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Audit Memorandum Number
2009 BO 1802

MEMORANDUM FOR: Robert C. Paquin, Director, Office of Community Planning and Development, Boston Regional Office, 1AD

FROM: John A. Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: The City of Boston's Department of Neighborhood Development, Boston, Massachusetts, Can Develop the Capacity to Administer Its Housing and Economic Recovery Act and American Recovery and Reinvestment Act Programs

INTRODUCTION

We performed an audit of the City of Boston's (City) Department of Neighborhood Development (Department). The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the City based upon the results of our previous audit of the City's HOME Investment Partnerships Program (HOME) and the significance of the Neighborhood Stabilization Program (NSP) funds awarded. Our objective was to determine whether the City had the capacity to effectively and efficiently administer its NSP under the provisions of the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (Recovery Act).

The Authority agreed with our report and will work with the HUD's Office of Community Planning and Development to implement the required corrective action for the recommendation in this report (See Appendix). For the recommendation a management decision is required. Please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please also furnish us copies of any correspondence or directives issued because of the review. If you or your staff has any questions, please contact Kevin Smullen, Assistant Regional Inspector General for Audit, at 617-994-8380.

METHODOLOGY AND SCOPE

Our review concentrated on gaining an understanding of how the Department will administer its NSP funds. To meet our objective, we reviewed U.S. Department of Housing and Urban Development (HUD) regulations at 24 CFR (Code of Federal Regulations) Parts 85, 91, and 570; Office of Inspector General (OIG) audit reports; and monitoring reports of the HUD Office of Community Planning and Development. We also reviewed Recovery Act documentation and program guidance and funding agreements. We interviewed the Department's management and staff and reviewed the Department's documentation such as policies and procedures, organizational charts, and job descriptions to obtain an understanding of the grantee's internal controls. Our review of this documentation was limited to our stated objective and should not be considered a detailed analysis of the grantee's internal controls or operations.

In addition, we reviewed procurement policies and procedures of the Department applicable to administering NSP and the Department's 2009 substantial amendments to the NSP action plan and annual financial reports.

We performed our audit field work from the end of June to August 2009 at the City's offices located at 26 Court Street, Boston, Massachusetts. The audit covered the period April 2008 through June 2009 and was expanded as necessary. Our review of the City's administration of NSP was not conducted in accordance with generally accepted government auditing standards. However, the fact that we did not fully comply with the audit standards did not have a material effect on our audit results. Under the Recovery Act, inspectors general are expected to be proactive and focus on prevention, and thus the scope of this audit was significantly reduced.

BACKGROUND

NSP was authorized under Title III of the Housing and Economic Recovery Act of 2008 (HERA), as amended. HERA, which became Public Law 110-289 on July 30, 2008, provided \$3.92 billion in emergency assistance funding nationwide for the rehabilitation of abandoned and foreclosed homes. The City received more than \$4.2 million in NSP funds, via a formula grant, under HERA.

Congress amended NSP and increased its funding as part of the Recovery Act. The City submitted an application to HUD on July 15, 2009, which totaled nearly \$20 million in additional NSP funds under the Recovery Act. This competitive grant application is under review by HUD.

NSP provided grants to every state and certain local communities. These grantees are required to spend the grant funds on eligible activities within 18 months of receipt. Grantees are also required to target the use of NSP funds under the following guidelines:

- For families at or below 120 percent of area median income,
- Directing 25 percent of the funds for the purchase and rehabilitation of properties to house families whose incomes did not exceed 50 percent of area median income,

- For the purchase of foreclosed or abandoned homes that can be rehabilitated, resold, or redeveloped to stabilize neighborhoods that are declining in value.

In 2008, the Department issued a report on real estate trends showing that real estate-owned (REO) sales through foreclosure deeds increased by 73 percent in 2008 compared to 2007. The 2008 foreclosure auction saw 95 percent of the properties either go back to the lender or become REO properties, resulting in a growing inventory in the City. In 2008, 83 percent of these foreclosed properties were located in five high-foreclosure neighborhoods: Dorchester, East Boston, Hyde Park, Mattapan, and Roxbury. REO sales in these five neighborhoods ranged from 21 percent in Hyde Park to 51 percent in Mattapan. The sale of these properties has had a significant impact on median house prices in these neighborhoods, which the Department has targeted to receive NSP assistance.

The Department administers NSP for the City. The Department's overall mission is to work with diverse neighborhood partners to leverage financing and other funding for quality housing, distinct commercial properties, small business development opportunities, and community-based programs.

Follow-up on Prior Audits. In August 2009, we issued an audit report (OIG Audit Report number 2009-BO-1011) on the City's HOME program; the period covered in the audit was from September 30, 2007, through September 26, 2008. Our report noted that the Department (1) awarded community housing development organization (CHDO) set-aside funding to organizations that did not meet all legal and organizational characteristics of CHDOs; (2) did not follow proper, fair, and equitable procurement practices; and (3) did not maintain a properly supported cost allocation plan for payroll, causing some programs to incur staffing costs disproportionately to others. The City had not completely resolved the findings in this report or implemented corrective action to correct these deficiencies at the time of this audit.

RESULTS OF REVIEW

The Department should be able to meet federal requirements for administering the NSP funds under HERA and the Recovery Act. Specifically, the Department can develop sufficient capacity to administer its NSP and ensure that NSP funds are properly administered. Also its financial controls and internal controls are generally adequate to ensure that (1) proper NSP expenditures will occur within the timeframes for using these funds, (2) NSP eligibility and program outcome goals will be met, and (3) NSP transparency requirements will be complied with. However, the Department must revise its cost allocation procedures for allocating costs to federal programs and ensure that it follows proper, fair, and equitable procurement practices as identified in our audit report (2009-BO-1011) on the City's administration of its HOME program. If these discrepancies are corrected, HUD can generally be assured that the City will accurately account for its use of NSP funding under HERA and the Recovery Act and use that funding for only eligible program activities.

The following areas were reviewed in making our determination of the City's ability to administer the NSP funds.

Capacity: The City should be able to develop sufficient capacity to effectively and efficiently administer its NSP. This assessment is based on the Department's ability to comply with federal requirements for administering the NSP funds and its completing the corrective action to resolve the discrepancies identified in our report on its administration of its HOME program.

Financial controls: The Department has reconciled its budget with HUD's Disaster Recovery Grant Reporting System and its internal accounting system. It has sufficient capability to effectively monitor, control, and report the financial transactions related to NSP with the exception of the allocation of payroll costs to its federal programs.

Timeliness: The Department carefully considered its administrative capacity and is capable of expending its NSP within the statutory deadlines of NSP if needed.

Internal controls: As of June 30, 2009, the Department had made no modifications to the policies and procedures that were in place and that we reviewed during our recent audit of the HOME program. During the HOME program audit, we determined that the general internal controls in place applied to all federal funding received (Community Development Block Grant (CDBG), HOME, etc.). We determined these controls to be adequate with the exception of the deficiency noted on the allocation of payroll costs to various programs and following proper procurement practices. In response to the audit finding on this deficiency, the Department agreed to take corrective action, which is in process. However, we consider the internal controls in place to be adequate with the exception of the controls for cost allocations and following proper procurement practices. As noted, NSP is an extension of existing CDBG programs, and there is no immediate need for modifications or changes except for the controls and procedures cited above.

Eligibility and output/outcomes: As a result of documentation reviewed and interviews with Department personnel, we determined that the Department can satisfactorily ensure that NSP eligibility and program outcome goals will be met.

Procurement – transparency: Since the Department will not use NSP funds to complete mixed-use, multiphase developments having multiple funding sources (as was noted in our audit report on the Department's HOME program), we determined that the Department will satisfactorily comply with NSP transparency requirements.

CONCLUSION

In general, our review determined that the Department should have the capacity and capability to effectively and efficiently administer its NSP after it addresses the deficiencies identified in our report on the City's administration of the HOME program. Once corrective action is completed, the Department should be able to maintain adequate internal control procedures and policies governing financial reporting, timeliness, procurement, staffing, program eligibility (output/outcomes), and transparency for administering the NSP funds according to federal requirements governing the administration of funds provided under HERA and the Recovery Act.

RECOMMENDATION

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

- 1A. Ensure that the corrective action is completed by the City regarding the deficiencies identified in the Department's administration of the HOME program in report No. 2009-BO-1001. If corrective action is not completed, HUD will need to conduct additional monitoring of the City's administration of the NSP funds to ensure compliance with federal requirements.

APPENDIX

AUDITEE COMMENTS



DEPARTMENT OF NEIGHBORHOOD DEVELOPMENT

THOMAS M. MENINO, MAYOR
EVELYN FRIEDMAN, CHIEF AND DIRECTOR

September 15, 2009

Mr. John A. Dvorak
Regional Inspector General for Audit
Office of the Regional Inspector for Audit Region 1
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Dear Mr. Dvorak:

I am writing with regard to the draft audit memorandum on the City of Boston's Neighborhood Stabilization Program (Audit Memorandum #2009-BO-1802). We are pleased that the audit concluded that the department "should have the capacity and capability to effectively and efficiently administer its NSP" and that there were no findings. We are confident that this conclusion will be validated by our performance once the NSP program actually gets under way.

With regard to the recommendation to HUD's Office of Community Planning and Development (CPD) that it should "ensure that the corrective action is completed by the City regarding the deficiencies identified in the Department's administration of the HOME program", I would just like to point out that the HUD field office is still reviewing the HUD OIG's report and has not yet made its management decision on the findings or the recommended actions. As you know, we do not agree with all of the findings in that report and we are working diligently to document or otherwise address the problems identified in the report. Once CPD has completed its review of the report and issues its response, we will complete any actions we are directed to take. We otherwise agree with the Audit Memorandum on NSP.

Sincerely,

Evelyn Friedman, Chief of Housing and Director

cc: Bob Paquin, Director, Office of Community Planning and Development
Sally Glora, City Auditor, City of Boston



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