



Issue Date	July 1, 2009
Audit Report Number	2009-LA-1011

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

*Joan S. Hobbs*

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

SUBJECT: City of Los Angeles Housing Department, Los Angeles, California, Did Not Ensure That the Buckingham Place Project Met HOME Program Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of Los Angeles Housing Department (City) as the result of problems noted during a prior audit involving HOME Investment Partnerships Program (HOME)-funded activities administered by the Community Redevelopment Agency of the City of Los Angeles (subrecipient), which was not adequately monitored by the City, compounded by concerns stemming from various newspaper articles related to the Marlton Square project, which included the Buckingham Place Senior Affordable Housing (Buckingham Place) project. Our objective was to determine whether U.S. Department of Housing and Urban Development (HUD) funds awarded to Los Angeles and administered by the City were administered in accordance with HUD's requirements for the HOME program as they relate to a specific subrecipient.

### **What We Found**

The City improperly allocated HOME program funds for the Buckingham Place project to its subrecipient without adequate controls in place to ensure that HOME program requirements were met. This condition occurred because the City lacked written procedures and had insufficient monitoring controls in place for projects not processed and administered through its Affordable Housing Trust Fund Unit.

## **What We Recommend**

We recommend that the Director of the Los Angeles Office of Community Planning and Development require the City to provide documentation supporting the eligibility of the \$8.5 million HOME funds investment for its proposal to complete the one partially-completed building and have it ready for occupancy within two years of the date of this report, or repay the funds from nonfederal sources. In addition, the City should establish and implement written procedures for projects administered by its subrecipient that are not processed through the Affordable Housing Trust Fund Unit.

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 the City a draft report on June 1, 2009, and held an exit conference with City officials on June 10, 2009. The City provided written comments on June 16, 2009. It generally agreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The City's response also included some other attachments related to the new developer and the timeline for completion, which are available upon request.

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# BACKGROUND AND OBJECTIVES

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## The HOME Program

The HOME Investment Partnerships Program (HOME) is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and program regulations are at 24 CFR (*Code of Federal Regulations*) Part 92. The HOME program is the largest federal block grant to participating jurisdictions, designed exclusively to create affordable housing for low-income households. The program's flexibility allows participating jurisdictions to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancement, or rental assistance or security deposits. The intent of the HOME program is to

- Provide decent, affordable housing to lower income households,
- Expand the capacity of nonprofit housing providers,
- Strengthen the ability of state and local governments to provide housing, and
- Leverage private-sector participation.

## The City

Los Angeles, California, is a participating jurisdiction which administers all of its HOME programs under the City of Los Angeles' Housing Department (City). The City typically awards HOME funds to various subrecipients, developers, and private lenders.

HOME funds from HUD to the City

Fiscal year	Amount
2007	\$40,113,770
2006	\$40,413,716
2005	\$42,964,023
Total	\$123,491,509

The City's standard procedures require developers to apply for HOME funding through a notice of funding availability. The City's Affordable Housing Trust Fund Unit reviews each application. Applications are evaluated and scored according to the criteria established by the respective leveraging source. The Buckingham Place Senior Affordable Housing (Buckingham Place) project was allowed to bypass this process. According to the City, the mayor and the city council have the authority to directly allocate City funds outside the notice of funding availability process.

## The Subrecipient

The Community Redevelopment Agency of the City of Los Angeles (subrecipient) is an independent agency of the City, established to attract private investment into economically depressed communities; eliminate slums, abandoned or unsafe properties, and blight throughout Los Angeles; revitalize older neighborhoods through historic preservation and new development; build housing for all income levels; encourage economic development; create and retain

employment opportunities; and related activities. The subrecipient receives funding from many sources including the City.

HOME funds from the City to the subrecipient

<b>Fiscal year</b>	<b>Amount</b>
2007	\$13,360,000
2006	\$13,000,460
2005	\$21,534,413

**The Project**

The Buckingham Place project is located at 4020 South Buckingham Road, Los Angeles, California. The project was to consist of 180 units, of which 145 units would be one-bedroom units and 35 units would be two-bedroom units. The target population for this housing was to be elderly persons with low, very low, and very, very low incomes. Photographs are shown in appendix C.

There were several types of funding sources proposed for this project, including \$8.5 million in HOME funds.

Proposed project funding

<b>Source</b>	<b>Amount</b>
HUD HOME funds	\$8,500,000
Federal low-income housing tax credits	\$16,506,651
Hanmi Bank construction loan	\$17,029,467
Affordable Housing Program	\$700,000
Deferred development fee	\$2,500,000
Total	\$45,236,118

**Developer Partnerships and Relationships**

The Buckingham Place project is an abutting part of the Marlton Square project with a common developer (Capital Vision Equities). The Marlton Square agreement stated, “the Master Developer desires to construct or cause to be constructed a mixed-use development consisting of approximately (i) one hundred forty thousand (140,000) to one hundred eighty thousand (180,000) square feet of commercial space, (ii) one-hundred and forty (140) units of for-sale housing, (iii) a community facility on approximately nineteen (19) acres of real estate property bounded by Martin Luther King Jr. Boulevard to the north, Marlton Avenue on the east, Santa Rosalia Drive on the south, and Buckingham Road on the west in Los Angeles and commonly referred to as Santa Barbara Plaza.” “In addition to the Project, an entity related to the Master Developer intends to develop approximately one hundred and eighty (180) units of rental housing affordable to low-income seniors on approximately three (3) acres of real property adjacent to and abutting the Property.”

The developer for the senior housing project was Buckingham Place Senior Housing, Limited Partnership, which was a limited partnership among CVE Housing Partners, Limited Liability Company, and Mothers in Action. This developer is an entity related to the master developer of

the Marlton Square project. The master developer of the Marlton Square project was Marlton Square Associates, Limited Liability Company, with Capital Vision Equities, Limited Liability Company, in which Marlton Square Associates, Limited Liability Company, was the master developer. Capital Vision Equities also goes under the initials CVE. Also, the subrecipient's evaluation file states the following: "Section 1b. Organization of Developer Capital Vision Equities, LLC, is a California Limited Liability Corporation. It will form Marlton Square Partners, a Limited Liability Corporation, in order to effectuate this project." We also noted that the Chief Executive Officer of Capital Vision Equities was married to the subrecipient's project manager for the Bunker Hill, City Center, and Little Tokyo areas of Los Angeles at the time Capital Vision Equities was chosen as the developer.

### **Current Status of the Project**

Although the \$8.5 million in HOME funds was fully expended and used for eligible purposes to pay for acquisition and soft costs, the Buckingham Place project is currently incomplete, unoccupied, and involved in an involuntary bankruptcy proceeding. Only one building containing 71 units has been completed. There are two mechanics liens that were recorded on September 20, 2007, and January 22, 2008, respectively, against the real property.

### **Audit Objective**

The objective of the audit was to determine whether HUD funds awarded to and administered by the City were administered in accordance with HUD's requirements for the HOME program as they relate to a specific subrecipient.

## RESULTS OF AUDIT

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### Finding 1: The City Improperly Allocated HOME Program Funds for the Buckingham Place Project to Its Subrecipient without Adequate Controls in Place to Ensure That HOME Program Requirements Were Met

The City improperly allocated HOME program funds for the Buckingham Place project to its subrecipient without adequate controls in place to ensure that HOME program requirements were met. Consequently, the subrecipient's

- ✓ Developer selection process was not competitive as required by 24 CFR 85.36(c)(1);
- ✓ Developer procurement was not in compliance with 24 CFR 85.36(b)(8);
- ✓ Project cost price analysis was missing, contrary to requirements at 24 CFR 85.36(b)(9); and
- ✓ Project monitoring was ineffective.
- ✓ Organizational and project performance was ineffective.

This condition occurred because the City lacked written procedures and had insufficient monitoring controls in place for projects that were not processed and administered through its affordable housing trust fund process. As a result, while the \$8.5 million HOME funds had been fully expended, it did not fulfill HUD's program intent to provide affordable housing for low-income households. In addition, the project stands incomplete and vacant and is unlikely to be completed this year.

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#### **Developer Selection Was Not Competitive**

On June 6, 2000, the subrecipient issued a combined statement of interest and request for proposal to the property owners on record for the Santa Barbara Plaza (now known as Marlton Square). Seven responses were received. The responses came from six property owners; one of the owners submitted separate replies, both as an owner and a tenant. One of the responses came from Capital Vision Equities, a limited liability company. The response letter stated, "we have put together a powerful and competent development team (Marlton Square Limited LLC) which includes CVE as the project manager, development coordinator and managing general partner..." Capital Vision Equities proposed the development of 355,000 square feet of new retail space. However, this entity ended up being the principal of the Buckingham Place project.

Regulations at 24 CFR 85.36(c)(1) state, “all procurement transactions will be conducted in a manner providing full and open competition...” Also, when the competitive proposal method is used, requests for proposals are to be publicized, and proposals are to be solicited from an adequate number of qualified sources. Capital Vision Equities was selected through a procurement process initiated by the subrecipient in June 2000. However, the request for proposal only went out to the owners within the Santa Barbara Plaza, now known as Marlton Square. While the subrecipient received seven responses, only one could be considered as qualified.

In the case of the Marlton Square project, the selection of Capital Vision Equities to develop the Santa Barbara site was not competitive. Therefore, its selection to develop the Buckingham Place project was also not competitive. Also, the procurement was not conducted in a manner providing open competition because the 2000 statement of interest/request for proposal was not publicized and was only issued to the property owners. Further, proposals were not solicited from an adequate number of qualified sources. In 1996, the subrecipient issued a request for proposal to both the property owners and the public, which resulted in the selection of a developer; however, the exclusive right to negotiate agreement with this developer was terminated in 1999.

### **Developer Procurement Was Not in Compliance**

Federal regulations at 24 CFR 85.36(b)(8) state, “grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.”

In the case of the Marlton Square project, the subrecipient selected Capital Vision Equities as the developer when the equity contribution from the developer was only 5.9 percent. However, according to the subrecipient’s evaluation team “the developer’s equity should have been at a minimum of 15 to 20 percent in ‘hard’ not ‘soft’ terms.” This action indicates the potential for financial problems. In addition, the developer or development entity lacked specific retail development experience and the experience needed to develop such a sizable project. Also, we only found incomplete (and unaudited) financial statements for Capital Vision Equities for the development of the Buckingham Place project.

### **Cost Price Analysis Was Missing**

According to 24 CFR 85.36(b)(9), “grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement.” Additionally, 24 CFR 85.36(f)(1) states, “grantees and subgrantees must perform a cost or price analysis in connection with every procurement action... to determine the reasonableness of the



proposed contract price.” With the Marlton Square project, for the subrecipient’s evaluation team to make the statement, “the proposed cost of development (excluding land) was excessive...,” it is implied that the subrecipient conducted a cost analysis to compare costs and make such determination. However, the subrecipient could not provide us with a cost analysis for either the Marlton Square or Buckingham Place projects.

### **Project Monitoring Was Ineffective**

Although the \$8.5 million in HOME funds was fully expended and used to acquire properties, relocate owners and tenants, and pay for soft costs, the project was not complete. The project did not meet the intent of the HOME program, which is to provide decent, affordable housing to lower income households, expand the capacity of nonprofit housing providers, strengthen the ability of state and local governments to provide housing, and leverage private-sector participation. The City reviewed and approved a total of three disbursement requests; however, these reviews were inadequate to effectively monitor the project’s financial aspects because only two of the three requests included the related supporting source documents such as invoices. Also, the cooperation agreement between the city and the subrecipient did not include detailed information regarding the use of funds. As a result, the City did not have a description of the tasks to be performed or a schedule for completion of tasks related to Buckingham Place to monitor the project status.

### **Organizational and Project Performance Was Ineffective**

The subrecipient’s project management was ineffective, which led to the incomplete project status and the loss of the project’s tax credits and construction loan default. A review of the subrecipients’ program manager’s Crenshaw Community Advisory Committee memorandums found that concerns were raised over the project’s completion. The following was noted: “The initial building faces Buckingham Road and is nearing completion. The Developer has started excavation for the second building. The Developer’s construction schedule calls for completion of all three buildings by July 2007. The [subrecipient] is concerned that this anticipated completion date is beyond the deadline specified in the project’s loan agreement.” The photograph below was taken on April 29, 2009, and represents the current status of the project.



Also, a review of the subrecipients' Buckingham Place construction meeting minutes found that construction meetings were held from March 29, 2006, through July 25, 2007. On June 13, 2007, the general contractor, S.C. Anderson, Incorporated, did not believe that the project could be finished by the December 31, 2007, deadline. There were delays caused by Capital Vision Equities and its consultants not providing (in a timely manner) all of the required/requested information needed by S.C. Anderson, Incorporated, and the subcontractors. Further, S.C. Anderson, Incorporated, stated that a new construction schedule could not be written until it received all of the required information. Also, on July 25, 2007, grading work was delayed, reportedly due to the lack of funding to the grader by Capital Vision Equities.

#### Loss of Tax Credits

We also noted that ineffective project management led to the loss of tax credit funds. As the California Tax Credit Allocation Committee stated in a letter, dated February 4, 2008, "federal law requires the 40 percent of the units must have been occupied by qualified tenants no later than December 31, 2007 in order to be a qualified tax-credit project." A visit to the project on January 30, 2008, 30 days after the federal deadline, verified that the property was not occupied. As a result, the Tax Credit Allocation Committee "rescinds the balance of the tax credit allocation of \$703,143 in annual federal tax credits and returns these credits to [the Tax Credit Allocation Committee] for reallocation to other projects."



### Construction Loan Default

A letter, dated August 16, 2007, from an attorney to the title company regarding “Buckingham Place Senior Housing, Limited Partnership – Declaration of Default,” stated, “As duly appointed trustee, you are notified of a breach of and default in the obligations secured by that certain Construction and Permanent Leasehold Deed of Trust...” Specifically, the lender, Hanmi Bank, made a loan to the borrower, Buckingham Place Senior Housing, Limited Partnership, and the borrower had failed to make the monthly interest payments under the loan and was in arrears in the amount of \$338,660. The loan began on June 28, 2007, and “matured on July 28, 2007 and the borrower has failed to make the required principal payment.” As a result, “the Lender, who holds the beneficial interest in the Deed of Trust, makes this declaration of default and elects to cause the trust property to be sold to satisfy the obligations secured by the Deed of Trust.”

A second letter, dated August 29, 2007, obtained from the subrecipient to Buckingham Place Senior Housing, Limited Partnership, stated, “The Community Redevelopment Agency of the City of Los Angeles [subrecipient] has received notification that a default has been declared on the construction loan between Buckingham Place Senior Housing, Limited Partnership and Hanmi Bank secured against the Buckingham Place Senior Housing Project. Pursuant to Section 600E of that certain Construction and Permanent Gap Loan Agreement (the ‘Loan Agreement’) entered into on September 16, 2003 between Buckingham Place Senior Housing, Limited Partnership and [subrecipient] a default under the Hanmi Bank loan constitutes an event of default under the Loan Agreement. [Subrecipient] hereby declares the loan in the amount of \$8,500,000 provided under the terms of the Loan Agreement to be in default. This letter shall serve as notice, as required by Section 601 of the Loan Agreement, that you have 15 calendar days from the date of receipt of this letter to take action to cure the default.”

The official notice of default and election to sell under deed of trust was filed on March 6, 2008, by the subrecipient, and more than \$9.4 million was due as of March 3, 2008. A second notice of default and election to sell under deed of trust was filed on March 26, 2008, by Hanmi Bank, and more than \$17 million was due as of March 20, 2008. We found nothing in the City’s files to show that an effort had been made on its behalf to get involved.

### **Conclusion**

While the City had controls in place to review the supporting documents before disbursement of the HOME funds, it did not monitor the project for timely completion or compliance with HOME program requirements. This condition occurred because the City lacked written procedures and had insufficient monitoring controls in place for projects that were not processed and administered through its affordable housing trust fund process. As a result, while the \$8.5 million in HOME funds had been fully expended, it did not fulfill HUD’s program intent under 24 CFR Part 92 to provide

affordable housing for low-income households. The project stands incomplete and vacant and unlikely to be completed this year.

## **Recommendations**

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

- 1A. Require the City to submit documentation on the total development costs for the project, the HOME-eligible development costs and a proposed cost allocation (in accordance with CPD Notice 98-02) that shows that the number of HOME units designated at the project is sufficient to determine the eligibility of the \$8.5 million HOME funds investment, and require the City to repay any portion deemed ineligible from nonfederal funds.
- 1B. Require the City to repay its HOME funds \$8.5 million from nonfederal funds unless the project is completed and ready for occupancy within two years of the date of this report.
- 1C. Require the City to establish and implement effective written policies and procedures for monitoring its subrecipients' projects that were not processed and administered through its affordable housing trust fund process.

## SCOPE AND METHODOLOGY

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We performed the on-site audit work at the office of the subrecipient located at 354 South Spring Street, Los Angeles, California, between September 2008 and May 2009. The audit generally covered July 2004 through June 2007. To accomplish our objectives, we reviewed the City's compliance with applicable laws and HUD regulations. Our primary methodologies included

- ✓ Reviewing applicable HUD handbooks.
- ✓ Reviewing applicable policies and procedures established by the City and its subrecipient.
- ✓ Reviewing contracts and agreements between the City and its subrecipient.
- ✓ Reviewing contracts between the subrecipient and various entities related to the Buckingham Place project.
- ✓ Interviewing various HUD personnel within the Office of Community Planning and Development.
- ✓ Interviewing various City employees and various employees working for the subrecipient.
- ✓ Reviewing independent public accountant reports for the scope of our audit period for the subrecipient.
- ✓ Reviewing supporting documents to support drawdowns from HUD and reimbursements from the City to the subrecipient.

Before selecting a sample of projects, we decided that the first project of our sample would be the Buckingham Place project. We selected this project to be the first project of our review for two reasons: (1) this project is one of the HOME projects administered by the subrecipient that has generated the most media attention, and (2) because of the large amount of funding spent on this project as compared to the other projects in our universe of 16 HOME funded projects on the City and subrecipient's lists of projects.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are 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. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal control was relevant to our audit objective:

- Compliance with federal laws and HOME program regulations.

We assessed the relevant control identified above.

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

## Significant Weaknesses

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

The City did not

- Comply with federal laws and HOME program requirements regarding policies and procedures (see finding 1).
- Comply with federal laws and HOME program rules for monitoring subrecipients (see finding 1).

## FOLLOW-UP ON PRIOR AUDITS

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### **Audit of the City of Los Angeles Housing Department – HOME Affordability Monitoring and Inspections, 2008-LA-1016, Dated September 18, 2008**

We audited the City's HOME affordability monitoring and inspection requirements regarding HOME-assisted rental units, prompted by the prior audit (2008-LA-1004), which detected problems in this area. We found that the City 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, did not ensure that its contractor conducted occupancy monitoring in accordance with HOME program requirements, and failed to inspect HOME-assisted rental housing projects when required. On December 2, 2008, we entered into management decisions with HUD to correct the items in the recommendations, which have a target completion date of September 18, 2009.

### **Audit of the City of Los Angeles Housing Department Rehabilitation of Four HOME-Funded Projects, 2009-LA-1007, Dated February 20, 2009**

We audited the City as a result of the prior audit (2008-LA-1016), which detected four projects that may not have been rehabilitated as intended. We found that the City did not always ensure that its HOME-assisted rehabilitation work was complete and in accordance with HOME requirements. Of the four projects, we found one project in which the City paid \$22,466 in HOME funds for incomplete rehabilitation work. On June 19, 2009, we entered into management decisions with HUD to correct the items in the recommendations, which have a target completion date of February 20, 2010.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported <u>1/</u>
1A	\$8,500,000

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. The unsupported costs are HOME funds that the City allocated to its subrecipient without adequate controls to ensure that the HOME program requirements were met. In this situation, the City has proposed an alternative plan to complete the one partially-completed project, however, there was not enough information at the time the report was issued to determine whether this would satisfy the HOME program requirements.



# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



Antonio R. Villaraigosa, Mayor  
Mercedes Márquez, General Manager

June 16, 2009

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

**RE: Discussion Draft Audit Report  
City of Los Angeles Housing Department  
Buckingham Place Senior Affordable Housing Project**

Dear Ms. Schultz,

As the HOME Program administrator for the City of Los Angeles, the Los Angeles Housing Department (LAHD) appreciates the time and attention given by the OIG to the preparation of this report.

LAHD's response to this report focuses on improving the administration of the HOME program in regard to subrecipients (subgrantees), an area that has lacked clarity in the past. The LAHD understands that it cannot pass on its responsibilities for ensuring compliance in the use of HOME funds to another entity and that agreements that seek to do so are out of compliance with HUD requirements.

Our response to the specific recommendations follows:

**FINDING 1 – The City improperly allocated HOME Program funds for the Buckingham Place project to its subrecipient without adequate controls in place to ensure that HOME Program requirements were met**

**Recommendation 1A – Repay HOME Fund \$8.5 million from non-federal funds or complete the project**

**LAHD Response:** The LAHD will work closely with the CRA/LA to complete the project within the agreed upon timeframe or CRA/LA will repay the HOME Fund from non-federal funds.

As discussed at the exit conference:

1. The City proposes that a total of 70 units will be completed and occupied (69 affordable units and one manager's unit); there will also be one multi-purpose room to serve tenants in the development. Since the HOME funds were to be used for the entire 180 unit development, no additional HOME funds will be used for the development of the remaining units.

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### Comment 1

2. The City proposes that the timeline for this work mirror the settlement agreement between the CRA/LA and affected parties, not to exceed 24 months. Broadly:
  - A. The new developer obtains tax credits in the current Tax Credit Allocation Committee (TCAC) application round allowing the project to be completed within 12 months;
  - B. If unsuccessful, the developer obtains tax credits in the 2010 Round TCAC allowing the project to be completed within 24 months;
  - C. If unsuccessful at either round, the CRA/LA commits to repaying the \$8.5 million from non-federal funds.

Attached for your review are several items related to this recommendation, including:

- Attachment 1 – Memo from CRA/LA to LAHD regarding project timeline and repayment commitment;
- Attachment 2 – Copy of the April 28, 2009 CRA/LA Board Memo which summarizes the Settlement Agreement<sup>1</sup> related to this project;
- Attachment 3 – Copy of the July, 3 2008 CRA/LA Board Memo which authorizes the selection of the developer; and
- Attachment 4 – Meta Housing Corporation Qualifications.

**Recommendation 1B – Establish and Implement written policies and procedures for monitoring subrecipients**

**LAHD Response:** LAHD will establish and implement effective written policies and procedures for monitoring its subrecipient's projects that are not administered through the Affordable Housing Trust Fund process.

Policies and procedures will cover the following areas when monitoring HOME projects:

1. **Project Eligibility Determination** including, but not limited to:
  - Property Type eligibility;
  - HOME Subsidy limits;
  - Environmental review; and
  - Site and Neighborhood standards (if applicable).
2. **Project Tracking** for all stages of a project's development, including, but not limited to a review of:
  - Project proformas to determine appropriate subsidy layering;
  - Written agreements (to ensure that all federal requirements are addressed) between:
    - LAHD and CRA;
    - CRA and the Developer;
    - the Developer and general licensed contractor (GC); and
    - GC and subcontractors.

When a project is in the construction phase, staff will review all documents to check the following:

<sup>1</sup> The Settlement Agreement includes information considered confidential by parties to the Agreement, and is therefore not provided. However, the 4/28/09 Board memo outlines the key provisions of the Agreement and should provide the detail needed for this response.

- Subcontractor management and review;
- Labor standards, Davis-Bacon (if applicable);
- Section 3 (if applicable);
- Compliance with contract deadlines;
- Comparison of payment requests with eligible costs; and
- Completed items on work item list or an addendum/change order;

All work will be inspected before a payment request is processed. Any time a project appears to be experiencing difficulties, staff will conduct an on-site visit.

### 3. Project Completion Review

When a project is complete, LAHD monitoring staff will make an on-site visit to monitor compliance with the following requirements:

- Property standards;
- Only eligible costs have been reimbursed;
- Construction management records;
- Lien waivers from both general contractor and all subcontractors;
- Proper data is collected to prepare Women Business Enterprise and Minority Business Enterprise (WBE/MBE) reports; and;
- If match is being provided, the monitor will check that all proper documents have been submitted for review and calculation.

LAHD monitors will use HUD's Rental Project Completion Checklist for this step when a project is near completion. At that time, the LAHD monitor will verify that initial HOME requirements have been met.

### 4. Initial Rent and Occupancy Review

Before a project reaches stabilized occupancy (95 percent or more), LAHD monitoring staff will review the Project Compliance Report and conduct an on-site visit to confirm that rent and occupancy standards have been met.

Monitors will also use HUD's Initial Rent and Occupancy Checklist when the project has reached 80 percent occupancy and the owner has submitted the first Compliance Report.

### 5. Ongoing Monitoring

LAHD monitoring staff must review annual Project Compliance Reports which will be completed annually by project owners and submitted to the LAHD. Monitors will review it for compliance with rent and low-income occupancy requirements and perform regular on-site visits throughout the affordability period to ensure continued compliance with:

- Rent and occupancy requirements;
- Property standards; and
- Other Federal requirements (e.g., fair housing, lead-based paint, affirmative marketing, etc.)

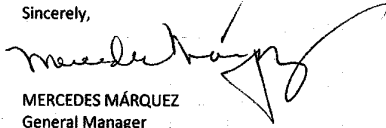
Monitors will use HUD's Ongoing Monitoring Checklist for this step.

### 6. Assess Program Compliance Issues

The LAHD Occupancy Monitoring Unit will continue to monitor and address program compliance issues as they arise.

In closing, LAHD is committed to addressing the issues identified in this audit and to improve the efficiency and effectiveness of its subrecipient 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 Marlene Garza, Assistant General Manager, either by phone (213) 808-8899 or by email [mgarza@lahd.lacity.org](mailto:mgarza@lahd.lacity.org).

Sincerely,



MERCEDES MÁRQUEZ  
General Manager

## **OIG Evaluation of Auditee Comments**

**Comment 1** Based on the City's proposed alternative, we revised the recommendations to require the City to provide documentation supporting the eligibility of the \$8.5 HOME funds investment for its proposal to complete the one partially-completed building and have it ready for occupancy within two years of the date of this report, or repay the funds from nonfederal sources.

## APPENDIXES

### Appendix C

#### BUCKINGHAM PLACE PROJECT PHOTOGRAPHS



**View of the front of the one building (71 units) that was essentially completed. It remains unoccupied due to the need to complete some final work items and obtain occupancy permits.**



**View of the back of the one building shown above that was essentially completed. The fenced area has the two pads where the other two buildings were intended to be built.**