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TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

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FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The City of Los Angeles Housing Department Did Not Comply with HOME Affordability Monitoring and Inspection Requirements for Its HOME-Assisted Rental Housing

HIGHLIGHTS

What We Audited and Why

We audited the City of Los Angeles Housing Department (Department) as a result of an earlier audit of its HOME Investment Partnerships Program (HOME) rehabilitation program, which detected problems with the Department's monitoring of HOME-assisted rental units. Our audit objective was to determine whether the Department complied with HOME affordability monitoring and inspection requirements regarding HOME-assisted rental units.

What We Found

The Department did not comply with HOME affordability monitoring and inspection requirements for its HOME-assisted rental housing. It failed to maintain the required tenant eligibility information for 26 HOME-assisted rental housing projects totaling nearly \$38 million. In addition, it did not maintain complete tenant eligibility information for 27 tenants living in seven projects, resulting in \$103,693 in unsupported costs. Further, it did not ensure that its contractor conducted occupancy monitoring in accordance with HOME program requirements or its professional services agreement. Finally, it failed to inspect HOME-assisted rental housing projects when required and

ensure that projects met local housing code regulations. Improvements on controls would ensure that \$226,483 in funds could be put to better use. We attribute these deficiencies to the Department's overreliance on its contractor to obtain the required documentation, compounded by its inability to effectively monitor its contractor due to high staff turnover; its inadequate database for tracking its HOME-assisted rental housing and tenants; and poor record keeping.

What We Recommend

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Department to properly support or repay from nonfederal funds more than \$38 million in unsupported expenses. Additionally, we recommend that the U.S. Department of Housing and Urban Development (HUD) require the Department to establish and implement effective procedures and controls to ensure that its contractor and all HOME-assisted rental housing projects and units are monitored and units are inspected in accordance with HOME requirements because such corrective actions would ensure that \$226,483 in funds could be put to better use.

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 provided our discussion draft report to the Department on August 29, 2008, and held an exit conference on September 8, 2008. The Department provided its written response on September 15, 2008 and agreed with our report findings and recommendations.

The complete text of the auditee'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 City of Los Angeles (City) is a participating jurisdiction overseen by the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development, which executes the HOME Investment Partnerships Program (HOME). The City administers all of its HOME programs under the City of Los Angeles Housing Department (Department). Due to the variety of HOME program activities allowed under the law and the size of the entitlement grant, the Department divides its HOME program activities under the following major organizational units: the Major Projects Division manages the acquisition, new construction, or rehabilitation of large affordable rental housing projects; and the Homeownership and Preservation Division manages single-family or small multifamily purchase acquisition projects under its Homeownership Unit and manages single-family and small multifamily rehabilitation projects under its Preservation Unit.

The Department is the administrator of the City's HOME entitlement program. It follows monitoring standards and procedures to review and fund affordable housing developments to ensure compliance with HUD's program regulations. For example, it reviews the status of the HOME grant to ensure that the 24-month deadline to commit and five-year deadline to expend funds are complied with, monitors and reports on the HOME match requirements to ensure that the 12.5 percent match requirement is met, ensures that HOME-assisted rental units are inspected with the required frequency and comply with housing quality standards, and ensures that homebuyer and rental properties follow the applicable period of affordability. During the period of affordability, it reviews tenant household incomes and rents for compliance with HOME and other program requirements.

The Department's Occupancy Monitoring Unit is responsible for monitoring property owners' compliance with regulations, regulatory agreements, and covenants associated with affordable housing. The unit monitors properties funded through the Department with federal funds, properties funded with its issued tax-exempt mortgage revenue bonds, and properties developed with land use concessions available under the Planning Department's Affordable Housing Incentives Program or properties subject to Mellow Act affordable housing set-asides. Monitoring activities include review of owner compliance with tenant income and rent ceilings as well as ensuring compliance with any underlying federal regulations, such as HUD housing quality standards.

The objective of the audit was to determine whether the Department complied with HOME affordability monitoring and inspection requirements regarding HOME-assisted rental units.

RESULTS OF AUDIT

Finding 1: The Department Failed to Maintain Required Tenant Eligibility Information for HOME-Assisted Rental Housing Projects

The Department failed to maintain required tenant eligibility information for 26 HOME-assisted rental housing projects to show that projects met affordability and income targeting requirements for affordable housing. This condition occurred because of the Department's overreliance on its contractor to obtain the required documentation, compounded by its failure to effectively monitor its contractor (see finding 2). As a result, neither the Department nor HUD was assured that nearly \$38 million in HOME funds expended for the 26 projects complied with the HOME program's intent to house and support low-income persons.

Tenant Eligibility Information Not Maintained for Projects Totaling Nearly \$38 Million

Contrary to 24 CFR [*Code of Federal Requirements*] 92.508(a)(3)(v) (see appendix C), the Department failed to maintain tenant eligibility information for 26 projects to show that projects met affordability and income targeting requirements for affordable housing. The records for all 26 HOME-assisted rental housing projects lacked tenant information required by HOME and the Department's policies and procedures (see appendix C).

We examined records for the 26 projects provided by the Department and found that the records failed to contain all required documentation (see appendix D) in accordance with HOME requirements and the Department's policies and procedures, which indicated that the following tenant information was to be maintained:

- Lease application
- Lease or lease waiver
- Initial income source verification documentation
- Tenant income and rent certification forms (tenant form)
- Mandatory addendum to the lease or rental agreement

However, none of the 26 projects had complete documentation. A majority of the records consisted of regulatory agreements and random documents of continued occupancy certifications and some tenant information that did not identify whether the tenants resided in the HOME-assisted units. Consequently, we were unable to determine whether HOME funds expended for the 26 projects complied with HOME requirements. As a result of these deficiencies, the Department expended nearly \$38 million in HOME funds for which it was unable to support that it housed and supported low-income persons

in the 26 HOME projects. It was unable to provide adequate tenant information to show that projects met HOME affordability and income targeting requirements for affordable housing. For the majority of the projects, records did not distinguish which units were HOME-assisted units, thus making it difficult to ensure that the required documentation was maintained.

Conclusion

We attribute the deficiencies noted above to the Department's overreliance on its contractor to obtain the required documentation, compounded by its failure to effectively monitor its contractor. Department officials explained that the Department's inability to effectively monitor its contractor was due to high staff turnover, lack of an adequate database for tracking its HOME-assisted rental units, and poor record keeping. These conditions hindered the Department's monitoring ability because it could not effectively perform checks and balances to identify which projects and tenants were monitored by the contractor and whether adequate tenant eligibility information was maintained to show that projects met affordability and income targeting requirements for affordable housing. The contractor did not obtain the required documentation because it misunderstood its professional services agreement (see finding 2). Consequently, neither the Department nor HUD was assured that nearly \$38 million in HOME funds expended for the 26 projects complied with the HOME program's intent to house and support low-income persons.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Department to

- 1A. Provide documentation for 26 HOME-assisted rental projects to support that each HOME-assisted unit was occupied by a family that was income eligible and the projects met the affordability and income targeting requirements for the entire period of affordability or repay HUD \$37,999,014 in unsupported costs from nonfederal funds.
- 1B. Ensure adequate controls are in place to ensure that the HOME assisted units meet program requirements for the entire affordability period.

Finding 2: The Department Failed to Monitor Its Occupancy Monitoring Contractor

The Department did not ensure that its contractor conducted occupancy monitoring of the HOME-assisted projects as required. Consequently, it did not maintain required tenant information for its HOME-assisted projects (finding 1). We attribute the deficiency to the Department's lack of knowledge of the HOME program monitoring requirements. The Department had not developed or implemented contractor monitoring policies to ensure that the contractor performed the services required under its contract with the Department or the HOME program regulations, resulting in \$103,693 in unsupported costs. As a result, neither HUD nor the Department was assured that its HOME-assisted projects met HOME program requirements. In addition, the Department paid \$551,306 in HOME funds for contracted services, which were not fully performed as intended under the contract.

Contractor Monitoring Not Performed

Pursuant to 24 CFR 92.504(a), the Department had a responsibility to manage day-to-day operations of its HOME program to ensure that HOME funds were used in accordance with all program requirements. Although the Department paid a contractor to conduct occupancy monitoring, it was not relieved of this responsibility. It was required to review the performance of its contractor at least annually (see appendix C). However, it did not monitor its contractor annually and did not have policies or procedures to ensure that it met the requirement.

The housing services manager for the Department acknowledged there were no policies and procedures for monitoring its contractor but stated that the agreement between the Department and the contractor (see appendix C) stipulated an end-of-contract performance evaluation. The Department contracted the functions in April 2003 and conducted a performance evaluation of the contractor in December 2005, found the contractor's performance to be satisfactory, and renewed the contract. No other formal monitoring had taken place since that time.

We interviewed the Department's management analyst, who stated that the Department had planned to visit the contractor twice per year but the Occupancy Monitoring Unit was understaffed and unable to do the planned monitoring. The interview also disclosed that the analyst was not fully knowledgeable of the HOME requirements related to the occupancy monitoring or the contract provisions. Specifically, the analyst did not

- Know what the professional services agreement required the contractor to do,

- Know that the Department was required to monitor the contractor at least annually,
- Know that HOME regulations required the Department to maintain tenant files and that the use of a contractor did not relieve it of this responsibility,
- Have procedures in place to determine whether the contractor provided all required documentation to the Department, or
- Verify whether the cash receipts received from the contractor were valid before approving payment.

Contractor Procedures Inadequate

The professional services agreement between the Department and its contractor required the contractor to establish and maintain records for all HOME-assisted projects to support that each family was income eligible and each project met affordability and income targeting requirements of HOME regulations. We reviewed the contractor’s policies and procedures used to conduct occupancy monitoring for the Department. The contractor’s policies and procedures were not adequate to ensure compliance with HOME program regulations and the professional services agreement. Specifically, the contractor did not have procedures in place to obtain and retain tenant/unit information needed by HUD to ensure that the tenant/unit met HOME program regulations.

The contractor was unaware of the project file record retention requirement set forth in the professional services agreement (contract). The contract stated that original forms for all documents specified in the agreement shall be maintained for a period of five years after the termination of the agreement and after final disposition of pending matters. The contractor stated that it had “purged” requested documentation and sent it to the Department because of limited storage space. However, the Department disputed the statement by stating that it did not have the documentation the contractor reportedly sent.

The contractor was also unaware of the requirement to obtain full documentation for all tenants residing in HOME-assisted units, which included tenants that had been in the units before the execution of the 2003 contract. The contractor stated that it was not required to collect documentation for “existing” tenants, resulting in \$103,693 in unsupported costs for the tenant files we reviewed. Of the 27 tenant records reviewed, 24 (89 percent) did not have initial move-in source documentation (see appendix E). During the review of the 27 tenant records (seven projects that contained documentation) provided by the contractor, we also found that

- 25 of 27 (93 percent) tenant files were missing one or more years of tenant recertification documents,

- Seven of eight (88 percent) tenant files did not contain full source documentation required at the sixth year,¹ and
- 27 of 27 (100 percent) tenant files did not contain tenant application/lease documents (see appendix E).

Although tenant eligibility information was missing, the Department paid the contractor for services performed with HOME funding for the above units. However, we did not recommend recovery of the related amount since it was immaterial.

In addition, the contractor did not perform document collection cycles in accordance with the contract. The contract stated that if the project owner did not submit the required documentation, the contractor was to perform “up to three Collection Activity Cycles” to obtain compliance. If the required documentation was not obtained through the collection activity cycles, the contractor was required to schedule and conduct a site visit. The contractor did not conduct site visits for noncompliant² projects and did not inform the Department of the projects’ noncompliant status. Therefore, five projects were noncompliant for up to three years (finding 1) (see appendix D).

Conclusion

The problem occurred because the Department did not have monitoring procedures in place to ensure that the contractor performed the services required under the contract. The problem was compounded by the fact that the Department’s management analyst and contractor staff were not fully knowledgeable of the HOME requirements related to occupancy monitoring or the contract provisions. As a result, neither HUD nor the Department was assured that its HOME-assisted projects met HOME tenant eligibility requirements (finding 1). In addition, the Department paid \$551,306 in HOME funds for contracted services, which were not fully performed as intended under the contract. Once the Department implements monitoring procedures to ensure that the contractor performs the occupancy monitoring as required, it will allow these \$110,261³ in funds to be put to better use in the future.

¹ Of 27 tenants, only 8 were required to have full source documentation for the sixth-year certification.

² These noncompliant projects are projects for which the contractor did not perform the required site visits to obtain the required documentation to satisfy tenant/unit documentation related to HOME-assisted units.

³ Average annual contract cost (1/5 the amount of the \$551,306 incurred over a five year period).

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Department to

- 2A. Develop and implement policies and procedures to ensure that it monitors its contractor to ensure that the contracted services are performed as intended. Such action will ensure that the contract amount of \$110,261 in HOME funds can be put to better use in the future.
- 2B. Provide missing tenant documentation for the 27 tenants to support that each family was income eligible and that projects met affordability and income targeting requirements of HOME regulations or repay \$103,693 in unsupported costs.
- 2C. Provide training to the responsible Department and contractor staff to ensure that they are fully knowledgeable of the HOME regular occupancy monitoring requirements as well as the contract provisions.

Finding 3: The Department Failed to Inspect HOME-Assisted Rental Housing Projects and Ensure That Projects Met Local Housing Code Requirements

The Department failed to inspect HOME-assisted rental housing projects as frequently as required and ensure that the projects met local housing code requirements. It did not conduct the required number of inspections during our three-year audit period for 36 of 52 properties. In addition, 69 of 165 units (42 percent) inspected did not meet the local code requirements. The problem occurred because the Department did not have adequate controls in place to ensure that HOME-assisted rental housing units were properly inspected and recorded as HOME-assisted units. As a result, neither the Department nor HUD was assured that the HOME-assisted rental units were safe and sanitary and complied with local code requirements.

Projects Not Inspected as Required

Pursuant to 24 CFR 92.504(d), the participating jurisdiction must perform on-site inspections of HOME-assisted rental housing to determine compliance with the property standards of section 92.251 no less than

- Every three years for projects containing one to four units,
- Every two years for projects containing 5 to 25 units, and
- Every year for projects containing 26 or more units.

The Department did not conduct the required number of inspections during our three-year audit period for 36 of 52 properties (69 percent) in our sample. In addition, six of these properties did not receive any inspections during our audit period. A schedule of the properties that were not inspected as required is shown in appendix F.

The problem occurred because the Department did not have adequate procedures in place to ensure that the HOME-assisted rental housing properties were properly inspected and recorded in the Systematic Code Enforcement Program's information system as HOME-assisted projects. This condition caused the properties to fall under the Systematic Code Enforcement Program's ordinance, which requires only one inspection of each multifamily residential unit every three years.

Nevertheless, as reported in the City’s audit report,⁴ the Department exceeded this three-year requirement, and it took six years to complete the first cycle of inspections. In addition, the information systems and databases used by staff (Occupancy Monitoring Unit and Systematic Code Enforcement Program) are all stand-alone systems that do not interface with each other and do not enable the Department to efficiently track, monitor, and reconcile data related to HOME-assisted rental housing units (see finding 4).

Local Code Requirements Not Met

Regulations at 24 CFR 92.251(a)(2) require that HOME-assisted housing meet all applicable state and local housing quality standards and code requirements (see appendix C).

We inspected 165 HOME-assisted rental units (20 properties) to determine whether they met housing code regulations. Of the 165 units, 69 (42 percent) did not meet the local code requirements and had 407 housing code violations (see appendix G). Of the 69 units, 41 (59 percent) (within 10 projects) were in material noncompliance and comprised 113 of the 407 housing code violations as shown below.

Project assessor parcel number	Number of units inspected	Number of units with significant violations	Total violations identified
5028001028	11	11	40
5163013009	10	10	18
5028001021	5	5	23
5546005001	10	3	5
2210019013	10	3	5
5155029010	10	3	6
5148011001	11	3	10
5148012006	10	1	1
5408017023	10	1	2
5141001018	7	1	3
Total	94	41	113

These units had significant violations that created substantially unsafe tenant living conditions, including exposed electrical contacts or wiring, broken exterior door locks

⁴ It is the internal audit report issued July 16, 2007, by the City’s Office of the Controller. It was a followup audit of the Housing Department’s Systematic Code Enforcement Program regarding the audit conducted in 2001, which found that the Department did not have a systematic approach to prioritize the properties that require inspections, lacked effective systems to report the inspection results and the program’s performance, and needed to reassess the funding of the program.

and hinges, deficient windows that did not lock, and mildew. By contrast, those units that were not considered to be materially deficient had less severe violations such as cracked or broken window glass panes; inoperative burners on stove; air conditioner filter dirty (lint); excessive grease on kitchen counter, stove, and wall; excessive debris; sink not properly sealed around counter; and garbage disposal leakage. These types of deficiencies also affected tenant health and safety but not to a high enough degree to cause the units to be considered materially deficient.

Examples of Violations

Our inspector identified 75 violations (see appendix G) relating to the failure to maintain windows, doors, cabinets, and frames in operable, clean, and sanitary condition and in good repair for 8 (37 units) of the 20 properties inspected. The violations included cracked window glass, water damage at top of cabinet area, bathroom window frames damaged with hole and wood rot, defective window lock/latch, kitchen cabinets and sink wood rot due and water damage, entry door dead bolt not penetrating striker, bathroom medical cabinet corroded, and bathroom with excessive buildup of mildew. The following pictures are examples of the violations we observed:



Assessor parcel numbers 5546005001 and 5028001028: J trap leaking, taped in an attempt to prevent from continuing to leak under sink. Water damage, wood rot, warped floor boards, holes, and mildew existed under the interior of bottom sink cabinet.



Assessor parcel numbers 5028001021, 5155029010, and 5028001028: Entry door to living room - door frame/trim split, damaged, insecure, and/or missing door hinges. A unit (3rd picture) had a hollow door used as the exterior door to the living room. The hollow door does not provide basic standards of security, weatherization, and barrier against fire and smoke.



Assessor parcel numbers 5028001028 and 5163013009: Broken glass raises concerns for safety of tenants and poses a cutting hazard.

In addition, our inspector identified 36 violations relating to the failure to maintain safe and sanitary floor covering for nine projects (26 units). The violations identified included shower floor tiles exposed with missing grout/seal and mildew; carpet worn/torn, with holes, and/or lifted, creating ripples with potential tripping hazard; kitchen and room flooring in a rough subflooring condition; and linoleum lifted at tub and shower area. The following are some examples of the violations we observed:



Assessor parcel numbers 5141001018, 5028001028, 5148012006, and 5028001021: Worn and torn carpets and floors with missing tiles and mildew growth poses potential health and safety problems and tripping hazards. A picture shows that duct tape was used in an attempt to cover up the mildew.

Our inspector identified other violations, including but not limited to rotting/peeling interior and exterior paint, inoperable smoke detectors, exposed wires, aged and dirty vents for air conditioner and heater, leaking drain pipes, garbage and debris in and around HOME-assisted rental units, missing handrails on stairways, and loose toilets. The following pictures are a few examples of other violations identified in the Department's HOME-assisted rental units inspected.



Assessor parcel numbers 5028001021, 2210019013, 5408017023, and 5546005001: Toilets with no cover, inoperable smoke detectors, dirty heating and ventilation system, and exposed wiring pose health and safety concerns.

As previously mentioned, the Department did not conduct the required number of inspections during our three-year audit period for 36 of 52 (69 percent) properties. Performing inspections at the required intervals could have prevented, or at least reduced, the amount of time that units were in noncompliance and in unsafe or unsanitary condition. Improvements to the Department's inspection controls to ensure that inspections are conducted when required will enable \$106,862⁵ in HOME funds to be put to better use in the future.

⁵ The amount represents a prorated amount of HOME funds invested in the HOME-assisted rental units that failed inspection. See appendix H for details on the calculation.

Department Not Aware of Vacant Units

During our inspections, we also identified six units that had been vacant between 12 and 27 months, although there was nothing precluding these units from being occupied. In accordance with 24 CFR 92.351(a)(1), participating jurisdictions are to affirmatively market units by having owners adopt procedures to inform and solicit applications from persons in the housing market area who are not likely to apply for the housing without special outreach. We brought the vacant units to the attention of the housing services manager and learned that the Department was unaware that the units were vacant and in violation of HOME regulations. These vacant units could have been occupied by eligible tenants. However, the Department and the owner did not maximize the effectiveness of the HOME program's intent to house low-income households for the time the units were vacant. Improvements to the Department's controls to ensure that vacant units are identified and then occupied by eligible tenants in a timely manner will ensure that \$9,360⁶ in HOME funds can be put to better use in the future.

Conclusion

Collectively, we attribute the deficiencies noted above to the Department's not having adequate controls in place to ensure that HOME-assisted rental housing units were inspected when required and that they complied with local code requirements. Consequently, neither the Department nor HUD was adequately assured that HOME-assisted rental units were safe and sanitary units that complied with local code requirements. Improvements to the Department's controls will ensure that \$116,222 in HOME funds can be put to better use in the future.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Department to

- 3A. Take action to ensure that units that failed inspection during our site visit (appendix G) are repaired by the project owners. Such corrective action will ensure that rental housing assisted with \$106,862 in HOME funds can be put to better use.

⁶ The amount represents a prorated amount of HOME funds invested in the HOME-assisted rental units that were vacant. If controls are implemented to ensure that vacant units are identified and then occupied by eligible tenants in a timely manner, funds would be put to better use for the vacant units that we identified. See appendix H for details on the calculation.

- 3B. Take action to ensure that vacant HOME-assisted rental housing units identified during our inspections are occupied as soon as possible by eligible tenants and identify whether there are other vacant units that also need to be occupied. Such corrective action will ensure that rental housing assisted with \$9,360 in HOME funds can be put to better use.

- 3C. Implement adequate policies and procedures (internal controls) to ensure that HOME-assisted rental housing is transferred from the Occupancy Monitoring Unit to the Systematic Code Enforcement Program in a timely manner and appropriately recorded in its system so that all HOME-assisted rental projects are inspected in a timely manner to identify and correct housing code violations.

Finding 4: The Department Had Inadequate Controls over the Monitoring of Its HOME-Assisted Rental Housing Projects

The Department had inadequate controls over the monitoring of its HOME-assisted rental housing projects. The Department's databases are inefficient and incomplete because they are stand-alone systems that do not interface with each other and do not provide user-friendly reporting. We compared the databases used by the Department and its contractor and found discrepancies with the number of HOME-assisted rental units and projects recorded as well as inaccurate property addresses. The problem occurred because of the lack of a uniform database, compounded by high staff turnover and poor record keeping. Without adequate oversight, neither HUD nor the Department can adequately ensure that the HOME-funded projects comply with HOME requirements.

Inadequate Controls over Monitoring of HOME-Assisted Rental Housing Projects

Contrary to Office of Management and Budget Circular A-133 (see appendix C), the Department did not have adequate internal controls in place to monitor its HOME-assisted rental housing projects to ensure that they complied with HOME requirements. We reviewed the various databases used by the Department and found the following problems and issues:

- Capital Budget Tracking System – It is a text database used by the Department that contains project management, fund source, and loan service information; however, it does not have information on the number of HOME-assisted units.
- Integrated Disbursement Information System – It is HUD's database system that allows grantees to request grant funding and report on program accomplishments; however, the Department's HOME-funded project addresses were not always accurate.
- Contractor's database – The contractor was unable to export information from its database on the universe of tenant records and could not retrieve individual tenant data because all data were entered using project addresses rather than individual tenants' names.
- Systematic Code Enforcement Program's spreadsheet – It is a spreadsheet kept by the Systematic Code Enforcement Program on all of its HOME-assisted rental housing

projects for use in scheduling and conducting physical inspections; however, it did not distinguish HOME-assisted units from non-HOME-assisted units.

The systems also showed different numbers of HOME-assisted rental housing projects and units. The table below illustrates the numbers reported by the various systems:

	Capital Budget Tracking System	Integrated Disbursement Information System	Contractor's database	Systematic Code Enforcement Program
Number of HOME-assisted projects	308	536	254	530 ⁷

As evidenced above, the contractor's database shows that it had only 254 HOME-assisted rental housing projects, versus the 536 shown in HUD's Integrated Disbursement Information System. Thus, there were 282 projects that were not monitored by the contractor, and there was no assurance that those projects complied with HOME and affordability requirements.

Collectively, the different systems used by the Department and its counterparts to manage and monitor the projects are ineffective and inaccurate because they do not interface with one another.

Corrective Action

The Department's system staff was developing an in-house system, the Housing Information Management System. According to the City's audit report, the new system should have been operational by December 2007; however, we learned that the Occupancy Monitoring Unit's database will not be implemented until possibly fiscal year 2009. The housing services manager was aware of the problem with the databases and agreed that a problem existed and required correction. The manager also stated that once the Department transitions to the Housing Information Management System from its Capital Budget Tracking System, it will need to reconcile the data with HUD's Integrated Disbursement Information System.

⁷ Although it appears that the Systematic Code Enforcement Program had more HOME-assisted rental projects when compared to other databases, we found that the projects within our sample were not properly recorded as HOME in its Code, Compliance, and Rent Information System and/or did not show up in its spreadsheet.

Conclusion

The problem occurred because of the lack of a uniform database, compounded by high staff turnover within the Department's Occupancy Monitoring Unit and poor record keeping. Without adequate controls, the Department may not have provided the required level of oversight to its HOME-assisted rental units to ensure that requirements were met. As a result, HUD may have provided HOME funding to projects that did not meet its affordability requirements. Without adequate oversight, neither HUD nor the Department can adequately ensure that the HOME-funded projects comply with HOME requirements.

Recommendations

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the Department to

- 4A. Implement a plan and coordinate with all of the divisions and programs within the Department to assure that data and reporting needs are properly addressed during the system development of the Housing Information Management System. In the interim, the Department should reconcile the various databases and ensure that all HOME-assisted rental housing projects are properly accounted for and monitored.

SCOPE AND METHODOLOGY

We performed our on-site audit work at the Department, located in Los Angeles, California, between January and June 2008. Our audit generally covered the period January 1, 2005, through December 31, 2007. Our objective was to determine whether the Department complied with HOME affordability monitoring and inspection requirements regarding HOME-assisted rental housing units.

We gained an understanding of how the City administered its HOME grants through interviews with officials from the

- HUD Los Angeles Office of Community Planning and Development,
- Los Angeles Housing Department and its Occupancy Monitoring and Systematic Code Enforcement Division, and
- The Department's contractor responsible for the functions of occupancy monitoring.

To accomplish our audit objectives, we reviewed

- The applicable federal laws, regulations, and HUD guidance for the HOME program;
- Office of Management and Budget regulations for local grantees;
- Reports from HUD's Integrated Disbursement Information System;
- The City's annual action plans and consolidated annual performance evaluation reports;
- The Department's housing code standards, accounting records, policies and procedures, and file documentation;
- The Department's and contractor's databases; and
- Internal audit reports from the City's Office of the Controller.

HUD's Integrated Disbursement Information System identified 536 completed HOME-assisted rental housing projects as of February 4, 2008. We obtained and reconciled the Department's databases and spreadsheets used to monitor its HOME-assisted rental projects and compared them to the Integrated Disbursement Information System. In doing so, we organized the projects by seven potential areas of concern. We then selected projects with the highest HOME funding amount⁸ per seven potential areas of concern. Based on a sample, we identified HOME-assisted rental housing projects with potential concerns with a high amount of HOME funding. We requested and reviewed the following:

1. Tenant information for all HOME-assisted units within the 26 projects because these projects did not show up in the contractor's database for occupancy monitoring.
2. Tenant information for 37 projects (116 tenants) from the contractor for review of tenant eligibility because these projects showed up in the contractor's database.

⁸ We selected projects with the highest HOME funding amount. For those projects that did not have a HOME amount listed, we defaulted to projects with the most rental units per project.

3. HOME inspections for 52 HOME-assisted rental properties because these fell within our sample and should be inspected by the HOME inspectors from the Systematic Code Enforcement Program.
4. On-site inspections for 20 HOME-assisted properties. We selected for inspections projects in which the Department was able to identify which were HOME-assisted units within the projects and a majority of the projects that did not show up in the Systematic Code Enforcement Program's database as HOME projects.

We performed our review 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:

- Policies and procedures that management had in place to ensure that hard-copy and database occupancy monitoring records for all HOME projects were current, valid, and reliable.
- Policies and procedures that management had in place to ensure that occupancy monitoring occurred in a manner that complied with applicable laws and regulations and met program objectives.
- Policies and procedures that management had in place to ensure that hard-copy and database physical inspection records for all HOME projects were current, valid, and reliable.
- Policies and procedures that management had in place to ensure that physical inspections monitoring occurred in a manner that complied with applicable laws and regulations and met program objectives.

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 Department did not have a reliable database that held current, valid, and reliable records for occupancy monitoring (findings 1 and 4).
- The Department did not have policies and procedures for monitoring its occupancy monitoring contractor (finding 2).
- The Department did not have policies and procedures in place to ensure that hard-copy and database physical inspection records were current, valid, and reliable (finding 3).
- The Department did not have policies and procedures to ensure that it conducted its physical inspections in accordance with regulations (finding 3).

FOLLOWUP ON PRIOR AUDITS

**Audit of the City of Los Angeles
Housing Department - HOME -
Assisted Rehabilitation
Program, 2008-LA-1004, Dated
January 15, 2008**

We audited the Department's HOME-assisted rehabilitation construction. The report contained four findings that the Department did not ensure that all HOME-assisted rehabilitation work on single-family and small multifamily properties met all applicable construction standards and/or was complete. On May 14, 2008, we entered into management decisions with HUD to correct the items in the recommendations, which have a target completion date of May 14, 2009.

APPENDIXES

Appendix A

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

Recommendation number	Unsupported <u>1/</u>	Funds to be put to better use <u>2/</u>
1A	\$37,999,014	
2A		\$110,261
2B	\$103,693	
3A		\$106,862
3B		\$9,360
Total	\$38,102,707	\$226,483

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of 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. The unsupported expenses are HOME funds expended on 26 projects for which we could not determine whether the HOME-assisted rental units were occupied by tenants that met the eligibility requirements. The unsupported costs also include a prorated amount expended on the projects for which the Department was unable to provide tenant eligibility information for 27 tenants residing in seven of the HOME-assisted projects.


2/ 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the auditee implements our recommendations and improves its controls, it will ensure that HOME funds expended on contractors' fees and projects would be funds put to better use in the future. Appendix H provides more details on our calculations.

Appendix B


AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Los Angeles Housing Department
LAHD
1200 W. 7th Street, 9th Fl. Los Angeles, CA 90017
tel 213.808.8808 | fax 213.808.8516
www.lacity.org/lahd



Antonio R. Villaraigosa, Mayor
Mercedes Márquez, General Manager

September 15, 2008

Tanya Schulze
Office of the Inspector General
U.S. Department of Housing and Urban Development
Los Angeles Field Office, Region IX
611 W. 6th Street, Suite 1000
Los Angeles CA 90017

**RE: HUD Management Decision on Draft Audit Report No. 2008-LA-10xx.
Los Angeles Housing Department HOME Affordability Monitoring and Inspections**

Dear Ms. Schultz,

The Los Angeles Housing Department's response to the Draft Audit Report is as follows:

FINDING 1 – TENANT ELIGIBILITY INFORMATION

Recommendation 1A – Provide documentation for 26 HOME-assisted rental projects

LAHD Response: LAHD will provide the requested information.

Since the auditors' visit, LAHD has already located several of the records which were initially unavailable to the auditors because they were incorrectly filed. In addition, all other relevant records will be retrieved from storage. We will review and compile the necessary information to demonstrate that the units were occupied by eligible tenant households.

Recommendation 1B – Implement adequate controls to ensure affordability

LAHD Response: We have already requested and received a two-day training session from HUD's technical assistance contractor, Training and Development Associates (TDA), on monitoring HOME units after construction. This included HOME occupancy requirements, determining and verifying tenant income eligibility, computing high and low HOME rents, HOME rental project compliance activities and compliance with affirmative marketing, tenant selection and lease requirements. As a result, we are updating our policies and procedures manual, and implementing additional controls to ensure affordability.

An Equal Opportunity Affirmative Action Employer

Comment 1

FINDING 2 – MONITORING OF OCCUPANCY CONTRACTOR

Recommendation 2A – Implement policies and procedures to ensure contractor is performing as intended

LAHD Response: As a result of the training provided by HUD, LAHD has revised its contract significantly.

The contractor is in the third year of a three year contract. Rather than move forward with the third year of its current contract, we have revised the scope of services to assure compliance with HOME regulations. The contract requires:

- monthly reports from the contractor that identify non-compliant units, the reason for non-compliance and the period of time the unit has been non-compliant;
- site visits to non-compliant projects and to compliant HOME projects in accordance with the schedule for on-site inspections; and
- the contractor to maintain all of the required documentation for the period of affordability for each tenant household.

LAHD has developed a site visit checklist that the contractor will utilize in the field and provide to LAHD in its monthly reports. This checklist requires that the contractor fill out information about the project, number of units, number of HOME-assisted units, whether units are fixed or floating, rents, number and type of files reviewed, contents of each file, and validate that all of the items on HUD's HOME Project Compliance Report for the project submitted by the owner are correct.

During the site visit, the contractor will determine whether there are any vacant HOME units and the reasons for the vacancy. If the vacancies have persisted for two months or more, the contractor must notify LAHD so that we can take action.

The monthly reports will be used as a monitoring and performance measurement tool. Additionally, LAHD staff will conduct on-site reviews of contractor records and files on a quarterly basis and hold discussions with contractor staff about the projects they are working on and issues and problems encountered. During these quarterly monitoring visits, LAHD will ensure that the contractor is fulfilling its contract duties in a timely manner and in compliance with HOME regulations. In addition, staff will conduct follow up site visits to 20% of the projects visited by the contractor to ensure that the contractor is performing as intended.

To ensure contractor staff are knowledgeable about HOME requirements, the current contractor's staff attended the recent HUD training and will attend any other training sessions provided to Occupancy Monitoring staff.

Recommendation 2B – Provide missing tenant information

LAHD Response: We will provide this documentation. The files have been ordered from storage and will be reviewed.

Recommendation 2C – Provide training to Department staff

LAHD Response: On August 5-6, 2008, TDA, HUD's HOME technical assistance contractor, provided comprehensive training on HOME occupancy monitoring requirements to 45 department and contractor staff. Among those attending were Occupancy Monitoring staff, HOME Code Enforcement Inspectors, and contractor staff. In addition, TDA will be providing technical assistance to LAHD's Occupancy Monitoring unit on methods to resolve issues with non-compliant properties.

FINDING 3 – INSPECTION OF UNITS

Recommendation 3A – Ensure repairs are made at properties with violations

LAHD Response: All properties where OIG staff identified deficiencies are in the process of being inspected by HOME Code Enforcement Inspectors. After each property is inspected, deficiency notices will be issued and the owners will have thirty days to bring the unit into compliance. As a code enforcement agency, we will use our police powers through the department's various programs to bring the property into compliance, including, if necessary, criminal prosecution. Also, we will exercise the anti-wasting provisions of the loan agreements, which include foreclosure in the event of persistent non-compliance. In addition, the City is working on a sanctions policy, which will include among other compliance provisions significant fines to encourage owners to repair properties.

In any event, we note that all properties reviewed by the OIG were in the Department's Code Enforcement database and were regularly inspected pursuant to that process.

Recommendation 3B – Ensure vacant units are occupied

LAHD Response: Occupancy Monitoring has put in place procedures to ensure the HOME code enforcement inspectors and contractor staff will convey information about units that have been vacant for more than two months upon inspection. An OM staff member will then contact the property manager to determine why the unit is vacant, and to follow up to ensure the unit is rented immediately.

Occupancy Monitoring staff have investigated the two projects identified in the Audit as having vacant units. One project was holding units vacant pending receipt of financing to rehabilitate the property in order to avoid substantial relocation costs. Regarding the other property, there is a discrepancy about the number of HOME units required, and we are working with the developer to resolve this issue.

Recommendation 3C – Implement adequate procedures to ensure transfer of projects from Occupancy Monitoring to the Code Enforcement unit.

LAHD Response: LAHD has identified all HOME-assisted projects and has reconciled these properties with the HOME Code Inspection database. Projects that were not in the database are currently in the process of being added. As a project is added, it is scheduled for inspection on the appropriate HOME-required physical inspection cycle.

Comment 2

This process will be automated using the HIMS database. In the planned development of HIMS, as projects are issued notices of completion, the CRIS database of the HOME Inspection Unit will be updated to include the project. Occupancy Monitoring and HOME Inspection procedures will be updated to reflect this new protocol.

FINDING 4 – INADEQUATE CONTROLS OVER MONITORING OF PROJECTS

Recommendation 4A – Ensure data and reporting needs are addressed in HIMS

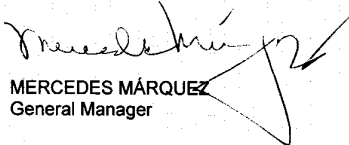
LAHD Response: On December 1, 2008, LAHD will replace CBTS, the department's antiquated legacy system, with the Housing Information Management System (HIMS), our new enterprise database, which will serve all of the housing development functions within the department. In preparation for this conversion, LAHD has completed an extensive data clean up process, reconciling HOME funded projects in IDIS to CBTS. Currently, staff is reconciling the Occupancy Monitoring database with the contractor's database in preparation to migrate the data to HIMS. Some of the OM functions will be available on Dec 1st with the rollout of HIMS. The remaining functions will be migrated to HIMS by the end of March 2009.

In addition, the Systematic Code Enforcement Program's (SCEP) spreadsheet will be integrated into CCRIS, the centralized system used by the Housing Inspectors to track inspections. Proper communication will exist between HIMS and CCRIS to automatically notify Housing Inspectors of HOME properties that are ready for inspection. Occupancy Monitor staff will also receive automated reports on the status of these inspections. In addition, CCRIS and HIMS will now share the same centralized property database. This should resolve any property data conflicts that we currently experience with different databases.

Finally, LAHD Systems staff has been working with HUD Central staff to prepare to upload HIMS data to IDIS automatically as soon as the IDIS upgrade is completed. This will ensure that all projects are correctly reported in IDIS and that HIMS and IDIS are routinely reconciled. As a result, all HOME-assisted rental housing projects will be properly accounted for and monitored.

In closing, LAHD is committed to addressing the issues identified in this audit and to improve the efficiency and effectiveness of its occupancy monitoring program. If you have any questions about the materials provided or items that you feel have not been fully addressed in this submission, please contact Suzette Flynn either by phone (213) 808-8931 or by email sflynn@lahd.lacity.org.

Sincerely,


MERCEDES MÁRQUEZ
General Manager

OIG Evaluation of Auditee Comments

- Comment 1** Thank you for the cooperation extended to us during the audit and for your proactive efforts to address the audit recommendations as detailed in your response. HUD will work with you during the audit resolution process to resolve the audit recommendations.
- Comment 2** Your statement gives the impression that all HOME-assisted units were inspected for code violations, but this is not the case. We found instances where some properties did not receive any HOME or Systematic Code Enforcement Program inspections. Both types of inspections require that all units in the properties are inspected thoroughly by inspectors for code violations. There were instances where we found properties only received complaint and/or urgent repair inspections. Complaint and urgent repair inspections were unit(s) and violation(s) specific. Consequently, HOME-assisted units in the properties did not necessarily receive regular inspections.

Appendix C

CRITERIA

A. 24 CFR Part 92, Home Investment Partnerships Program

- **Section 92.203(a)** states, “ The HOME program has income targeting requirements for the HOME program and for HOME projects. Therefore, the participating jurisdiction must determine each family is income eligible by determining the family’s annual income.”
- **Section 92.203(a)(1)** states, “For families who are tenants in HOME-assisted housing and not receiving HOME tenant-based rental assistance, the participating jurisdiction must initially determine annual income using the method in paragraph (a)(1)(i) of this section.”
- **Section 92.203(a)(1)(i)** states, “Examine the source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family.”
- **Section 92.203(a)(1)(ii)** states, “Obtain from the family a written statement of the amount of the family’s annual income and family size, along with a certification that the information is complete and accurate. The certification must state that the family will provide source documents upon request.”
- **Section 92.203(a)(1)(iii)** states, “Obtain a written statement from the administrator of a government program under which the family receives benefits and which examines each year the annual income of the family.”
- **Section 92.251(a)(1)** states, “...The Participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary...”
- **Section 92.251(a)(2)** states, “All other HOME-assisted housing (e.g., acquisition) must meet all applicable State and local housing quality standards and code requirements and if there are no such standards or code requirements, the housing must meet the housing quality standards in 24 CFR 982.401.”
- **Section 92.252** states, “The HOME-assisted units in a rental housing project must be occupied only by households that are eligible as low-income families and must meet the following requirements to qualify as affordable housing...”
- **Section 92.252(a)** requires that there be a rent limitation. The maximum HOME rents are the lesser of (1) the fair market rent for existing housing for comparable units in the area as established by HUD under 24 CFR 888.111 or (2) a rent that does not exceed 30 percent of the adjusted income of a family whose annual income equal 65 percent of the

median income for the area, as determined by HUD, with adjustments for number of bedrooms in the unit.

- **Section 92.252(b)** requires that for rental projects with five or more HOME-assisted rental units, 20 percent of the HOME-assisted units be occupied by very low-income families and meet one of the following rent requirements: (1) the rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families; and (2) the rent does not exceed 30 percent of the family's adjusted income.
- **Section 92.252(c)** requires that the participating jurisdiction establish maximum monthly allowances for utilities and services (excluding telephone).
- **Section 92.252(d)** requires that the owner cannot refuse to lease HOME-assisted units to a certificate or voucher holder under 24 CFR Part 982-Section 8 Tenant-Based Assistance.
- **Section 92.252(e)** states, "The HOME-assisted units must meet the affordability requirements for not less than the applicable period" beginning after project completion."
- **Section 92.252(f)** states, "The maximum HOME rent limits are recalculated on a periodic basis after HUD determines fair market rents and median incomes."
- **Section 92.252(g)** provides that changes in fair market rents and in median income over time should be sufficient to maintain the financial viability of a project with the HOME rent limits.
- **Section 92.252(h)** states, "The income of each tenant must be determined initially in accordance with section 92.203(a)(1)(i). In addition, each year during the period of affordability the project owner must re-examine each tenant's annual income in accordance with one of the options in section 92.203 selected by the participating jurisdiction. An owner of a multifamily project with an affordability period of 10 years or more who re-examines tenant's annual income through a statement and certification in accordance with section 92.203(a)(1)(ii), must examine the income of each tenant, in accordance with section 92.203(a)(1)(i), every sixth year of the affordability period."
- **Section 92.252(i)** requires that HOME-assisted units continue to qualify as affordable housing despite a temporary noncompliance caused by increases in the incomes of existing tenants if actions satisfactory to HUD are being taken to ensure that all vacancies are filled in accordance to requirements until the noncompliance is corrected.
- **Section 92.252(j)** states, "In a project containing HOME-assisted and other units, the participating jurisdiction may designate fixed or floating HOME units."
- **Section 92.351(a)(1)** states, "Each participating jurisdiction must adopt affirmative marketing procedures and requirements for rental and homebuyer projects containing 5 or

more HOME-assisted housing units. Affirmative marketing steps consist of actions to provide information and otherwise attract eligible persons in the housing market area to the available housing without regard to race, color, national origin, sex, religion, familial status or disability.”

- **Section 92.351(a)(2)(iv)** requires that affirmative marketing requirements and procedures adopted must include: “Records that will be kept describing actions taken by the participating jurisdiction and by owners to affirmatively market units and records to assess the results of these actions.”
- **Section 92.502(d)(1)** states, “Complete project completion information must be entered into the disbursement and information system, or otherwise provided, within 120 days of the final project drawdown. If satisfactory project completion information is not provided, HUD may suspend further project set-ups or take other correction actions.”
- **Section 92.503(b)(1)** states, “Any HOME funds invested in housing that does not meet the affordability requirements for the period specified in section 92.252 or 92.254, as applicable, must be repaid by the participating jurisdiction...”
- **Section 92.504(a)** states, “The Participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and making appropriate action when performance problems arise. The use of recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.”
- **Section 92.504(d)** states, “...During the period of affordability, the participating jurisdiction must perform on-site inspections of HOME-assisted rental housing to determine compliance with the property standards of section 92.251 and to verify the information submitted by the owners in accordance with the requirements of section 92.252 no less than: every three years for projects containing 1 to 4 units; every two years for projects containing 5 to 25 units; and every year for projects containing 26 or more units. Inspections must be based on a sufficient sample of units.”
- **Section 92.508(a)** states, “Each participating jurisdiction establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part...”
- **Section 92.508(a)(3)(i)** states, “A full description of each project assisted with HOME funds, including the location, form of HOME assistance, and the units or tenants assisted with HOME funds.”
- **Section 92.508(a)(3)(ix)** states, “Records demonstrating that each lease for an assisted rental housing unit complies with the tenant and participation protections of section 92.253. Records must be kept for each family.”

- **Section 92.508(a)(3)(iv)** states, “Records demonstrating that each project meets the property standards of section 92.251.”
- **Section 92.508(a)(3)(v)** states, “Records demonstrate that each family is income eligible in accordance with section 92.203.”
- **Section 92.508(a)(3)(vii)** states, “Records demonstrate that each rental housing project meets the affordability and income targeting requirements of section 92.252 for the required period. Records must be kept for each family assisted.”

B. Office of Management and Budget Circular A-133, Subpart C (.300b), states, the auditee shall: (b) maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs...”

C. Professional Services Agreement

- **Section 416(A)** states, “The Contractor, in the performance of this Agreement, shall comply with all applicable statutes, rules, regulations and orders of the United States, the State of California, the County and the City of Los Angeles, including laws and regulations pertaining to labor, wages, hours, and other conditions of employment, the City’s anti-discrimination provisions and Affirmative Action Plan requirements, the Housing and Community Development Act of 1974 (42 USC Section 301 *et seq.*) as amended, 24 CFR Part 500 *et seq.*, the HOME Investment Partnerships Program Act 24 CFR Part 92 *et seq.*, as well as applicable Office of Management and Budget Circulars...”
- **Section 416(B)** states, “If Federal funds are used in the performance of this Agreement, the Contractor shall adhere to the rules and regulations of the Single Audit Act. P.L. 98-502 and the implementing OMB Circulars, City Council action dated February 4, 1987 (C.F. No. 84-2259-S1), and any administrative regulations or field memos implementing the Act.”
- **Section 416(H)** requires that “records, in their original form, shall be maintained in accordance with requirements prescribed by the City with respect to all matters covered on file for all documents specified in the Agreement. Original forms are to be maintained on file for all documents specified in this agreement. Such records shall be retained for a period of five (5) years after termination of this Agreement and after final disposition of all pending matters.”
- **Section 202(C)(2)** states, “...If the owner does not comply with the Contractor’s notification and does not submit the required documentation by the Due Date, the Contractor shall demonstrate due diligence by completing up to three Collection Activity Cycles to obtain compliance...” The Collection Activity Cycles are described in the Professional Services Agreement.

D. The Department's Policies and Procedures for Occupancy Monitoring of Major Projects' Neighborhood Preservation Projects

- Tenant files containing
 1. Lease application
 2. Lease or lease waiver
 3. Initial income source
 4. Tenant income and rent certification forms (tenant form)
 5. Mandatory addendum to the lease or rental agreement

E. Funding Approval and HOME Investment Partnerships Agreement

- The HOME statute imposes a significant number of data collection and reporting requirements. This includes information on assisted properties, on the owners or tenants of the properties, and on other programmatic areas. It is to permit HUD to determine the following:
 1. To permit HUD to determine whether each participant meets the HOME statutory income targeting and affordability requirements.
 2. To permit HUD to determine compliance with other statutory and regulatory program requirements.

Appendix D

SCHEDULE OF 26 HOME-ASSISTED RENTAL HOUSING PROJECTS THAT LACKED SUFFICIENT TENANT/UNIT ELIGIBILITY INFORMATION

	Assessor parcel number	Amount of HOME funding expended
1	5690022021	\$592,783
2	5502018010	\$1,073,589
3	6073004027	\$343,160
4	5160020051	\$2,488,790
5	5134017011	\$1,800,000
6	97041300006473	\$1,750,000
7	2111005034	\$1,617,028
8	5544021900	\$1,663,839
9	5030005016 & 5030006024	\$4,336,873
10	5152003010	\$2,872,460
11	6031006029	\$2,817,605
12	5183003030	\$2,126,109
13	6067016049	\$1,500,000
14	5544024001	\$1,326,000
15	6032003018	\$683,117
16	2114008020	\$100,000
17	2146008035	\$300,000
18	2684018036	\$1,127,000
19	2156028267	\$385,000
20	2265002023	\$1,294,118
21	2156025020	\$1,351,000
22	5103020009	\$35,000
23	5119003010	\$20,858
24	5429008026	\$1,690,959

25	5017015006	\$43,182
26	5205013009	\$4,660,544
	Total	\$37,999,014

*Item 6: We were unable to obtain the assessor parcel number as it was unavailable. The senior housing inspector from the Systematic Code Enforcement Program provided the application number related to the subject property.

**Items 1 through 21: The Department did not provide sufficient documentation to satisfy tenant/unit documentation (compliance) requirements.

***Items 22 through 26: The contractor did not perform required site visits to obtain documentation to satisfy tenant/unit documentation (compliance) requirements.

Appendix E

SCHEDULE OF 27 TENANT FILES (SEVEN PROJECTS) WITH INCOMPLETE TENANT ELIGIBILITY INFORMATION

Number of projects	Project address identified by assessor parcel number	Unit number	Recertification documents missing	Initial income source documentation missing	6 th -year income source documentation missing	Tenant application/ lease missing	Prorated HOME funds expended
1	5155029010	Unit 101	X	X	Not applicable	X	\$2,480
		Unit 103	X	X	Not applicable	X	\$2,480
		Unit 107	X	X	Not applicable	X	\$2,480
		Unit 108	X	X	Not applicable	X	\$2,480
2	5467012016	Unit 410	X	X	X	X	\$4,581
		Unit 604	X	X		X	\$2,291
		Unit 606	X	X	Not applicable	X	\$2,291
		Unit 607	X	X	X	X	\$2,291
3	5136001005	Unit 1	X	X	Not applicable	X	\$3,148
		Unit 2	X	X	X	X	\$3,148
		Unit 3	X	X	Not applicable	X	\$3,148
		Unit 4	X	X	Not applicable	X	\$3,148
4	5141001018	Unit 124	X	X	Unable to determine	X	\$4,688
		Unit 126	X	X	X	X	\$3,125
		Unit 128	X	X	Unable to determine	X	\$4,688
		Unit 141	X	X	X	X	\$3,125
5	5144015046	Unit 104		X	X	X	\$605
		Unit 201			Not applicable	X	\$605
		Unit 202	X	X	X	X	\$605
6	5148011001	Unit 101	X	X	Not applicable	X	\$1,500
		Unit 102	X	X	Not applicable	X	\$1,000
		Unit 103	X		Not applicable	X	\$500
		Unit 104	X	X	Not applicable	X	\$1,000
7	5094007010	Unit 202	X	X	Not applicable	X	\$10,730
		Unit 203	X	X	Unable to determine	X	\$10,730
		Unit 204	X		Not applicable	X	\$10,730
		Unit 208	X	X	Not applicable	X	\$16,096
Totals							
	Total	27	25	24	*7	27	\$103,693
Percentages							
Percent			93 percent	89 percent	88 percent	100 percent	

*Only eight tenants were required to have sixth-year source documentation on file, and seven of eight did not have the required six-year documentation.

Appendix F

SCHEDULE OF 52 HOME-ASSISTED PROPERTIES NOT INSPECTED IN ACCORDANCE WITH HOME REQUIREMENTS

	Assessor parcel number	Number of inspections required	Number of inspections performed Jan. 1, 2005 – Dec. 31, 2007	24 CFR 92.504 complied (yes/no)	Listed as HOME (yes/no)
1	5035031021	1	0	No	No
2	5185015017	1	0	No	No
3	5115022012	1	1	Yes	No
4	5108002036 and 5108002006	1	1	Yes	No
5	5108002037	1	1	Yes	No
6	6071003003	1	1	Yes	No
7	6029017003	1	1	Yes	No
8	5021023010	1	1	Yes	No
9	5021018032	1	1	Yes	No
10	5180008009	1	1	Yes	No
11	5117007025	1	1	Yes	Yes
12	6006010027	1	2	Yes	No
13	5028001028	2	1	No	No
14	5127008001	2	0	No	Yes
15	5180002016	2	1	No	No
16	6022015025	2	1	No	No
17	5502018010	2	1	No	Yes
18	5157020019	2	1	No	Yes
19	5030006024	2	1	No	Yes
20	5030005016	2	1	No	Yes
21	5467017004	2	2	Yes	Yes
22	6032003018	2	2	Yes	Yes
23	5134017011	3	1	No	No
24	5028001021	3	0	No	No
25	5408017023	3	0	No	No
26	5152003010	3	0	No	No
27	5094007010	3	1	No	No
28	2138006113	3	1	No	No
29	5136001005	3	1	No	No
30	5141001018	3	1	No	No
31	5544021900	3	1	No	No
32	5155029010	3	1	No	No
33	5467012016	3	1	No	Yes
34	6067016049	3	1	No	Yes

35	5148012006	3	1	No	Yes
36	7423005010	3	1	No	Yes
37	6037014029	3	1	Yes	No
38	5144015046	3	2	No	No
39	6073004027	3	2	No	Yes
40	5160020051	3	2	No	Yes
41	6031006029	3	2	No	Yes
42	5544024001	3	2	No	Yes
43	2111005034	3	2	No	Yes
44	5183003030	3	2	No	Yes
45	5161026004	3	2	No	Yes
46	5163013009	3	2	No	Yes
47	7417015039	3	2	No	Yes
48	2210019013/ 2210019011	3	2	No	Yes
49	5148011001	3	3	Yes	No
50	5142023012	3	3	Yes	Yes
51	5546005001	3	3	Yes	Yes
52	5035025001	3	1	Yes ⁹	Yes

⁹ We learned that the construction was not completed until October 1, 2006. Thus, it would be logical that only one inspection was performed on the subject property.

Appendix G

SCHEDULE OF UNITS WITH VIOLATIONS IDENTIFIED DURING OUR INSPECTIONS

		Properties inspected and units with violations																				
Type of violations	5136001005	5141001018	5185015017	5180008009	5161026004	5408017023	5148012008	5146011001	5144015046	5152003010	5142023012	5546005001	5155023010	5035025001	7423005010	7417015041	2210015013	5163013009	5028001021	5026001028	Total Violations	
A: Heating and venting system	1, 8		438					102, 103, 218	204, 206, 404		112, 205, 212	106-A, 106-B, 202, 205, 310	201, 305, 403	202				101-B, 102-C	3	6	5, 6, 11, 14, 16, 20	31
B: Handrail	1, 8																					2
C: Smoke detectors	100					102, 115					205		304, 305					101-B, 102-C (2)	5, 6, 30	4	2, 6, 10, 11, 14(2), 18, 20	21
D: Floor covering		244				108	301	104				205(2) 210	201, 403					1, 2, 3, 4, 5, 6, 24, 25, 29, 30	4(4), 5(2)	2(4), 23, common area	6, 14(3), 20, 23, common area	36
E: Plaster, drywall walls, ceilings		244				108, 112, 114		104				202 (2)	305, 403	206, 305, 403				1, 2, 3, 4, 5, 6, 24, 25, 29, 30, recreation room	1, 2(2), 4, 5(2), 6(3)	14(5), 20(2), common area	2(3), 5(3), 6, 10, 11, 14(5), 20(2), common area	47
F: water closest, lavatory, bathtub, shower, kitchen sink		244				108		104, 106-B				106-B, 310, 405	201, 1004						2(3), 4	2, 14(2)		16
G: Dwelling unit					210							205, 210	305 (2)	202				2(2), 3(2), 4, 5, 6, 24, 25, 29, 30(2), recreation room(2)	6	2, 20, common area		24

Type of violations	5136001005	5141001018	5185015017	5180008009	5181028004	5408017023	5148012008	5148011001	5144015048	5152003010	5142023012	5548005001	5155028010	5035025001	7423005010	7417013041	2210019013	5163013009	5028001021	5028001028	Total Violations
H: Windows, doors, cabinets, and frames					106, 108							106-B, 202 (4), 205, 310 (2)	201 (3), 305, 403	202 (2)			101-B, 101-C, 102-C, 106-A	1, 2(2), 3, 4, 5 (2), 6, 24, 29, recreation room	1, 2(4), 4(4), 5(2), 6(5)	2, 3, 5(2), 6, 10(3), 11(4), 14(6), 16(2), 18(2), 20(5)	75
I: Combustion air openings					106, 114						112, 212		305						5, 6	2, 11, 14, 20	11
J: Bathroom ventilation					108							202							1, 2, 6(3)	2, 5(2), 10, 11(2), 14(3), 16, 18, 20(2)	20
K: Plumbing faucet and/or valve handles					108, 114							205							1	23	5
L: Flexible cords					109																1
M: Domestic range vent							102, 103, 218	204, 206				106-A, 106-B, 202					101-B			6, 11, 14, 16, 18, 20	15
N: Venting system							102, 103, 218	204, 206			112, 212		305					3	1	2, 6, 11, 14, 16, 18, 20(2)	18
O: Counter/drains boards								104				202 (3), 405							4	5(2), 10, 14	10
P: Plumbing system in conformity with code regulations												106-A								common area	2
Q: Habitable room(s)												106-A									1
R: Plumbing system free from defects												202, 205, 310, 405							1, 2	common area	7
S: Lighting fixtures												202						1, 25		common area	4
T: Plumbing fixtures												205, 405							2	2, 14, 23	6
U: Switch/receptacle cover plates												310 (1)					105-A	3, 5, 25	2, 4, 6	3, 14, common area	12

Type of violations	513001005	5141001018	5165015017	5180008009	5181028004	5408017023	5148012008	5148011001	5144018048	5182003010	5142023012	5548008001	5185028010	5035028001	7423009010	7417018041	2210018013	5163013009	8028001021	8028001028	Total Violations
V: Receptacles												310 (2)					105-A		2, 6	2	6
W: Weatherproofing																			1, 2, 3, 4, 5, 24, 25, 29, 30		9
X: Construction																			1, 2, 3, 4, 5, 24, 25, 29, 30		9
Y: Electrical service																		3	1, 6	2, 3, 10, common area	7
Z: Maintaining of fire extinguishing system(s)																			recreation room		1
A1: Fire extinguision system required by Los Angeles Municipal Code																			recreation room		1
A2: Heating appliance																			5		1
A3: Caulk or grout																			6	3, 5, 6, 14(2)	6
A4: Trash and debris																				common area(2)	2
A5: Decking, walkways, or stairway																				common area	1
																				Total	407
Unit numbers identified that contained material deficiencies		244				108	301	102, 103, 104					106-B, 202, 310	201, 304, 305				101-c, 102-c, 106-a	All units	All units	All units

Category of violations legend			
A	Failure to maintain an approved heating appliance and/or venting system.	Q	Failure to maintain habitable room(s) free from dampness.
B	Failure to provide and maintain the required guard/handrail and maintain in a secured condition.	R	Failure to maintain the plumbing system free from defective, damaged/leaking faucets or plumbing fixtures.
C	Failure to provide and maintain permanently wire, with battery backup, smoke detectors.	S	Failure to properly install or maintain required lighting fixtures.
D	Failure to maintain safe and sanitary floor covering.	T	Failure to properly secure loose plumbing fixtures.
E	Failure to maintain plaster/drywall walls/ ceilings in a smooth and sanitary condition.	U	Failure to maintain the required switch/receptacle cover plates and grounding means in good repair and free from defects or missing portions.
F	Failure to maintain the required water closet, lavatory, bathtub, shower, or kitchen sink as required for a dwelling unit.	V	Maintaining inoperative or defective receptacles in kitchen and/or bathroom and/or exterior locations; ground fault circuit interrupter type receptacle(s) required.
G	Failure to maintain dwelling unit in a safe and sanitary condition.	W	Failure to maintain the required weatherproofing of the building, structure, premises, or portion thereof in conformity with the code regulations and department approvals in effect at the time of construction.
H	Failure to maintain windows, doors, cabinets, and frames operable, clean, sanitary, and in good repair.	X	Performing construction without obtaining the required permits or approvals.
I	Failure to maintain the required combustion air openings for all fuel burning appliances.	Y	Failure to maintain the electrical service, lines, switches, outlets, fixtures coverings, and supports in good repair and free from broken, loose, frayed inoperative, defective, or missing portions or wiring that may be a danger to life, limb, health, and safety.
J	Failure to maintain the required mechanical or natural bathroom ventilation.	Z	Failure to maintain the required fire extinguishing system(s) or equipment.
K	Failure to provide and maintain all required plumbing faucet and/or valve handles.	A1	Failure to maintain the fire extinguishing system and/or equipment required by the Los Angeles Municipal Code.
L	Unapproved use of flexible cords and/or multiple adapters as a substitute for the fixed wiring of the structure.	A2	Failure to provide and maintain the required central or individual room heating appliance in good repair and operable at all times.
M	Failure to provide and/or maintain an approved and/or nondefective domestic range vent.	A3	Failure to provide and maintain a positive seal (caulk or grout) between plumbing fixtures at contact points with walls and/or floors.
N	Failure to maintain the required appliance venting system in good and safe condition and in conformance with applicable laws at the time of installation.	A4	Failure to maintain the existing building, structure, premises, or portion thereof in a safe and sanitary condition; in good repair; and free from graffiti, trash, debris, rubbish, overgrown vegetation, offal, or similar material.
O	Failure to maintain the counter/drains boards for kitchen sinks, bathroom lavatories, and adjacent wall and/or floor surfaces in a manner to prevent water damage and/or in a clean and sanitary condition and free from dirty or foreign materials.	A5	Failure to maintain the decking, walkways, or stairway surfaces and their physical elements in conformity with the code regulations and department approvals in effect at the time of construction.
P	Failure to maintain the plumbing system in conformity with the code regulations and department approvals in effect at the time of construction.		

Appendix H

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Calculation of \$106,862 in funds to be put to better use related to HOME funds invested in the HOME-assisted rental units that failed inspection

	A	B	C	D	E	F	G	
Properties by assessor parcel numbers	HOME funding amount	Affordability period	HOME funding per year (A/B)	Number of HOME units	HOME funding per year per unit (C/D)	Number of units inspected	Number of units failed	Total funds put to better use (E x G)
5136001005	\$1,813,019	12	\$151,085	48	\$3,148	8	3	\$9,443
5028001021/ 5028001028	\$424,657	5	\$84,931	58	\$1,464	16	16	\$23,429
5163013009	\$1,110,696	23	\$48,291	30	\$1,610	10	10	\$16,097
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	5	1	\$1,563
5185015017	\$234,664	15	\$15,644	4	\$3,911	4	1	\$3,911
5161026004	\$525,000	50	\$10,500	43	\$244	9	1	\$244
5408017023	\$525,000	50	\$10,500	49	\$214	9	7	\$1,500
5148012006	\$534,079	50	\$10,682	55	\$194	10	1	\$194
5148011001	\$1,200,000	50	\$24,000	48	\$500	10	4	\$2,000
5144015046	\$1,269,745	50	\$25,395	42	\$605	11	3	\$1,814
5142023012	\$1,048,022	40	\$26,201	12	\$2,183	9	3	\$6,550
5546005001	\$1,042,721	40	\$26,068	10	\$2,607	10	7	\$18,248
5155029010	\$3,205,762	55	\$58,287	47	\$1,240	10	6	\$7,441
5035025001	\$205,570	50	\$4,111	36	\$114	10	1	\$114
2210019013	\$2,519,254	40	\$62,981	22	\$2,863	10	5	\$14,314
							Total	\$106,862

Calculation of \$9,360 in funds to be put to better use related to HOME funds invested in the HOME-assisted rental units that were vacant.

	A	B	C	D	E	F	G	H	I	J
Property identified by assessor parcel number	HOME funding amount	Affordability period	HOME funding per year (A/B)	Number of HOME units	HOME funding per year per unit (C/D)	HOME funding per month per unit (E/12 months)	Vacant unit	Number of months vacant	Funds put to better use limited to 12 months (F x I)	Total funds put to better use
						E/12 months				
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	124	20	12	\$1,560
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	128	15	12	\$1,560
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	141	12	12	\$1,560
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	223	21	12	\$1,560
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	231	22	12	\$1,560
5141001018	\$1,500,000	40	\$37,500	24	\$1,563	\$130	232	27	12	\$1,560
TOTAL									Total	\$9,360