



Issue Date January 23, 2008

Audit Report Number 2008-NY-1003

TO: Vincent Hom, Director, Office of Community Planning and Development, 2AD

FROM: For *John P. Harrison*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The City of New York's Department of Housing Preservation and Development, New York, New York, Had Administrative Weaknesses in Its HOME Program

HIGHLIGHTS

What We Audited and Why

We performed an audit of the HOME Investment Partnerships Program (HOME) administered by the City of New York's Department of Housing Preservation and Development (the City), New York, New York, as part of the Office of Inspector General's (OIG) work plan goals to address Community Development Block Grant program issues and improve the U.S. Department of Housing and Urban Development's (HUD) execution and accountability regarding fiscal responsibilities. We selected the City based upon our risk assessment of HOME grantees monitored by the HUD New York City Office of Community Planning and Development. The audit objectives were to determine whether the City (1) properly committed and disbursed HOME funds; (2) adequately monitored its community housing development organizations, projects, and contractors; and (3) correctly reported its match contributions.

What We Found

The City generally committed and disbursed HOME funds in accordance with HOME regulations; however, there were weaknesses in its monitoring procedures, which caused noncompliance with HOME regulations. Specifically, the City did not (1) recertify or evaluate performance of its community housing

development organizations as required, (2) close out seven projects in HUD's Integrated Disbursement and Information System within the prescribed timeframe, and (3) use correct affordability periods for monitoring its completed projects. As a result, the City lacked assurance that its community housing development organizations were properly organized and operated effectively, data in HUD's Integrated Disbursement and Information System accurately reflected the status of its HOME funds, and HOME-funded projects being monitored met the statutory HOME eligibility requirements throughout the affordability periods.

Additionally, the City overstated its match contribution by incorrectly calculating and reporting its match contributions. While the City met its HOME match requirements and reported a substantial balance of match contributions made in excess of the required amounts, the erroneous calculation resulted in \$34.1 million of ineligible match carried forward as a balance for use in future years.

What We Recommend

We recommend that the Director of HUD's New York Office of Community Planning and Development require the City to (1) implement procedures to recertify its community housing development organizations and evaluate their performance, (2) enter information into HUD's Integrated Disbursement and Information System to reflect the current status of seven old projects that have not been closed out, (3) implement procedures to ensure that all completed projects are monitored for the specified affordability period, (4) remove \$34.1 million in ineligible match from its 2007 HOME Match Report, and (5) establish procedures to accurately report the value of match contributions for each of its programs.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit and provided a draft report to the City on December 12, 2007. We held an exit conference on January 9, 2008. We requested that any written comments be provided by January 14, 2008, and we received a written response on January 16, 2008. The City generally agreed with the findings and has begun implementing corrective action to address our recommendations. The complete text of the City's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program (HOME), authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, is designed to create affordable housing for low-income households. The program provides formula grants to States and local governments to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. Program regulations are found in the HOME Investment Partnerships Program Final Rule at 24 CFR (*Code of Federal Regulations*) Part 92, and U.S. Department of Housing and Urban Development (HUD) program guidance is contained in its guidebook entitled Building HOME, dated February 2006.

The City of New York's Department of Housing Preservation and Development (the City) administers the funds provided under HOME. The City is the largest municipal developer of affordable housing in the nation and uses funds provided under HOME to make loans through programs that serve low-income renters and owners, as well as homeless families and individuals. The Department of Housing Preservation and Development is administered by Commissioner Shaun Donovan and several deputy commissioners. Responsibility for HOME funds is decentralized among the deputy commissioner for intergovernmental affairs; deputy commissioner for development; deputy commissioner for budget, fiscal, and engineering audit; and deputy commissioner for housing operations.

New York City was awarded \$241 million and drew down \$225.7 million in HOME funds during the audit period, October 1, 2004, through September 30, 2006. As shown below, the City administered various programs with its HOME funds.

Program name	Amount drawn
Article 8A Loan Program	\$ 2,316,340
City/State Permanent Housing for the Homeless (85/85)	5,380,612
Converted HOME Activities ¹	36,113,820
Cornerstone Program	189,185
Neighborhood Entrepreneurs Program	72,602,781
Neighborhood Redevelopment Program	33,907,573
Participation Loan Program	15,702,835
Small Buildings Loan Program (formerly Small Homes Private Loan Program)	6,812,816
The Supportive Housing Program	38,886,338
Third Party Transfer	13,795,569
Total	\$225,707,869

¹ Converted HOME Activities consists of prior HOME projects originally recorded in HUD's Line of Credit Control System, which were converted to HUD's Integrated Disbursement and Information System as well as funds for administration. These prior HOME projects were from the Neighborhood Entrepreneurs Program, Neighborhood Redevelopment Program, Phase Piggy Back, Southside United, and New York City.

We reviewed completed projects from the Neighborhood Entrepreneurs, Neighborhood Redevelopment, and Supportive Housing Programs. The Neighborhood Entrepreneurs Program identifies neighborhood-based property managers and developers to manage rehabilitation of and later own occupied and vacant City-owned buildings. The City drew \$54.5 million in HOME funds to complete 38 projects under the Neighborhood Entrepreneurs Program. The Neighborhood Redevelopment Program provides financing to enable experienced, locally based not-for-profit organizations to acquire and rehabilitate occupied City-owned buildings. The City drew \$124.7 million in HOME funds to complete 40 projects under the Neighborhood Redevelopment Program. Supportive Housing Program funds were used for acquisition and new construction or rehabilitation of properties by not-for-profit organizations to develop new permanent housing for homeless and low-income single adults. The City drew \$41.5 million in HOME funds to complete 10 projects under the Supportive Housing Program.

Our audit objectives were to determine whether the City (1) properly committed and disbursed HOME funds; (2) adequately monitored its community housing development organizations, projects, and contractors; and (3) correctly reported its match contributions.

RESULTS OF AUDIT

Finding 1: Weaknesses Existed in the City's Procedures for Monitoring HOME Funds

While the City generally committed and disbursed HOME funds in accordance with HOME regulations, there were weaknesses in its monitoring procedures, which caused noncompliance with HOME regulations. Specifically, the City did not (1) recertify or evaluate the performance of its community housing development organizations as required, (2) close out seven projects in HUD's Integrated Disbursement and Information System within the prescribed timeframe, and (3) use correct affordability periods for monitoring 47 completed HOME funded projects. This noncompliance occurred because the City (a) lacked procedures to recertify and evaluate the performance of its community housing development organizations, (b) lacked procedures to collect data to document that the seven projects met HOME affordability requirements, and (c) began projects' affordability periods either at an earlier or later date than the date on which projects' completion data were entered into HUD's Integrated Disbursement and Information System. Consequently, the City lacked assurance that its community housing development organizations were properly organized and operated effectively, data in HUD's Integrated Disbursement and Information System accurately reflected the status of its HOME funds related to seven projects, and 47 completed HOME funded projects being monitored met the statutory HOME eligibility requirements throughout the applicable affordability periods.

Weakness in Community Housing Development Organization Monitoring

The City did not recertify and monitor the performance of its community housing development organizations as required by HOME regulations. Our review of the files of four community housing development organizations disclosed that certifications were reviewed neither annually nor at the time of additional funding, and ongoing performance was not evaluated.

Regulations at 24 CFR (*Code of Federal Regulations*) 92.504(a) require the City to monitor its community housing development organizations and conduct a performance review at least annually. Community Planning and Development Notice 97-11 states that only nonprofit organizations that have been certified by HOME participating jurisdictions can receive funds from the minimum 15 percent set-aside, and to be eligible for set-aside funds, community housing development organizations must be organized and structured according to the standards provided in HOME regulations at 24 CFR 92.2.

Although the City had adequate procedures for monitoring individual project compliance with HOME regulations, which can include projects that are owned,

developed, and sponsored by its community housing development organizations, it lacked procedures to recertify the eligibility of its community housing development organizations annually or at the time of application for additional funding. The City also did not have adequate procedures for ongoing monitoring and evaluation of community housing development organization performance as suggested in chapter 3 of the Building HOME guidebook. Chapter 3 notes that evaluation of these organizations is designed to help identify their operational strengths and weaknesses and that an evaluation of performance may include a review of the following factors: completion of funded projects, timeliness and ability to complete projects within established budget parameters, human resources, adequate financial resources, ability to leverage other resources, adequate financial systems, board operations, strategic plans, organizational work plans, record keeping, compliance with HOME targeting requirements, and board composition and operations.

A City official agreed that the City is required to recertify its community housing development organizations but contended that HUD does not require ongoing evaluation of community housing development organizations' performance. A HUD Office of Community Planning and Development official stated that recertification annually or at the time of additional funding is required, as is evaluation of community housing development organization performance on an ongoing basis. The official noted that these requirements would be in addition to any other monitoring of individual projects that the City conducted.

Despite the position of the City official, in May 2007 during our audit, the City reviewed the certification for the four organizations, which we had reviewed, and a City official stated that the City was working with a HUD contractor to develop procedures to review community housing development organizations' certifications annually.

Projects Not Closed in a Timely Manner

Regulations at 24 CFR 92.502(d)(1) require that complete project completion information be entered into HUD's Integrated Disbursement and Information System within 120 days of the final project drawdown, and if satisfactory project completion information is not provided, HUD may suspend further project setups or take other corrective actions. Regulations at 24 CFR 92.503(b) provide that any HOME funds invested in housing that does not meet the affordability requirements must be repaid by the participating jurisdiction. The City had not entered information into HUD's Integrated Disbursement and Information System to accurately reflect the status of seven projects.

As part of a 2006 nationwide initiative to ensure that completed HOME-funded projects were properly closed out in HUD's Integrated Disbursement and Information System, HUD identified seven City projects totaling \$6.7 million

that, despite a final drawdown in May 1998, had not been closed out. The City was unable to close these projects because it lacked documentation for compliance with HOME affordability requirements. Accordingly, in February 2007, the City requested a waiver of the HOME regulations at 24 CFR 92.503(b). While the waiver was initially denied by the HUD field office, discussion between the field office and HUD's Office of Affordable Housing Programs resulted in the approval of a process whereby the City could "voucher out" the \$6.7 million in ineligible costs.

By vouchering out, the City was to identify new projects to replace the \$6.7 million. This process was documented in an e-mail to the City from the field office in response to the City's request for written verification that this process was acceptable and that the City would not be found in violation of HOME rules in the months it would take to identify new projects. While the City had identified projects against which the \$6.7 million would be applied, formal corrective action had not been implemented because City officials were still determining which project(s) best met the schedule established by the local field office. Consequently, HUD's Integrated Disbursement and Information System reported that \$6.7 million was disbursed for seven projects that had not been closed out although final disbursements had been made. Further, the Integrated Disbursement and Information System did not reflect that these projects were ineligible under HOME regulations and that specific replacement projects had not been identified. Without information in HUD's Integrated Disbursement and Information System identifying these seven projects as ineligible and in the process of being vouchered out, HUD's Integrated Disbursement and Information System would not accurately reflect the status of the City's HOME funds.

Incorrect Affordability Periods Used for Monitoring Projects

Regulations at 24 CFR 92.252(e) require HOME-assisted units to meet the affordability requirements for not less than the specified period, beginning after project completion.² Section 92.2 states that project completion means that all necessary title transfer requirements and construction work have been performed, the project complies with the requirements of this part, the final drawdown has been disbursed for the project, and project completion information has been entered into HUD's Integrated Disbursement and Information System. The City did not use the correct affordability periods for monitoring its completed projects. Our review of 234 projects monitored by the City in 2005, representing 415 HUD Integrated Disbursement and Information System activities, found that the City monitored 47

² The statutory minimum period of HOME affordability is five years for rehabilitation or acquisition of existing housing with a per unit amount of HOME funds under \$15,000, 10 years for funds of \$15,000 to \$40,000, 15 years for those units over \$40,000 or for rehabilitation involving financing, and 20 years for new construction or acquisition of newly constructed housing.

projects (92 Integrated Disbursement and Information System activities) using an incorrect affordability period. Therefore, some projects might not be monitored for eligibility throughout the entire period of affordability. This condition occurred because the City began the affordability period either at an earlier or later date than the date projects' completion data were entered in HUD's Integrated Disbursement and Information System. City officials contend that this occurred because data were corrupted during conversion from HUD's old system to the Integrated Disbursement and Information System for some projects and post completion updates changed the completion dates for other projects in HUD's Integrated Disbursement and Information System. Consequently, the City lacked assurance that 47 completed HOME funded projects (92 Integrated Disbursement and Information System activities) would meet the statutory HOME eligibility requirements throughout the period of affordability.

Conclusion

While the City generally committed and disbursed HOME funds in accordance with HOME regulations, it had weaknesses in its monitoring procedures that resulted in noncompliance with HOME regulations. Consequently, the City lacked assurance that (a) its community housing development organizations were properly organized and operated effectively, (b) data in HUD's Integrated Disbursement and Information System accurately reflected the status of its HOME funds related to seven projects, and (c) 47 HOME-funded projects (92 Integrated Disbursement and Information System activities) were meeting the statutory HOME eligibility requirements throughout the applicable affordability periods.

Recommendations

We recommend that the Director of HUD's New York Office of Community Planning and Development instruct the City to

- 1A. Implement procedures to annually or at the time of additional funding review its community housing development organizations for certification (designation).
- 1B. Develop, in consultation with HUD's contractor, procedures to evaluate the performance of its community housing development organizations on an ongoing basis.
- 1C. Enter information into HUD's Integrated Disbursement and Information System to reflect that seven open projects are ineligible and include the status of the vouchering-out process.

- 1D. Implement monitoring procedures to ensure that the 47 HOME-funded projects (92 Integrated Disbursement and Information System activities) with incorrect affordability periods meet the statutory HOME eligibility requirements throughout the period of affordability.

- 1E. Implement procedures to ensure that all completed projects are monitored for the specified affordability period beginning after project completion data have been entered into HUD's Integrated Disbursement and Information System.

Finding 2: The City Incorrectly Calculated and Reported Its Match Contributions

The City used an incorrect methodology to calculate the value of its HOME match contributions and reported match contributions related to six projects twice. These errors occurred because the City lacked consistent procedures for calculating its match contribution and did not have adequate procedures for identifying duplicate match contributions reported. As a result, while the City met its HOME match requirements and reported to HUD a substantial balance of match contributions made in excess of the required amount, the City reported \$34.1 million that was ineligible match contributions. If not corrected, the City could use the \$34.1 million to secure \$136.4 million in HOME funds in future years.

Incorrect Match Calculation

The City incorrectly calculated the value of its match contributions in four of six programs tested. Community Planning and Development Notice 97-03 defines eligible match contribution as a permanent contribution from nonfederal sources to a HOME project. The HOME Final Rule requires that each participating jurisdiction make contributions of not less than 25 percent³ of the funds drawn from the jurisdiction's HOME Investment Trust Fund Treasury account in a fiscal year related to housing that qualifies as affordable housing under the HOME program. The rule also provides that contributions made in a fiscal year that exceed a participating jurisdiction's match liability for that fiscal year may be carried over and applied to future fiscal years' match liability.

Notice 97-03 further requires that the City maintain a log that identifies match liability as it is incurred and the type and amount of each match contribution. In identifying eligible types of match, the notice provides that when match consists of below-market interest rate loans made from nonfederal funds with loan proceeds repaid to an account other than the HOME account, the match should be valued at the present discounted value of the yield foregone. The notice also requires that when fewer than 50 percent of a project's units are HOME assisted, match contributions are allowable only to HOME-assisted units and units that meet the HOME affordability requirements.

Review and testing of three match contributions reported in the 2005 HOME Match Report related to the Supportive Housing Program disclosed that the City incorrectly reported the value of each match contribution because it did not (1) calculate the present discounted value of the yield foregone of the loans and (2) prorate its match contribution to only the HOME units for projects with fewer than 50 percent HOME units. City officials agreed that the match contributions for all Supportive Housing Program projects were calculated incorrectly. Later

³ The City received a 50 percent match reduction resulting in a 12.5 percent match requirement for 2005 and 2006.

review disclosed that the City reported match contributions related to 18 Supportive Housing Program projects for the period October 1, 2004, through December 31, 2006. City officials provided documentation for the recalculation of the match contributions for each of these 18 projects. Review and analysis of the documentation determined that the match reported for these 18 projects was overvalued by \$28 million. As a result, the City incorrectly reported \$28 million as available match contributions, which could entitle the City to draw down \$112 million in HOME funds in future years.

An additional review of 10 sampled match contributions in five other City programs⁴ reported for the period October 1, 2004, through December 31, 2006, disclosed that the City correctly valued four match contributions in two programs and incorrectly calculated six match contributions in three programs, resulting in overvaluation of match by \$2.6 million. Specifically, four match contributions for the City's Neighborhood Entrepreneurs and Neighborhood Redevelopment Programs did not include a calculation of the present discounted value of the yield foregone of the loans and incorrectly prorated one match contribution. These improper calculations caused match to be overvalued by \$1.8 million. Two match contributions for the City/State Permanent Housing for the Homeless Program did not include a calculation of the present discounted value of the yield foregone of the loans and incorrectly calculated the present discounted cash value of foregone taxes. These errors resulted in a match overvaluation of \$838,193. As a result, the City incorrectly reported \$2.6 million as available match contributions, which could entitle the City to draw down \$10.4 million in HOME funds in future years. We requested that the City recalculate the remaining match contributions reported for the three programs during the period October 1, 2004, to December 31, 2006, and City officials have begun the recalculations.

Match Contributions Reported Twice

The City reported match contributions twice for six projects (activity numbers 221, 1108, 1192, 1309, 1316, and 1448). As a result, match contributions for the period October 1, 2004, through December 31, 2006, were overvalued by \$3.5 million, which could result in the City's securing \$14 million in HOME funds in future years. These errors occurred because the City did not have controls to check the Excel spreadsheet it used to track match for duplicate match contributions. City officials agreed that these match contributions were erroneously reported twice and agreed to post a correction in the City's 2007 HOME Match Report. City officials also stated that a database would be used to track matching funds to prevent reporting duplicate match.

⁴ The five programs are City/State Permanent Housing for the Homeless, Neighborhood Entrepreneurs Program, Neighborhood Redevelopment Program, Participation Loan Program, and Small Homes Private Loan Program.

Conclusion

The City met its HOME match requirements for 2005 and 2006 and reported a substantial balance of match contributions made in excess of the required amounts. Since match contributions in excess of a participating jurisdiction's match obligation are carried forward to apply as a credit toward the next year's match obligation, the value of match contributions must be properly calculated and reported to HUD to ensure that the City would comply with any required match contribution in future years. The City incorrectly calculated the value of match contributions for its Supportive Housing Program and for six sampled projects in three other programs and reported its match contributions related to six projects twice. These errors resulted in a balance carried forward to future years that was overvalued by \$34.1 million.

Recommendations

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

- 2A. Remove \$28 million from its 2007 HOME Match Report for match contributions incorrectly reported for the period October 1, 2004, through December 31, 2006, related to 18 Supportive Housing Program projects.
- 2B. Remove \$2.6 million from its 2007 HOME Match Report for incorrectly reported match contributions related to six projects from the City/State Permanent Housing for the Homeless, Neighborhood Entrepreneurs, and Neighborhood Redevelopment Programs.
- 2C. Recalculate the value of all other match contributions reported during the period October 1, 2004, through December 31, 2006, for the Neighborhood Entrepreneurs, Neighborhood Redevelopment, and City/State Permanent Housing for the Homeless Programs. If any of these contributions were incorrectly valued, the City should correct them in its 2007 HOME Match Report.
- 2D. Establish procedures and controls to ensure that loan values are properly discounted to account for the yield foregone, match contributions are prorated for projects with fewer than 50 percent HOME units, and match contributions reported to HUD are accurate.
- 2E. Remove \$3.5 million from its 2007 HOME Match Report for match erroneously reported twice related to six projects.

SCOPE AND METHODOLOGY

To accomplish our audit objectives, we

- Reviewed the HOME Investment Partnerships Final Rule, 24 CFR Part 92; HUD Handbook 6509.2, REV-5, CHG-1, Community Planning and Development Monitoring Handbook; Office of Community Planning and Development notices, Office of Management and Budget Circulars A-87 and A-133; and the HUD guidebook entitled Building HOME.
- Conducted interviews with staff from HUD's Office of Community Planning and Development responsible for the oversight and monitoring of the City's administration of HOME funds and HUD's Regional Counsel.
- Reviewed reports from HUD's Integrated Disbursement and Information System, the City's HUD-approved action plans and consolidated plan, HUD's plan review/assessment reports, the City's consolidated annual performance evaluation reports, and independent audit reports.
- Conducted interviews with the City's staff to obtain an understanding of the internal controls related to the administration of the City's HOME program.
- Ensured compliance with HOME regulations regarding administrative and planning costs by analyzing data from HUD's Integrated Disbursement and Information System. We determined that \$27.5 million was drawn for administrative and planning costs during the audit period; thus, we reviewed the funds drawn and the HOME program funding agreements to determine compliance with the 10 percent statutory requirement. We selected and reviewed a representative, nonstatistical sample of one voucher, representing \$14.7 million of the \$27.5 million, to ensure eligibility of the costs.
- Reviewed a nonrepresentative sample of six completed projects from the Neighborhood Redevelopment, Neighborhood Entrepreneurs, and Supportive Housing Programs to determine compliance with HOME regulations and eligibility of costs and identify weaknesses in internal controls. The sample of six projects represented \$48.3 million of the \$290.4 million disbursed for projects completed during the audit period.
- Selected and reviewed a sample of eight Neighborhood Entrepreneurs Program projects out of 18 projects that City officials stated began after June 30, 2004, to determine whether the City complied with Davis-Bacon requirements for projects begun after City fiscal year 2004.
- Reviewed HUD's Integrated Disbursement and Information System data to ensure that the requirement that 15 percent of funds be reserved for community housing development organizations was met.

- Selected a sample of four community housing development organizations and reviewed the City's files to determine compliance with HOME regulations.
- Reviewed the City's monitoring policies and procedures for projects, contractors, and community housing development organizations to determine compliance with HOME regulations.
- Reviewed HUD's Integrated Disbursement and Information System and the 2005 and 2006 HOME Match Reports to ensure compliance with the statutory match requirement.
- Selected and reviewed a nonrepresentative sample of three match contributions totaling \$16.1 million, related to the City's Supportive Housing Program, reported in the 2005 HOME Match Report, to ensure that the match contributions were correctly calculated and reported. We later expanded our testing to verify the accuracy of the match contribution for all 18 completed Supportive Housing Programs and 10 match contributions totaling \$34.2 million, related to five other City programs, reported in the HOME Match Reports for the period October 1, 2004, through December 31, 2006.

We performed our audit fieldwork between May and October 2007 at the City's office located at 100 Gold Street, New York, New York. The audit generally covered the period October 1, 2004, through September 30, 2006, and was expanded as necessary.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The City did not ensure compliance with laws and regulations because it did not recertify its community housing development organizations or evaluate their performance, close out seven projects in HUD's Integrated Disbursement and Information System, and use correct affordability periods for monitoring its completed projects (see finding 1).
- The City did not ensure the validity and reliability of data because it incorrectly calculated and reported the value of its match contributions to HUD (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible ^{1/} (millions)
2A	\$ 28.0
2B	\$ 2.6
2E	\$ <u>3.5</u>
Total	\$ 34.1

- 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. In this case, the City reported \$34.1 million in ineligible match contributions to HUD as a result of erroneous calculations and duplicative claims that should not be made available to match future HOME funds.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



City of New York
DEPARTMENT OF
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SHAUN DONOVAN
Commissioner

January 14, 2008

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RE: Audit Report on the Administration of the HOME Investment Partnership Program by the City of New York's
Department of Housing Preservation and Development
Audit Report Number 2008-NY-100x

Thank you for the opportunity to comment on the above-mentioned report, the details of which the staff of Housing Preservation and Development discussed last week with members of your staff, John Harrison, Fran Ranzie and William Yin. Your staff's assistance was appreciated during the audit.

The following represents the Department of Housing Preservation and Development's comments on the recommendations contained in your audit of the HOME Investment Partnership Program.

Audit Recommendation 1A/B: Implement procedures to annually or at the time of additional funding review its community housing development organizations for certification and develop in consultation with HUD's contractor, procedures to evaluate the performance of its community housing development organizations on an ongoing basis.

HPD acknowledges that recertifications of designated Community Housing Development Organizations (CHDOs) were not performed during the period under review. The four CHDOs sampled by the Inspector General's staff were found, however, to have continued to operate as and met all the regulatory requirements of CHDOs when HPD reviewed them in May, 2007.

HPD has already taken steps to improve its certification and monitoring of CHDOs. In February, 2007, HPD began work with a HUD-contracted Technical Consultant, Dennison Associates, Inc., to help HPD streamline and simplify the agency's procedures for certifying and recertifying CHDOs; identify additional HPD programs that could be used to meet the 15% CHDO set-aside requirement; and recruit new CHDO groups.

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Comment 1

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

As part of this effort, HPD held trainings on HUD's requirements for CHDOs for some 40 pre-existing CHDOs and encouraged them to recertify. The TA consultant also helped HPD develop an application to make it easier for applicants to apply and recertify.

In response to the part of the recommendation that suggests HPD should develop procedures to evaluate CHDOs' performance, it has been HPD's practice to monitor CHDOs for HOME compliance in the same manner as other grantees. The CHDOs sampled by the IG's office were in fact monitored by HPD and found to have met all requirements of the HOME Program. HPD will work with the HUD field office and technical assistance providers to develop new procedures to evaluate the performance of CHDOs.

Audit Recommendation 1C: Enter Information into HUD's Integrated Disbursement and Information System to reflect that seven open projects are ineligible and include the status of the vouchering-out process.

HPD has identified the recipient project, which is expected to close in March 2008.

Comment 2

HPD would like to clarify that HUD explicitly requested that we make changes to IDIS only when the process had begun. The HUD field office instructed HPD that "at the point in time when a sufficient volume of expenditures are recorded against the new project(s) and paid with general funds, the City will revise drawdowns recorded against the old (ineligible projects) and assign those drawdowns to the new projects to offset the prior ineligible expense." (Email correspondence, April 16, 2007. Emphasis added.)

While we are happy to comply with this recommendation, there is no clear mechanism for doing so, and it runs against instructions received from the HUD field office. HPD will require further guidance in order to take action.

Audit Recommendation 1D: Correct the start of the affordability period for each of the 47 projects to agree with the date the completion data were entered into HUD's Integrated Disbursement and Information System and/or correct HUD's Integrated Disbursement and Information System for each of the 92 project activities to requirements through the period of affordability.

Comment 1

HPD agrees that the 47 projects identified by the IG have completion data inconsistent with the start of the affordability periods. Because the majority of projects subsidized with HOME funds also receive other federal and city subsidies such as low interest rate loans and Low Income Housing Tax Credits the affordability period for most HOME projects is considerably longer than the period required by the HOME regulations. This should mitigate the impact of the variance between the completion and affordability period dates. Typically for those projects where additional subsidy was provided in addition to HOME funds the affordability period is 30 years – 15 or 20 years longer than the affordability period required by the HOME program.

Program staff will determine the correct date for the completion of the projects in question and correct the information in HUD's Integrated Disbursement and Information System as needed. Where the affordability period does not match with the correct completion date in the Integrated Disbursement and Information System program staff will take reasonable steps to ensure the projects in question have been or will be maintained as affordable housing projects for the appropriate period or longer, as determined by type of project, amount of per unit HOME subsidy.

Audit Recommendation 1E: Implement procedures to ensure that all completed projects are monitored for the specified affordability period beginning after project completion data have been entered into HUD's Integrated Disbursement and Information System.

Comment 1

The agency has implemented a procedure to regularly review the IDIS PR22 report (status of activities / projects) for newly completed projects. The agency's HOME compliance unit will check the report on a regular basis to ensure all completed projects are being monitored for the specified affordability period beginning the date the project completion data was entered into the IDIS system.

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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Audit Recommendations 2A-E:

Remove \$28 million from its 2007 HOME Match Report for match contributions incorrectly reported for the period October 1, 2004 through December 31, 2006 related to 18 Supportive Housing Program projects.

Remove \$2.6 million from its 2007 HOME Match Report for incorrectly reported match related to six projects from the City/State Permanent Housing for the Homeless, Neighborhood Entrepreneurs, and Neighborhood Redevelopment Programs.

Recalculate the value of all other match contributions reported during the period October 1, 2004, through December 31, 2006, for the Neighborhood Entrepreneurs, Neighborhood Redevelopment and City/State Permanent Housing for the Homeless Programs. If any of these contributions were incorrectly valued, the City should correct them in its 2007 HOME Match Report.

Establish procedures and controls to ensure that loan values are properly discounted to account for the yield foregone, match contributions are prorated for projects with fewer than 50 percent HOME units, and match contributions reported to HUD are accurate.

Remove \$3.5 million from its 2007 HOME Match Report for match erroneously reported twice related to six projects.

HPD agrees that certain match contributions were not correctly calculated and reported during the period reviewed. However, we note that HPD's match was far in excess of HUD's requirement and, therefore, the mistakes noted in the audit did not cause HPD to fall short of its match obligations.

HPD will take affirmative steps to ensure that match is properly calculated in the future. Program staff will thoroughly review all match calculations and supervisors will certify that calculation methodologies are correct. These procedures and controls will provide safeguards to ensure the accuracy of the match calculations.

HPD currently maintains the match log on an Excel spreadsheet. Going forward HPD will maintain the matching funds in a data base. This will prevent duplicating match dollars when reporting to HUD yearly.

The incorrectly reported and duplicate match dollars that were identified during the audit will be corrected on the 2007 match report.

Thank you again for the opportunity to comment on the recommendations included in the audit of HPD's HOME Investment Partnership Program. We look forward to working with HUD to correct the weaknesses identified.

Sincerely,



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OIG Evaluation of Auditee Comments

Comment 1 The City's actions are responsive to our recommendation.

Comment 2 While the City identified a replacement project and agreed to comply with the recommendation, City officials contend that doing so conflicts with instructions received from the HUD field office and that there is no clear mechanism to do so. Our recommendation does not negate the instructions from the field office, but rather seeks to ensure that HUD's Integrated Disbursement and Information System reflects the actual status of the City's activities until it is able to implement the instructions of the field office. In addition, an official of the HUD field office advised that there is a mechanism to implement the action recommended; therefore, the City should request technical guidance from the HUD field office to assist in implementing the narrative information recommended.