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TO: Gregory Hamilton  
Director, Community Planning and Development, 6HD

FROM: *James D. McKay*  
James D. McKay  
Acting Regional Inspector General for Audit, 6AGA

SUBJECT: The New Orleans African-American Museum, New Orleans, LA, Mismanaged  
Its Community Block Development Grants and Did Not Comply with Its  
Grant Agreements.

## **HIGHLIGHTS**

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

As a part of our audit of the City of New Orleans (City) Community Development Block Grant (Block Grant) programs, we reviewed the City's subrecipient, the New Orleans African American Museum (Museum). The City suggested that we audit the Museum due to its concerns about the Museum's activities.

The objective of our review was to determine whether the Museum administered its Block Grant program funds in an economical and efficient manner and in accordance with the terms of the grant agreements with the City and applicable U.S. Department of Housing and Urban Development (HUD) regulations and federal laws. In addition, we determined whether the City properly monitored the Museum and its use of HUD funds.

### **What We Found**

Of five City awarded grants, two grants, totaling \$745,000, failed to meet HUD requirements. For the remaining three grants, totaling \$1,030,000, the Museum failed to document that it met one of HUD's national objectives. Further, the Museum did not exercise financial oversight or management of the \$1,073,044 in

Block Grant funds received through its five grants. The Museum commingled funds, did not have adequate controls over procurement, and failed to comply with federal and state income tax requirements, resulting in \$50,609 in ineligible and \$181,474 in unsupported disbursements.<sup>1</sup>

## What We Recommend

We recommend that the New Orleans Community Planning Development Director require the City to:

- Repay its Block Grant Programs \$774,610 for ineligible and \$298,434 for unsupported disbursements.<sup>2</sup>
- Recover the property (potentially \$859,684 of net assets) and any remaining assets provided to the Museum, since it no longer meets a national objective.
- Before awarding grants, ensure agencies possess the ability to administer HUD and other programs effectively and efficiently, are treated consistently and equally, and are aware of policies and procedures. When the City determines noncompliance, the City should take immediate action to protect its funds and ensure compliance.

Also, the Director should:

- Seek administrative sanctions against any parties involved in the deficiencies described in the report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## Auditee's Response

We provided HUD, the City, and the Museum a draft report on January 19, 2005, and held an exit conference with the City on January 26, 2005. We requested that the City provide a formal comments to the draft by February 3, 2005. The City requested two extensions and provided formal comments on February 18, 2005. The City agreed with the findings and has taken actions to correct the deficiencies in its subrecipient program. The City affirmed its commitment to the highest administrative standards over its HUD funded programs. We commend the City for its actions to improve its administration of HUD funds. We considered the City's response in preparation of our final report and amended as necessary. The complete text of the City's response, along with our evaluation of the response, can be found in Appendix B of this report.

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<sup>1</sup> Some disbursements were ineligible as well as unsupported.

<sup>2</sup> Some ineligible costs are also unsupported.

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## BACKGROUND AND OBJECTIVES

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In September 1991, the City of New Orleans (City), under its New Orleans Affordable Homeownership division (Division), allocated approximately \$1 million in U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (Block Grant) funds to purchase and renovate a blighted property located at 1418 Governor Nicholls Street. According to City officials, the original design for the property was to create a community center for the neighborhood. However, the City determined that the building was not structurally sound enough to withstand the traffic of children on a consistent, day-to-day basis. As a result, the City decided to develop a museum, providing local artists with the opportunity to showcase artwork and gain an economic footing in the community. In 1998, the building opened as the Treme Arts Development Center (Center).

The Division operated the Center from 1998 to 1999. According to City officials, the Division's board decided to separate from the Center because the Center's activities were not related to the Division's mission. Additionally, by transferring ownership, the Division protected itself from potential liability associated with owning and operating the Center. In 2000, the Center ceased operating as a component of the Division and began operating as a separate entity. On February 21, 2000, the former Mayor (Mayor) established and incorporated a nonprofit corporation named New Orleans African American Museum (Museum) to own and operate the building. The Museum's original directors included the Mayor, the Division's Executive Director, and a member of Hibernia National Bank. In April 2000, the Division transferred net assets of \$859,684 to the Museum. The net assets included the building improvements, buildings, and land associated with eight properties located on Governor Nicholls, North Villere, and Ursulines Streets. In January 2000, the City hired an Executive Director (Executive Director) for the Museum.

According to its mission statement, the Museum is dedicated to preserving, promoting, presenting, and interpreting the lives, history, and communities of New Orleans and serves as a means of education through artwork. The Museum's objectives are centered on the revitalization of, preservation of, and service to the residents of Treme.

The Museum operated almost exclusively as a City subrecipient of Block Grant funds. HUD regulations require every Block Grant-funded activity to meet one of the following three national objectives:

1. Benefit low- and moderate-income families,
2. Prevent or eliminate slums or blight, or
3. Meet other urgent community development needs.<sup>3</sup>

Since January 2000, the City has awarded six grants to the Museum totaling \$2,245,000 for the following activities:

- Employment support services to principally low- and moderate-income artists,
- Beautification of Interstate 10 columns, and
- Acquisition of land and renovation of Museum property.

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<sup>3</sup> 24 Code of Federal Regulations 570.200(a)(2).

**Museum Grant Awards from January 2000 to December 2002**

<b>Grant Number</b>	<b>Activity/National Objective</b>	<b>Grant Amount</b>	<b>Amount Expended</b>	<b>Status</b>
<b>Villa Annex-50-236(00)</b>	Acquisition-renovation/low-mod income	\$595,000	\$62,654	Closed May 29, 2003
<b>Jazz Campus-50-257(02)</b>	Acquisition-renovation/low-mod income	\$470,000	\$0	Closed April 25, 2003
<b>NOAAM-80-056(98)</b>	Operations/low-mod income	\$300,000	\$298,434	Closed September 16, 2003
<b>Villa Annex-60-032(01)</b>	Operations/low-mod income	\$300,000	\$263,322	Closed December 31, 2004
<b>Treme Villa Meilluer-60-032(01)</b>	Operations/low-mod income	\$430,000	\$298,634	Closed May 6, 2003
<b>Restore the Oaks-50-243(01)</b>	Beautification/slum and blight	\$150,000	\$150,000	Closed May 10, 2002
<b>Totals</b>		<b>\$2,245,000</b>	<b>\$1,073,044</b>	

As discussed in the findings, the Museum did not meet HUD's national objectives. In 2003, the City's new administration conducted a review of the Museum's activities and concluded the Museum's activities did not meet the benchmarks set in the Block Grant requirements and therefore, did not renew or extend the Museum's 2002 grant. Further, the City ceased funding of the Museum and reprogrammed \$1,135,278 to its Block Grant account. Currently, the Museum operates under a new Board of Directors, which has taken over all operations from the Executive Director, who is no longer affiliated with the Museum.

The objective of our review was to determine whether the Museum administered its Block Grant program funds in an economical and efficient manner and in accordance with the terms of the grant agreements with the City and applicable HUD regulations and federal laws. In addition, we determined whether the City properly monitored the Museum and its use of HUD funds.

# RESULTS OF AUDIT

## Finding 1: The Museum Failed to Comply with Its Grant Agreements

Of five City awarded grants, two grants, totaling \$745,000, failed to meet HUD requirements. For the remaining three grants, totaling \$1,030,000, the Museum failed to document that it met one of HUD’s national objectives. In addition, the Museum failed to comply with the terms of its grant agreements and HUD rules and regulations. The Museum did not exercise financial oversight and management, and lacked adequate controls over its operations and funding. In addition, the City failed to adequately monitor the Museum’s activities. As a result, the City and Museum expended \$1,073,044 in HUD funds on activities that it could not demonstrate met a national objective. The City should support or repay its program \$1,073,044. Further, since the Museum did not meet a national objective, the City should recapture the property and any remaining assets provided to the Museum.

**The Museum’s Grants and Why It Did Not Meet National Objective**

Grant Number	Activity/National Objective Per Grant Agreement	Reason Why National Objective Was Not Met
Villa Annex- 50-236(00)	Acquisition-renovation/low-mod income	Activity not qualified under HUD regulations
Restore the Oaks- 50-243(01)	Beautification/slum and blight	Activity not qualified under HUD regulations
Villa Annex- 60-032(01)	Operations/low-mod income	Lack of documentation
NOAAM- 80-056(98)	Operations/low-mod income	Lack of documentation
Treme Villa Meilluer- 60-032(01)	Operations/low-mod income	Lack of documentation

**Activities Must Meet One of HUD’s National Objectives**

HUD regulations require every Block Grant-funded activity to meet one of the following three national objectives:

1. Benefit low- and moderate-income families,
2. Prevent or eliminate slums or blight, or
3. Meet other urgent community development needs.

HUD regulations state: “an activity that fails to meet one or more of the applicable tests for meeting a national objective is in noncompliance with Block Grant rules.” HUD required the City and the Museum to maintain documentation of compliance with the national objectives.<sup>4</sup>

<sup>4</sup> 24 Code of Federal Regulations 570.200(a)(2) and the CDBG Guide to National Objectives and Eligible Activities for Entitlement Communities.

**City Funded Grants That Did Not Meet National Objectives**

In September 2001, the City awarded the Museum two grants totaling \$745,000.<sup>5</sup> The Museum only requested and received \$222,312 of the grants from the City.<sup>6</sup> The Villa Annex grant required the Museum to meet the national objectives of removing slum and blight and benefiting low- and moderate-income-limited clientele. The Restore the Oaks grant required the Museum to meet the national objective of removing slum and blight. The following table describes the activities and amount awarded and spent for the two grants.

**Acquisition/Renovation and Miscellaneous Grants**

Grant Name Number	National Objective and Activity	Description of Activity	Amount Awarded Amount Spent
Villa Annex-50-236(00)	Low-mod income-limited clientele; removal of slum and blight/ Public facilities and improvements.	Purchase vacant lots located at 1425-27 Governor Nicholls Street and 1116-18 North Villere Street; renovate Passebon Cottage located at 1431-33 Ursulines Street.	\$595,000 \$62,654
Restore the Oaks-50-243(01)	Removal of slum and blight/ eligible planning activities; public improvements; and preservation of historic properties.	Paint murals on I-10 interstate columns located between Orleans and St. Bernard Avenues on North Claiborne Avenue.	\$150,000 \$150,000

Regarding the removal of slum and blight, HUD required the Museum to either clearly eliminate signs of slums/blight in a designated slum/blighted area or eliminate specific instances of blight outside such an area. HUD regulations also required the City and Museum to support the determination.<sup>7</sup>

HUD regulations state that to qualify under the “limited clientele” subcategory, the activity must meet one of six tests.<sup>8</sup>

As discussed below, the City and Museum did not meet the requirements of removing slum/blight or benefiting low- and moderate-income persons-limited clientele.

<sup>5</sup> The Museum only received \$222,312.

<sup>6</sup> As discussed in the Background section, the City stopped the Museum’s funding in 2003.

<sup>7</sup> 24 Code of Federal Regulations 570.506(b)(8) and (9); Block Grant Guide to National Objectives and Eligible Activities for Entitlement Communities.

<sup>8</sup> 24 Code of Federal Regulations 570.208(a)(2)(i)(A-D); 24 Code of Federal Regulations 570.208(a)(2)(ii- iv).

## Villa Annex Grant Failed to Meet National Objective

The Villa Annex grant provided funds to purchase vacant properties located at 1425-27 Governor Nicholls Street and 1116-18 North Villere Street; and to renovate the Passebon Cottage located at 1431-33 Ursulines Street. The City authorized the grant under “acquisition and improvements to public facilities” requirements.<sup>9</sup> Under the requirements, an activity qualifies if it is designed to benefit a particular group of persons at least 51 percent of who are low- and moderate-income persons.

The grant did not qualify under HUD regulations for the removal of slum and blight or benefiting low- and moderate-income persons-limited clientele because the grant did not specify the planned use for the vacant properties located on Governor Nicholls and North Villere Streets as required by HUD.<sup>10</sup> According to City officials, the Museum had to move quickly to obtain the lots for future expansion before investors purchased the properties. The Museum purchased the Governor Nicholls and North Villere properties on March 20, 2002, and May 3, 2002, respectively. As of December 2004, the Museum has not used the properties to meet one of HUD’s national objectives or for any other purpose.

### Vacant property located at 1425-27 Governor Nicholls



As of December 2004, the Museum has not used the Passebon Cottage to meet a national objective or for any other purpose.

<sup>9</sup> 24 Code of Federal Regulations 570.201(c).

<sup>10</sup> 24 Code of Federal Regulations 570.208(d).



With respect to Passebon Cottage, the Museum did not complete the renovations. As pictured below, Passebon Cottage continues to be an eyesore in the community:

**Passebon Cottage located at 1431-33 Ursulines Street**



Between September 2001 and August 2002, the Museum received \$62,654<sup>11</sup> under this grant, expended as follows:

**Villa Annex Expended \$62,654 on Ineligible Activities**

Purpose	Amount
Purchase of vacant lots located at 1425 and 1427 Governor Nicholls Street	\$26,201
Purchase of vacant lots located at 1116 and 1118 North Villere Street	\$25,415
Schematic design phase, exploratory demolition, and structural stabilization costs for 1431-1433 Ursulines Street (Passebon Cottage)	\$9,838
To update and increase value on insurance policy for the Passebon Cottage	\$1,200
<b>Total</b>	<b>\$62,654</b>

Since the activities did not meet a national objective, the City should reimburse its Block Grant program \$62,654 and seek recovery of the land.

**Restore the Oaks Grant Did Not Remove Slum and Blight**

The Restore the Oaks grant provided funds to paint interstate columns. The City authorized the grant under “planning activities”,<sup>12</sup> “improvement to public facilities”,<sup>13</sup> and “preservation of historic properties”.<sup>14</sup> Under the requirements,

<sup>11</sup> On November 10, 2004, an escrow agent remitted to the City \$9,658 provided under this grant.  
<sup>12</sup> 24 Code of Federal Regulations 570.205(ix).  
<sup>13</sup> 24 Code of Federal Regulations 570.201(c).  
<sup>14</sup> 24 Code of Federal Regulations 570.202(d).

the public facilities and improvements must be located in a designated slum or blighted area and designed to address the condition(s), which contributed to the deterioration of the area. In addition, HUD would allow an activity under “improvements to public facilities” and “preservation of historic properties” to qualify if used for the rehabilitation, preservation, or restoration of historic properties.

The City maintained that the interstate<sup>15</sup> contributed to economic distress of the community. Through the painting of the interstate’s columns, the City sought to restore and revitalize the community. Between 2002 and 2003, the Museum hired more than 60 artists and artist apprentices to complete 68 murals on the columns between Orleans Avenue / Basin Street and Allen Street on North Claiborne Avenue. The Museum spent \$150,000 for labor costs<sup>16</sup> and materials.

### Examples of Murals on North Claiborne Avenue



Neither the City nor the Museum performed any studies or maintained documentation to support that the construction of the interstate contributed to the deterioration of the community or that the painting of the columns removed slum and blight. Also, the interstate is not considered an historic property.

Neither the City nor the Museum showed how the cost to paint the columns was necessary to remove slum and blight of the neighborhood. Further, according to the joint use agreement between the City and State, the maintenance and/or beautification of the columns was a general government expense of the City ineligible under HUD regulations.<sup>17</sup> The City and the Museum should repay the City’s Block Grant program \$150,000 for this ineligible activity.

<sup>15</sup> Constructed more than 40 years ago.

<sup>16</sup> More than 60 artists and artist apprentices received \$1,500 and \$200 per column, respectively. One project coordinator and two assistant project coordinators received \$5,000 each.

<sup>17</sup> 24 Code of Federal Regulations 570.207(a)(2).

## City Funded Three Operating Grants

The City awarded to the Museum three operating grants totaling \$1,030,000<sup>18</sup> in January 2000, April 2001, and April 2002. The grants required the Museum to meet the national objective of benefiting low- and moderate-income persons-limited clientele under various activities, since it provided services specifically to local artists. The Museum failed to document that it met those requirements.

### Museum Operating Grants

<i>Grant Number</i>	<i>National Objective/ Activity</i>	<i>Description of Activity</i>	<i>Amount Awarded /Amount Spent</i>
<b>NOAAM-80-056(98)</b>	Low- mod income-limited clientele/ Special economic development	Hold 4 exhibits; hold 8 workshops; develop relationships with various organizations; produce brochure/newsletter <sup>19</sup> .	\$300,000/\$298,434
<b>Villa Annex-60-032(01)</b>	Low- mod income-limited clientele/ Microenterprise assistance	Hold 4 exhibits; hold 8 workshops	\$300,000/\$263,322
<b>Treme Villa Meilleur 60-032(01)</b>	Low- mod income-limited clientele/ Microenterprise assistance- general support	Hold 4 exhibits; hold 8 workshops	\$430,000/\$298,634

## Museum Lacked Documentation to Support Compliance with HUD's National Objective and Eligible Activities

The Museum did not obtain documentation to support compliance with a national objective. According to the Museum's Executive Director, the Museum used grant funds to provide artists with opening night receptions, Web site exposure, gallery space, advertisement, announcements and installation of the exhibitions, assistance with transporting art, and public relations such as press announcements. However, the Executive Director could not provide documentation of the services provided or a list of artists who participated in and/or benefited from the program because she did not collect this information. In addition, the services provided

<sup>18</sup> As discussed in the Background section, the City cut the Museum's funding in 2003. The Museum only received \$860,390 under these grants.

<sup>19</sup> As discussed below, a November 2000 amendment decreased the scope of services from holding 15 exhibitions to holding 4 exhibitions and from holding 20 workshops to holding 8 workshops; increased the grant amount from \$250,000 to \$300,000; and extended the grant agreement by 3 months to March 31, 2001.

were not the approved activities of the grants. As required by the grant, the Museum should have provided job training/placement or employment support services such as providing credit, technical assistance, or general support. However, the Museum did not.

Further, HUD required the Museum to document whether the participant was a low- or moderate-income person and whether the participant was a person developing or who owned a microenterprise. The Executive Director stated that she did not determine either. Therefore, the Museum neither documented that it met HUD's requirements under "microenterprise assistance", "employment support services", or "job training activities" nor that it met its national objective of benefiting low- and moderate-income persons. Therefore, the Museum failed to comply with its grant agreements.

### **NOAAM Grant Failed to Meet Special Economic Development Requirements**

The NOAAM grant failed to meet special economic development requirements under which the City authorized the grant.<sup>20</sup> HUD regulations state that an activity under "special economic development activities" qualifies if the only use of Block Grant funds is to provide job training or other employment support services as part of a Block Grant-eligible economic development project. In addition to assisting low- and moderate-income people, special economic development activities include providing job training and placement and/or other employment support services such as peer support groups, counseling, childcare, transportation, and other similar services. As with the other two grants, the Museum lacked documentation to support that it provided services eligible under "special economic development activities".

### **Villa Annex and Treme Villa Meilleur Grants Failed to Meet Microenterprises Requirements**

The Villa Annex and Treme Villa Meilleur grants failed to meet the requirements of microenterprise assistance. The City authorized the grants under criteria covering assistance to microenterprises.<sup>21</sup> In addition to assisting low- and moderate-income people, microenterprise assistance includes

- Providing credit for the stabilization and expansion of microenterprises;
- Providing technical assistance, advice, and business support services; and

<sup>20</sup> 24 Code of Federal Regulations 570.203(c).

<sup>21</sup> 24 Code of Federal Regulations 570.201(o) & 570.201(o)(iii).

- Providing general support, including but not limited to, peer support programs, counseling, childcare, transportation, and other similar services.

The Museum lacked documentation to support that it provided services eligible under “microenterprise assistance activities” or met its national objective.

The Museum lacked documentation to support compliance with HUD’s national objectives, failed to obtain documentation to identify assistance provided to low- and moderate-income persons or microenterprises, and failed to administer a microenterprise assistance/employment support program in compliance with HUD’s rules and regulations. As a result, the City funded the Museum’s operation and maintenance costs, ineligible under HUD regulations. The City and the Museum must repay the City’s Block Grant accounts \$561,956 of ineligible costs and support or repay \$298,434<sup>22</sup> of unsupported costs.

As discussed in the background section, the City, through the Division, transferred net assets of \$859,684 to the Museum. The net assets included the building improvements, buildings, and land associated with eight properties located on Governor Nicholls, North Villere, and Ursulines Streets. Since the Museum did not meet a national objective in accordance with HUD rules and regulations, the City should recapture the property and any remaining assets provided to the Museum in accordance with HUD regulations.<sup>23</sup>

## Grants Poorly Prepared

The Museum’s grant agreements were vague, unclear, and misleading on its national objectives and activities to be performed. According to City officials, a former Executive Assistant to the Mayor (Mayor’s Assistant) secured the funding for the Museum, despite the grant agreements’ deficiencies. HUD regulations state agreements with subrecipients shall: “include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient effectively to monitor performance under the agreement.”<sup>24</sup>

The grant agreements did not include a comprehensive description of the work to be performed or a schedule for completing the work. In addition, the grant agreements did not specify how the Museum would assist low- and moderate-income artists, what assistance was available, or how it would carry out those objectives. For example, the NOAAM, Villa Annex, and Treme Villa Meilleur grant agreements required the Museum to hold eight artists’ workshops. However, the grant agreements lacked information on the type, length, or location of workshops; the Museum personnel required to conduct the workshops; or how the workshops would benefit the artists.

<sup>22</sup> Under HUD regulations, because the NOAAM grant agreement was authorized under a special economic development activity, operating and maintenance costs are not ineligible. However, the operating and maintenance costs were not associated with administering job training or employment support services.

<sup>23</sup> 24 Code of Federal Regulations 570.503(b)(7).

<sup>24</sup> 24 Code of Federal Regulations 570.503(b)(1).

Further, the grant agreements did not provide a breakdown of planned costs. In an August 3, 2000 letter, a City program analyst voiced concerns related to the Museum's grant agreements. The analyst's concerns included ineligible costs, immeasurable objectives, lack of a breakdown for salaries, and lack of specification for miscellaneous costs. The planned cost categories were broad and unspecific. For example, the NOAAM grant allocated \$136,500 for personnel services and \$61,300 for professional services without additional detail.

The City should have ensured that the Museum's grant agreements clearly defined the activities and national objectives and complied with HUD rules and regulations.

### **Museum Treated Differently from Other Subrecipients**

The City did not subject the Museum to the same rules and monitoring as other subrecipients. The City:

- Improperly classified the Museum as an Economic Development/Public Facility project, thereby circumventing its super notice of funds availability process<sup>25</sup> and unfairly awarding the funds;<sup>26</sup>
- Did not include the Museum on its subrecipient lists, thereby preventing City officials from adequately monitoring the Museum's activities;
- Did not discipline the Executive Director for not attending any mandatory City technical assistance workshops for subrecipients;
- Allowed the Executive Director to significantly increase her salary without the Museum's Board of Directors' approval; and
- Amended grant agreements in favor of the Museum. For example, the NOAAM grant agreement was amended on November 1, 2000, to
  - Decrease the scope of services,
  - Extend the grant by 3 months,<sup>27</sup> and
  - Increase the amount of funding by \$50,000.<sup>28</sup>

As another example, the City backdated the approval to extend the Villa Annex grant agreement. The Museum had the responsibility to request extensions of grants at least 30 days before the grant expiration date, and failed to do so for the Villa Annex. Instead of closing the grant and reprogramming the funds, the City backdated its approval and extended the grant 3 additional months,<sup>29</sup> with an additional \$55,665.

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<sup>25</sup> A process whereby potential subrecipients submit applications to the City and the City uses objective criteria to evaluate and fund the subrecipient.

<sup>26</sup> Funds for Economic Development/Public Facility projects were awarded at the Mayor's discretion and not required to go through the process.

<sup>27</sup> From December 31, 2000, to March 31, 2001.

<sup>28</sup> From \$250,000 to \$300,000.

<sup>29</sup> Extended to March 31, 2002.

In addition, the Executive Director did not respond to requests from City officials related to compliance issues, and the City continued to fund the Museum.

**Museum Submitted Required Reports Either Late or Not at All**

City officials repeatedly asked the Executive Director to submit the required reports. However, the Executive Director submitted the reports either late or not at all. Specifically, the City required the Museum to submit its:

- Program performance reports by the fifth working day of the following month. Of 36 required reports, the Museum did not submit 17 of the reports. None of the remaining 19 reports was submitted on time. For instance, the City did not receive reports covering April through September 2001 until January 9, 2002.
- Budget and cost control statements by the fifth working day of the month. None of the 36 reports was submitted on time. In some instances, the reports were submitted 3 months late.
- Section 3 Plan, Agency/Subgrantee Employment Form, Contractor and Subcontractor Activity Report, and Minority Financial Institution Report on an annual and semiannual basis. Between 2000 and 2002, the Museum did not submit a report.
- Audits for the years covering 2000-2002 within 6 months after the close of its fiscal year.<sup>30</sup> The City made several requests for the Museum to perform and submit the audits. In an April 2001 letter, the City requested the Executive Director to review the Museum's expenditures covering January to December 2000 to determine whether an audit was required.<sup>31</sup> The Executive Director did not respond. In October 2001, the City requested the Executive Director to submit the 2000 audit. Again, the Executive Director did not respond. In March 2002, City officials asked the Mayor's Assistant to intervene. The Executive Director obtained audit services shortly thereafter. However, the audit was never completed. As a result, the City hired auditors to conduct the audit for years 2000, 2001, and 2002. The Executive Director did not cooperate with the City hired auditors. In a May 2003 letter, the auditor stated, "due solely on continued delays by the auditee, this expected completion date is beyond the termination date of our contract to perform these services." The Executive Director was only available 12 hours per week, which delayed the audit. Further, once the audits were completed, the Executive Director did not provide a management representation letter or participate in an exit conference.

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<sup>30</sup> Louisiana Revised Statutes 24:513.

<sup>31</sup> Office of Management and Budget Circular A-133 requires agencies with expenditures exceeding \$300,000 to obtain an independent audit.

### **City Did Not Adequately Monitor the Museum**

The City did not monitor the performance of the Museum to ensure that it met its national objectives and complied with the requirements of the grant agreements and HUD and other federal regulations. The City did not perform on-site monitoring of the Museum after September 2000. According to City officials, the Mayor's Assistant ceased on-site monitoring of subrecipients in 1996. When the City implemented its Monitoring and Prompt Payment System, fiscal and programmatic monitors began performing desk reviews. The City could not effectively monitor subrecipient performance through desk reviews alone. The City has recognized the problem and has re-implemented field monitoring of subrecipients.

In addition, the City has not updated or finalized its policy and procedures manual for its Block Grant program since 1995. HUD regulations require the City to establish policies and procedures that ensure Block Grant funds are used in accordance with all program requirements.<sup>32</sup> The City's 1995 Block Grant manual, which appeared to be in draft form, lacked clarity, did not always identify who was responsible for performing specific actions, and has not been updated or finalized. The City cannot ensure HUD funds are used in accordance with regulations using outdated, draft manuals. The City should update and finalize all policy and procedures manuals to reflect HUD's requirements for its programs.

### **City Must Improve Selection Process of Subrecipients**

The Museum was consistently noncompliant with its grant agreements and HUD regulations. The Executive Director did not respond to requests from our office for documentation and meetings. As a result, we issued a subpoena to complete our review of the Museum's activities. The funds provided to the Museum could have been used more efficiently and effectively to assist other programs throughout the community. As discussed in Finding 2, the Museum lacked the proper internal controls to administer HUD funds effectively, efficiently, and in accordance with regulations. Before awarding grant funds to nonprofit and other agencies, the City must ensure agencies have the experience, knowledge, and internal controls to administer HUD programs effectively, efficiently, and in accordance with regulations.

In 2003, the City ended the Museum's funding and, thus closed the Museum. Since the Museum did not meet a national objective, the City should recover the property and any remaining assets provided to the Museum. Further, HUD should

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<sup>32</sup> 24 Code of Federal Regulations 570.501(b).



seek administrative sanctions against the Executive Director and any other parties involved in the deficiencies described in this report.

## Recommendations

We recommend that the HUD New Orleans Community Planning Development Director require the City to:

- 1A. Repay its Block Grant program \$62,654 of ineligible costs for funds provided for the Villa Annex 50-236(00) grant.
- 1B. Repay its Block Grant program \$150,000 of ineligible costs for funds provided for the Restore the Oaks 50-243(01) grant.
- 1C. Repay or support its Block Grant program \$298,434 of unsupported costs for funds provided for the NOAAM 80-056(98) grant.
- 1D. Repay its Block Grant program \$263,322 of ineligible costs for funds provided for the Villa Annex 60-032(01) grant.
- 1E. Repay its Block Grant program \$298,634 of ineligible costs for funds provided for the Treme Villa Meilleur 60-032(01) grant.
- 1F. Recover the property (potentially \$859,684 of net assets) and any remaining assets provided to the Museum, since it no longer meets a national objective.
- 1G. Ensure subrecipient grant agreements clearly define the activities and national objectives and comply with HUD rules and regulations.
- 1H. Update and finalize its policies and procedures. The policies and procedures should ensure agencies are treated consistently and comply with HUD requirements and the City takes appropriate action to protect its funds and ensure compliance including monitoring of subrecipients.
- 1I. Implement programs to combat instances of fraud, waste, and abuse in all City programs.

We recommend that the HUD New Orleans Community Planning Development Director:

- 1J. Seek administrative sanctions against the Executive Director and any other parties involved in the deficiencies described in the report to protect HUD and the City from future occurrences.

## Finding 2: The Museum Mismanaged \$1,073,044 in Block Grant Funds.

The Museum mismanaged \$1,073,044 in Block Grant funds received through its five grants. The Museum commingled funds, did not have adequate controls over procurement, and failed to comply with federal and state income tax requirements. As a result, the Museum made \$50,609 in ineligible and \$181,474 in unsupported disbursements.<sup>33</sup> This occurred because the Museum's management disregarded requirements and failed to establish and implement procedures.

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### **Museum Made Ineligible and Unsupported Disbursements**

The Museum made \$50,609 in ineligible and \$181,474 in unsupported disbursements. We reviewed 30 of 1,445 disbursements totaling \$279,853 from the Museum's accounts from March 2000 to December 2002.<sup>34</sup> The Museum did not have adequate documentation for 17 of the 30 (57 percent) disbursements. In addition, 20 of the 30 (67 percent) disbursements were ineligible. Also, when reviewing the bank statements between January 2000 and December 2002, we identified other transactions that needed review.

### **Museum Made \$50,609 in Ineligible Payments**

As detailed in the following table, the Museum inappropriately spent \$50,609 in HUD funds for unallowable costs. The Museum improperly spent \$22,342 of HUD funds for charitable contributions (\$17,000) and penalties (\$5,342) resulting from delinquent taxes. Further, the Museum expended \$28,267 in grant funds for fundraising events and public relations expenses. Federal regulations prohibited the Museum from expending funds for these items.<sup>35</sup>

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<sup>33</sup> Some disbursements were ineligible as well as unsupported.

<sup>34</sup> The Museum maintained four bank accounts.

<sup>35</sup> Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations", sections 1, 14, 16, and 17.

Ineligible Items	Amount
Charitable contributions	\$17,000
Promotions/advertisements	11,439
Party rental/equipment	7,368
Catering and food	7,089
Federal and State penalties	5,342
Entertainment	2,371
<b>Total</b>	<b>\$50,609</b>

The City and Museum must repay the City's Block Grant for \$50,609 for the ineligible expenditures.

### **Museum Lacked Documentation for Transfers and Payments**

The Museum could not support \$181,474 in disbursements and transfers between accounts. Federal regulations required the Museum document its expenditures including documenting how the expenditure complies with its grant. The Museum made questionable and inappropriate transfers to other Museum accounts totaling \$143,560. For instance, on July 2, 2002, the Museum transferred \$13,500 from its Block Grant account and deposited the funds into the Museum's program income account. On the same day, the Museum moved \$13,104 of the \$13,500 from the program income account to its general fund account. The Museum lacked documentation supporting the Block Grant transfers.

The Museum augmented its program income account with transfers from other accounts. The Museum did not generate the amount of program income indicated in its program income account. HUD defines program income as gross income generated from program activities. However, the funds in the Museum's program income account did not meet that definition. The Museum's records did not support its claim that the funds were program income generated by Museum activities. Instead, the Museum's records show grant funding as the source of the funds in the program income account.

Also, the Museum did not have documentation to support a \$9,068 payment<sup>36</sup> to the Division.<sup>37</sup> According to the check memorandum line, the payment was reimbursement for employees' salaries. However, the Museum offered no supporting documentation for the payment. Other examples of payments the Museum could not support are as follows:

<sup>36</sup> May 5, 2000.

<sup>37</sup> Another City subrecipient.

- An August 23, 2002, payment of \$11,154 to itself;
- An April 19, 2000, payment of \$4,692 to the Executive Director; and
- An October 22, 2002, payment of \$4,000 to D'Wholesale.

<b>Schedule of Unsupported Disbursements</b>			
<b>Payee</b>	<b>Number of Instances</b>	<b>Total Disbursement</b>	<b>Unsupported Amount</b>
Program Income	11	\$125,722	\$125,722
[Museum]	3	20,154	20,154
General fund	1	13,104	13,104
Division	1	9,068	9,068
Block Grant	1	4,734	4,734
Stephanie Jordan	1	4,692	4,692
D'Wholesale	1	4,000	4,000
<b>Totals</b>	<b>19<sup>38</sup></b>	<b>\$181,474</b>	<b>\$181,474</b>

The Museum must support or repay the \$181,474 disbursements.

### **Museum Commingled \$221,002**

In violation of requirements,<sup>39</sup> the Museum commingled \$221,002 in Block Grant funds through 49 transfers between its four bank accounts from January 2000 through December 2002. HUD required the Museum to have a separate and accurate accounting of all HUD funds and provide effective controls over and accountability for all funds.<sup>40</sup> The Museum failed to comply with these HUD requirements and did not implement an adequate financial management system.

By commingling the funds, the Museum showed that it did not have effective controls and accountability over HUD funds. The Museum did not document the purpose or reasons for the electronic transfers between its bank accounts. Further, the Museum could not support or explain the reason for the numerous transfers. The Museum failed to give an accurate accounting of HUD funds.

<b>Schedule of Commingled Funds</b>			
<b>Number of Transactions</b>	<b>Transferred from Account</b>	<b>Amount Transferred</b>	<b>Transferred to Account</b>
42	Block Grant	\$198,522	Program income
3	Restore the Oaks	5,826	Block Grant
2	Program income	3,500	Block Grant
1	Program income	13,104	General fund
1	Program income	50	Restore the Oaks
49	<b>Total</b>	<b>\$221,002</b>	

<sup>38</sup> Includes \$9,000 of payments (\$3,000 and \$6,000) from a review of the bank statements.

<sup>39</sup> 24 Code of Federal Regulations 84.21(b)(1)(3).

<sup>40</sup> 24 Code of Federal Regulations 84.21.

### **Museum Did Not Properly Account for Program Income**

The Museum failed to maintain and accurately report program income as required by HUD and the City. HUD defines program income as the gross income generated from project activities and it must be used similarly to Block Grant funds. Further, the grant agreement with the City stated: “all program income shall be accounted for separate and apart from other agency’s funds.” The Museum’s financial management system did not meet federal requirements;<sup>41</sup> therefore, could not accurately account for and report financial information on its grants. For example, the Museum reported a total of \$62,841 in program income to the City, whereas the Museum bank records showed \$143,715 in program income deposits, a difference of \$80,874. Review of the City’s receipts showed the \$80,874 difference resulted from the Museum depositing reimbursed Block Grant funds into its program income account. This example highlights a significant weakness in the Museum’s financial management system. Instead of accounting for expenditures and reimbursements on the grants in the same account, the Museum would deposit the reimbursements into the program income account. Thus, the Museum could not reconcile expenditures with reimbursements.

According to HUD requirements, the City should have ensured that all program income was accurately accounted for and used in accordance with program requirements. As discussed in Finding 1, the City failed to adequately monitor the Museum.

### **Museum Could Not Support Reimbursement Claims**

The Museum submitted unsubstantiated reimbursement claims to the City. The City reimbursed the Museum \$1,085,702<sup>42</sup> from January 2000 through January 2003. As with all cost reimbursements, the grant agreement required the Museum to incur eligible expenditures then receive reimbursement from the City. In some instances, the Museum requested reimbursements from the City based upon payments the Museum supposedly made to vendors. However, the Museum did not pay vendors before requesting the reimbursements, delayed payments to vendors after receiving reimbursement, and in some instances, did not pay vendors. The review revealed four instances in which the Museum either delayed payment or did not pay vendors.

1. Between October and December 2002, the Museum requested and received \$6,957 for advertising costs but never paid the vendors.

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<sup>41</sup> 24 Code of Federal Regulations 84.21b(3).

<sup>42</sup> This amount does not include the \$9,658 returned to the City on November 10, 2004.

2. As of June 2004, an auditor claimed the Museum owed it \$5,200 for 2000 audit services.
3. A security service provider stated that at one time, the Museum accumulated a balance of more than \$17,000. The Museum eventually paid the balance down \$2,600. The service provider hired a collection agency to recover the balance. The collection agency has yet to recover the \$2,600 balance on behalf of the service provider.
4. An accountant stated the Museum did not pay them when due. Records show a remaining balance due of \$1,183 as of December 2002.

According to a City employee, the Museum did not submit supporting documentation with the request for reimbursement. The City's records support the employee's statement that the City paid the Museum's claims without supporting documentation. Federal regulations required the City to evaluate the adequacy and propriety of the documentation supporting costs including verifying the authenticity and accuracy of the support of claimed costs. The City did not request, evaluate, or verify the supporting documentation of claimed costs submitted by the Museum.

### **Museum Did Not Establish and Implement Procurement Procedures**

The Museum failed to establish written procurement procedures as required by HUD regulations.<sup>43</sup> HUD required the Museum to establish a procurement policy that would reflect the City and federal regulations providing:

- Full and open competition;
- Cost analyses;
- Documentation of procurement history;
- Contract administration; and
- Standards of conduct.

The Museum's Executive Director stated the Museum did not develop and implement a written procurement policy. Without the development and implementation of an adequate procurement policy, the Museum did not know whether it procured goods and services as required by HUD. The Museum must establish and implement a procurement policy and procedures.

The City should have required the Museum to establish such procedures and should ensure all subrecipients have procurement policies that comply with requirements in effect.

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<sup>43</sup> 24 Code of Federal Regulations 84.44.

## **Museum Did Not File and Pay Employment Taxes When Due**

The Museum was delinquent in paying payroll taxes to the United States<sup>44</sup> and the State of Louisiana.<sup>45</sup> The Museum failed to deposit or pay federal employment taxes for five employees totaling \$23,905 when due. Both federal and state governments assessed the Museum penalties and interest totaling \$5,342, and filed liens. The Museum ineligibly paid the delinquency penalties with HUD funds. HUD required recipients of HUD funding to comply with all federal and state laws, which included the filing and payment of employment taxes. As previously stated, federal regulations forbid the use of federal funds to satisfy the cost of fines and penalties resulting from the failure of an organization to comply with federal regulations.<sup>46</sup>

The Museum should file, withhold, and pay taxes upon their due dates. The Museum should attend, if necessary, appropriate Internal Revenue Service workshops to obtain knowledge on employer responsibilities. The City should review subrecipient supporting documentation to ensure that it does not reimburse subrecipients for ineligible expenditures.

## **Recommendations**

We recommend that the HUD New Orleans Community Planning Development Director require the City to:

- 2A. Repay its Block Grant program \$50,609 for the ineligible costs.<sup>47</sup>
- 2B. Support or repay its Block Grant program the \$181,474 for unsupported funds.<sup>48</sup>
- 2C. Ensure subrecipients have an adequate financial management system including the filing, withholding, and paying of taxes upon their due dates.

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<sup>44</sup> 26 U.S. Code 3102 Internal Revenue Code(a).

<sup>45</sup> Louisiana Revised Statutes 47, 114, "Returns and Payment of Tax."

<sup>46</sup> Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations," section 16.

<sup>47</sup> This amount also deemed ineligible and unsupported in Finding 1 and some amounts deemed unsupported in recommendation 2B. We did not include this amount in the schedule of question costs and funds to be put to better use.

<sup>48</sup> This amount also deemed ineligible and unsupported in Finding 1 and some amounts deemed ineligible in recommendation 2A. We did not include this amount in the schedule of question costs and funds to be put to better use.

- 2D. Ensure subrecipients establish and implement procurement policy and procedures.
- 2E. Ensure the subrecipients pay vendors before seeking reimbursement. Further, the City should ensure the Museum pays the nine vendors the \$15,940 for which it previously received reimbursement.



## SCOPE AND METHODOLOGY

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To achieve our audit objective we performed the following:

- ✓ Reviewed the Museum's grant agreements and applicable regulations;
- ✓ Interviewed appropriate staff from the Museum, the City, and HUD and others, including local contractors, artists, and former City employees;
- ✓ Conducted site visits to properties and projects related to the Museum;
- ✓ Analyzed files, financial documents, records, monitoring reports, audit reports, and other reports maintained by the Museum and the City;
- ✓ Reviewed program income of the Museum for compliance with Block Grant requirements;
- ✓ Selected 43 of 43 payments from the City during the period of January 1, 2000, through May 21, 2004, to determine whether the payments represent advances of program funds or reimbursements for actual costs incurred, to reconcile the payments with the receipts of the Museum, and to evaluate the adequacy and accuracy of the documentation supporting the cost;
- ✓ Non-statistically selected 30 of 1,445 total disbursements to ensure reimbursement costs were adequate and supported; and
- ✓ Reviewed the bank statements from January 2000 through December 2002.

Throughout the audit, we obtained and reviewed computer-generated data from the Museum and the City. We did not test the reliability of computer-generated data. The Museum lacked controls over receipts, disbursements, and program performance to make its data reliable. The Museum commingled more than \$221,000 of funds and made 49 transfers to and from four bank accounts. In addition, the Museum lacked documentation to support its program operations. Further, the Museum failed to comply with federal rules and regulations. The lack of controls limited our reliance upon the data.

We performed our fieldwork on the Museum from February to October 2004. The audit generally covered the Museum's operations from January 1, 2000, to October 31, 2004. We expanded our scope as necessary.

We conducted the audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Adequacy of procedures over cash management including receipts and disbursements;
- Assuring the eligibility of expenditures;
- Adequacy of controls over and compliance with program policies and procedures;
- Management philosophy and operating style;
- Assuring costs remain in line with budgeted expenses;
- Monitoring performance to ensure program goals are met;
- Ensuring physical safeguarding of assets;
- Ensuring reliability of financial data; and
- Ensuring proper procurement of services.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

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

- Fiscal management including receipts and disbursements;
- Validity and reliability of relevant data;
- Support and eligibility of expenditures;

- Controls over project operations;
- Safeguarding of assets;
- Ensuring program goals and objectives are met;
- Management philosophy and operating style; and
- Compliance with program requirements and procedures including compliance with national objectives and procurement requirements.

## FOLLOW-UP ON PRIOR AUDITS

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**City of New Orleans – Desire  
Community Housing  
Corporation. Audit Report  
Number 2004-FW-1007**

This is our first audit of the Museum, a subrecipient of the City of New Orleans. However, it is our second audit of a City of New Orleans' subrecipient.

In our audit of the City subrecipient, Desire Community Housing Corporation (Desire),<sup>49</sup> we concluded Desire did not effectively and efficiently administer its programs in accordance with the terms of the grant agreements with the City and applicable HUD regulations and federal laws.<sup>50</sup> Desire did not develop and implement a sound internal control environment to administer its programs. This resulted in Desire not providing adequate oversight and management of its HUD-funded projects. Further, Desire mismanaged \$1.1 million of HOME funds on its Bayou Apartments rehabilitation project and \$2,039,150 of program income from Liberty Terrace. In addition, Desire made unsupported disbursements totaling \$91,885 and violated HUD procurement regulations. The City should have provided sufficient monitoring of Desire to detect the problems sooner and possibly mitigated Desire's mismanagement of limited HOME funds. We made 24 recommendations, including that the City support or repay the funds and implement policies and procedures to ensure compliance with program requirements. HUD and the City are working to close the 23 recommendations still open.

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<sup>49</sup> Audit of the City of New Orleans, Desire Community Housing Corporation, New Orleans, LA, report number 2004-FW-1007, dated June 22, 2004.

<sup>50</sup> 24 Code of Federal Regulations 92.504(a).

## APPENDIXES

### Appendix A

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

Recommendation Number	Ineligible <sup>1</sup>	Unsupported <sup>2</sup>	Funds To Be Put to Better Use <sup>3</sup>
1A	\$ 62,654		
1B	150,000		
1C		\$298,434	
1D	263,322		
1E	298,634		
1F			\$859,684
<b>Totals</b>	<b>\$774,610</b>	<b>\$298,434</b>	<b>\$859,684</b>

- 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 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/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

DIVISION OF HOUSING AND  
NEIGHBORHOOD DEVELOPMENT

CITY OF NEW ORLEANS

C. RAY NAGIN  
MAYOR

ALBERTA S. PATE  
Executive Assistant  
to the Mayor

February 18, 2005

Mr. James D. McKay  
Acting Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Region VI, Office of Inspector General  
819 Taylor Street, Room 13A09  
Fort Worth, TX 76102

**RE: NEW ORLEANS AFRICAN AMERICAN MUSEUM**

Dear Mr. McKay,

The City of New Orleans has received and reviewed the OIG audit of the New Orleans African American Museum, a subrecipient of the City of New Orleans under the Community Development Block Grant. The City's response to the findings stated in the report is listed below.

**Finding 1: The Museum Failed to Comply with Its Grant Agreements**


The City of New Orleans agrees with this finding and is taking the following corrective actions.

The City has implemented stronger screening criteria for potential grant subrecipients to determine minimum qualifications to apply for funding and, post award, to assess an agency's ability to effectively administer programs. These criteria are applied to all subrecipients of HUD funded programs.

Prior to awarding contracts, the City ensures that the proposed projects meet the tests of eligibility compliance with a national objective. Contracts are developed using boilerplate language to assure consistency in language that meets federal regulatory requirements and that provided for specific, itemized, measurable contract deliverables.

Post award programmatic monitoring is now occurring on a regular basis to provide prevention and intervention that will minimize non-compliance with program requirements. All subrecipient agencies are subject to programmatic and fiscal monitoring. The City has better coordinated and shored its monitoring and payment efforts so that reimbursements are only made upon properly supported documentation of costs and service delivery. Subrecipient performance on prior contract agreements is a factor considered in the funding process.

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PHONE 504.299.4800 | FAX 504.299.4951



## Comment 2

### **Finding 2: The Museum Mismanaged \$1,073,044 in Block Grant Funds**

The City of New Orleans agrees with this finding and is taking the following corrective actions:

As stated above, both at the pre- and post- contract award period, the City implements procedures to assess an agency's ability to effectively administer programs. For newly funded agencies, the post award procedure includes an assessment of financial systems and controls conducted by internal auditors. Agencies receiving continued funding are assessed either through the agency A-133 audit or, when an audit is not required, certification from a Certified Public Accountant verifying that agency financial records conform to Subpart C.21 of OMB Circular A-110.

Fiscal monitoring during the contract period is conducted for all subrecipients and includes review of agency accounting records including general ledgers. Agencies do not receive reimbursement for expenditures without evidence of properly supported documentation. These monitoring, accounting, and audit procedures assure that funded agencies have the ability to effectively administer programs.

With regard to the recommendation that the City recover the property and any remaining assets provided to the Museum since it no longer meets a national objective, the City is not prepared to take that action at this time. In fact, the City has been in conversation with new members of the Museum's board of directors to explore ways that the property can continue to have a positive impact on the community while meeting the requirements of the CDBG Program with respect to eligibility and national objective. Negotiations with the board have resulted in an agreement to restructure the board of directors to include a broad array of stakeholders including community residents who bring to the table expertise in museum administration, culture/history, business, tourism, education, and federal/state/municipal government. The administration feels certain that an agreement can be reached where this project reflects the pride of the historic Treme neighborhood.

With regard to the recommendation that the City seek administrative sanctions against the Executive Director and any other parties involved in the deficiencies described in the report, the City, at the appropriate time, will pursue any and all appropriate remedies to protect its funds and HUD funds.

The City of New Orleans is committed to the highest administrative standards of all of its HUD programs and will continue to select and support programs and initiatives that empower our neighborhoods and the residents living within. We will continue to take the necessary steps to build on the restored public trust in City government and its leaders under the Nagin administration. Please do not hesitate to contact me at 504-658-4290 if you have any questions or need more information.

Sincerely,



Alberta S. Pate

ASP/EML

copy: Mayor C. Ray Nagin  
Ellen M. Lee, Deputy Executive Assistant for Neighborhood Development  
Anthony M. Faciane, Deputy Executive Assistant for Housing  
Kenya H. Smith, Executive Counsel

### **OIG Evaluation of Auditee Comments**

**Comment 1** We applaud the City's efforts to correct the deficiencies and are encouraged by the actions taken by the City.

**Comment 2** We share the City's goal of having the property positively impact the community and meet HUD's national objective. However, the City should take proactive measures, including reiterating its control over the property and ensuring that all parties involved understand that the property must be managed and operated in accordance with HUD and City requirements. This includes the City reaffirming its control over the property.