this judgement in the new redevelopment project.

Comment 2

<u>Comments on financial stability and oversight</u>:

These conditions occurred because the project lacked financial stability and adequate oversight:

The financial stability of this project was placed at risk after hurricane Katrina. Pre-Katrina this project was able to operate with minor financial risks and met the requirements to make deposits in the Reserve & Replacement account. Because of the lack of experience in property management with the previous Executive Director in 2006-2012 they struggled to get control of the financial stability of this project. However since July, 2014, it has been more financially stable. The only approach for total financial stability in this project is with a Redevelopment Project.

Comment 2

The Corporation Did Not Have Adequate Oversight and Controls

CCHDC board of Directors has been controlled and operated by the Chairman of the Board. The Board's Chairman was the only representative of the entity that returned to New Orleans post-Katrina to help rebuild the organization. With the devastation of New Orleans, many individuals had the responsibility of rebuilding their personal homes and businesses that they were not available to serve on the Board of Directors. The Chairman attempted to recruit individuals to serve on the board, but was unsuccessful (as stated in the report) However, the Chairman was able to get two additional persons to serve on the board. It was also the objective to develop a new board to complete and implement the Redevelopment Project.

CCHDC is in the process of reach out to community leaders, housing advocates, social service agencies as well as other non-profit agencies for suggestion of individuals that are available serve on the current Board of Directors for CCHDC.

Comment 2

The recommendations that CCHDC would like to suggest: As CCHDC has work diligently to rebuild from the aftermath of hurricane Katrina, we would like the opportunity to complete the Rebuilding Plan. CCHDC has owned this project for more than 35 years and do not want to see the tenants displaced because of its struggle to stabilized after hurricane Katrina.

Comment 2

1. Allow CCHDC to continue implementing the Rebuilding Plan developed by the HUD New Orleans Field Office and CCHDC. (The remaining three (3) points), which are Redevelopment Project, Payoff the Judgement and Hire a third party property management company.

Comment 2

2. CCHDC will make stabilization its ownership entity a priority by recruiting members of the community and experts in affordable housing industry to serve on the Board of Directors. We will install new members and train them to properly oversee the implementation of the HUD policies and regulations of its programs.

Comment 2

3. The management team will work closely with the tenants, vendors and volunteers to continue rebuilding the community and reducing the expensive cost for more financial stability until the Redevelopment Project is implemented.

Comment 2

4. CCHDC accepts the recommendations offered by the OIG staff [1B], [1C], [1D] and [1E].

Comment 2

Illustration #3: List of capital items purchased when funds were not available for Reserve & Replace account

During the period of October, 2012 – September 30, 2015; we have been trying to maintain the property. There were major replacements of HVAC systems, Refrigerators and preparation for REAC inspections. Therefore, there were months when we did not have funds to put into the Reserve Account.

Date	Improvement	Cost	Comments
11/26/2012	Replaced a/c unit	$1,201.00	1716 S Saratoga #A
6/12/2013	Replaced a/c	$ 550.00	1716 S. Saratoga #B
7/08/2014	Replaced a/c unit	$1,765.00	1805 S. Rampart #A
08/08/2014	Replaced heater	$1,006.00	1708 S. Rampart #B
08/19/2014	Replaced a/c unit	$1, 000.00	2020 St. Andrew #B
12/7/2012 to 08/29/2013	Past Due invoices from previous mgmt. for HVAC REPAIRS including replacing units	$7,590.50	
11/21/2012	refrigerator	$ 636.60	2024 St. Andrew #D
07/05/2013	refrigerator	$ 533.63	2020 St. Andrew #D
Total		**$14,282.23**	

Statement from the Chairman of the Board for Central City Housing Development Corporation [7/13/2016]

Comment 2

We plan to have regular Board meetings and where there will be an opportunity for the consultant to present and the Board will vote on issues for project related matters, the issuance and adoption of Board resolutions, the review of contracts, budgets, audit and monetary reports, and other financial and operational matters affecting the project. The Board will review and approve policies and procedures established and used for the operation of the project.

The Board chairman will keep a copy of the bylaws and articles of incorporation readily available for review. The board will seek from HUD training or written guidelines explaining its role and responsibility.

OIG Evaluation of Auditee Comments

Comment 1 The Corporation stated that it addressed, corrected, and repaired all of the items listed in this report and the health and safety hazards identified in the two previous REAC inspections. However, the Corporation did not provide supporting documentation; thus its claims could not be verified before we issued the final report. The Corporation will need to provide supporting documentation to HUD that it made the repairs and work with HUD to satisfy the recommendations.

Comment 2 We appreciate the Corporation's efforts to make improvements by taking actions and making recommendations to address the issues at the project that are identified in the report. The Corporation will need to provide evidence to HUD of actions taken toward correcting the identified issues, and work with HUD to continue to resolve the remaining issues and satisfy the recommendations in the report.

Comment 3 The Corporation stated that it made the $1,931 payment to the Louisiana Department of Revenue during an amnesty period, where it did not have to pay penalties and interest; however, it had not received the supporting documentation. The Corporation will need to provide the supporting documentation to HUD once it is received, and work with HUD to satisfy the recommendation.