



|                     |                   |
|---------------------|-------------------|
| Issue Date          | September 2, 2009 |
| Audit Report Number | 2009-LA-1017      |

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: The Los Angeles County Community Development Commission Had Sufficient Capacity and the Necessary Controls to Administer Its Neighborhood Stabilization Program

## **HIGHLIGHTS**

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

We completed a capacity review of the Los Angeles County Community Development Commission's (County) Neighborhood Stabilization Program. We performed the audit because Housing and Economic Recovery Act (HERA) reviews are part of the Office of the Inspector General's (OIG) annual audit plan and the program was identified as high risk. In addition, the County was awarded a significant amount of Neighborhood Stabilization Program funds.

Our objective was to determine whether the County had sufficient capacity and the necessary controls to manage and administer Neighborhood Stabilization Program funds provided by HUD under HERA.

### **What We Found**

We found no evidence indicating that the County lacked the capacity to adequately administer its Neighborhood Stabilization Program funding.

## **Auditee's Response**

We provided the auditee the draft report on August 21, 2009, and the auditee waived the exit conference.

The final report was provided to the auditee on September 2, 2009.

# TABLE OF CONTENTS

---

|   |    |
|---|----|
| Background and Objective  | 4  |
| Results of Audit  |    |
| The County Generally Had Sufficient Capacity and Adequate Internal Controls<br>to Administer Its Neighborhood Stabilization Program Funds | 5  |
| Scope and Methodology   | 10 |
| Internal Controls   | 12 |
| Appendixes  |    |
| A. Auditee Comments   | 13 |

## BACKGROUND AND OBJECTIVE

---

The Neighborhood Stabilization Program was authorized under Title III of the Housing and Economic Recovery Act (HERA) and provides grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem declining values in neighboring homes. HERA calls for allocating funds “to states and units of general local government with the greatest need,” and in the first phase of the program, HUD allocated more than \$3 billion in Neighborhood Stabilization Program funds to assist in the redevelopment of abandoned and foreclosed homes.

The Los Angeles County Community Development Commission (County) was created in 1982 by the County’s board of supervisors. The County aims to build better lives and better neighborhoods by providing services to improve the quality of life in low- and moderate-income neighborhoods. It manages programs in public and assisted housing, community development, economic development, and housing development and preservation.

The *Federal Register*, Volume 73, Number 194 (dated October 6, 2008), provided the public a list of grantees that would receive Neighborhood Stabilization Program funds. The County received more than \$16.8 million in program funding and amended its 2008-2009 action plan to outline the program activities it planned to pursue with the newly acquired funds, including a home-buyer program and a rental development program. The County’s Housing Development and Preservation Division is responsible for implementing both activities. HUD’s Los Angeles Office of Community Planning and Development approved the planned activities in March 2009.

As of July 2009, HUD was considering applications submitted under a competitive second round of funding for additional Neighborhood Stabilization Program funds. These funds are authorized by the American Recovery and Reinvestment Act of 2009. The County’s draft application for this round of funding included a budget request of \$61 million to continue its home-buyer and rental program activities.

### **Our Objective**

Our objective was to determine whether the County had sufficient capacity and the necessary controls to manage and administer Neighborhood Stabilization Program funds provided by HUD under HERA.

## RESULTS OF REVIEW

---

### The County Generally Had Sufficient Capacity and Adequate Internal Controls to Administer Its Neighborhood Stabilization Program Funds

We did not find evidence indicating that the County lacked the capacity to adequately administer its Neighborhood Stabilization Program funding. The County had (1) a plan for and had begun the use of program funds; (2) written policies and procedures to support its Neighborhood Stabilization Program activities; (3) experience with programs that were similar in nature to its Neighborhood Stabilization Program activities; (4) a plan to hire additional staff; and (5) adequate records to support accounting transactions, procurements, home-buyer loans, and its selection of developers to acquire and rehabilitate affordable rental housing.

---

#### **The County Had Plans for and Had Begun the Use of Program Funds**

The County had implemented two activities with its Neighborhood Stabilization Program funds:

- 1) The Housing Economic Recovery Homeownership (HERO) program provides assistance to eligible low-, moderate-, and middle-income home buyers who are unable to qualify for a home mortgage and/or obtain the necessary downpayment without financial assistance. Purchased homes must be vacant and foreclosed upon or abandoned pursuant to program guidelines and must be the principal residence of the home buyer. The County budgeted more than \$10 million for eligible HERO program activities.
- 2) The Scattered Sites Rental program is designed to provide financial assistance for the development of affordable rental housing for low-income persons. The program will provide assistance through secured loans to developers who will acquire and rehabilitate foreclosed or abandoned properties for low-income persons. The residence must be a vacant property with between one and four units. The County budgeted more than \$4 million for the Scattered Sites Rental program.

Properties eligible for the HERO and Scattered Sites Rental programs must be located within specific target areas, or census tracts, which have been defined by the County as areas with the greatest need. About \$2 million in Neighborhood Stabilization Program funds will be used to administer the HERO and Scattered Sites Rental programs.

The activities were in their initial stages, as HUD awarded funding in March 2009. As of the initiation of our review in May 2009, the County had completed program guidelines for each of its activities and had begun funding loans for the HERO program and making final developer selections for its Scattered Sites Rental program. As of June 2009, the County had expended 3 percent (around \$400,000) of its more than \$16 million in funding. As of July 2009, five home-buyer loans had been funded through the HERO program, and 12 loans were pending. In addition, two developers had been selected for the Scattered Sites Rental program, and a memorandum of understanding was being executed with one of the developers, with the second developer acting as a backup in case the first could not identify a location in a timely manner.

### **Written Policies and Procedures Were Adequate**

The County's procedures were sufficient to support its HERO and Scattered Sites Rental program activities. The procedures complied with the major provisions of HERA and addressed the major aspects of each program, including program requirements and county, applicant, and lender responsibilities. In addition, the County had established written procedures for monitoring its Neighborhood Stabilization Program activities and had complete written policies and procedures to support its financial management and procurement functions.

### **The County Had Experience with Similar Programs**

The County had experience with other programs that mirrored its Neighborhood Stabilization Program activities.

- The County's Homeownership Program is funded by HUD's HOME Investment Partnerships Program (HOME) and is comparable to the HERO program in that it is designed to provide low-income families with the necessary financial assistance to purchase a home. The program expended more than \$7 million in the fiscal year ending June 30, 2008, making it comparable in size to the HERO program.
- The County's original Scattered Sites program is also HOME funded and is similar to the Neighborhood Stabilization Program's scattered sites program in that its purpose is to provide financial assistance for the development of affordable housing for low-income persons.

Although we have not reviewed the County's management of its HOME funds, the HUD Los Angeles Office of Community Planning and Development rated the County as a "good performer" in the use of its HOME funds during a 2007 HUD program review.

### **Staffing Levels Were Appropriate**

The County's staffing level appeared appropriate to administer its existing Neighborhood Stabilization Program funding level and planned activities. There were 12 individuals within the responsible Housing Development and Preservation Division units charging time to the Neighborhood Stabilization Program. Six of the twelve had more direct program responsibilities and charged between 25 and 55 percent of their time to the program; the remaining six people primarily supervised, managed, or provided administrative support and charged between 6 and 20 percent of their time to Neighborhood Stabilization Program activity. Therefore, the staff had been dividing its time between preexisting work with prior programs and the Neighborhood Stabilization Program activity. However, we verified that there had been a significant decrease in activity for the Homeownership Program, making staff available for the Neighborhood Stabilization Program activity.

The County informed us that it planned to hire additional staff if awarded additional funding under the second competitive round of Neighborhood Stabilization Program funding (see Background and Objective section). Although this potential funding was outside the scope of our review, we agree that this measure should facilitate the County's efforts to accomplish an increased Neighborhood Stabilization Program workload.

### **The County Had Support for Its Financial Transactions, Procurements, Home-Buyer Loans, and Developer Selections**

We reviewed nonstatistical samples of Neighborhood Stabilization Program financial and accounting transactions, contracts from the County's contract log, HERO program loan files, and the selection of developers to acquire and rehabilitate affordable rental housing.

- **Financial Data:**  
All Neighborhood Stabilization Program accounting transactions reviewed were adequately supported, eligible, and consistent with the proposed activity in the County's amendment to its 2008-2009 action plan. In addition, the County's division administration allocation was supported by a reasonable and equitable allocation methodology.
- **Procurement:**  
All contract services reviewed were properly procured, monitored, and completed consistent with its policies and procedures, as well as 24 CFR (*Code of Federal Regulations*) Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments.

- **Homebuyer Loan Files and Developer Selections:**

Our review of both funded and pending home-buyer loan files for the HERO loan program and documentation pertaining to the selection of developers for the Scattered Sites Rental program indicated that the County was in compliance with program requirements.

**Site Visits Confirmed That Assisted Properties Met Program Requirements**

We conducted site visits and were able to confirm that the Neighborhood Stabilization Program-funded homes were located within the areas targeted by the County as having the “greatest needs” and that homes with pending loans appeared to be foreclosed or abandoned.

Examples of homes pending funding through the HERO loan program







Because the Scattered Sites Rental program was in its initial stages during our fieldwork and had only recently selected developers, no sites had been selected for acquisition and rehabilitation.

## Conclusion

The County appeared to generally have sufficient capacity and adequate controls to administer its existing award of Neighborhood Stabilization Program funding in accordance with HERA requirements. The County's procedures and controls should also be adequate to administer the continuation of these programs under its proposed draft application for a second round of Neighborhood Stabilization Program funds through the American Recovery and Reinvestment Act of 2009. However, given the requested funding is over three times that of its current program, we generally agree with the County's plans to hire additional staff to ensure it can adequately administer an increased activity level.

## SCOPE AND METHODOLOGY

---

We performed our on-site audit work at the County, located at Monterey Park, California, between May and July 2009. Our audit generally covered the period March through June 30, 2009. We expanded our scope as necessary to obtain information about the County's original Homeowner and Scattered Sites programs.

To accomplish our objective, we reviewed

- HERA.
- HUD regulations at 24 CFR Parts 85 and 570.
- The County's amendment to its 2008-2009 action plan to include proposed Neighborhood Stabilization Program activities.
- The County's internal policies and procedures that support Neighborhood Stabilization Program activities. We also reviewed the County's financial management, procurement, monitoring, and password protection policies.
- Organizational charts, timesheets, and payroll distribution reports to determine the staffing level and amount of staff time spent on Neighborhood Stabilization Program activities.
- Original Scattered Sites program request for proposal and program guidelines to aid in our understanding of the County's Neighborhood Stabilization Program Scattered Sites Rental program request for proposal and program guidelines.
- Neighborhood Stabilization Program Scattered Sites Rental program request for proposal and program guidelines to determine the County's requirements and process for recruiting potential developers for acquisition and rehabilitation of affordable rental housing.
- As there were no Neighborhood Stabilization Program procurements, we reviewed a nonstatistical sample of 2 of 24 Housing Development and Preservation department procurement contracts (for the period of January through March 2009) to determine whether services were properly acquired, which represented \$1,473,999 out of \$3,228,395 in Housing Development and Preservation procurement contracts.
- Financial statements and board approval letters.
- 2007 HUD program review assessment letter.
- Budget revenue and expenditure reports, journal vouchers, and support documentation, including the review of a nonstatistical sample of \$130,643 of the \$323,183 in Neighborhood Stabilization Program expenses as on June 30, 2009.
- A nonstatistical sample of 1 of 5 funded and 1 of 12 pending home-buyer loan files and the developer selection packages.
- We also conducted site visits to a nonstatistical sample of 9 of the 17 funded and pending homes receiving rehabilitation loans under the Neighborhood Stabilization Program.
- The American Recovery and Reinvestment Act (ARRA) of 2009.

In addition, although generally outside the scope of our review, we reviewed the County's draft application for the second competitive round of Neighborhood Stabilization Program funds as it was submitted to HUD during the course of our fieldwork.

We conducted the review 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 stated objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

# INTERNAL CONTROLS

---

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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.

---

## Relevant Internal Controls

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

- Implementation of policies and procedures to ensure that Neighborhood Stabilization Program activities meet established objectives.
- Implementation of policies and procedures to ensure that Neighborhood Stabilization Program activities comply with applicable laws and regulations.

We assessed the relevant controls 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

We did not identify any significant weaknesses in the relevant controls identified above.

# Appendix A

## AUDITEE COMMENTS



**COMMUNITY DEVELOPMENT COMMISSION  
of the County of Los Angeles**

2 Coral Circle • Monterey Park, CA 91755  
323.890.7001 • TTY: 323.838.7449 • www.lacdc.org



**Gloria Molina  
Mark Ridley-Thomas  
Zev Yaroslavsky  
Don Knabe  
Michael D. Antonovich**  
Commissioners

**Sean Rogan**  
Executive Director

August 26, 2009

Ms. Joan S. Hobbs  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region IX  
611 West Sixth Street, Suite 1150  
Los Angeles, CA 90017-3101

**RE: DISCUSSION DRAFT REPORT FOR THE REVIEW OF LOS  
ANGELES COUNTY'S CAPACITY TO ADMINISTER ITS  
NEIGHBORHOOD STABILIZATION PROGRAM**

Dear Ms. Hobbs:

We have reviewed the draft report received on August 21, 2009, and appreciate the positive comments regarding the CDC's capacity to administer the Neighborhood Stabilization Program. We also appreciate the time and effort your staff spent on the audit and see no need for an exit conference.

If you require additional information or have any other questions, please feel free to call me at (323)890-7400. Thank you.

Sincerely,

SEAN ROGAN  
Executive Director

SR:LS

Strengthening Neighborhoods • Supporting Local Economies • Empowering Families • Promoting Individual Achievement

