



City of Providence, RI

HOME Investment Partnerships Program

**Office of Audit, Region 1
Boston, MA**

**Audit Report Number: 2018-BO-1003
June 20, 2018**



To: Robert Shumeyko, Director, Office of Community Planning and Development,
1AD

//signed//

From: Ann Marie Henry, Regional Inspector General for Audit, 1AGA

Subject: The City of Providence, RI, Did Not Properly Administer Its HOME Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Providence, RI's 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 617-994-8345.



Audit Report Number: 2018-BO-1003
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The City of Providence, RI, Did Not Properly Administer Its HOME Program

Highlights

What We Audited and Why

We audited the City of Providence RI's HOME Investment Partnerships program based on an OIG risk assessment, which ranked the City as the highest risk HOME grantee in New England. The objective of the audit was to determine whether the City properly committed and disbursed HOME funds in accordance with Federal and U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

City officials did not properly administer their HOME program. Specifically, they did not properly commit and disburse HOME funds in accordance with Federal and HUD rules and regulations. They did not ensure that they (1) met the commitment deadline for their HOME funds for program year 2013, (2) properly documented and supported their underwriting of activities, (3) complied with environmental review requirements, (4) disbursed funds in accordance with requirements, (5) properly tracked and obtained program income, and (6) supported their administrative fees. These deficiencies occurred because City officials and the previous directors of community development lacked adequate program knowledge and disregarded HUD and Federal requirements. Further, City officials did not have adequate underwriting and environmental policies and procedures and had poor record-keeping practices. As a result, they incurred more than \$1.4 million in ineligible costs, more than \$1.8 million in unsupported costs, and more than \$1.2 million in unexpended HOME funds that may need to be reallocated to eligible activities.

What We Recommend

We recommend that the Director of HUD's Boston Office of Community Planning and Development require City officials to (1) repay more than \$1.4 million in ineligible costs when commitment and environmental requirements were not properly completed and funds were not properly disbursed, (2) support more than \$1.8 million was reasonable, supported, and allowable or repay the funds, (3) support more than \$1.2 million in unexpended funds was reasonable and allowable or reallocate the funds, (4) cancel stalled activities in HUD's Integrated Disbursement and Information System, and (5) develop and implement adequate underwriting and environmental policies and procedures and tools to improve record-keeping practices.

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Background and Objective

The City of Providence, RI, is an entitlement grantee that receives annual allocations of HOME Investment Partnerships program funds from the U.S. Department of Housing and Urban Development (HUD) authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act as amended. The program regulations are contained in 24 CFR (Code of Federal Regulations) Part 92 and the HOME Investment Partnerships Program Final Rule published July 24, 2013. Participating jurisdictions¹ may use these funds for a wide range of activities, which include building, buying, and rehabilitating affordable housing for rent or home ownership or providing direct rental assistance to low-income households. Households must meet certain low-income limited criteria published by HUD to receive HOME assistance.

HOME funds are managed through HUD's Integrated Disbursement and Information System (IDIS), which disburses funds that are allocated or reallocated and reports information on the use of HOME funds in the U.S. Treasury account.

Participating jurisdictions must designate a minimum of 15 percent of their HOME allocations for investment in housing to be developed, sponsored, or owned by community housing development organizations (CHDO). A CHDO is a private, nonprofit, community-based service organization, the primary purpose of which is to provide and develop decent, affordable housing for the community it serves. All CHDOs must receive a certification from a participating jurisdiction showing that they meet certain HOME program requirements and are, therefore, eligible for HOME funding.

Participating jurisdictions must commit HOME funds for each specific fiscal year allocation within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement, or HUD will reduce or recapture any uncommitted HOME funds from the allocation.²

HUD awarded more than \$4.4 million in HOME funds and disbursed more than \$2.4 million to the City from program years 2013 through 2016 funds.

¹ A participating jurisdiction is designated by HUD in accordance with 24 CFR 92.105 and is responsible for ensuring that all HOME funds are used in accordance with general administrative requirements.

² Congress suspended the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019 via the Fiscal Year 2017 Consolidated Appropriations Act (Public Law 115-31). This suspension does not apply to CHDO reserve funds.

Program year	HOME funds awarded	Home funds disbursed³
2013	\$1,094,249	\$283,854
2014	1,151,171	888,480
2015	975,686	875,850
2016	1,258,623	439,806
Totals	4,479,729	2,487,990

Our audit objective was to determine whether the City properly committed and disbursed HOME funds in accordance with Federal and HUD rules and regulations.

³ This is the amount disbursed from program year 2013, 2014, 2015, and 2016 funds. However, the City also disbursed HOME funds from prior-year awards for the activities reviewed.

Results of Audit

Finding 1: The City Did Not Properly Administer Its HOME Program

City officials did not properly administer their HOME program. Specifically, they did not properly commit and disburse HOME funds for their affordable housing and downpayment assistance activities in accordance with Federal and HUD rules and regulations. They did not ensure that they (1) met the commitment deadline for their HOME funds for program year 2013, (2) properly documented and supported their underwriting of activities, (3) complied with environmental review requirements, (4) disbursed funds in accordance with requirements, (5) properly tracked and obtained program income⁴, and (6) supported their administrative fees. These deficiencies occurred because City officials and the previous directors of community development lacked adequate program knowledge and disregarded HUD and Federal requirements. Further, City officials did not have adequate underwriting and environmental policies and procedures and had poor record-keeping practices. As a result, they incurred more than \$1.4 million in ineligible costs, more than \$1.8 million in unsupported costs, and more than \$1.2 million in unexpended HOME funds that may need to be reallocated to eligible activities.

Commitment Deadline Not Met

City officials did not meet the commitment deadline for their HOME funds for program year 2013⁵ as required by 24 CFR 92.500(d)(1). According to the HOME Deadline Compliance Status Report for 2013 Commitments prepared by HUD headquarters, the City had a shortfall of \$613,311. City officials provided HUD their subrecipient agreement to administer their downpayment assistance program, which was dated before the deadline, and according to the budget, \$540,000 was for downpayment assistance to beneficiaries. According to local HUD officials, they directed City officials to amend the agreement to increase the amount of program costs to ensure that they met their commitment deadline. However, City officials did not amend the agreement until March 9, 2017. The HOME Deadline Compliance Status Report for 2013 Commitments was updated by HUD to show that the requirement was met based on the subrecipient agreement provided to HUD. However, the requirement was not met because City officials did not amend the agreement to support that the entire amount was committed by the deadline as required. According to City officials, this condition occurred because of an oversight. Therefore, they failed to meet the deadline and must repay \$73,311⁶ in ineligible HOME funds.

⁴ Program income means gross income received by the participating jurisdiction, State recipient, or a subrecipient directly generated from the use of HOME funds or matching contributions.

⁵ These funds were required to be committed by September 30, 2015.

⁶ (\$613,311-540,000)

In addition, City officials did not properly document and support their commitment of 12 of the 13⁷ affordable housing activities reviewed in accordance with 24 CFR 92.2(2)(i). (See appendix C.) Since City officials were not able to support the commitment of these activities, they may need to be canceled for lack of proper commitment.

City officials also committed \$350,000 in HOME funds to an affordable housing activity on August 31, 2010, and had disbursed \$346,556 as of March 2013 for acquisition and other costs. In 2012, HUD determined that this activity did not meet the environmental requirements, and the activity was determined to be ineligible. As of March 2018, the \$346,556 in ineligible HOME funds disbursed for this activity had not been returned to the City's HOME program. The remaining \$3,444 committed to this activity, which had not been spent, needs to be reallocated to eligible HOME activities.

Underwriting Not Properly Documented and Supported

City officials did not properly document and support their underwriting,⁸ in accordance with HOME regulations for all 13 of their affordable housing activities reviewed. This condition occurred because City officials did not establish adequate written underwriting policies and procedures. As a result, the City's underwriting was based on unsupported and unrealistic assumptions. Therefore, City officials could not support more than \$1.5 million⁹ in HOME funds, and more than \$1.2 million may need to be reallocated to eligible and supported HOME activities. (See appendix C.) Although no significant deficiencies were identified with the underwriting for the six downpayment assistance activities reviewed, City officials did not develop or provide underwriting guidelines to their subrecipient that administers the downpayment assistance program to ensure that its underwriting complied with requirements established by 24 CFR 92.254. As a result, home buyers could end up paying more than they can afford.

City officials did not properly document and support their underwriting of the affordable housing activities in accordance with 24 CFR 92.250(b). Specifically, they did not always

- amend the written HOME agreement with changes made based on an updated underwriting analysis,
- execute a HOME agreement before committing funds in IDIS,
- commit HOME funds based on the amount requested by the developer,
- document an underwriting analysis and ensure that the property was owned by the developer,
- document commitment of additional funding sources and obtain construction schedules,

⁷ Eleven of the activities were funded in program years 2014 and 2015, which was before the suspension of the commitment deadline requirement. Two of the thirteen activities were committed after the suspension of the commitment deadline (2016 or later), but one was a CHDO activity so the suspension did not apply.

⁸ Underwriting includes an examination of the sources and uses of funds for the project and a determination that the costs are reasonable and an assessment, at minimum, of the current market demand in the neighborhood in which the project will be located, the experience of the developer, the financial capacity of the developer, and firm written financial commitments for the project.

⁹ This amount does not include any ineligible HOME funds disbursed.

- document the sources and uses of funds,
- perform adequate independent cost estimates or document a review of cost reasonableness,
- perform an initial inspection of the activity, and
- document and support that organizations met CHDO certification requirements.

City officials generally performed the underwriting before executing the HOME agreement. However, in several instances, they updated the underwriting a year later. For two affordable housing activities, City officials originally underwrote the activity with two HOME units, including a homeowner and a rental unit. City officials later completed a new underwriting analysis showing that the rental unit would be market rate instead of HOME compliant, but they did not document these changes with an amended HOME agreement. They also did not perform or document a cost allocation as required by 24 CFR 92.205(d)(1). Further, the City's files did not contain documentation to explain why the number of units had been reduced. City officials stated that they changed the number of HOME-assisted units from two to one because they did not want to be responsible for monitoring the rental units for HOME compliance. Therefore, City officials did not obtain documentation related to the tenants to support their eligibility in accordance with 24 CFR 92.203. Because they did not update their HOME agreements to adjust the number of units, they were still responsible for monitoring the rental units for compliance.

In addition, City officials committed \$142,687 in HOME funds in IDIS before executing the HOME agreement with the developer for one activity in violation of HOME regulations. They inappropriately certified in IDIS that they had fully executed a written agreement that met the requirements and definition of a commitment according to 24 CFR 92.2(2)(i).

In five instances, the amount of HOME funds committed to the activity was more than the amount requested by the developer. However, there was no justification in the underwriting to explain why City officials provided more HOME funds than the developer requested. For example, for one activity the developer requested \$55,388 in HOME funds for a two-unit project. The initial HOME agreement was executed in October 2014 for \$75,088 and was then voided. A new HOME agreement was executed in August 2015 for \$163,590. The file did not contain an explanation for the increase in HOME funds.

For one activity, City officials did not document an underwriting analysis. The underwriting analysis was performed by the State of Rhode Island. The State's underwriting analysis recommended that City officials not provide HOME funds for this activity because it did not meet cost reasonableness standards and the monthly housing costs exceeded the 30 percent requirement for the home buyer. City officials committed \$142,168 to the developer for this activity without providing an explanation or performing additional underwriting. Further, the developer did not own the property as required. The property was held by the Rhode Island Housing land bank and was not transferred to the developer. Rhode Island Housing was not part of the HOME agreement, which was required since it was the owner of the property. As a result, \$142,168 disbursed for this activity was ineligible.

City officials did not document the commitment of funding from all other sources as required for 12 of the 13 affordable housing activities. City officials also did not obtain schedules as required to ensure that construction would start within 12 months of the HOME agreement¹⁰ for all 13 activities. Of the 13 activities, 10 did not start construction within the required 12 months from the date of the HOME agreement. Therefore, City officials should have terminated these 10 activities. For example, City officials committed HOME funds to an activity in September 2015, and construction had not started as of February 2018. (See photo below.) City officials disbursed \$68,489 for this activity for acquisition and other costs. Because construction had not started in more than 2 years and City officials did not follow the environmental regulations for this activity,¹¹ it needs to be canceled in IDIS, and the HOME funds need to be returned to the HOME program.



City officials did not adequately document the sources and uses of funds for the affordable housing activities. As a result, they were not able to document which costs were to be paid from HOME funds at the time of underwriting. Further, actual sources and uses were not properly documented throughout the completion of the activity. For example, for one activity, the developer provided documentation showing a construction loan as the other source of funds. Based on documentation regarding the sale of the property, there was no construction loan payoff from the sales proceeds. According to the developer, it self-funded the additional costs and did not use the construction loan. City officials were unaware of the change to the sources of funds.

City officials did not always perform adequate independent cost estimates or document a review of cost reasonableness to ensure that construction and rehabilitation costs were reasonable. In

¹⁰ Based on the City's HOME agreements, the agreements will terminate 6 months from the date of execution if construction has not started.

¹¹ See the Lack of Compliance with Environmental Review Requirements section.

accordance with 24 CFR 92.205-207 and 24 CFR 92.214, the City was required to have a system for reviewing cost estimates and determining whether the costs were reasonable and the HOME portion of the funding was used only for HOME-eligible expenses. Although the developer submitted a budget of the total development costs, City officials had nothing to compare this amount to. City officials' underwriting also cited "reasonable cost ranges and reasonable standards" for per-square-foot costs and non-construction-related costs but did not support and cite where these standards came from.

In addition, City officials did not always perform an initial inspection of the activities to determine the condition of the property and ensure that the work planned was necessary and feasible before committing HOME funds. For example, City officials committed \$268,894 to a rehabilitation activity on September 30, 2015. However, in October 2016, the developer solicited construction bids, and it was recommended that the developer secure architectural services first because of the level of work needed and to get a more comparable estimate. In January 2017, the architect recommended demolishing the existing building and constructing a new building. Therefore, the developer requested that the City HOME award for rehabilitation be converted to an award for demolition and new construction. The new budget submitted by the developer showed the total development costs at more than \$800,000. However, the developer intended to apply for other needed funds from other sources. City officials need to cancel the activity in IDIS. If City officials had performed an assessment of the property before awarding the funds, they may have determined that the rehabilitation work was not feasible and not committed funds to the activity.

Further, City officials did not adequately support that their two CHDOs met all of the requirements for CHDO certification. The documentation provided was not complete, and City officials did not complete the recommended checklist to show that all of the information was obtained and reviewed as necessary to certify the organizations as HUD-approved CHDOs. Regulations at 24 CFR 92.300 state that the participating jurisdiction must certify the organization as meeting the definition of a "community housing development organization" and must document that the organization has the capacity to own, develop, or sponsor housing each time it commits funds to the organization. Nine of the thirteen activities reviewed were funded with the City's CHDO reserves. If City officials cannot support that they properly certified their CHDOs in program years 2014, 2015, and 2016, the HOME funds disbursed for these activities need to be repaid to the HOME program.

Lack of Compliance With Environmental Review Requirements

City officials completed the required statutory checklist for the affordable housing activities. However, they classified 12 of 13 affordable housing activities as exempt without supporting documentation, such as maps and other source documentation, for each compliance factor. Therefore, the City did not comply with the requirements in 24 CFR 58.5-6.

Regulations state that exempt activities do not require that the public be notified through a notice of intent and request for release of funds or that HUD approve the activity before funds are committed. In addition, an exempt activity does not require mitigation for compliance with any listed statutes or authorities, nor does it require a formal permit or license. Based on the

documentation in the files, City officials classified 4 of the 12 affordable housing activities as exempt; however, these activities required further mitigation in areas such as historical preservation and contamination and toxic substances, including lead and mold remediation. Therefore, these four activities should not have been classified as exempt. City officials were required to publish a notification of intent and request for release of funds and obtain a form HUD-7015.16, Authority to Use Grant Funds, according to 24 CFR 58.70-71, before committing or drawing down funds. As a result of its noncompliance, the City incurred \$826,479 in ineligible costs. Based on the lack of supporting documentation, we were not able to determine whether the remaining eight affordable housing activities required further mitigation.

Further, City officials were initially not able to find the environmental review for one of the six downpayment assistance activities, but it was later provided by City officials. The environmental review provided was completed before the home buyer signed a purchase and sale and several months before the home buyer's application for downpayment assistance, which did not follow the normal process. Based on the process of the other downpayment activities reviewed, once the home buyer was approved for assistance and the property was under a purchase and sales agreement, the subrecipient would request that City officials perform an environmental review. As a result, City officials could not support that the environmental review was properly performed and that the \$20,000 in HOME funds disbursed for this activity was supported. In addition, City officials were responsible for completing the environmental reviews and uniform physical conditions standards (UPCS) inspection for the downpayment program. City officials documented written notification to the subrecipient regarding the UPCS inspections but did not provide documentation to the subrecipient related to the environmental reviews.

HOME Funds Not Disbursed in Accordance With Requirements

For three affordable housing activities, the amount of HOME funds disbursed by the City exceeded the amount of the HOME agreement. City officials did not amend the HOME agreement to increase the funding amount. Further, they paid for costs incurred before the HOME agreement for an additional two affordable housing activities. The written agreement did not allow for these costs to be incurred before the agreement was executed. As a result, City officials disbursed \$63,045 in ineligible funds above the HOME agreement amount or before the HOME agreement.

In addition, City officials disbursed HOME funds without properly documenting interim inspections and did not perform the final inspection on properties until after the property was sold to the home buyer. Further, the developer submitted the final payment requests, which included construction-related costs, after the properties were sold to the home buyers. The City inspector signed a payment request sheet with the requisitions submitted by the developer, but it was not always clear what work the City inspector was signing off on. A final inspection report and approval of any final construction payments should be completed before sale of the property and occupancy by the home buyer to ensure that all work was completed in accordance with the agreement and scope of work. In one instance, City officials could not support that a final inspection had been performed for the activity.

Program Income Not Properly Tracked and Obtained

City officials did not obtain closing documentation for the eight¹² affordable housing activities that were sold to home buyers to support the sales price and determine whether there were sales proceeds that should be returned as program income. City officials requested the settlement statements from the developer at our request. The statements showed that the developer¹³ received a substantial profit from the sale of seven¹⁴ activities even after payment of the developer's construction loan. The payoff of the construction loans for these seven activities was significantly less than the construction loan amount on the source and uses document provided by the developer. For example, the sources for one activity included \$140,032 in HOME funds, a construction loan of \$136,869, and sales proceeds of \$20,131. However, the settlement statement showed that the construction loan payoff off was \$17,171. The developer also received a developer fee for these activities. City officials committed and disbursed CHDO reserves for these eight activities. In accordance with 24 CFR 92.504(c)(3)(x), the agreement with the CHDO must specify whether the organization may retain proceeds from the sale of the housing and whether the proceeds are to be used for HOME-eligible or other housing activities to benefit low-income families. Recaptured funds are subject to the requirements of section 92.503. However, the HOME agreements did not allow for the developer to retain any proceeds.

According to 24 CFR 92.250(b), the City must not invest any more HOME funds, alone or in combination with other government assistance, than is necessary to provide quality, affordable housing that is financially viable for a reasonable period (at minimum, the period of affordability in section 92.252 or 92.254) and that will not provide a profit or return on the owner's or developer's investment that exceeds the participating jurisdiction's established standards for the size, type, and complexity of the project. City officials did not have established standards for developer profit or developer fee. The developer received \$618,318 in sales proceeds for these seven activities. City officials did not obtain the invoices and payments related to these activities to reconcile the actual supported total development costs and determine the amount of HOME funds that needed to be returned to the City as program income. The developer also received \$234,780 in developer fees for these activities.¹⁵

¹² One activity had not closed when the closing documents were requested, but the City provided them once the closing was complete.

¹³ All of these activities were completed by the same developer.

¹⁴ One activity was not owned by the developer. Therefore, the sales proceeds (\$35,000) went to Rhode Island Housing to reimburse it for the acquisition of the property.

¹⁵ This is the total developer fee and may not have always been paid entirely with HOME funds.

Property address	Activity number	Developer fee	Sales proceeds according to the settlement statement
176 Pavilion Avenue	3526	\$33,781	\$136,429
159 Rugby Street	3523	39,768	91,758
125 Byfield Street	3524	39,357	110,676
172 Pavilion Avenue	3525	33,781	79,587
201 Pavilion Avenue	3527	28,230	88,698
182 Pavilion Avenue	3528	25,777	75,999
164 Pavilion Avenue	3735	34,086	35,171
Totals		234,780	618,318

Unsupported Administrative Fees

City officials did not support that they earned \$338,665 in administrative fees for program years 2014, 2015, and 2016 based on the deficiencies identified above. Regulations at 24 CFR 92.504(a) held the City responsible for managing the day-to-day operations of its HOME program and ensuring that HOME funds were used in accordance with all program requirements and written agreements. Without following requirements, City officials did not ensure program compliance and the accuracy of activity information. The City received technical assistance from HUD in 2012, and HUD performed monitoring of the City in October 2015 and identified similar issues for previous program years. However, audit results showed that the City did not perform the functions that the administrative fees were intended to provide. While the City's new director of community development had prior HUD experience and program knowledge for administering the HOME program, significant improvements were needed in the City's HOME program.

The deficiencies identified occurred because City officials and the previous directors of community development lacked adequate program knowledge and disregarded HUD and Federal requirements. Further, City officials did not have adequate underwriting and environmental policies and procedures and had poor record-keeping practices. As a result, City officials incurred more than \$1.4 million in ineligible costs, more than \$1.8 million¹⁶ in unsupported costs, and more than \$1.2 million in unexpended HOME funds that need to be reallocated to eligible activities.

Conclusion

City officials did not properly administer their HOME program. Specifically, they did not properly commit and disburse HOME funds for their affordable housing and downpayment assistance activities. This condition occurred because City officials and the previous directors of community development lacked adequate program knowledge and disregarded HUD and Federal requirements, City officials did not have adequate underwriting and environmental policies and procedures, and the City had poor record-keeping practices. As a result, City officials incurred

¹⁶ This includes the administrative fees for program years 2014, 2015, and 2016.

more than \$1.4 million in ineligible costs, more than \$1.8 million in unsupported costs, and more than \$1.2 million in unexpended HOME funds that need to be reallocated to eligible activities.

Recommendations

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

- 1A. Repay from non-Federal sources the \$1,451,559¹⁷ in ineligible funds when the HOME program commitment requirements were not completed as required, the environmental reviews were not properly completed, and funds were not disbursed in accordance with written agreements.
- 1B. Support that \$1,559,908¹⁸ in HOME funds disbursed was reasonable, supported, and allowable in accordance with Federal requirements or repay from non-Federal funds any amount that cannot be supported.
- 1C. Support that \$1,253,596¹⁹ in funds not yet expended was reasonable, supported, and allowable or reallocate the funds, thus ensuring that they will be put to their intended use.
- 1D. Develop and implement adequate underwriting policies and procedures for their affordable housing activities and for the downpayment assistance program to ensure that HOME activities are consistent and meet Federal requirements. Further, they should include the downpayment underwriting policies and procedures in the written agreement with the City's subrecipient.
- 1E. Cancel activities in IDIS that have had no construction in more than 12 months.
- 1F. Develop and implement adequate environmental policies and procedures to ensure that HOME activities are properly classified, the environmental review is documented and supported, and that HUD and Federal environmental requirements have been followed before committing HOME funds to an activity.
- 1G. Determine the total supported development costs for the completed HOME activities and calculate and obtain any program income due to the HOME program.
- 1H. Support that City officials properly administered the HOME program and earned \$338,665 in HOME administrative fees or repay from non-Federal funds any amount that cannot be supported.

¹⁷ \$73,311+ 346,556 (Commitment Deadline Not Met) + 142,168 (Underwriting Not Properly Documented and Supported) + 826,479 (Lack of Compliance With Environmental Review Requirements) + 63,045 (HOME Funds Not Disbursed in Accordance With Requirements)

¹⁸ \$1,539,908 (Underwriting Not Properly Documented and Supported) + 20,000 (Lack of Compliance With Environmental Review Requirements)

¹⁹ \$3,444 (Commitment Deadline Not Met) + 1,250,152 (Underwriting Not Properly Documented and Supported)

- 1I. Develop and implement tools to improve record-keeping practices to support the eligibility, necessity, and reasonableness of the HOME activities.

We recommend that the Director of HUD's Boston Office of Community Planning and Development

- 1J. Request that HUD headquarters recalculate the City's commitment shortfall for program year 2013 based on the lack of the amendment with the City's subrecipient and for the projects that were not properly committed.
- 1K. Provide technical assistance to the City to ensure that City officials responsible for administering the HOME program receive necessary HOME program training.

Scope and Methodology

We performed our onsite audit work from October 2017 to March 2018 at the City's office located at 444 Westminster Street, 3rd Floor, Providence, RI, and the subrecipient's office located at 1070 Main Street, 3rd Floor, Pawtucket, RI. The audit covered the period July 1, 2014, through June 30, 2017, and was expanded when necessary.

To accomplish our objective, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, and City and subrecipient policies and procedures.
- Reviewed the City's grant agreements executed between HUD and the City for HOME program funds and the City's subrecipient agreement.
- Reviewed the City's consolidated plan, consolidated annual performance and evaluation reports, and action plans; the City's financial data for its HOME program administrative and program accounts; and certification documentation for the City's CHDOs.
- Interviewed City officials, subrecipient officials, and HUD Office of Community Planning and Development staff in Boston, MA.
- Reviewed reports from IDIS to obtain HOME commitment and expenditure data.
- Reviewed HUD's 2015 monitoring report on the City's HOME program and the City's monitoring report on its subrecipient.
- Reviewed the City's single audit reports for years ending June 30, 2015, and June 30, 2016.
- Followed up on the status of one stalled HOME activity set up in program year 2009.
- Selected and reviewed a sample of 13 of the 15 HOME affordable housing activities²⁰ that were set up during program years 2014, 2015, and 2016. These 13 commitments represented more than \$3.8 million, or 95 percent, of the City's total \$4 million in HOME funds budgeted for affordable housing during program years 2014, 2015, and 2016. The sample was selected based on higher dollar activities and activities that received CHDO reserves. We also performed onsite inspections of these activities. We did not use statistical samples; therefore, our results were not projected.

²⁰ This includes rehabilitation and new construction activities.

- Selected and reviewed a sample of 6 of the 49 HOME downpayment assistance activities that were set up during program years 2014, 2015, and 2016. These six commitments represented \$112,486, or 17 percent, of the City's total \$646,124 in HOME funds budgeted for downpayment assistance activities during program years 2014, 2015, and 2016. The sample was selected based on higher dollar activities and one activity for which the downpayment contract expired in 2017 but was still open. We did not use statistical samples; therefore, our results were not projected.

To achieve our audit objective, we relied in part on computer-processed data from the City's computer system and reports from IDIS.²¹ Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

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.

²¹ IDIS provides program information and funding data for the HOME program.

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is in accordance with laws and regulations.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.

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:

- City officials did not properly commit and disburse HOME funds in accordance with Federal and HUD rules and regulations for the City's affordable housing and downpayment assistance activities (finding).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A.	\$1,451,559		
1B.		\$1,559,908	
1C.			\$1,253,596
1H.		338,665	
Totals	1,451,559	1,898,573	1,253,596

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the City implements our recommendation to support that \$1,253,596 in HOME funds is reasonable and allowable, it can assure HUD that these funds will be supported or put to better use.

Appendix B


Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



Department of Planning and Development
Jorge O. Etorza, Mayor | Bonnie Nickerson AICP, Director

June 4, 2018

Ms. Ann Marie Henry, Regional Inspector General for Audit
Region 1 Boston
U.S. Department of Housing and Urban Development
Office of Inspector General
10 Causeway Street, Room 370
Boston MA 02222-1092

Subject: The City of Providence, RI HOME Investment Partnerships Program

Dear Ms. Henry:

The City of Providence is in receipt of the Office of the Inspector General's Draft Audit Report. Thank you for the opportunity to review and comment on the draft report. As the OIG is aware, the City has been actively working over the last two years to diligently and aggressively improve its internal processes and management of its federally-funded programs by bringing in new leadership of our Community Development Division, and through extensive staff training and technical assistance.

While we feel that the OIG's decision to target the City of Providence for audit while the City was already actively engaged with HUD's Region 1 Office of Community Planning and Development (CPD) in the implementation of a number of corrective actions to Field Office- and City-identified HOME Program deficiencies was redundant, we do wish to thank the OIG auditors for their willingness and commitment to providing constructive feedback. We will fully utilize the feedback provided by the OIG to continue to improve the management and implementation of the City's HOME Program.

To that end, we intend to report on the multitude of corrective actions already implemented, as well as state our intentions surrounding the resolution of any issues raised within the report.

Finding 1: The City Did Not Properly Administer Its HOME Program

Commitment Deadline Not Met

It is important to note that in recognition of the universal challenges surrounding the 24 month commitment deadline requirement, the Fiscal Year 2017 Consolidated Appropriations Act suspended the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019. Further, the deadline for CHDO commitments is also proposed for suspension in the draft FY19 THUD bill. It's unfortunate that HUD opts to continue to enforce the deadline retroactively, particularly when, in the case of the City's Downpayment Program, all funds were

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



Department of Planning and Development
Jorge O. Elorza, Mayor | Bonnie Nickerson AICP, Director

ultimately committed and utilized on HOME projects providing direct benefit to low-income homebuyers.

As the OIG was made aware at the initiation of the audit, the City has been in active dialogue with the HUD Field Office since October 2017 to negotiate a Program Year 2018 Voluntary Grant Reduction for the 514 Broadway activity as a corrective action (IDIS #2869). Prior to that date, the City was providing good faith updates to the Field Office as the City fruitlessly pursued legal remedy to recapture the HOME investment from the defaulted developer. The inclusion of this older activity into the draft report needlessly inflates the level of "ineligible" costs, will not impact the timeline for repayment, and constitutes a redundant finding.

The City's formal letter to HUD requesting the Voluntary Grant Reduction for this activity is enclosed. The City will take appropriate steps to reallocate any remaining balance under Field Office guidance. Therefore, the City requests that this particular finding be rescinded or closed.

Underwriting Not Properly Documented or Supported

Since 2015, the City has required all HOME applicants to complete detailed project pro formas, which include a description of all project funding sources (and uses), an operating budget (if a rental project), a disposition plan containing a calculation of beneficiary income needed to support the proposed purchase price (if a homeownership project), as well as an analysis of salient data points (such as development cost per unit, development cost per square foot and developer fee percentage) for determining cost-reasonableness. Project applications also require construction schedules and documentation of any additional funding sources.

Unfortunately, one or more deficiencies or gaps were found in the City's underwriting analyses and process when reviewed by the OIG. The City therefore concurs with the finding, and will take appropriate steps to support the findings of its past underwriting reviews, and work with the Field Office to improve its underwriting processes for the future.

As the OIG is aware, our Department's new Community Development Director monitored the subrecipient providing homebuyer assistance on its behalf in 2017, and found that the subrecipient's Program Policies did not formally specify affordability thresholds ("front and back end ratios"), or include explicit written underwriting standards as referenced in 92.254(f)(1). However, in all City- and OIG-tested files, income calculations were thorough and accurate, and industry-standard underwriting conducted by the primary lender was observed. Under no circumstances did the City or its subrecipient enable unsustainable or irresponsible lending.

Post-monitoring, the subrecipient was promptly counseled to revise their Program Policies to establish affordability underwriting thresholds by which to evaluate potential sustainability and affordability of lending. These underwriting policies have also now been incorporated and

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 1



Department of Planning and Development
Jorge O. Eloorza, Mayor | Bonnie Nickerson AICP, Director

reiterated in the City's HOME Manual. The City is therefore confident that the Field Office and OIG will find that proactive monitoring and appropriate corrective action have already occurred.

Lack of Compliance with Environmental Review Requirements

In response to Field Office monitoring findings on the City's environmental review processes, the City transitioned to the online HUD Environmental Review Online System (HEROs) in late 2016, and conducted significant retraining efforts. As an illustrative result of these effective corrective actions, the last project completed within the audit period (and the first completed post Field Office-monitoring), 60 King Street, had no observed deficiencies in its environmental review.

In the cases cited within the OIG's Draft Report, the City was cited for incorrectly converting projects to Exempt status under 58.5-6. As a result of this misclassification, the City failed to publish or post a singular required notice, the "Notice of Intent to Request a Release of Funds", resulting in the auditors declaring the projects as ineligible in their entirety. While this misclassification occurred, under no circumstances did the City fail to mitigate any hazards covered by the related laws and authorities under NEPA. The City can, and will, readily document to the Field Office that all HOME-assisted properties were inspected for lead-based paint and other toxic hazards, and full mitigation occurred in accordance with state and federal law whenever applicable. It can be further documented that no projects were conducted within the floodplain or critical habitat, and appropriate historic consultation occurred in all instances where applicable. All projects conducted by the City yielded safe, affordable housing for Providence residents.

HOME Funds Not Disbursed in Accordance with Requirements

For all HOME-assisted projects, the City executes and records a mortgage and Land Use Restrictive Covenant, and executes a HOME Agreement with the project developer/owner. In three instances, the City amended the budget for assisted projects due to change orders or revisions in activity scope. While City staff amended the recorded mortgage and affordability covenant for each project, the City's HOME Program staff regretfully overlooked the needed amendment to the HOME Agreement.

For all projects involving construction or rehabilitation with HOME funds, a qualified City inspector conducted site visits to determine work being invoiced was in place, and signed payment request sheets to accompany any requisition for payment from a developer. However, the City concurs with the OIG's finding that these forms could be improved to better identify individual construction line items approved or denied for payment, and that final inspections must occur prior to any authorization of transfer or occupancy.

In response to the above, the City has instituted the use of mandatory project checklists for all projects to ensure that all required elements are contained within project files and appropriate protocol followed.

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Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 4

Comment 5



Department of Planning and Development
Jorge O. Elorza, Mayor | Bonnie Nickerson AICP, Director

Program Income Not Properly Tracked or Obtained

During the audit period, the eight projects reviewed had recently sold, were pending sale, or were on the market for pre-sale. As such, final closeout of the projects (final draws, filing of final recorded documents) had not yet occurred.

Discrepancies related to the level and use of non-federal funds in these projects were not identified until the City received the settlement statements from the sale of the properties. The City will take prompt action to obtain invoices and payments made from non-federal sources to determine the amount of HOME funds due to the City as program income, and will take appropriate action under Field Office guidance.

Unsupported Administrative Fees


The City recognizes that recordkeeping, preparation of environmental reviews, and other internal procedures were, in some instances, deficient. In response, our Department's new Community Development Director has conducted hundreds of hours of internal staff trainings, instituted Director-level spot checks of all work products, mandated use of file checklists, and counseled program staff when warranted.

The presence of technical errors does not negate the thousands of hours of staff-time devoted to the implementation of the City's HOME Program, and under no circumstances did City officials or any prior staff knowingly disregard program requirements. All activities were carried out with a high degree of integrity, and the presence of deficiencies should not deflect from the overall effectiveness of the City's HOME Program.

In closing, the City appreciates the opportunity to provide additional comment regarding the draft audit, and will work to resolve any technical errors or programmatic deficiencies identified in this report.

The City looks forward to continuing to work closely with the Field Office and OIG towards the successful resolution of these legacy issues, and is confident that its improved administrative procedures and enhanced internal controls will ensure the success of the City's HOME Program into the future.

Sincerely,




Bonnie Nickerson, AICP
Director, Department of Planning & Development

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Auditee Comments and OIG's Evaluation

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Auditee Comments



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cc: Robert Shumeyko, CPD Director
Laura Schiffer, CPD Representative
Tomas Espinoza, HUD OIG
Jodi Desorcy, HUD OIG
Andrea Sudsbury, HUD OIG
Emily Freedman, Director of Community Development, Department of Planning & Development

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OIG Evaluation of Auditee Comments

- Comment 1 The City acknowledged the finding and recommendations and has begun taking corrective action to address the deficiencies identified. It should continue to work with HUD during the audit resolution process to close out the recommendations.
- Comment 2 HUD and the City were required to follow regulations that were in place at the time. Therefore, HOME funds for fiscal year 2015 and earlier were required to be committed before the commitment deadline. In addition, repayment of 514 Broadway was discussed with City officials at the beginning of the audit, and the City was given a number of reminders to put a repayment plan into place before our written report was issued. This activity was identified as ineligible in 2012, but no repayment plan was put into place until June 4, 2018, in response to our draft audit report.
- Comment 3 Regardless of whether the City can provide adequate documentation for these projects, it did not follow environmental regulations, which require publication of a notice of intent and that a request for release of funds be completed before the funds are committed. These environmental requirements are statutory and cannot be waived.
- Comment 4 Activities related to two of the eight projects had been closed out in IDIS before City officials obtained the settlement statements. Further, five projects were sold from July through November 2017, but City officials did not obtain the settlement statements until February 2018. The remaining project was sold in February 2018, and it was not included in this deficiency. The City needs to ensure that it obtains the settlement statements at closing and identify and obtain program income in a timely manner.
- Comment 5 We acknowledge that the current director of community development has been working to improve these deficiencies; however, we disagree that these were technical errors. The deficiencies identified in the audit were systemic issues that had been occurring for years, resulting in millions of dollars in questioned costs. Current City staff members had administered the HOME program for several years, but they either still lacked adequate program knowledge or disregarded HUD and Federal requirements. Further, the files did not always contain the necessary documents to support the eligibility of HOME costs. Many of the files were missing several key documents as discussed in the finding.

Appendix C

Schedule of Deficiencies and Questioned Costs by Activity

Activity number	Activity name	1/	2/	3/	4/	5/	6/	Ineligible	Unsupported	Funds to be put to better use	Total questioned costs
Affordable housing activities											
3526	176 Pavilion Avenue	X	X	X		X	X	\$17,427	\$122,605		\$140,032
3749	528 Dexter Street	X	X	X	X			660,000			660,000
3519	42 Hanover Street	X	X	X	X			97,990		65,600	163,590
3754	60 King Street		X						618,204	740,147	1,358,351
3531	49 Stanwood Street	X	X	X	X					268,894	268,894
3512	129 Oxford Street	X	X	X		X		142,168			142,168
3523	159 Rugby Street	X	X	X			X		168,064		168,064
3524	125 Byfield Street	X	X	X			X		168,064		168,064
3525	172 Pavilion Avenue	X	X	X		X	X	17,427	122,605		140,032
3527	201 Pavilion Avenue	X	X	X			X		122,605		122,605
3528	182 Pavilion Avenue	X	X	X		X	X	18,191	85,074		103,265
3613	267 Veazie Street	X	X	X	X			68,489		175,511	244,000
3735	164 Pavilion Avenue	X	X	X		X	X	10,000	132,687		142,687
2864	514 Broadway ²²							346,556		3,444	350,000
Totals		12	13	12	4	5	7	1,378,248	1,539,908	1,253,596	4,171,752

- 1/ Activities not properly committed
- 2/ Underwriting not properly documented and supported
- 3/ Environmental review not supported
- 4/ Notice of intent and request for release of funds not published
- 5/ HOME funds not disbursed in accordance with requirements
- 6/ Program income not properly tracked and obtained

²² Limited review to determine the status of this activity

Activity number	Activity name	1/	2/	3/	4/	5/	6/	Ineligible	Unsupported	Funds to be put to better use	Total questioned costs
Downpayment assistance activities											
3656	20 Pungansett Street										
3701	53 Murray Street										
3738	149 Sunbury Street										
3742	147 Petteys Avenue										
3744	10-12 Massie Avenue										
3815	208 Pavilion Avenue			X					\$20,000		\$20,000
Totals				1					20,000		20,000
Administrative costs											
3442	2014 HOME administration	Not applicable							115,117		115,117
3627	2015 HOME administration								97,685		97,685
3776	2016 HOME administration								125,862		125,862
Totals									338,665		338,665
2013 commitment shortfall								\$73,311			73,311
Total questioned costs								1,451,559	1,898,573	\$1,253,596	4,603,728

- 1/ Activities not properly committed
- 2/ Underwriting not properly documented and supported
- 3/ Environmental review not supported
- 4/ Notice of intent and request for release of funds not published
- 5/ HOME funds not disbursed in accordance with requirements
- 6/ Program income not properly tracked and obtained