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Audit Report Number	2011-AO-1004

TO: Cheryl Breaux, Director of Community Planning and Development, 6HPH

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Gulf Coast Region,
11AGA

SUBJECT: The New Orleans Redevelopment Authority, LA, Had Not Administered Its
Recovery Act Neighborhood Stabilization Program 2 in Accordance With
Federal Regulations

HIGHLIGHTS

What We Audited and Why

We audited the New Orleans Redevelopment Authority (Authority), a \$29.7 million U.S. Housing and Urban Development (HUD) Neighborhood Stabilization Program 2 (NSP 2) grantee. We initiated the audit as part of the HUD Office of Inspector General's (OIG) annual audit plan to review programs funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Our objective was to determine whether the Authority's use of the NSP 2 funding, including the propriety of its ongoing activities, obligations, reports to HUD, and expenditures, was in accordance with Federal regulations.

What We Found

The Authority did not always use its NSP 2 funds in accordance with Federal regulations. This condition occurred because the Authority (1) did not have adequate controls and/or policies and procedures, (2) did not follow its own policies and procedures, and (3) was not always aware of its responsibilities as a HUD grantee under NSP 2. As a result, the Authority could not provide reasonable assurance that it had adequately fulfilled the requirements of its agreement with HUD and the Authority and one of its consortium members

improperly procured eight contracts. In addition, the Authority expended \$178,148 in questioned costs. Further, at least \$8,101,539 of the remaining funds is at risk of being misspent and, therefore, not serving NSP 2's purpose, to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned.

What We Recommend

We recommend that HUD's Director of Community Planning and Development require the Authority to (1) establish policies and procedures regarding environmental reviews; (2) establish an internal audit function; (3) revise its appraisal, monitoring, procurement, and finance policies; (4) terminate its existing contract and ongoing services for its commercial appraisal services; (5) implement internal controls to adequately track NSP 2 costs; (6) revise and submit its cost allocation plan to HUD for review and approval; (7) establish and implement policies and procedures regarding NSP 2 reporting; (8) support or repay \$178,148 in questioned costs, and (9) support the cost reasonableness for eight NSP 2-funded contracts.

We also recommend that HUD's Director of Community Planning and Development (1) provide the Authority with training related to NSP 2 and other requirements, (2) closely monitor the Authority's expenditure and procurement activities for the duration of the Authority's NSP 2 grant or until HUD is satisfied that the NSP 2 expenditures and procurements meet Federal requirements, and (3) review the Authority's listing of potential NSP 2-assisted properties to ensure eligibility and the accuracy of information. In addition, we recommend that HUD ensure that the Authority corrects all of the deficiencies noted throughout the report, conduct a risk analysis of the Authority, and provide the Authority with ongoing monitoring and technical assistance throughout the duration of the grant, thereby ensuring that at least \$8,101,539 in program funds can be better used and used for eligible activities.

Auditee's Response

We provided a copy of the draft report to the Authority on March 15, 2011. We held an exit conference with the Authority on March 21, 2011. We asked the Authority to provide written comments to the draft report by March 22, 2011. We granted the Authority an extension until March 23, 2011, and it provided written comments on that day. The Authority generally disagreed with our finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The Authority Had Not Administered Its NSP 2 Program in Accordance With Federal Regulations	6
Scope and Methodology	25
Internal Controls	27
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	29
B. Auditee Comments and OIG's Evaluation	30
C. Procurement Review Results	54
D. Expenditure Review Results	56

BACKGROUND AND OBJECTIVE

The Neighborhood Stabilization Program 2 (NSP 2) was established by Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (Recovery Act) to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. The U.S. Department of Housing and Urban Development (HUD) allocated \$2 billion in program funds to assist in the redevelopment of abandoned and foreclosed-upon homes. This funding was allocated competitively to eligible entities¹ that demonstrated the capacity to execute projects, leveraging potential, concentration of investment to achieve neighborhood stabilization, and additional factors as determined by HUD. HUD awarded a combined total of \$1.93 billion in NSP 2 grants to 56 grantees nationwide.

Of the \$1.93 billion, HUD awarded the New Orleans Redevelopment Authority (Authority) \$29.7 million² in NSP 2 funding on February 17, 2010. The Authority is a public body, both corporate and politic, that was established pursuant to authority granted by the Louisiana legislature, to eliminate and prevent the development or spread of slums and urban blight, encourage needed rehabilitation, and redevelop slums or blighted areas. The Authority is governed by an independent 11-member board of commissioners. Under its NSP 2 grant agreement (agreement) with HUD, the Authority serves as the lead member of a New Orleans consortium and is responsible for monitoring its consortium members and ensuring compliance with NSP 2 and HUD regulations. The consortium is comprised of the Authority, 11 nonprofit members,³ 1 for-profit partner,⁴ and the State of Louisiana.

NSP 2 is a component of the Community Development Block Grant (CDBG) program, and basic CDBG requirements govern the NSP 2. However, the notice of funding availability (notice)⁵ outlines many additional NSP 2 requirements, including but not limited to, requirements outlining that the Authority must (1) expend 50 percent of its NSP 2 funds 2 years from the date of the agreement, or by February 17, 2012; (2) expend 100 percent of its NSP 2 funds 3 years from the date of the agreement, or by February 17, 2013; (3) submit quarterly reports using the Disaster Recovery Grant Reporting System (DRGR) to report quarterly achievements; (4) comply with 24 Code of Federal Regulations (CFR) 85 for state and local governments and 24 CFR 84 for non-profit entities regarding procurement practices; and (5) comply with 24 CFR 58 for environmental reviews and request for release of funds.

The purpose of the Authority's program is to provide assistance for the redevelopment of abandoned and foreclosed-upon homes and residential properties to (1) return those properties to productive use or (2) make those properties available for redevelopment purposes. The Authority planned to implement NSP 2 under four eligible activities:

¹ Eligible entities include States, units of general local government, and nonprofit entities or consortia of nonprofit entities, which may submit proposals in partnership with for-profit entities.

² \$29,782,103

³ The nonprofit consortium members include (1) Rebuilding Together New Orleans a Program of the Preservation Alliance of New Orleans, (2) Make it Right, (3) New Orleans Neighborhood Development Collaborative, (4) Jericho Road Episcopal Housing Initiative, (5) Broadmoor Development Corporation, (6) St. Bernard Project, Inc., (7) Neighborhood Empowerment Network Association, (8) UNITY of Greater New Orleans, (9) Pontchartrain Park Community Development Corporation, (10) Project Home Again, and (11) Gulf Coast Housing Partnership.

⁴ The for-profit consortium member is Green Coast Enterprises.

⁵ Notice of Funding Availability (notice) FR-5321-N-01.

- Eligible use B - Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon to sell, rent, or redevelop such homes and properties.
- Eligible use C - Establish land banks for homes and residential properties that have been foreclosed upon.
- Eligible use D - Demolish blighted structures.
- Eligible use E - Redevelop demolished or vacant properties as housing

As of September 30, 2010, the Authority had spent \$325,529.⁶ Our objective was to determine whether the Authority's use of the NSP 2 funding, including the propriety of its ongoing activities, obligations, reports to HUD, and expenditures, was in accordance with Federal regulations.

⁶ As of February 24, 2011, the amount spent had increased to more than \$1.6 million.

RESULTS OF AUDIT

Finding: The Authority Had Not Administered Its NSP 2 Program in Accordance With Federal Regulations

The Authority did not always use its NSP 2 funds in accordance with Federal regulations. Specifically, the Authority did not always (1) comply with NSP 2 regulations and/or its written policies and procedures under its NSP 2 ongoing activities, (2) comply with procurement regulations when obligating NSP 2 funds, (3) provide its NSP 2 quarterly performance reports to HUD with accurate information, or (4) ensure that its NSP 2 expenditures were eligible and supported for 16 of 21 NSP 2 expenditures. These conditions occurred because the Authority (1) did not have adequate controls and/or policies and procedures to effectively administer its NSP 2 funds, (2) did not follow its own policies and procedures, and (3) was not always aware of its responsibilities as a HUD grantee under NSP 2. As a result, it could not provide reasonable assurance that it had adequately fulfilled the requirements of its agreement with HUD, with respect to its ongoing activities and reports to HUD, and the Authority and one of its consortium members improperly procured eight contracts. In addition, the Authority expended \$178,148 in questioned costs. Further, given the nature of the deficiencies identified, at least \$8,101,539⁷ of the remaining funds is at risk of being misspent.

Ongoing Activities Did Not Always Comply With Requirements

When performing activities under NSP 2, the Authority did not always comply with the NSP 2 requirements outlined in the notice of funding availability (notice)⁸ as well as other requirements. Specifically, it did not follow Federal requirements as it (1) took actions before obtaining HUD approval, (2) authorized payments to its for-profit consortium member without adequate documentation, and (3) did not establish an internal audit function.

The Authority Proceeded With Activities Without Proper HUD Approval

The Authority did not comply with NSP 2 requirements when requesting approval for an application amendment and the request for release of funds.

Regarding the application amendment, the notice⁹ allowed HUD or the State governments, such as the State of Louisiana (State), to act as the responsible entity for performing environmental reviews under the NSP 2. Therefore, the Authority amended its original NSP 2 application to include the State as part of its consortium and have the State serve as the responsible entity for conducting

⁷ See the Scope and Methodology section of this report for an explanation of this calculation.

⁸ Notice FR-5321-N-01 and applicable notice corrections FR 5321-C-02, C-03, and C-04

⁹ Fr-5321-N-01, Appendix I, Section T

environmental reviews for the Authority. Before commencing activities with the State, the Authority had to obtain HUD approval of the Authority’s application amendment to add the State, since the State was not included in the Authority’s initial application¹⁰. HUD approved the amended application on August 5, 2010; however, the Authority

- (1) Executed a consortium agreement with the State in April 2010, 4 months before HUD’s approval, and
- (2) Obtained an exemption certificate from the State authorizing the Authority’s exempt activities in June 2010, 2 months before HUD’s approval (see table 1).

With respect to the request for release of funds, the notice¹¹ and 24 CFR (Code of Federal Regulations) Part 58.22 required the Authority to refrain from undertaking any project or activity that would limit reasonable choices until HUD approved the request for release of funds. According to HUD, choice-limiting actions included actions such as purchasing a building or lot, approving final design plans, or starting physical work on a site.

Although HUD did not approve the Authority’s request for release of funds until October 1, 2010, the Authority purchased 32 tax sale properties for \$40,385 to establish a land banking mechanism on September 22, 2010, more than 1 week before HUD’s approval. In addition, since the properties were purchased for the purpose of eligible use C and did not fall under an exempt activity specified in the Authority’s exemption certificate, the purchase required HUD approval via the request for release of funds. Therefore, the Authority should not have purchased the properties before the October 1, 2010, approval (see table 1 below for the timeline of events).

Table 1: Timeline of events regarding HUD approvals

Date	Event
April 9, 2010	The Authority requested approval for an application amendment to add the State to its consortium.
April 11, 2010	The Authority executed a consortium agreement with the State.
June 28, 2010	The State provided an exemption certificate for the Authority to use funding for environmental studies, development of plans, inspection of properties, administrative costs, technical assistance, and training.
August 5, 2010	HUD granted approval to add the State to the consortium.
September 22, 2010	The Authority purchased 32 tax sale properties under eligible use C, the eligible use intended to establish land banks.
October 1, 2010	HUD granted approval for the request for release of funds.

As shown in the table above, the Authority performed activities before receiving HUD approval, violating NSP 2 and other requirements.

¹⁰ FR-5321-N-01, Section VI(B) stated that no amendment to an approved application may be made unless HUD rates the approved application as amended and it scores high enough to have been selected for funding under the NSP 2 competition.

¹¹ FR-5321-N-01, Appendix I Section T.

The Authority Did Not Adequately Fulfill NSP 2 Requirements Before Authorizing Payment to Its For-Profit Consortium Partner

Before authorizing payment to its for-profit partner, Green Coast Enterprises (GCE), under its contract, dated August 3, 2010¹², the Authority did not (1) conduct an adequate cost or price analysis that demonstrated how it determined necessary and reasonable costs for GCE or (2) obtain an adequate firm commitment from GCE; as outlined in the notice¹³.

Regarding the cost or price analysis, the Authority indicated that to ensure cost reasonableness, it compared rates of similar services of its owner's representative services that it had previously procured. The Authority believed that its owner's representative scope of services correlated similarly with the type of consulting services needed from GCE in the NSP 2 consortium. Based upon the Authority's response, we compared its owner's representative scope of services to GCE's scope of services and determined that the scopes of services were not similar as the Authority suggested. Most importantly, GCE's scope of services included consulting tasks specific to green ratings expertise, whereas the owner's representative scope of services did not. Because the expertise required for the scopes of services was not similar, it was not reasonable to correlate the two scopes of services, and the cost analysis was inadequate.

With respect to the firm commitment, when asked, the Authority provided a firm commitment letter, as documentation of its firm commitment from GCE. This letter was dated November 3, 2010, 1 day after we requested it. However, the Authority began authorizing payments as early as July 27, 2010, and paid GCE a total of \$53,039 before it obtained this firm commitment letter. Since NSP 2 required the Authority to obtain a firm commitment from GCE before authorizing payment, the \$53,039 paid to GCE was unallowable.

The Authority Did Not Establish an Internal Audit Function

Although the Authority received its NSP 2 grant on February 17, 2010, as of March 1, 2011, more than a year later, it had not established an internal audit function as required by the notice¹⁴. The Authority explained that it planned to hire an internal auditor and had taken measures to fill the vacancy. However, it did not provide evidence indicating that it had begun to develop policies and procedures needed to implement the internal audit function.

¹² The Authority also executed a consortium funding agreement with GCE in April 2010, but, according to the Authority, per later instructions from HUD in July 2010, it consequently executed a for-profit agreement with GCE in August 2010.

¹³ FR-5321-N-01, Appendix I Section U(3)

¹⁴ FR-5321-N-01, Section IV(A)(3)(f)

Monitoring Policies Were Not Followed and Monitoring Practices Were Not Adequate

When administering its NSP 2 grant, the Authority did not comply with its written monitoring policy. Specifically, it did not (1) maintain adequate documentation evidencing how it ensured that its consortium members were on target to meet performance measures and (2) execute all strategic plans with consortium members by the scheduled deadline.

In addition, the Authority did not adequately monitor its consortium members as it did not (1) ensure that the consortium members complied with applicable procurement regulations required by the notice¹⁵ or that the consortium members' procurement policies were adequate, (2) adequately assess compliance with Federal requirements and performance goals during consortium member monitoring site visits, and (3) assume overall responsibility for ensuring that the NSP 2 grant was carried out in compliance with all NSP 2 requirements.

The Authority Did Not Comply With Its Written Monitoring Policies

Although the Authority's written monitoring policies stated that it should determine the adequacy of its consortium members' performance and execute strategic plans with all consortium members by September 30, 2010, the Authority did not

- (1) Adequately document how it ensured that its consortium members were on target to meet performance deadlines. When asked for an explanation and documentation regarding how it tracked consortium members' performance progress, the Authority stated that it referred to the consortium funding agreement to determine whether the consortium members were on track and only provided us with warning letters pertaining to two consortium members' performance. The Authority did not have documentation showing the current program progress for each of the consortium members and therefore could not demonstrate that all of the consortium members were on target with the established performance deadlines during our review.
- (2) Execute 1 of the 11 strategic plans for its consortium members by September 30, 2010. When asked for the dates that consortium member strategic plans were executed, instead of providing dates and documentation, the Authority explained that the strategic plans were subject to revision based on project feasibility and served as working documents for program implementation. Consequently, we assessed the Authority's third quarter performance report activities as of September 30, 2010. The third quarter performance report showed that one consortium member had not submitted a final written

¹⁵ This includes 24 CFR 85 for state and local governments and 24 CFR 84 for non-profit entities.

description of its strategic plan. Therefore, we concluded that the Authority did not execute all strategic plans by September 30, 2010, as required by its monitoring policy.

The Authority Did Not Adequately Monitor Its Consortium Members

The Authority did not

- (1) Ensure that the consortium members complied with applicable procurement regulations or that the members' procurement policies were adequate. The notice specifically requires that nonprofits follow 24 CFR Part 84¹⁶ and that the Authority, as the lead consortium member, ensure that all consortium members comply with the NSP 2 requirements¹⁷. During the review, the Authority explained that in an effort to provide oversight, it developed a procurement policy template that was in line with 24 CFR Part 84.44 for all nonprofit consortium members to use as a guide when developing their respective procurement policy. In addition, the Authority's monitoring policy required it to approve all consortium members' procurement policies.

However, although the Authority developed a template and approved the consortium members' procurement policies, a review of the policies determined that 10 of the 11 nonprofit consortium members' procurement policies were inadequate because the policies did not contain requirements for (1) a written code of standards of conduct to govern the performance of employees engaged in the award and administration of contracts outlined in 24 CFR 84.42, and (2) a system of contract administration to ensure contractor conformance with the terms, conditions, and specifications of the contract and to ensure adequate and timely follow-up on all purchases outlined in 24 CFR 84.47.

Further, 1 of the 10 policies for a nonprofit consortium member stated that it was based on 24 CFR Part 85 instead of the required 24 CFR Part 84. When we expressed concern regarding this consortium member's noncompliance, the Authority explained that it found that Part 85 was generally more detailed and required higher standards than Part 84. Therefore, the Authority did not require the consortium member to follow Part 84. Despite the Authority's response, allowing the consortium member to follow Part 85 versus Part 84 was in direct violation of the notice and evidences that the Authority had not ensured that it or its consortium member complied with the NSP 2 requirements.

- (2) Adequately assess compliance with Federal requirements and performance goals during consortium member monitoring site visits. Specifically, Federal regulations require the Authority, as a HUD grantee, to monitor grant- and

¹⁶ FR-5321-N-01, Section I(D)(2)(d)

¹⁷ FR-5321N-01, Section II(A)(6)

subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. In addition, the regulations specify that monitoring must cover each program, function, or activity.¹⁸ The Authority's monitoring policy indicated that it would assess consortium members' performance and, thus, reserved the right to conduct site visits to aid in assessing performance.

When conducting the site visits, the Authority used a checklist to ensure consortium member performance. The monitoring checklist covered preaward documentation, consortium agreement documentation, regulatory compliance file documentation, program monitoring and control, procurement, reporting records, and financial records. However, the checklist appeared to only assess whether the consortium member had the documentation listed, but not to assess whether the documented items complied with Federal requirements or whether the consortium member met its performance goals. In addition, the checklist did not identify which Federal requirements were used for applicable checklist questions. For example, the checklist contained a line item for "equal employment opportunity," "American Disability Act," and "fair housing" compliance but did not refer to the applicable Federal requirement. Further, the procurement section of the checklist did not identify Federal requirements related to procurement, and the checklist did not include a section to assess performance goals specific for each consortium member. Therefore, it did not appear that compliance with Federal requirements and performance goals was adequately assessed during the Authority's site visits.

- (3) Assume overall responsibility for ensuring that the NSP 2 grant was carried out in compliance with all NSP 2 requirements. The notice states that the Authority, as the lead, must execute an agreement with HUD to assume responsibility for the grant on behalf of the consortium in compliance with all program requirements.¹⁹ Although it executed the agreement with HUD, during an update meeting, the Authority expressed that it did not believe it should be held responsible or liable if its consortium members did not comply with NSP 2 requirements and Federal regulations. In addition, the Authority stated that HUD explained that its consortium members were cogranterees and should be treated as an equal to the Authority. However, review of the agreement and clarification from HUD confirmed that the Authority was the responsible party under NSP 2 and as the lead was responsible and liable for the consortium if any of the members were noncompliant. Therefore, although the Authority executed the agreement with HUD, it had not assumed and was not always aware of its overall responsibility under the agreement.

¹⁸ 24 CFR 85.40(a and b)

¹⁹ FR-5321N-01, Section II(A)(4)

The Authority Did Not Follow Its Own Appraisal Policies

The Authority did not comply with its written appraisal policies and procedures, as it did not adequately ensure that its contracted commercial appraiser, Thorns Consulting, LLC, complied with the terms of its agreement or applicable requirements before it disbursed \$3,500 for an August 2010 appraisal report. Specifically, the Authority contracted with Thorns Consulting, LLC, and issued a work order to provide an “as is” value of a 42-unit multifamily commercial property. The Authority instructed the appraiser to provide an appraisal pursuant to requirements of the Uniform Relocation Assistance Real Property Act (Uniform Act), Uniform Standards of Professional Practice (USPAP), and applicable HUD NSP 2 appraisal requirements. The completed appraisal report reflected an appraised value of \$865,000 for the property.

A review of the appraisal report determined that the appraiser did not understand the assignment and did not follow specific instructions when executing and completing the assignment. In addition, the appraiser did not (1) develop a satisfactory scope of work as required by USPAP, the Uniform Act, and the assignment; (2) follow standard rules 1 and 2 of USPAP related to the development and reporting of the appraisal results; (3) develop and provide a supported highest and best use of the property; (4) use recognized appraisal techniques in developing the sales comparison approach; (5) make appropriate condition adjustments in the sales comparison approach, thus overestimating the sales comparison concluded value; or (6) provide documentation to support adjustments and conclusions in the report. Thus, the contracted appraiser did not fulfill the terms of its agreement with the Authority.

In addition, further review determined that the Authority did not adequately review the appraisal upon completion as required by its policies. The Authority’s policy required the project manager and the real estate acquisition coordinator to obtain an external review from an Authority-procured contract appraiser for all commercial properties and all potential acquisitions, regardless of the property type, where the initial appraised value of which was greater than \$100,000. In addition, the policy required the Authority’s appraisal analyst to perform an internal review of the appraisal report. If necessary, the appraisal analyst was required to provide written communication, noting supplemental information needed to correct any identified deficiencies and errors, to the appraiser for supplemental response.

When asked, the Authority stated that its staff appraisal analyst resigned in August 2010 and its NSP 2 grant manager performed the internal reviews of appraisals relevant to NSP 2. The Authority’s NSP 2 grant manager stated that she reviewed the appraisal but did not have supporting documentation since she

and Thorns Consulting, LLC, “worked more expeditiously by discussing over the phone” and at the time, the Authority was pressed to meet the NSP 2 requirements in anticipation that the property would be transferred. Thus, the Authority could not document that it adequately reviewed the appraisal report as required by its policies. Had the Authority followed its policies, it could have noted the deficiencies identified in our appraisal review and ensured that it obtained a quality product before disbursing funds.

Properties May Not Be Eligible Under NSP 2

To be eligible, the notice required the Authority to use the NSP 2 funds for foreclosed-upon and abandoned properties.²⁰ We reviewed public records and conducted site visits to 63 properties statistically selected from the Authority’s listing of 814 potential NSP 2-assisted properties to determine whether the properties met the NSP 2 eligibility criteria.

For 2 of the 63 properties, we were unable to determine whether the properties were eligible because 1 property appeared to be occupied, as it had an electric meter box, garbage cans located on the property, and blinds in the windows, although the Authority’s property listing identified that the property was vacant (see exhibit below). In addition, public records showed that an individual purchased this property from the Road Home in August 2009, further indicating that the property might be occupied.

Exhibit:



Right side view of property’s exterior.

We could not locate the second property via property records or a physical site visit, evidencing an incorrect property address. The remaining 61 properties appeared to have met the eligibility criteria.

²⁰ FR-5321-N-01, Section (1) (D) (1). In addition, the definitions of foreclosed and abandoned properties are covered under FR-5321-N-03.

Controls May Not Have Been Adequate for Ongoing Activities

The Authority's controls and processes may not have been adequate to properly administer its ongoing activities. Specifically,

1. A review of the Authority's NSP 2-related budget determined that the Authority was not always on target with its budgeted amounts and/or had not updated/tracked its budget regarding the administrative and program management budget category line items in comparison to its ongoing activities. In addition, the budgeted line items were not always consistent with the consortium funding agreement²¹. The budget was broken down into five categories: (1) administrative and program management, (2) neighborhood redevelopment initiatives, (3) multifamily rental, (4) Authority activities, and (5) reserve initiatives and phase 2 allocation. We identified concerns with two of the categories as follows:

Administrative and program management – The Authority exceeded its budgeted amounts for two line items under this category but had not updated the line items to reflect the changes. One line item exceeded the budget by \$160,000, while the other line item exceeded the budget by \$180,500. In addition, the Authority noted in another line item that it contracted services for the budgeted line item but no NSP 2 expenses had been incurred to date. However, this notation was incorrect as the expenditure documentation evidenced that the Authority had expended \$3,500 in conjunction with a contract procured under that line item. Thus, the Authority did not appear to be adequately tracking its budget.

Authority activities – For this category, the Authority budgeted home-buyer training and financial literacy line items under eligible use E; however, when compared to the consortium funding agreement, these budgeted line items were inconsistent with the agreement as there was no reference to the home-buyer training and financial literacy within the agreement under eligible use E. In addition, there was a reference to the home-buyer training in the consortium funding agreement under general administration; however, this amount had an associated budget line item under the administrative and program management category. As a result, the Authority had two budgeted line items for the same purpose, one of which was not in line with the established consortium funding agreement.

2. A review of the Authority's cost allocation plan determined that the plan was not adequate, as it (1) did not outline various program/funding sources (type and amount) that it planned to allocate among the cost objectives, (2) contain

²¹ The consortium funding agreement outlined activities that the Authority and its consortium members were to perform under NSP 2.

the cost percentages including explanations that were applied for given periods, or (3) support costs charged to NSP 2. Specifically, during the review, on various occasions, the Authority asserted that percentages were applied to a particular contract or employee in accordance with the cost allocation plan, but the cost allocation plan did not adequately support those assertions. For example, procurement file documentation for the Trumpet, LLC contract stated that the Authority would allocate 48 percent of the contract's funding would be funded using its NSP 2 funding in accordance with the cost allocation plan. However, the cost allocation plan neither supported the stated percentage nor made reference to the NSP 2 grant. Therefore, the Authority violated Office of Management and Budget (OMB) Circular A-87, which requires it to maintain supporting documentation for costs and have that documentation available for use during audits.

The Authority Violated Procurement Regulations

Under NSP 2, the notice required the Authority to comply with 24 CFR Part 85²² and ensure that its nonprofit consortium members complied with 24 CFR Part 84²³. The Authority did not ensure that it or its consortium members complied with the applicable procurement regulations when obligating NSP 2 funds.²⁴ Specifically, a file review of eight contracts procured as of September 30, 2010, determined that the Authority and one of its consortium members either (see appendix C for details specific to each file)

- Did not always maintain procurement records sufficient to detail the history of its procurement transactions. Specifically, the Authority and its consortium member did not always maintain documentation to support (1) that they performed cost or price analyses, including making independent cost estimates; (2) that profit was negotiated as a separate element of price; (3) that no other contract type was suitable when a time and materials contract was executed; (4) the rationale for the method of procurement, selection of contract type, and/or contractor rejection information; and (5) that procurement transactions were conducted in a manner providing full and open competition.
- Allowed a contractor to engage a subcontractor using a cost plus percentage of cost contract.

²² A HUD grantee is subject to 24 CFR Part 85 if it is a State, local, and federally recognized Indian and tribal government, which applies to the Authority, as it is a unit of local government.

²³ See footnotes 16 and 17.

²⁴ The universe included six contracts procured by the Authority, which were subject to the requirements of 24 CFR 85.36, and two contracts procured by of the Authority's consortium member, Pontchartrain Park Central Development Corporation, which were subject to the requirements of 24 CFR 84.40-48.

- Did not include a ceiling price when a time and materials contract was executed.
- Used incorrect procurement methods or did not ensure that the request for proposals listed the relative or weighted importance of each evaluation factor.
- Did not ensure that files included original proposals from all respondents or appeared to place geographic preferences or restrictions when evaluating bids or proposals.
- Did not ensure that files included support that contractor responsibility had been evaluated or that proposers had been checked against the debarment list.
- Did not include the required contract provisions (i.e., section 3 clause, energy efficiency contract provision, or a contract provision pertaining to administrative remedies for breach) in executed contracts.

Controls May Not Be Adequate for Procurement Activities

The Authority's controls and processes may not be adequate to properly administer its procurement activities. Specifically,

1. The contract amounts reflected in the Authority's contract log did not always coincide with the amounts in the eight executed contracts and, therefore, were inaccurate. Specifically, the Authority's contract log totaled \$530,386 for its contract amounts; however, review of the executed contracts indicated that the amounts according to the contracts totaled \$618,506, a difference of \$88,120 (see table 2 below).

Table 2: Contract value comparisons

Sample	Contractor name	Contract log amount	Contract amount	Difference
1	Environ International Corporation	\$250,000	\$250,000	0
2	Henry Consulting, LLC	\$54,600	\$54,600	0
3	Community Central, LLC	\$97,736	\$143,208+	\$45,472+
4	Terry Phillis, Consultant	\$5,000	\$5,000	0
5	Trumpet, LLC	\$43,500 ²⁵	\$39,648	(\$3,852)
6	Thorns Consulting, LLC	\$3,500 ²⁶	\$50,000	\$46,500
7	Krebs Lemieux Lasalle LLC ²⁷	\$40,950	\$40,950	0
8	Bayou Title Company ²⁸	\$35,100	\$35,100	0
Totals		\$530,386	\$618,506	\$88,120

²⁵ This is the amount to be funded with NSP 2 funds.

²⁶ This is the amount paid per work order for commercial appraisal services. However, the contract has a not to exceed amount of \$50,000.

²⁷ This contract was procured by the Authority's consortium member, Pontchartrain Park Community Development Corporation (PPCDC).

²⁸ This contract was procured by the Authority's consortium member, PPCDC.

2. The Authority did not appear to be maintaining sufficient documentation regarding its consortium members' procurement practices. Specifically, the contract log that the Authority maintained reflected that the procurement method of one of the Pontchartrain Park Community Development Corporation's (PPCDC) procurements was a sole source. However, PPCDC's development manager stated that the procurement method for that contract was a micropurchase, contradicting the Authority's contract log.

In addition, PPCDC explained that it used the procurement handbook for public housing agencies²⁹ as a guide for using this micropurchase procurement method. However, the Authority did not inform PPCDC that (1) a public housing handbook was not applicable to NSP 2, a CDBG program, and (2) a micropurchase was not listed as an acceptable procurement method in 24 CFR Part 84.44. When asked, the Authority stated that it was not aware of this issue. Therefore, it did not appear to be maintaining adequate procurement records for its consortium members or evidence to support that it reviewed the procurement documents and practices to ensure that its consortium members complied with NSP 2 requirements in the notice.

3. The Authority's procurement policies did not include policies and procedures relevant to (1) monitoring and tracking contract performance progress and payments, (2) additional types of procurement other than those for professional services, (3) ordinary procurement terms and methods (i.e., sealed bids and noncompetitive), (4) a process for verifying contractor responsibility, and (5) change orders or contract modifications. During the review, we informed the Authority that its procurement policies also did not include small purchase procedures although the Authority used the small procurement method when procuring services. The Authority had since updated its procurement policies to include the small purchase procedures; however, the policy still lacked the procedures noted above.
4. The Authority's contract compliance specialist position was vacant. Based upon the Authority's job description, some of the contract compliance specialist's duties included (1) monitoring contracts for use with various subcontractors and vendors and (2) providing interpretation of various statutes, regulations, and other State/Federal policies to ensure that the Authority complies with these rules. The absence of the contract compliance specialist may have had a significant impact on the Authority's functionality as related to its contract administration and oversight of NSP 2 contractors. When asked, the Authority stated that it had taken action to fill the vacancy.

²⁹ HUD handbook 7460.8 Revision 2.

The Authority Did Not Comply With Reporting Requirements

The Authority did not comply with its NSP 2 reporting requirements in the notice³⁰ as it did not provide its NSP 2 quarterly performance reports to HUD with accurate information. Specifically, the expended amounts reported within the DRGR system for the third quarter performance report as of September 30, 2010, were not consistent with and did not accurately reflect the Authority's general ledger expenditures as of September 30, 2010. The expended amount reflected in the third quarter performance report was \$344,479³¹. However, the Authority's internal general ledger reflected an expended amount of \$334,053 as of September 30, 2010.³² According to the Authority, the expended amount was manually input into the DRGR by the Authority's staff person responsible for preparing the report for submission in DRGR. Since the Authority input the information themselves, the expended amount reported in the DRGR should have been consistent with the Authority's internal general ledger.

The Authority Incurred Questioned Costs

A review of 21 expenditures, as of September 30, 2010, totaling \$325,529 determined that 16 had costs that were ineligible, unsupported, or partially unsupported, totaling \$178,148. Specifically, \$93,776 (29 percent) was ineligible because the Authority

1. Spent \$40,385³³ before obtaining a request for release of funds approval from HUD, which was unallowable.
2. Spent \$53,039³⁴ prior to obtaining a firm commitment letter from its for-profit partner, as required, making these costs ineligible. In addition, the for-profit partner lacked an adequate cost reasonableness assessment; and
3. Paid \$352³⁵ for amounts that exceeded the established contract amount, resulting in a contract overpayment.

\$84,372 (26 percent) was unsupported because the Authority

4. Paid \$84,239³⁶ to contractors without performing a cost or price analysis to justify the cost reasonableness of executed contracts and related expenditures.

³⁰ FR-5321-N-01, Appendix I Section O

³¹ This period covered July 1, 2010 through September 30, 2010.

³² This period covered from January 2010 through September 30, 2010. The January 2010 costs occurred before the Authority's February 17, 2010 award; however, these costs were considered pre-award costs and were allowable.

³³ See sample 18 in Appendix D.

³⁴ See samples 1, 3, 5, 11, and 15 in Appendix D.

³⁵ See sample 19 in Appendix D.

In addition, some of these expenditures were also unsupported because the expenditures did not have sufficient documentation in the file to support the payments (see appendix D for details); and

5. Paid \$133³⁷ for expenditures that lacked sufficient documentation in the file to support the costs.

The remaining expenditures, totaling \$147,381³⁸ were eligible and supported (see appendix D for details regarding the questioned expenditures). As of February 24, 2011³⁹, a data analysis from the DRGR determined that the Authority had spent an additional \$1,326,230⁴⁰ for NSP 2 expenditures. However, we did not review those additional expenditures, as they were outside the scope of our review.

Controls May Not Have Been Adequate To Ensure the Proper Expenditure of Funds

The Authority's controls and processes may not have been adequate to properly administer its expenditure activities. Specifically,

- The Authority did not always comply with its written finance policies and procedures. For example, it did not (1) always provide written approval for expenditures, and (2) some expenditures were processed by the Authority's staff accountant; however, the written finance policy stated that expenditures should be processed by the executive assistant.
- The written finance policies did not include procedures pertaining to (1) ensuring that vendor/contractor expenditures were completed in accordance with contract terms and (2) how the Authority processed its personnel costs (i.e., who requested or approved the payments). With respect to the personnel costs, the Authority lacked an adequate segregation of duties, as it allowed the same staff person who requested the payment to process the payment (cut the check). These two duties should be segregated.
- Although it had executed a contract to obtain an asset management system, the Authority continued to use QuickBooks and many manual processes to produce information required for reporting, exposing the Authority to human error related to its accounting transactions and reporting.

³⁶ See samples 2, 4, 6, 7, 10, 12, 16, 17, and 19 in Appendix D.

³⁷ See sample 8 in Appendix D.

³⁸ See the eligible column in Appendix D.

³⁹ This was the date of the completion of audit fieldwork.

⁴⁰ This amount is \$1,651,759 (spent as of February 24, 2011) minus \$325,529 (spent as of September 30, 2010).

- The Authority’s Finance Department’s organizational chart was not properly updated to reflect its reporting structure. Specifically, the organizational chart noted that staff accountants reported to the senior accountant. In contrast, the job descriptions stated that the staff accountants were only authorized to report to the finance director. In addition, the senior accountant’s job description did not indicate that the senior accountant had authority to supervise staff accountants.

When asked, the Authority explained that the job descriptions provided were incorrect and had been updated in October 2010 during the execution of staff performance appraisals. Although the Authority eventually corrected the discrepancy and inconsistencies regarding its organizational charts, the errors evidence that the Authority was not maintaining adequate documentation to accurately reflect its organizational structure.

Conclusion

The Authority had not administered its NSP 2 in accordance with Federal regulations. Specifically, it did not always (1) comply with NSP 2 regulations and/or its written policies and procedures under its NSP 2 ongoing activities, (2) comply with procurement regulations, (3) provide its NSP 2 quarterly performance reports to HUD with accurate information, or (4) ensure that its NSP 2 expenditures were eligible and supported. These conditions occurred because the Authority (1) did not have adequate controls and/or policies and procedures to effectively administer the NSP 2 funds, (2) did not follow its own policies and procedures, and (3) was not always aware of its responsibilities as a HUD grantee under NSP 2.

As a result, the Authority could not provide reasonable assurance that it had adequately fulfilled the requirements of its agreement with HUD and the Authority and one of its consortium members improperly procured eight contracts. In addition, the Authority expended \$178,148 in questioned costs. Further, given the nature of the deficiencies identified, at least \$8,101,539⁴¹ of the remaining funds is at risk of being misspent and, therefore, not serving NSP 2’s purpose, to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned.

Recommendations

We recommend that HUD’s Director of Community Planning and Development require the Authority to

- 1A. Establish policies and procedures regarding environmental reviews to include a timeline for receiving/issuing exemption certifications. In

⁴¹ See the Scope and Methodology section of this report for an explanation of this calculation.

addition, the Authority should be required to provide a certification to the HUD Office of Community Planning and Development that the Authority has established such policies and procedures to prevent the recurrence of environmental review and request for release of funds violations.

- 1B. Establish an internal audit function, within 60 days of the report issuance date, including hiring staff and developing written internal audit policies and procedures.
- 1C. Revise its monitoring policies and applicable monitoring checklists to ensure that it adequately assesses compliance with Federal requirements and performance goals during consortium member on site monitoring visits.
- 1D. Revise its appraisal policies to develop and implement procedures, such as a compliance checklist, for the review of appraisal reports to adequately ensure that (1) its policies and procedures are followed and (2) the terms of its agreements and applicable appraisal requirements are met.
- 1E. Obtain another contractor for its commercial appraisal services. Specifically, the Authority must (1) terminate its contract with Thorns Consulting, LLC (2) re-advertise the request for qualifications for commercial appraisal services to obtain a larger pool of candidates, and (3) ensure that it selects a responsible and knowledgeable contractor.
- 1F. Implement an internal system of controls, within 60 days of the report issuance date, to adequately track and update NSP 2 budgeted and expended costs to ensure that funds are accurately accounted for and tracked. This requirement includes an automated accounting system that can produce financial reports needed for the development of certain financial statements and audit purposes.
- 1G. Revise its cost allocation plan, within 60 days of the report issuance date, and submit the revised plan to HUD for review and approval. The revised cost allocation plan should include additional information/documentation, but is not limited to
 - A brief description of programs and funding sources, including amounts;
 - A list of expenses associated with costs for each program and funding source;
 - A clear identification of the method used to distribute the costs to each program and/or funding source;
 - A schedule showing the allocation of each program and funding source; and

- Documentation such as (1) an organization chart which is sufficiently detailed to show operations and (2) a certification that the plan was prepared in accordance with OMB Circular A-87, contains only allowable costs, and was prepared in a manner that treats similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.
- 1H. Revise its procurement policies to implement procedures to ensure that it complies with all relevant procurement rules and regulations. The revisions should include but not be limited to establishing policies and procedures to (1) monitor and track contract performance progress and payments; (2) add procedures regarding additional types of procurement other than those for professional services; (3) describe processes for other procurement methods (i.e. sealed bids and noncompetitive); (4) verify contractor responsibility; and (5) initiate, execute, and approve change orders or contract modifications.
- 1I. Require all of its consortium members to comply with the appropriate procurement regulations (i.e. 24 CFR Part 84), re-assess the adequacy of the consortium members' procurement policies, and maintain sufficient procurement records or evidence to support that it reviewed the procurement documents/practices of its consortium members.
- 1J. Establish and implement procedures to ensure that NSP 2 quarterly performance reports are reported to HUD with accurate information.
- 1K. Repay to the U.S. Treasury using non-Federal funds the \$40,385 in unallowable costs paid to purchase properties before the approval of the request for release of funds.
- 1L. Repay to the U.S. Treasury using non-Federal funds the \$53,039 in unallowable costs disbursed to the for-profit consortium partner before the firm commitment date.
- 1M. Repay to the U.S. Treasury using non-Federal funds \$352 in ineligible costs paid to the Trumpet Group, LLC.
- 1N. Support the cost reasonableness of the Environ International Corporation contract or repay any amounts it cannot support to the U.S Treasury from non-Federal funds the \$36,134 disbursed during the scope of our review. In addition,
- Should the Authority support the cost reasonableness of this contract, it should then support or repay any amounts it cannot support to the U.S. Treasury from non-Federal funds \$344 in unsupported costs identified due to the lack of invoice documentation.

- 1O. Support the cost reasonableness of the Trumpet Group, LLC contract or repay any amounts it cannot support to the U.S. Treasury from non-Federal funds the \$39,648 disbursed during the scope of our review. In addition,
- Should the Authority support the cost reasonableness of this contract, it should then support or repay any amounts it cannot support to the U.S. Treasury from non-Federal funds \$35,997 in unsupported costs identified due to lack of invoice documentation.
- 1P. Support the cost reasonableness of the Terry Phillis consultant contract or repay any amounts that it cannot support to the U.S. Treasury from non-Federal funds the \$4,957 disbursed during the scope of our review.
- 1Q. Support the cost reasonableness of the Thorns Consulting, LLC contract or repay any amounts it cannot support to the U.S. Treasury from non-Federal funds the \$3,500 disbursed for the appraisal report provided during the scope of our review.
- 1R. Support the cost reasonableness of the Henry Consulting LLC, Community Central, Krebs Lemieux Lasalle LLC, and Bayou Title contracts or terminate those contracts and conduct new procurements for the services in compliance with HUD procurement regulations and the Authority's own procurement policies.
- 1S. Support or repay any amounts that it cannot support to the U.S. Treasury using non-Federal funds the \$133 in unsupported costs paid for the Authority's personnel costs.
- 1T. Revise its written finance policies. In addition, the Authority should be required to implement financial controls to ensure proper routing and approval of expenditures, that personnel expenditure procedures are established, and that adequate segregation of duties exists.

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

- 1U. Provide the Authority with training related to NSP 2 and other requirements to ensure compliance with the program. This requirement includes but is not limited to training regarding environmental review and appraisal requirements, procurement regulations, and monitoring procedures.
- 1V. Review the Authority's listing of potential properties to be assisted with NSP 2 funds and ensure that such properties are eligible under NSP 2 and that the property information is accurate.

- 1W. Closely monitor the Authority's expenditure and procurement activities. The monitoring should include, but is not limited to obtaining the Authority's expenditure and procurement/contract files under the NSP 2 grant on a quarterly basis and reviewing the applicable expenditures and procurements for support, eligibility, and program compliance for the duration of the Authority's NSP 2 grant or until HUD is satisfied that the expenditures and procurements meet Federal requirements.
- 1X. Review the Authority's additional \$1,326,230 of expenditures, incurred as of February 24, 2011, to ensure that those expenditures are eligible and supported. In addition, the Director should ensure that the Authority corrects all of the deficiencies noted throughout the report within 30 days of the report issuance date. Further, the Director should conduct a risk analysis of the Authority within 60 days of the report issuance date, regarding its ability to properly administer and expend the NSP 2 grant. Based upon the risk assessment, the Director should provide the Authority with the appropriate ongoing monitoring and technical assistance throughout the duration of the grant to ensure (1) compliance with the NSP 2 and other requirements and (2) that the remaining funding is expended for eligible and supported costs. These actions will ensure that at least \$8,101,539⁴² in program funds can be put to better use and used for eligible activities.

⁴² See the Scope and Methodology section of this report for an explanation of this calculation.

SCOPE AND METHODOLOGY

We performed our onsite work at the Authority's office and the HUD Office of Inspector General (OIG) office in New Orleans, LA, between October 2010 and February 2011.

To accomplish our audit objective, we

- Obtained and reviewed relevant laws, regulations, program guidance, and grant and consortium funding agreements relevant to the Recovery Act.
- Interviewed HUD and Authority staff.
- Analyzed and reviewed the Authority's audited financial statements.
- Reviewed the Authority's compliance with NSP 2 requirements under its ongoing activities with respect to monitoring and grant administration.
- Analyzed and reviewed the Authority's NSP 2 budget, cost allocation plan, and contract log.
- Analyzed the Authority's consortium members' files.
- Analyzed the Authority's compliance with NSP 2 reporting requirements.
- Analyzed and reviewed 100 percent of the Authority's Recovery Act procurement files for executed contracts.
- Analyzed and reviewed 100 percent of the Authority's Recovery Act expenditures.
- Conducted site visits and public record searches on potential NSP 2 assisted properties to assess whether properties met NSP 2 eligibility criteria.
- Conducted an appraisal review to assess compliance with Uniform Act, USPAP, and NSP 2 requirements.
- Reviewed the Authority's written monitoring, appraisal, procurement, and finance policies.
- Reviewed consortium members' procurement policies.

We completed a 100 percent review of eight contracts, six of which were procured by the Authority and two of which were procured by the Authority's consortium member, totaling \$618,506. Through file reviews, we determined that the electronic contract log data was generally not reliable. We also reviewed 100 percent of 21 approved NSP 2 drawdown expenditures totaling \$325,529. Through file reviews, we determined that the drawdown expenditure data was generally reliable.

For the NSP 2 property reviews, using a 90 percent confidence level and 10 percent precision error, we randomly selected a statistical attribute sample of 63 properties from the Authority's listing of potential properties to be assisted with NSP 2 funding. We used the NSP 2 definition of foreclosed and abandoned to determine whether the properties were eligible to be assisted with NSP 2 funds. Through site visits and other reviews, we determined that the data was generally reliable.

Our sampling results determined that the Authority incurred \$93,776 (29 percent)⁴³ of ineligible costs. Based on our sample review results, using 29 percent of the \$28,130, 344 in remaining program funds, as of February 24, 2011, we believe that the amount of questioned costs will be at

⁴³ In an effort to be conservative, we multiplied the remaining \$28.1 million by the actual ineligible cost percentage, which is 28.8 percent.

least \$8,101,539 over the remainder of the program. This amount was determined by multiplying 29 percent of identified questioned costs times \$28,130,344 of the remaining programs funds. We calculated the amount over the remainder of the NSP 2 since the Authority must expend all of its funds within a limited timeframe⁴⁴, for this one time program, and therefore more reasonable to project over the remaining time period for the program.

Our audit scope generally covered February 1, 2009, through September 30, 2010. We expanded or limited the scope as needed to accomplish our objective. 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.

⁴⁴ All funds must be spent by February 17, 2013.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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:

- Policies and procedures that were implemented to reasonably ensure that the Authority's grant administration, environmental reviews, appraisal reviews, monitoring, financial management, and procurement activities were conducted in accordance with NSP 2 requirements and other applicable Federal regulations.
- Policies and procedures that were implemented to reasonably ensure that obligations and expenditures of NSP 2 funds were accurately reported to HUD.
- Policies and procedures that were implemented to reasonably ensure that NSP 2 funds were safeguarded from unauthorized use.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

The Authority did not always

- Comply with NSP 2 regulations and/or its written policies and procedures under its NSP 2 ongoing activities,
- Comply with procurement regulations when obligating NSP 2 funds,
- Provide its NSP 2 quarterly performance reports to HUD with accurate information; and
- Ensure that its NSP 2 expenditures were eligible and supported for 16 of 21 NSP 2 expenditures. (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1K	\$40,385		
1L	\$53,039		
1M	\$352		
1N		\$36,134	
1O		\$39,648	
1P		\$4,957	
1Q		\$3,500	
1S		\$133	
1X			\$8,101,539
Totals	\$93,776	\$84,372	\$8,101,539

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD and the Authority implement our recommendations, it will cease to incur program costs for ineligible expenditures and, instead, will expend those funds in accordance with HUD's and the Recovery Act requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects the remaining program time of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

New Orleans Redevelopment Authority

March 23, 2010

VIA ELECTRONIC MAIL [tcarney@hudoig.gov]

Ms. Tracey Carney
Assistant Regional Inspector General for Audit
500 Poydras Street, Room 1117
Hale Boggs Federal Building
New Orleans, Louisiana 70130

Re: NORA Response to HUD OIG Draft Discussion Audit Report

Dear Ms. Carney:

This letter transmits NORA's initial response to the HUD Inspector General's March 15, 2011, draft audit report (the "Response").

NORA has reviewed the Office of Inspector General's (OIG's) findings and recommendations with careful focus and concern. Although NORA does not agree with all of the OIG's findings – as detailed in this letter – the OIG has raised several concerns that the Authority found insightful and NORA is already taking steps to correct. We also appreciate the OIG's willingness to make revisions and corrections to the Draft Discussion Report despite the time pressure your office is under to issue the final report.

Out of respect to your limited time, we have tried to only provide additional materials and documents for those items that we would find absolutely critical to be revised/removed prior to issuance of the Final Discussion Report. We also believe these revisions have the strongest basis for correction, avoid inaccurately portraying the amount of funds at risk, and ensure the report provides the most accurate guidance to HUD and the Authority. A summary of the key revisions are listed below:

Comment 5

- To treat \$40,385 in costs associated with the purchase of tax sale interests as eligible rather than ineligible on the basis of Louisiana Statutory law declaring these not to be acquisitions and therefore exempt/excluded from environmental review under 24 C.F.R part 58.34 and 58.35

Comment 9

- To treat the \$53,039 in costs associated with Green Coast Enterprises as unsupported rather than ineligible in light of the multiple signed contracts that would satisfy the definition of a firm commitment found in original NOFA

Comment 21

- To treat the \$259 in costs associated with Terry Phyllis as eligible rather than unsupported on the basis of an erroneous reading by OIG of a table provided as supplemental documentation.

Comment 22

Comment 20

Comment 15

- To acknowledge that NORA has provided adequate supporting documentation for the \$1,131 charges by Authority and to treat these as eligible rather than unsupported.
- To remove the finding regarding the Authority not complying with reporting requirements since the Authority submitted the report within 5 days of receiving HUD approval of Action Plan and could not submit the QPR until such approval was provided
- To remove the finding regarding properties not being eligible for NSP2 since the evidence for conclusion (a list of properties upon which due diligence would be conducted) does not provide an adequate basis.

These changes would also be the basis to adjust certain conclusions and recommendations in the report, specifically:

- The total amount of ineligible costs should be reduced to \$352 (.1% of funds spent) as opposed to \$94,305 (29% of funds spent). We would ask that all references to the \$8,129,699 in potentially questionable costs, which was determined by extrapolating from 29%, be removed entirely or revised to \$30,418 (.1% of remaining funds).
- The total amount of unsupported, ineligible or questioned items should be reduced to \$141,825 as opposed to \$183,341. References to 17 out of 21 contracts being unsupported or ineligible should be changed to 14 out of 21 and acknowledge that NORA has agreed to provide supporting documentation for all of those 14.
- Recommendations 1J, 1K, 1L, 1M, 1N, 1O, 1P, 1Q, 1R, 1S, 1V, and 1X should be removed or revised, as required.
- Certain parts of conclusion and introduction that reference items above should be changed to reflect the adjustments above.

NORA looks forward to working with HUD to address the findings and recommendations presented in the draft audit report.

Very truly yours,

Joyce S. Wilkerson
Executive Director

NORA's RESPONSE TO DRAFT AUDIT REPORT

Responses below are addressed in the same order, when possible, as found in the OIG's report. Some findings and recommendations overlap in which case NORA tried to reply thoroughly in one section of this Response.

OIG Result 1: *Ongoing Activities Did Not Always Comply with Requirements.*

(1) The Authority Proceeded with Activities without proper HUD approval:

NORA rebuts and requests the OIG remove this portion of finding.

Comment 1

NORA's purchase of "tax sale interests" does not constitute the acquisition of properties.

Louisiana State Law is clear that "[n]o tax sale shall transfer or terminate the property interest" until after the redemption and notification periods (18 months for blighted properties but as long as 3 years for non-blighted) have expired.¹ The law is also clear that tax sale lien purchasers ("TSLP") do not have clear title to the property and typically cannot enter the premises. HUD OIG has correctly pointed out that generic TSLPs are partially responsible for the payment of future taxes, but the ultimate liability still passes to original owner and NORA's quasi-government status exempts it from this burden.² Furthermore, the responsibility for taxes is only one possible or potential indicator of ownership, and the clear statutory language to the contrary and the inability of TSLPs to enter premises argue strongly against treating the purchase of tax sale interests as the acquisition of properties.

Comment 2

The purchase of tax sale interests is an exempt/excluded activity and does not require a prior "Request for Release of Funds." For activities either exempted under 24 C.F.R. 58.34 (a) or categorically excluded under 24 C.F.R. 58.35 (b) the "Responsible Entity does not have to publish a NOI/RROF or execute a certification and the recipient does not have to submit a RROF to HUD." Under 24 C.F.R. 58.34 (a), both the "development of plans and strategies,"³ and the "testing of properties for hazard or defects"⁴ are considered exempt. NORA's involvement at the recent tax sale is part of its development of a broader land banking plan and strategy as well as a key

¹ See R.S. 47:2121 (b) and (c) appended as Attachment "A".

² See Memorandum from Christopher Gobert and Victoria Hines (NORA legal counsel) to Joyce Wilkerson (Feb. 24, 2011), appended as Attachment "B", regarding liability for taxes on liens acquired at tax sale. Please note further that if a generic tax sale purchaser ("TSLP") pays future taxes, those amounts are added to the amount the original owner must redeem. If a TSLP does not pay taxes, typically a property would be placed for a second tax sale. However, the municipality can exempt properties from a tax sale and historically the City of New Orleans has exempted critical redevelopment targets and is expected to do so for any land bank targets. Moreover, even if the property were to be placed at a second tax sale, the original TSP can redeem a subsequent TSP and can make this decision at the end of redemption period. As such, the burden of paying future taxes is limited and would not require the Authority to expend additional funds unless it wanted to do so.

³ 24 C.F.R. 58.34(a)(1) and exemption certificate

⁴ 24 C.F.R. 58.34(a)(5) and exemption certificate

Comment 3

step in preventing and eliminating title defects. Support for this view can be found in a recent report by the Center for Community Progress (“CCP,” formerly known as National Vacant Properties Campaign and one of HUD’s designated technical assistance providers for land banking under NSP2) as well as NORA’s original memorandum on the subject.⁵ CCP’s report describes all of the numerous flaws of conventional tax sales and their role in exacerbating blight and impeding land banking. To alleviate these dangers, CCP states “it is recommended that NORA participate in all tax sales and bid on the properties.”⁶ CCP also re-iterates the importance of NORA taking this role as part of a comprehensive land banking strategy and is currently working with City of New Orleans and NORA to help refine that strategy.⁷

Comments 1, 2

Since land banking is a newly designated eligible activity, and therefore historical guidance on classifying activities is limited, an alternative view of TSLP would be to see it as analogous to predevelopment costs leading to the eventual purchase and development of housing. Under 24 C.F.R 58.35 (b) (6) “pre-development costs including legal, consulting, developer and other costs related to obtaining site options” are categorically excluded from environmental review and also do not require a RROF.

One area in which NORA agrees it can and should improve, particularly since land banking is a newly designated activity, is to make sure its files, including ERR, contain more extensive documentation on process and determinations. It also should continue to incorporate greater detail on recommendations made by entities like CCP and will include those in program files going forward.

Comment 4

The aggressive NSP2 timeline, contractual safeguard, and HUD guidance made it appropriate to add the State as a partner for environmental review prior to final written approval of an amendment request. NORA’s amendment request to add the State of Louisiana as “Responsible Entity” to provide environmental reviews was done at HUD’s request in an effort to alleviate potential back log on environmental reviews at the Federal level.⁸ NORA requested this amendment on March 25 but only received written approval on August 5, 2010. During this period, NORA was in frequent contact with HUD and was provided assurances that the amendment would be approved and encouraged to operate on parallel paths. While NORA executed its consortium funding agreement with the State prior to August 5th, the agreement was contingent on securing final HUD approval.⁹ Furthermore, no funds were transferred under this contract prior to August 5th formal approval.

If NORA had waited until August to begin coordination with the State, the entire program would have been delayed for over 4 months, jeopardizing NORA’s ability to meet overall spending

⁵ See CCP Report appended as Attachment “C” and NORA policy memo, appended at Attachment “D”, Please note that CCP was formerly known as the National Vacant Properties Campaign and is sometimes still referred to as such.

⁶ See pages 6 and 7 of CCP Report.

⁷ The City of New Orleans is expected to finalize a technical assistance contract with CCP shortly.

⁸ See emails appended as Attachment “E”.

⁹ See highlighted language in Consortium Funding Agreement, appended as Attachment “F”.

requirements under the grant. This is particularly important in New Orleans, where many properties are historic and have substantially extended environmental reviews. Given the HUD guidance, contractual safeguards and the very aggressive timeline to spend NSP2 funds, NORA staff believed that executing the agreement with the State and beginning the environmental review process prior to final written approval was the more prudent course.

Request to HUD OIG:

Comment 5

NORA respectfully requests that based on the materials provided the OIG take the following action:

- Remove the portion of its Draft Discussion Report under the subsection entitled “The Authority Proceeded With Activities Without Proper HUD Approval,” and all comments related to that finding.
- Treat the cost associated with the purchase of tax sale interests as eligible costs in Appendix D and adjust all findings based on having previously treated them as ineligible.
- We also acknowledge that NORA should work with HUD to ensure that activities undertaken as part of land banking be discussed in greater detail with HUD and that there should be more extensive documentation

(2) The Authority Did Not Adequately Fulfill NSP2 Requirements Before Authorizing Payment to Its For-Profit Consortium Partner

NORA Rebutts and request the OIG to remove this portion of its finding.

Comment 6

NORA’s contracts with GCE clearly meet the requirements of demonstrating a “firm commitment.” Under the NSP2 NOFA, for-profit partners were required to submit a “firm commitment” as part of the application process. Green Coast Enterprises (“GCE”), and their role as a green building technical assistance provider, were mentioned by name in the Consortium Application¹⁰ but at the time of application NORA incorrectly thought that the term “for-profit partner” only applied to developers and, therefore, did not include further evidence of a firm commitment from GCE.

The most straight forward definition of “firm commitment” comes on page 27 of the NOFA when discussing commitments of leveraged resources. It states that a “[a] firm commitment means a written agreement under which you or another entity agree to perform services or provide resources for an activity specified in your application.” Subsequent to receiving the award, NORA and GCE entered into multiple written agreements that clearly outline the services to be performed and activities they support. These contracts meet the definition of a firm commitment and the first of these agreements was entered into on April 11, 2010 -- well in

¹⁰ See highlighted section of NORA NSP2 application, appended as Attachment “G”.

advance of any disbursements of funds to GCE.

Comment 6

At HUD OIG's request, NORA also asked GCE to prepare a letter attesting to the fact that they were committed to consortium at time of application and that this commitment was re-iterated in various contracts.

NORA sought and received assistance from HUD regarding characterization of GCE.

Comment 7

After receiving its award and prior to Audit, NORA sought additional guidance from HUD on how to appropriately treat GCE. NORA initially executed a consortium funding agreement, but based on materials received at HUD trainings changed that into a "for-profit partner agreement." It confirmed this course of action during a HUD webinar hosted on August 13, 2010, and a copy of the transcript has been provided. While NORA's initial characterization was incorrect, it sought advice from HUD and responded promptly. Given the short period in which to complete initial application and the relative novelty of certain terms, this initial mistake is understandable and it would be inappropriate to hold these costs ineligible given the corrective actions NORA undertook.

The Cost Analysis NORA performed is reasonable and additional documentation will be submitted.

Comment 8

Prior quotations for general owner's representative services are a reasonable basis for specific owner's representative services that are covered within the scope of those general owner's representative services. This is underscored here where the cost of the specific, specialized, owner's representative services, provided by GCE, is less than the cost for general owner's representative services, described in previous proposals submitted to NORA.

Request to HUD OIG Regarding:

Comment 9

NORA respectfully requests that based on the materials provided the OIG take the following action:

- Remove the portion of its Draft Discussion Report under the subsection entitled "The Authority did not satisfy NSP2 requirements prior to authorizing payment to its for-profit consortium partner" that pertains to "firm commitments."
- Treat the \$53,039 in costs as unsupported rather than ineligible and place any findings regarding cost analysis of these items in the section of the report dealing with questioned costs.
- Adjust all secondary conclusions drawn based on the amount of ineligible costs.

OIG Result 2: *Monitoring Policies Were Not Followed and Monitoring Practices Were Not Adequate.*

(1) *The Authority Did Not Comply With Its Written Monitoring Policies*

NORA responds, in part, to Result 2(1) and rebuts, in part, this Result.

Comment 10

a. *NORA responds to Result 2(1), in part, by noting that it has already addressed the OIG's concerns regarding timely monitoring of partner progress .*

The OIG correctly notes that at the time of its review, NORA had not implemented an adequate way to track the partners' progress; however, it is important to supply background to the OIG's observation. In November and December of 2010, NORA was still implementing the first phase of its Asset Tracking reporting system with our Community Central contractor. The web-based system went live on December 10, 2010 at a webinar training provided by the contractor for partners. Despite this kick-off date, all information related to progress from the previous eight months still needed to be manually entered or uploaded into the system by NORA staff and individually by the partners. Since January, NORA has been working with our contractor to build customized operational reports that will be used to immediately access progress tracking. Currently, the system is approximately 80% populated with real time progress information.

Follow-up steps to ensure timely progress tracking include providing further instructions to the partners about accurate and timely information uploads is scheduled for March 24, 2011. In addition, starting on April 1, 2011, all partners will be required to submit a monthly progress report to NORA that is generated by the asset tracker. By submitting a report generated by the database, the partners are incentivized to check the accuracy of the information in the system and to consistently see their current performance as compared to their obligations. New agreements with Developers, that will be executed no later than April 30, 2011, will include more detailed performance compliance language that allow NORA to initiate remedies more quickly and at clear milestones. NORA will also use the technical assistance provided by Enterprise, a HUD-approved provider, in developing additional monitoring policies and procedures for the NSP2 Consortium.

Comment 11

b. *NORA rebuts Result 2(1), in part, noting that a particular consortium partner's delay in submitting a part of its strategic plan constituted an excusable deferral due to special marketplace challenges faced by that partner.*

The OIG referred to a QPR description that was summarized to determine the complete status of a partner's Strategic Plans. The partner in question did in fact complete a portion of its Strategic Plan that was relevant to the projects in which it was currently engaged. This partner is also highly specialized, working in extremely tough markets to try and obtain very specific and feasible multi-family projects for the below 50% AMI population. NORA agreed to allow the partner more time to submit other portions of the Strategic Plan while it negotiated plans with other partners and agencies. Lastly, the QPR was denied by HUD and is being edited. This

statement will be removed so as not to cause confusion again.

Comment 11

NORA respectfully requests that the OIG remove part "b" of this finding, concerning the consortium partner's delay in submitting part of its strategic plan, which we believe is unsupported.

(2) The Authority Did Not Adequately Monitor Its Consortium Members.

NORA responds, in part, to Result 2(2) and rebuts, in part, this Result.

a. NORA responds that it will work to revise the procurement policy template; however, NORA rebuts the effect of its consortium partners' procurement policies was to adopt the strongest possible procurement policies.

NORA agrees with OIG that the procurement policies template, and the consortium partners' subsequent adoption of that template, lacked the two administrative functions required in procurement policies for non-profits. NORA will revise its template and have partners revise their procurement policies accordingly. NORA notes further that a recent amendment converting eight consortium partners to developers will change procurement requirements for all of those partners and will eliminate those requirements. Follow-up will include ensuring that all remaining Consortium Member non-profits add these functions to their policies.

Comment 12

The OIG findings describe a consortium member whose procurement policy referenced Part 85 rather than Part 84. NORA notes that it flagged this issue with the Consortium Member on April 29, 2010, while reviewing that member's Strategic Plan, which includes labor and procurement requirement plans. In response, the partner pointed to the CDBG administrative handbook, "Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems," which states that "the Standards set forth in 24 CFR Part 85 for procurement may be viewed as a "safe harbor" satisfying Federal requirements.

Comment 14

b. NORA responds that it intends to follow a plan ensuring thorough review of partners' progress. NORA began scheduling its first site visit to partners' places of business, six months after the Consortium Agreements were executed, with the expressed intention to monitor for ensuring that files existed and were accessible. As capacity at NORA and the partners increases and expectations are more clearly defined, a more thorough review was always planned before the end of 2011.

Comment 13

c. NORA rebuts this aspect of Result 2(2). As indicated by the signed agreement with HUD, NORA accepts overall responsibility for the grant. In addition, NORA is explicitly referred to as the "Lead Grantee" in various documents and as such has provided copious amounts of information and technical assistance to the Consortium and has mandated monthly meetings to indicate our acceptance of this responsibility.

NORA respectfully requests that the OIG remove this portion of the finding from its report.

Comment 14

OIG Result 3: The Authority Did Not Follow Its Own Appraisal Policies NORA responds that it is taking steps to verify the OIG's concerns regarding Thorns Consulting, Inc.'s appraisal and is committed to continuing to improve its appraisal policies and procedures.

Appraisals figure critically in NORA's decision to acquire or dispose of real property. In the last year, the Authority has worked closely with HUD's Regional Relocation Specialist to review and improve its appraisal policies and procedures and methods for procuring qualified appraisers. NORA will continue this work. Although the OIG's draft report does not supply enough information for NORA staff to confirm the OIG's finding regarding the 2101 Louisiana Avenue appraisal, staff is currently analyzing the issues raised by the OIG and is determined to use the OIG's comments to further inform its thinking regarding best practices for obtaining real estate appraisals.

NORA has arranged for a review appraisal to be completed by an MAI-designated appraiser who is a member of NORA's commercial appraisal pool. This review will be furnished to NORA on or before April 1, 2011. Staff welcomes this review as an opportunity to acquire detailed information regarding the potential problems with the Thorns appraisal. NORA will act immediately to use this information to: (a) correct any defect with the Thorns appraisal; (b) to evaluate any future appraisals completed by members of its commercial appraisal pool; and (c) in conformance with OIG Recommendation 1E, determine whether the appraisal failed to comply with professional and legal standards, thus counseling the need to terminate NORA's contract with Thorns for commercial appraisal services and, therefore, removing Thorns Consulting from NORA's commercial appraisers pool.

NORA further responds that it acknowledges the importance of revising its appraisal policies and procedures to provide more detailed guidance regarding staff review and outside review of appraisals. As part of the Authority's due diligence, an appraisal accompanies NORA's acquisition of practically every property. The OIG's concern is that NORA cannot fully document its internal staff review and did not send the Thorns appraisal out for independent review as required by Section II.5.e of NORA's Policies and Procedures for Appraisal of Real Estate. NORA did not obtain a review of the Thorns appraisal and, thus, accepts the OIG's finding on this issue. It bears noting, however, that 2101 Louisiana was being acquired from HUD for \$10.00. NORA obtained the initial appraisal in conformance with applicable requirements relating to property acquisition. A review appraisal requires NORA to incur an additional \$1750 in appraisal review costs.

NORA also accepts the OIG's finding that staff must provide documentation substantiating the internal review required by NORA's policies and procedures. NORA will follow the OIG's Recommendation 1D that NORA revise its policies and procedures relating to review of appraisals and implement use of an internal appraisal review checklist to bolster its existing appraisal policies and procedures and, further, to ensure conformity with its appraisal policies and procedures.

OIG Result 4: *Properties May Not Be Eligible Under NSP2*

NORA rebuts this Result.

Comment 15

The OIG requested a list of “potential” properties that various partners were considering for NSP2 purposes. The list provided included over 800 potential properties with varying status. In addition, this report was one of the first utilized by the new asset tracking system. Regardless of the asset tracker’s functionality at the time of the OIG’s review, all potential NSP2 properties go through extensive due diligence before any funds are expended; thus, any list of “potential” properties will not result in only eligible properties. Out of a sample of 63 properties, the OIG’s search found only two addresses that have questionable eligibility. NORA is confident that our existing systems would have eliminated these properties before further actions were taken. Currently, NORA requests that any potential property be submitted into the asset tracker with at minimum 3 qualifying pieces of information, the address, the census tract, the responsible organization, the proposed property status, and the initial assessment of demolition needs. A property is not officially eligible for NSP2 until a development partner submits and receives an approved “Notice to Proceed” from NORA. The time spent between initially entering the information in the asset tracker and submitting a request for “Notice to Proceed” is spent by the partner performing due diligence about the properties formal status and eligibility in the program. As of March 23, 2011 there are 8 properties that have been determined “unfeasible”¹¹ and NORA anticipates that as more due diligence is completed, such as environmental reviews, site inspections, and cost estimates, that many other properties will not be eligible for NSP2 development. NORA adds further that no funds have been disbursed on any ineligible property.

NORA respectfully requests that the OIG remove this finding from their report.

OIG Result 5: *Controls May Not Have Been Adequate for Ongoing Activities*

Comment 16

(1) *NORA responds that it pursuing a plan of action to enhance controls in cooperation with recently engaged HUD technical assistance provider, Enterprise Community Partners.*

NORA recognizes the opportunity for improved communication between internal departments. With help from our HUD assigned TA, Enterprise Community Partners, NORA has initiated a systematic plan to bridge these gaps to ensure better tracking of on-going activities and budget changes while managing multiple grants. Preliminary solutions identified through TA include tools to implement and maintain a contract log that identifies funding allocations where appropriate, changes to contract format for services that are procured for multiple funding sources and written documentation of periodic reconciliations performed between DRGR activities and associated accounting records.

Comment 16

(2) *NORA responds that it is already receiving feedback from Enterprise regarding next steps for preparing the cost allocation plan for HUD’s approval.*

¹¹ See Property Status List appended as Attachment “H.”

NORA has a final cost allocation plan and believes that the entire packet with attachments may have been inadvertently omitted from the submittal to OIG, which included the items listed in the OIG's assessment. On advice from NORA's TA, staff has contacted the appropriate HUD office to submit the Cost Allocation Plan for approval and work through any issues that may still arise.

Further, NORA has prepared a Cost Allocation Plan and Indirect Cost Rate Proposal for 2010. Documentation of the method and schedules used to allocate costs may have been excluded from the information submitted to document the costs charged to the NSP2 program as listed in Item 14 of Appendix D. NORA is submitting the additional information for review by the OIG.

As requested by the OIG, NORA staff will work with the appointed TA provider to submit the Cost Allocation Plan and Proposed Indirect Cost Rate Proposal for approval by HUD.

OIG Result 6: *The Authority Violated Procurement Regulations*

NORA responds that it agrees, in part, with the OIG assessment and related recommendations at Parts 1H and 1I of the OIG report.

Comment 17

NORA drafted new language in the procurement policies on November 2010 to explicitly disallow using cost-plus a percentage of cost in any NORA contracts. The referenced contract with Environ was flagged in November by internal staff and efforts to correct the oversight began immediately prior to receipt of any comments from the OIG. A new contract was executed with Environ effective January 2011 that includes the correction.

As discussed during the Exit interview, NORA will work with HUD staff during the audit follow-up phase by providing additional information about items the OIG found insufficient for some contracts including: Environs, Trumpet Group, Phyllis Consulting, and Community Central.

OIG Result 7: *Controls May Not Be Adequate for Procurement Activities*

Comment 18

1. *NORA rebuts and responds to this portion of the Result.* Three contracts were identified as having inconsistencies between the contract log and the actual contract amount. NORA will implement a better tracking system that reflects contract amendments and consistently identifies contracts that are funded by more than one grant.

Comment 19

2. *NORA rebuts the following aspect of this Result.* NORA's contract log reflects a contract procured using the "sole source" method, which is an allowable procurement method under NSP2. The procurement and supporting documentation meet the standards required for a "sole source." While we understand the Consortium Member referred to the use of micropurchase guidance, the steps taken throughout the procurement by the Consortium Member satisfied

NSP2 requirements for sole source, never mind the inaccurate label given. It is not a violation to look to other sources of guidance so long as the ultimate action comports with the required standard, which it did in this case.

Comment 18 3. *NORA responds to this portion of the Result noting that a corrective action plan has been identified.* NORA will be updating its procurement policy to address this issue.

Comment 18 4. *NORA responds to this part of the Result noting that corrective action has been taken.* A contract compliance specialist is an important piece of the team that will help address a majority of the issues flagged. NORA hired a new contract compliance specialist who started on March 17, 2011.

OIG Result 8: *The Authority Did Not Comply With Reporting Requirements*

NORA rebuts this Result.

Comment 20 As with all NSP2 Grantees, NORA did not have the ability to submit a QPR until the Action Plan was approved by the HUD CPD representative. Because NORA was awarded less funding than requested in its application, NORA was required to adjust its Action Plan. After much consultation, the revised Action Plan was submitted in early May, and after more instruction from HUD, a revised Plan was submitted on June 25 and subsequently approved on July 1. Five days later, the QPR was submitted. Appended to this Response as Attachment "I" is a training slide from HUD supporting this statement. As discussed during the Exit interview, NORA will work with HUD staff during the audit follow-up phase by providing documentation to evidence NORA's attention and understanding of reporting and related issues.

NORA respectfully requests that the OIG remove this finding and the associated recommendations at 1J.

OIG Result 9: *The Authority incurred questioned costs*

NORA rebuts this Result as to items 1, 2, and 5 and responds as to items 3, 4, and 6.

Comments 5, 9 For the reasons stated in NORA's response to Results 1 and 6, NORA respectfully rebuts items 1, 2 and 5 and requests that these be removed entirely from the final report. Having removed these items, NORA further requests that the overall conclusion regarding funds at risk be revised or eliminated given the *de minimus* nature of the remaining questioned costs.

Comment 21 For item 3, NORA responds and explains specifically that, through a close review of the consultant's contract, costs associated with travel (mileage) were appropriately billed to NORA and should be allowable. The OIG report indicates that the mileage is billed incorrectly according to the terms of the consultant's contract and therefore disallowed. However, Section 5 of the consultant's contract

specifically indicates that NORA will cover costs of "automobile travel billed at the current nationally published rate." Costs were correctly billed at \$522 for 1,044 miles traveled, and should not have been billed at ½ of the miles traveled for a cost of \$261, as the OIG report suggests. The consultant's travel time costs were limited to ½ of the associated hours by the contract. The consultant correctly billed ½ of the hours spent traveling at the contracted rate. Each type of cost associated with the services was delineated in the invoice based upon the terms of the consultant's contract.

Comment 22

With respect to item 4, NORA accepts the OIG's recommendation.

For item 6, supporting documentation is assembled for each request before a draw is requested in the DRGR system. The OIG report states that supporting documentation reviewed is insufficient to support costs. There are many items that comprise the balance of \$5,326. For each element of cost identified in Appendix D, items 8 and 14, NORA is submitting documentation that supports costs charged to support the NSP2 grant. Please find this documentation appended as composite Attachment "J". NORA requests that the costs for Appendix D, items 6, 8 and 14 be allowed and the associated calculations for funds at risk be adjusted accordingly.

Comment 23

OIG Result 10: *Controls May Not Have Been Adequate To Ensure the Proper Expenditure of Funds*

NORA rebuts and responds to this Result.

NORA maintains written policies and procedures for the bulleted items listed in this section. However, NORA acknowledges that documentation related to its adherence to these procedures could be bolstered. NORA understands that the OIG faced a significant challenge in knowing the complete range of documents for which it could seek review. Additional written policies that the OIG likely did not know to ask for, such as an invoice review checklist that is completed internally for every invoice, can be furnished and NORA will work collaboratively during the Audit follow-up phase with HUD to ensure that the processes and systems are adequately improved and documented on a more regular basis.

Comment 24

OIG Audit Report Subject Line (Page One of Draft Audit Report): Request for Interlineation of "Always"

OIG's overview of its audit report is contained in page one's "What We Found" heading. The first sentence of this heading notes the OIG's finding that "[t]he Authority did not always use its NSP2 funds in accordance with Federal Regulations." NORA respectfully requests that, at a minimum, the word "Always" also be inserted in the audit report's "Subject" line to reflect fully the OIG's existing statement at the "What We Found" Heading. This change would result in the Subject line reading: The New Orleans Redevelopment Authority, LA, Had Not *Always* Administered Its Recovery Act Neighborhood Stabilization Program 2 in Accordance With Federal Regulations. (emphasis added.)

Page 14 of the Authority's response was blank.

NORA'S SPECIFIC RESPONSE TO DRAFT AUDIT REPORT'S RECOMMENDATIONS

- Comment 14** 1A. Agree to establish policies and procedures and to obtain HUD certification.
- 1B. Agree.
- 1C. Agree.
- 1D. Agree.
- 1E. See NORA Response to OIG Result 3.
- 1F. Agree.
- Comment 16** 1G. See NORA Response to OIG Result 5.
- Comment 17** 1H. Agree. See NORA Response to OIG Result 6.
- Comment 18, 19** 1I. Agree. See NORA Response to OIG Result 7.
- Comment 20** 1J. Agree. See NORA Response to OIG Result 8.
- Comment 5** 1K. Disagree. See NORA Rebuttal to OIG Result 1.
- Comment 5** 1L. Disagree. See NORA Rebuttal to OIG Result 1.
- Comment 21** 1M. Disagree as to T. Phyllis. Agree as to Trumpet.
- Comment 17** 1N. See NORA Response to OIG Result 6. Disagree as to any basis for repayment.
- Comment 17** 1O. See NORA Response to OIG Result 6. Disagree as to any basis for repayment.
- Comment 17** 1P. See NORA Response to OIG Result 6. Disagree as to any basis for repayment.
- Comment 17** 1Q. See NORA Response to OIG Result 6. Disagree as to any basis for repayment.
- Comment 17** 1R. See NORA Response to OIG Result 6. Disagree as to any basis for repayment.
- Comments 5, 9, 21, 22, 23** 1S. See NORA Response to OIG Result 9.
- 1T. NORA will implement recommendations regarding finance policies arising from recently engaged HUD technical assistance provider, Enterprise Community Partner

("Enterprise").

1U. Agree. HUD technical assistance already engaged through Enterprise.

Comment 15

1V. See NORA Response to OIG Result 4.

1W. Agree. NORA welcomes HUD input and is already receiving technical assistance from Enterprise.

1X. See discussion in NORA's cover letter to this Response. NORA agrees only to extent that it looks forward to reviewing audit report with HUD and receiving continued technical assistance from Enterprise.

OIG Evaluation of Auditee Comments

Comment 1 We disagree. In its response, the Authority asserted that the purchase of tax sale interest did not constitute an acquisition of property on the basis of Louisiana law, until after the redemption and notification periods have expired. However, the Louisiana law also stipulates that in a tax title sale⁴⁵ the tax sale purchaser (in this case the Authority) **acquires rights to the property.**⁴⁶ Meaning, the Authority can rehabilitate or build on the properties. Civicsource.com⁴⁷ also explains that in a tax title sale, a property is **sold to the purchaser** who purchases **ownership** interest in the property and that a tax title sale is the **sale of properties** that have delinquent taxes due and owing the political subdivision.

In addition, the Authority asserted that its quasi-government status exempts it from paying taxes on behalf of the 32 properties, that it purchased ownership interest, based on a memorandum prepared by its legal counsel. However, the memorandum specifically stated that the Authority is exempt from tax payments on properties for which it has **full ownership**, but the law is **not clear as to whether the Authority is exempt from paying taxes on properties for which there is not full ownership** (such as those of a tax sale). Since the Louisiana law explains that from the date of selling title to the tax sale purchaser, all taxes on the property after that date must be paid by the tax sale purchaser if and/or until the property is redeemed⁴⁸, and the memorandum explains that the law is not clear whether the Authority is exempt, we believe that the Authority may be subject to the property tax payments.

Further, the Authority frequently asserts in its response, that the ownership interest of the 32 properties was purchased for the purpose of establishing its land bank mechanism. However, the notice⁴⁹ states that the establishing of land banks involves the **purchase of properties**.

While we acknowledge that full ownership does not transfer to the Authority until the redemptive period expires; the Authority clearly purchased the 32 properties, which HUD defines as a choice limiting action, making the expenditures of those funds ineligible.

Comment 2 We disagree. The Authority asserted that the purchase of tax sale interests is an exempt/excluded activity and does not require a prior request for release of funds and could either fall under both 24 C.F.R 58.34 (a) or 24 C.F.R. 58.35 (b).

With respect to 24 CFR 58.34(a), which was related to exempt activities on the Authority's exemption certificate, we obtained verification from the State of Louisiana (State), who issued the exemption certificate and is the Authority's

⁴⁵ This is the type of purchase to which the Authority purchased the ownership interest in the 32 properties.

⁴⁶ La. R.S. 47:2122

⁴⁷ This is the website in which the Authority purchased the ownership interest in the 32 properties.

⁴⁸ La. R.S. 47:2161

⁴⁹ FR-5321-N-01, Appendix I Section A

responsible entity. The State explained that the exempt activities shown on the Authority's exemption certificate only included clearing soft costs such as administrative and program delivery costs. NSP 2 guidance provides examples of soft costs that included appraisals, market studies, permits, builder's general requirements or overhead, etc., none of which relate to purchasing ownership interest on properties in a tax sale. In addition, NSP 2 guidance further explains that when expending program delivery costs, grantees cannot earn a profit⁵⁰. However, Louisiana law states that, should the ownership interest be redeemed during the redemptive period, the redeemer would have to pay the tax sale purchaser, the Authority, the purchase price plus a 5 percent penalty and 1 percent interest per month from the date of the tax sale until the date it is redeemed⁵¹. As related to 24 CFR 58.35(b), this regulation allows for costs associated in preparing to obtain site options and does not allow for the **purchase** of site options.

As such, the purchase of the tax sale properties, as asserted by the Authority, does not constitute an exempt activity under neither 24 CFR 58.34(a) nor 24 CFR 58.35(b), and was a choice limiting action. Thus, we stand by our original conclusion.

Comment 3 The Authority explains, in its response to the report, that CCP recommended that the Authority participate in all tax sales and bids on properties. Indeed, the CCP's report does contain the recommendation; however, it does not recommend that the Authority participate in such sale and bid activities using funds that do not have the required approvals for use, such as the required request for release of funds approval. Therefore, based on the documentation presented, we stand by our original conclusion.

Comment 4 In its response, the Authority asserted that its amendment request to add the State as the responsible entity was done at HUD's request in an effort to alleviate potential back log on environmental reviews at the Federal level. We reviewed the additional documentation and agree that HUD made the request. However, we disagree that HUD instructed the Authority to execute the agreement with the State before adding the State to the consortium⁵². In its communications with the Authority, HUD instructed the Authority to "first, add the state to the consortium" and "second, the State and the Authority sign a consortium funding agreement." In addition, in an August 3, 2010 email to HUD, regarding approval of the application amendment to add the State to the consortium, the Authority stated that *'We keep hearing it's on its way but still nothing and we are at a point where choice limiting actions are taking place based upon that amendment'*. Meaning, the Authority was well aware that it should not have taken any actions without HUD's approval. Thus, we stand by our original conclusion.

⁵⁰ The guidance stemmed from a January 6, 2011 HUD Webinar for new NSP grantees.

⁵¹ See: La. R.S. 47:2243

⁵² The application amendment would require a HUD review to determine whether the grantee's score changes and affects its award amount. After that determination HUD would then provide the application amendment approval.

Comment 5 We disagree. The Authority requested that we remove the subsection and also to treat the cost associated with the purchase of tax sale interest as eligible. However, based on our review of the additional documentation and for reasons outlined in the comments 1, 2, 3, and 4 above, we stand by our original conclusions.

Comment 6 We disagree. In its response, the Authority indicated that its contracts with GCE clearly met the requirements of demonstrating a firm commitment. As support, the Authority used verbiage from the notice where the notice discussed commitments of leveraged resources. However the Authority did not mention in its response that this verbiage was not related to obtaining a firm commitment from a for-profit partner. The verbiage in the notice actually explains that these leverage firm commitments pertain to commitments from non-NSP, non-CDBG, and non-federal resources for **investments** in the NSP 2 program. In fact, the notice further notes that firm commitments could be in the form of cash funding, in-kind contributions, donated land or construction materials, or donated services, with no mention of a for-profit partner.⁵³

During the review, on November 2, 2010, we requested the Authority's firm commitment from GCE that was submitted at the time of the NSP 2 application. In our request, we did not specify a certain format for the firm commitment. The Authority, in turn, provided the firm commitment in the form of a "letter" dated November 3, 2010, along with an explanation of the Authority's error in classifying the for-profit partner at the time of application, as explained in the Authority's response. Although this finding was mentioned to the Authority in a prior update meeting, the Authority's argument that the contracts served as the firm commitment, and not the November 3, 2010 firm commitment "letter", did not surface until the March 1, 2011 update meeting, when we initially questioned the funds and approximately four months after the Authority provided the firm commitment "letter" to OIG.

Further, although the Authority refers to the portion of the notice related to leveraging funds as the basis that its executed contracts constitute the firm commitment and that the November 3, 2010 firm commitment "letter" provided to OIG did not constitute the firm commitment, the notice⁵⁴ also states that firm commitment "letters" are acceptable documentation to serve as commitments to leveraging funds. Therefore, the verbiage that the Authority used as its support also explains that firm commitment letters are a form of a firm commitment and allowable. Based on our review and the context of the regulations, we determined that the verbiage the Authority referenced does not justify the Authority's assertion and thus we stand by our original conclusions.

Comment 7 We disagree. In its response, the Authority asserted that it initially executed a

⁵³ FR 5321 IV(A)(4)(a)

⁵⁴ FR 5321 IV(A)(4)(a) and FR 5321 Appendix 3 (d)

consortium funding agreement, but changed that into a “for-profit partner agreement” and explained that this initial mistake is understandable and it would be inappropriate to hold these costs ineligible given the corrective actions the Authority undertook. However, the notice specifically required the Authority to obtain a firm commitment prior to authorizing funds.⁵⁵ This was not done as the firm commitment letter the Authority provided as support during our review was dated November 3, 2010. The November 3, 2010 firm commitment letter is what the Authority provided and did not argue that it was not the intended firm commitment until March 1, 2011, after the completion of the audit. Furthermore, the April 11, 2010 consortium funding agreement with GCE was the incorrect agreement for a for-profit partner, and therefore not valid.

Comment 8 We disagree. The Authority stated that the cost analysis that it performed is reasonable. However, the Authority did not provide additional documentation with its comments to support its assertions and therefore we could not revise our conclusions based on the Authority’s assertions alone. The finding outlines the basis of the review which determined that the cost analysis conducted was not adequate. Therefore, we stand by our original conclusion.

Comment 9 We disagree. The Authority requested that, based on the materials provided, we remove the portion of the finding that pertains to firm commitments and also to treat the \$53,059 in costs as unsupported rather than ineligible. Based on the additional documentation and as outlined in comments 6, 7, and 8 above, we stand by our original conclusions.

Comment 10 In its response, the Authority indicated that it was implementing the first phase of its asset tracking reporting system and despite the December 10, 2010 kick-off date, all information related to progress from the previous eight months still needed to be manually entered or uploaded into the system. While we acknowledge that the Authority asserts that it is now implementing the asset tracking system, the progress documentation that the Authority referred to in its response was not provided during the course of our review, despite the fact that we requested it from the Authority on January 25, 2011. As discussed in the finding, as a response to our request, the Authority stated that it referred to the consortium funding agreement to determine whether the consortium members were on track and only provided us with warning letters pertaining to two consortium members’ performance. Thus, we stand by our original conclusions.

Comment 11 We disagree. The Authority requested that we remove part “b” concerning the consortium member’s delay in submitting the strategic plan, asserting that OIG’s conclusion was unsupported. The Authority’s monitoring policy specifically stated that “strategic plans will be executed no later than September 30, 2010”. When we requested the dates that the strategic plans for each consortium member were finalized/executed, the Authority provided neither the dates nor adequate support regarding the request. Nevertheless, our conclusions were based on the

55 FR 5321 Appendix I (U)(3)

assessment of the Authority's third quarter performance report which stated all but one consortium member submitted a final written description of their strategic plan, a requirement of each consortium member agreement. Consequently, we stand by our original conclusion.

Comment 12 We disagree. As outlined in the finding, despite the Authority's response, allowing the consortium member to follow Part 85 versus Part 84 was a direct violation of the notice and evidences that the Authority had not ensured that it or its consortium member complied with the NSP 2 requirements.

Comment 13 We disagree. In its response, the Authority asserted that the Authority accepts overall responsibility for the grant as indicated by its signed grant agreement and explained that it is referred to as the "Lead Grantee" in various documents and, in turn, provided information and technical assistance to the consortium. The Authority also requested that OIG remove the finding from the report. However, despite the fact that the Authority signed the grant agreement, during a January 6, 2011 update meeting, the Authority explained that it did not realize that it was responsible for its consortium members and that it did not feel that it should be held liable if its consortium members were not compliant with the program. Upon further clarification from HUD and as stated in the finding, HUD confirmed that the Authority is responsible and liable for the entire program, including its consortium members. Therefore, we stand by our original conclusion and recommendation.

Comment 14 We acknowledge the Authority for its actions in taking steps to follow plans for monitoring consortium members' progress, to verify concerns regarding Thorns Consulting, LLC's appraisal, and its commitment to continue to improve its appraisal policies and procedures.

Comment 15 The Authority asserted that OIG requested a list of "potential" properties that various partners were considering for NSP2 purposes. However, this is factually inaccurate. During the audit, we requested a listing of all of the properties/lots (including addresses) that the Authority and/or its consortium members planned to demolish, redevelop, conduct new construction, etc. using the NSP 2 grant funds. We did not request a list of "potential" properties as the Authority asserts in its response. However, in response to our request, the Authority provided the "potential" listing of properties, which was consequently used for the purposes of our review. Furthermore, the report also identifies that the review pertained to a listing of "potential" properties to be assisted under NSP 2. Our review identified 2 of 63 properties that contained issues to which the Authority did not refute. As a result, we stand by our original conclusion and recommendation.

Comment 16 We acknowledge the Authority's efforts in pursuing a plan of action to enhance controls in cooperation with recently engaged HUD technical assistance provider, Enterprise Community Partners (Enterprise), and receiving feedback from Enterprise regarding its cost allocation plan.

Comment 17 In its response, the Authority asserted that it drafted new language in the procurement policies to disallow the use of cost-plus a percentage of cost methods of contracting in any of the Authority's contracts. The Authority also stated that the referenced contract with Environ International Corporation (Environ) was flagged in November by an internal staff and efforts to correct the oversight began immediately and that a new contract was executed with Environ effective January 2011 that includes the correction. We acknowledge that the Authority has taken measures to amend its policies. However, during our review, there was no documentation in the procurement file or any documentation provided by the Authority to support the Authority's identification and subsequent correction of the cost-plus percentage of cost issue, related to the Environ contract. Thus, we stand by our original conclusion and recommendations. The Authority will need to provide supporting documentation to HUD to support that such corrective actions were taken.

Comment 18 We acknowledge the Authority for its efforts to improve its procurement practices. Since the documentation to support these assertions were not provided, the Authority will need to provide this supporting documentation to HUD in order to identify that such corrective actions were taken.

Comment 19 We disagree. The Authority asserted that its contract log reflects that the consortium member's contract was procured using the "sole source" method, which is an allowable procurement method under NSP2. The Authority further asserted that the procurement and supporting documentation met the standards required for a "sole source." However, based on our procurement review, we determined that the consortium member used the micro-purchase procurement method and not the sole source method.

The Authority's consortium member specifically explained in a communication to both OIG and the Authority that it used the micro-purchase method during the procurement, based on guidance from a public housing handbook. The Authority's response to the report appears to disregard the consortium member's documented explanation and did not address the fact that the Authority did not keep sufficient records regarding its consortium member's procurement practices. For example, the Authority was unaware that the consortium member used the micro-purchase procurement method and the Authority's records contradicted that of the consortium member's.

Further, during our review, we considered the use of the sole source method, as asserted by the Authority. In considering the use of the sole source method, we still determined that the Authority did not maintain sufficient documentation regarding its consortium member's procurement practices; and did not ensure that the consortium member complied with HUD's procurement regulations or the consortium member's procurement policies. Therefore, we stand by our original conclusion and recommendation.

Comment 20 We modified the finding as appropriate. The Authority explained that it did not have the ability to submit a quarterly performance report until the action plan was approved by HUD and the plan was approved on July 1, 2010. Although the Authority referred to attachment I of its response as support for its assertions, there was no documentation included with the attachment. However, we were able to locate documentation to support the Authority's assertion in its attachment E. The Authority did not provide a response or documentation to rebut that it inaccurately reported expended funds in its third quarter performance report. Therefore, the finding that the Authority inaccurately reported its expended funds to HUD and its associated verbiage throughout the report will remain. The Authority will need to work with HUD to correct the deficiency.

Comment 21 We modified the finding as appropriate. In its response, the Authority stated that through a close review of the consultant's contract, costs associated with travel (mileage) were appropriately billed to the Authority and should be allowable. Based upon a review of the additional documentation, we agree that the costs were allowable. However, the costs are still unsupported, as the costs were associated with a contract that lacked a cost reasonableness assessment. Therefore, we amended the finding accordingly, decreased the ineligible costs by \$259 and increased the unsupported costs by \$259.

Comment 22 We modified the finding as appropriate. The Authority provided additional documentation regarding the \$5,326 of unsupported costs. Based upon a review of the additional documentation, we determined that \$5,193 was supported but \$133 remained unsupported. Therefore, we revised the report accordingly and decreased the unsupported costs by \$5,193.

Comment 23 We disagree. The Authority asserts that OIG faced a significant challenge in knowing the complete range of documents for which it could seek review and that there were additional written policies that the OIG likely did not know to ask for, such as an invoice review checklist that is completed internally for every invoice. However, the Authority did not provide documentation to support this assertion.

The Authority's grant agreement specifically states that the Grantee shall maintain information on all drawdowns and expenditures of grant funds and shall make such information available for audit or inspection by OIG. During the review, we made several written requests for documentation, including (1) relevant policies and procedures related to operations and finance, and (2) the expenditure files of those NSP 2 expenditures that were requested and paid during the scope of our review via the DRGR drawdown requests. The expenditure file is understood to hold all documentation supporting the costs for the drawdown requests, as the Authority itself notes in its response that "supporting documentation is assembled for each request before a draw is requested in the DRGR system." If there were any additional documents that needed to be reviewed, it was the Authority's responsibility to furnish those documents.

Further, during the expenditure review, we were aware of and in turn reviewed the invoice review checklists⁵⁶ that the Authority mentions, and found no concerns with those checklists. The Authority's mention of the invoice review checklist does not relate to the finance control issues identified in the report regarding the lack of (1) approvals, (2) policies, and (3) proper segregation of duties. It is also unrelated to the fact that the Authority did not follow its own written finance policies.

Comment 24 We considered the Authority's suggestion. However, due to the magnitude of the issues identified and discussed throughout the report, we did not amend the title of the report.

⁵⁶ The invoice review checklist was a checklist reviewed by the project or grant manager for each invoice.

Appendix C

PROCUREMENT REVIEW RESULTS

Contract details:	Compliance issues identified
<p>Sample: 1</p> <p>Contractor: Environ International Corporation</p> <p>Contract Amount: \$250,000</p> <p>Procured by: Authority</p>	<p>This contractor had an existing contract with the Authority, which was not funded under the NSP 2 grant. The Authority executed an amendment to extend the existing contract and added \$250,000 in NSP 2 funds for environmental review activities under the NSP 2 grant. In addition,</p> <ul style="list-style-type: none"> • The contract included language allowing reimbursement to subcontractors for cost plus percentage contracts; • The procurement documents did not include (1) a determination to support that no contract type was suitable other than a time and material contract; (2) documentation of an independent cost analysis; (3) documentation of the rationale for the method of procurement, selection of contract type, price analysis, and contractor rejection; or (4) original proposals from all respondents; and • The request for proposal did not list the relative or weighted importance of each evaluation factor. <p>Further, the amendment executed for the NSP 2 activities did not include any qualifying language eliminating the original contract’s language that allowed the prohibited cost plus percentage reimbursements for subcontractors; it only extended the contract term and added funding for the contract.</p>
<p>Sample: 2</p> <p>Contractor: Henry Consulting, LLC</p> <p>Contract Amount: \$54,600</p> <p>Procured by: Authority</p>	<p>Documentation within the file indicated that the contract appeared to be procured with geographic preferences or restrictions when evaluating bids or proposals. In addition, the procurement documentation did not include (1) documentation of an independent cost estimate, (2) proposals from all respondents, (3) documentation of a rationale for the method of procurement or a cost analysis, (4) a determination to support that no contract type was suitable other than a time and materials contract, and (4) documentation to support that profit was negotiated as a separate element of price.</p>
<p>Sample: 3</p> <p>Contractor: Community Central, LLC</p> <p>Contract Amount: \$143,208</p> <p>Procured by: Authority</p>	<ul style="list-style-type: none"> • This time and materials contract was procured using the small purchase method. However, the contract amount exceeded the small purchase threshold of \$100,000; therefore, the small purchase method was not the appropriate method of procurement. • The Authority did not maintain adequate documentation with respect to the contract amount. The contract did not include a maximum reimbursement amount and only included prices for time and materials. The contract log indicated that the contract amount was \$97,736; however, based upon the contract review, we determined that the contract value was at least \$143,208. <p>The procurement documentation did not include (1) an independent cost estimate, (2) a cost analysis, (3) documentation showing that profit was negotiated as a separate element of price, (4) documentation reflecting the rationale for the procurement method used, (5) documentation to support that contractor responsibility was evaluated, and (6) documentation evidencing a determination that no other contract type was suitable.</p>
<p>Sample: 4</p> <p>Contractor: Terry Phillis Consultant</p> <p>Contract Amount: \$5,000</p> <p>Procured by: Authority</p>	<ul style="list-style-type: none"> • The contract was procured using the small purchase procurement method; however, the Authority’s procurement policy did not outline a procedure for small purchases at the time the contract was procured and executed. In addition, the contract did not contain a provision for mandatory standards and policies on energy efficiency or the section 3 clause verbatim as required. • The procurement file did not include (1) documentation of an independent cost estimate or cost analysis, (2) a rationale for the method of procurement, (3) documentation to support the evaluation of contractor responsibility and that profit was negotiated as a separate element of price, and (4) a determination to support that no contract type was suitable other than time and materials.

Contract details:	Compliance Issues Identified
<p>Sample: 5</p> <p>Contractor: Trumpet, LLC</p> <p>Contract Amount: \$39,648</p> <p>Procured by: Authority</p>	<ul style="list-style-type: none"> • The Authority did not maintain adequate documentation with respect to the contract amount. The contract log indicated that the total contract was \$82,600 and the amount related to the NSP 2 was \$43,500. However, the contract documentation located in the procurement file stated that the project budget was \$82,600 with 48 percent allocated to the NSP 2, which equals \$39,648. Therefore, the NSP 2 funds for the contract were not clearly distinguishable as required by Federal regulations in OMB M-09-10. <ul style="list-style-type: none"> ○ It appears that the Authority may not have correctly or clearly allocated NSP 2 costs to this contract. Based upon our review of the scope of work for the original contract and amendment 1, it does not appear that 48 percent of the contract's proposed work was for NSP 2 as suggested and included other general work for the Authority not related to NSP2. • The contract did not include all required clauses, including the section 3 clause, energy efficiency contract provision, and administrative remedies for breach contract provision. The procurement documentation did not include (1) an independent cost estimate, (2) a cost analysis for the original contract and the contract modifications, (3) documentation showing that profit was negotiated as a separate element of price, or (4) documentation reflecting the rationale for the procurement method used.

Contract details:	Compliance issues identified
<p>Sample: 6</p> <p>Contractor: Thorns Consulting, LLC</p> <p>Contract Amount: \$50,000</p> <p>Procured by: Authority</p>	<ul style="list-style-type: none"> • The following documentation was not located in the file: <ul style="list-style-type: none"> ○ Documentation of an independent cost estimate; ○ Documentation to support a cost analysis was performed; ○ A rationale for the method of procurement and contractor selection letters; and ○ Documentation to support that profit was negotiated as a separate element of price.

Contract details:	Compliance issues identified
<p>Sample: 7</p> <p>Contractor: Krebs, LaSalle, LeMieux (KLL), LLC</p> <p>Contract Amount: \$40,950</p> <p>Procured by: Consortium member (Pontchartrain Park Community Development Corporation)</p>	<ul style="list-style-type: none"> • When procuring the contract, this nonprofit consortium member used the procurement regulations under 24 CFR 85 instead of the required 24 CFR 84 for nonprofits. • The Authority did not ensure that the consortium member maintained adequate documentation with respect to the contract amount. The contract did not specify a dollar amount for the contract. The consortium member indicated that it budgeted \$40,950 for the contract. • The contract did not include a provision for equal employment opportunity. • The solicitation did not <ul style="list-style-type: none"> ○ List all factors that would be used to evaluate bids or proposals, ○ Provide for the acceptance of products and services dimensioned in the metric system of measurement, or ○ Provide for preference of products and services that conserve natural resources and protect the environment, and are energy efficient.

Contract details:	Compliance issues identified
<p>Sample: 8</p> <p>Contractor: Bayou Title Company</p> <p>Contract Amount: \$35,100</p> <p>Procured by: Consortium member (Pontchartrain Park Community Development Corporation)</p>	<ul style="list-style-type: none"> • When procuring this contract, the consortium member used the micropurchase procurement method. However, based upon the amount of the proposed services, it should have used the small purchase procurement method. In addition, the micropurchase procurement method is not one of the procurement methods allowed by 24 CFR Part 84. This noncompliance occurred because the consortium member used the procurement handbook for public housing agencies when procuring this contract. Since the consortium member is a nonprofit organization and not a public housing agency, it should have used 24 CFR 84 instead. • The procurement was not conducted in a manner to ensure free and open competition. • A price analysis was not located in the file. • The contract did not contain a provision for equal employment opportunity.

Appendix D

EXPENDITURE REVIEW RESULTS

Sample	Voucher number	Vendor name	Expenditure amount	Eligible	Ineligible	Unsupported	Comment(s)
1	129638	GCE	\$10,795	\$0	\$10,795	\$0	Expenditure was paid before a firm commitment letter was obtained.
2	129638	Environ	16,443	0	0	16,443	Cost reasonableness of the contract was not supported. Also, it includes amounts that lacked sufficient supporting documentation that will have to be supported should the Authority support the cost reasonableness.
3	129676	GCE	14,985	0	14,985	0	Expenditure was paid before a firm commitment letter was obtained.
4	131007	Trumpet	6,856	0	0	6,856	Cost reasonableness of the contract was not supported. Also, it includes amounts that lacked sufficient supporting documentation that will have to be supported should the Authority support the cost reasonableness.
5	131984	GCE	8,454	0	8,454	0	Expenditure was paid before a firm commitment letter was obtained.
6	132447	Terry Phillis	4,957	0	0	4,957	Cost reasonableness of the contract was not supported.
7	132490	Trumpet	3,651	0	0	3,651	Cost reasonableness of the contract was not supported.
8	132682	Authority	9,374	9,241	0	133	Supporting documentation was insufficient.
9	132844	Authority	31,326	31,326	0	0	None
10	133419	Trumpet	13,434	0	0	13,434	Cost reasonableness of the contract was not supported. Also, it includes amounts that lacked sufficient supporting documentation that will have to be supported should the Authority support the cost reasonableness.
11	134962	GCE	8,591	0	8,591	0	Expenditure was paid before a firm commitment letter was obtained.
12	135582	Environ	13,191	0	0	13,191	Cost reasonableness of the contract was not supported. Also, it includes amounts that lacked sufficient supporting documentation that will have to be supported should the Authority support the cost reasonableness.
13	136384	Authority	16,306	16,306	0	0	None
14	136388	Authority	9,301	9,301	0	0	None.
15	136961	GCE	10,214	0	10,214	0	Expenditure was paid before a firm commitment letter was obtained.
16	136961	Environ	6,500	0	0	6,500	Cost reasonableness of the contract was not supported.
17	136961	Thorns Consulting	3,500	0	0	3,500	Cost reasonableness of the contract was not supported.
18	136961	Authority	40,385	0	40,385	0	Expenditures were paid before HUD approval for the request for release of funds was obtained.
19	137210	Trumpet	16,059	0	352	15,707	\$352 was paid in contract overpayments. In addition, the cost reasonableness of the contract for the remaining \$15,707 (this also includes amounts that lacked sufficient supporting documentation that will have to be supported should the Authority support the cost reasonableness).
20	137211	Authority	62,320	62,320	0	0	None
21	137212	Authority	18,887	18,887	0	0	None
Totals			\$325,529	\$147,381	\$93,776	\$84,372	