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TO: Jason Gamlin
Louisiana State Coordinator, 6HS

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Single Family Homeless Initiative
New Orleans Field Office Oversight of Safety Net
New Orleans, Louisiana

In response to Congressional and Secretarial requests, we audited the New Orleans Field Office's oversight of Safety Net, a nonprofit organization in Baton Rouge, Louisiana. Safety Net administered HUD's Single Family Property Disposition Homeless Initiative. The requestors wanted to know whether Safety Net had complied with the Homeless Initiative regulations and guidelines, and whether the New Orleans Field Office had properly carried out its oversight responsibilities of Safety Net.

Safety Net had not complied with the Homeless Initiative regulations and guidelines, and the New Orleans Field Office's oversight was seriously deficient. Consequently, the Homeless Initiative's purpose of assisting the homeless by providing transitional housing and supportive services was not met. Instead, the New Orleans Field Office allowed Safety Net to abuse the program by leasing properties to relatives, employees, and individuals that did not meet the definition of homeless.

Within 60 days, please give us a status report for each recommendation made in the report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you have any questions, please contact me or Frank Baca, Assistant District Inspector General for Audit.

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Executive Summary

We audited the New Orleans Field Office's oversight of Safety Net, a nonprofit organization administering HUD's Single Family Property Disposition Homeless Initiative (Homeless Initiative) in Baton Rouge, Louisiana. Our objectives were to determine whether Safety Net had complied with the Homeless Initiative regulations and guidelines and whether the New Orleans Field Office adequately performed its oversight responsibilities.

Safety Net had not complied with Homeless Initiative regulations and guidelines, and the New Orleans Field Office had not adequately performed its oversight responsibilities.

Homeless Initiative violated

Safety Net abused the Homeless Initiative. A review of 43 of Safety Net's 108 leases noted only one tenant meeting the definition of homeless. The review noted several violations over 6 years, including leasing properties to relatives and employees.

Application approved without required information

The New Orleans Office of Community Planning and Development (CPD) approved Safety Net for participation in the Homeless Initiative. However, CPD had not required Safety Net to submit pertinent required information; e.g., a defined homeless population it would serve; information showing how it would comply with federal, state or local laws and regulations; audited financial statements; and information showing it had sufficient assets necessary to carry out the Homeless Initiative objectives. In our opinion, had CPD properly reviewed Safety Net's application, Safety Net would not have participated in the program.

Monitoring disclosed abuses, but CPD allowed them to continue

New Orleans CPD did a poor job of monitoring Safety Net and the CPD Homeless Coordinator who monitored Safety Net apparently ignored the Homeless Initiative regulations and guidelines. Nonetheless, CPD was aware of Safety Net's program abuses and its leasing properties to relatives and employees, leasing properties to non-homeless individuals, and re-selling purchased properties to unqualified individuals. However, instead of demanding compliance, CPD complimented Safety Net for strict compliance with regulations and approved them to lease additional properties.

The *Baton Rouge Advocate* disclosed Safety Net's abuses in an extensive press story. As a result, the United States Attorney in Baton Rouge opened a criminal investigation. Prompted by the adverse press reports, HUD Headquarters CPD sent a special team to investigate Safety Net. The team issued a critical report which prompted HUD Headquarters CPD to immediately terminate Safety Net from the program.

Oversight of Safety Net leases inadequate

The New Orleans Single Family Property Disposition (Single Family) office exercised little or no oversight over the Homeless Initiative and Safety Net between April 1994 and March 1996. They did not ensure Safety Net had current property leases and neglected to follow up on taxes, penalties, and interest Safety Net owed HUD. As a result, Safety Net's leases had expired and it owes HUD \$11,410 for taxes, penalties, and interest. Additionally, the Single Family office did not communicate potential Homeless Initiative abuses to CPD.

HUD Comments
Regarding Audit Results

New Orleans HUD officials did not provide a written response to the report. Instead, they provided verbal comments at an exit conference on July 26, 1996. The State Coordinator did not disagree with the audit findings. However, he stated the report was incomplete in that the recommendations would not resolve problems with the Homeless Initiative program. The State Coordinator noted the report did not address problems relating to Headquarters' oversight or problems with the program itself (a Single Family official at the exit conference stated Headquarters officials had known of problems at Safety Net).

At the exit conference, the New Orleans Director of Community Planning and Development maintained, as he had all during the audit, that CPD officials had properly monitored the program. The Single Family representative had no comment stating she had not read the draft report.

The State Coordinator's concerns are valid. The OIG has issued reports in the past addressing broader issues relating to problems with the overall program. However, this report

deals only with issues within the control of the local office. This audit finds that the New Orleans CPD and Single Family offices were seriously deficient in carrying out their responsibilities to properly administer the Homeless Initiative.

Recommendation

This report recommends the State Coordinator oversee CPD and Single Family administration of the Homeless Initiative to ensure proper approval, monitoring, and oversight of participants and their properties; appropriate training and supervision of HUD personnel; and appropriate coordination between the two offices.

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CPD Community Planning and Development

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HUD U.S. Department of Housing and Urban Development
OIG Office of Inspector General

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Introduction

The National Housing Act, as amended, authorizes HUD to manage, rehabilitate, rent, and dispose of properties acquired through FHA insurance claims. To address the plight of homeless families, the Secretary issued interim regulations (24 CFR 291, January 1990) known as the Single Family Property Disposition Homeless Initiative (Homeless Initiative). The Homeless Initiative authorizes the lease and sale of HUD properties to private nonprofit and local government providers to house the homeless. The Secretary's intent was to, "balance the needs of the homeless and the interests of the FHA insurance funds, and to work toward the National Housing Goal of 'a decent home and a suitable living environment for every American family.'"

The Secretary made up to 10 percent of HUD's single family property inventory available for the Homeless Initiative. HUD lease agreements allow homeless providers to acquire these properties for up to 5 years at \$1 annually. Providers sublease the properties to the homeless and arrange counseling and other supportive services. Providers may also purchase the homes at a 10 percent discount from fair market value. To obtain the 10 percent discount, providers must agree to use the homes either to house low-income tenants for a period of not less than 10 years, or sell the homes to low-income individuals.

Homeless Initiative administration and management

HUD administers the Homeless Initiative through the Offices of Community Planning and Development (CPD) and Housing. At Headquarters, CPD's Office of Special Needs Assistance Programs (SNAPS) has overall responsibility for managing the program. At Field Offices, CPD Divisions and Single Family Property Disposition (Single Family) branches share program oversight.

CPD staff determine eligibility and approve provider applications. CPD staff also conduct outreach, perform annual provider monitoring reviews, and otherwise oversee provider operations. Single Family staff renew leases, provide technical assistance, and inspect the properties.

Safety Net's participation

Safety Net began operations on November 22, 1989, and obtained its nonprofit status on May 16, 1990. The New Orleans CPD office approved Safety Net to participate in the Homeless Initiative on July 23, 1990. CPD initially restricted Safety Net to the lease of ten properties. CPD increased Safety Net's leasing authority several times during the following 2 years to a maximum of 50 properties on April 7, 1992. Between July 1990 and September 1994, Safety Net leased 75 properties from HUD. Of these,

Audit Objectives and Scope

Safety Net purchased 26 and elected to return 32 to HUD's inventory. Safety Net still leased 17 properties when HUD terminated it from participation in the Homeless Initiative on May 8, 1996.

The audit resulted from a Congressional and Secretarial inquiry and consisted of two phases. The first phase involved reviewing Safety Net's operation (external audit work). The second phase related to a review of HUD's oversight of Safety Net (internal audit work).

The audit had four objectives. We wanted to know whether:

- Safety Net complied with the Homeless Initiative regulations and guidelines (external);
- CPD followed the applicable regulations and guidelines in approving Safety Net to participate in the Homeless Initiative (internal);
- CPD adequately monitored Safety Net's administration of the Homeless Initiative (internal); and
- Single Family adequately performed its Homeless Initiative responsibilities (internal).

To achieve these objectives we reviewed Safety Net's financial records and leased property files. We reviewed the financial records to determine if Safety Net's accounting system met generally accepted accounting principles and if the organization had the financial resources to administer the Homeless Initiative. The audit included a review of 40 percent of Safety Net's leased property files. We reviewed these files to determine if Safety Net: (1) leased properties to homeless individuals; (2) documented and verified annual income of tenants; (3) documented the computation of monthly tenant rents; and (4) re-sold purchased properties to low-income individuals. We reviewed Single Family leased property files and sales files for Safety Net. We reviewed CPD's monitoring and approval files for Safety Net. We also conducted interviews with current and former Single Family and CPD personnel.

We coordinated the audit with the United States Attorney in Baton Rouge. The United States Attorney formed a Task Force to initiate a criminal investigation of Safety Net. We reported the external results of the audit relating to Safety Net's operations to the United States Attorney on May 9, 1996 (Appendix B). This report provides results of the internal audit work relating to HUD's oversight of Safety Net.

We did our field work from April to June 1996 and covered the period July 1990 through May 1996. We discussed the results of the audit with the Louisiana State Coordinator and with CPD and Single Family representatives at an exit conference on July 26, 1996. We conducted the audit in accordance with generally accepted government auditing standards.

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Safety Net's Application Approved Despite Serious Problem Indicators

The Community Planning and Development Division (CPD) performed inadequate work in approving Safety Net to participate in the Homeless Initiative. Safety Net's application to participate in the Homeless Initiative did not include pertinent information as required by HUD regulations and guidelines. Specifically, Safety Net's application: (1) inadequately defined the homeless population it would serve; (2) lacked information showing how it would comply with federal, state or local laws, and regulations; (3) did not include audited financial statements; and (4) did not show sufficient assets necessary to carry out the Homeless Initiative objectives. This occurred because CPD did not follow Homeless Initiative regulations and guidelines in approving Safety Net. Also, CPD ignored problem indicators in the initial approval process and failed to perform follow-up work as required. As a result, CPD allowed Safety Net to participate in the Homeless Initiative for almost 6 years. During this period, Safety Net violated numerous Homeless Initiative regulations, including leasing properties to relatives, employees, and individuals that did not meet the definition of homeless.

Regulations and guidelines require applicants to submit appropriate data

Title 24 CFR § 291.50 (Interim Rule, April 1990) required Homeless Initiative applicants to submit appropriate information to HUD for preapproval. The Interim Rule required applicants to submit: (1) information on eligibility and financial responsibility; (2) a description of the homeless population expected to occupy the property; (3) the supportive services required by the population; and (4) how the applicant will provide the supportive services.

HUD guidelines gave detailed instructions for approval of applicants. Notice H 90-15 (March 1990) was based on the above Interim Rule and made Field Office CPD staff responsible for approval of all groups applying to lease or purchase HUD-acquired properties for the homeless. Attachment 3 of the Notice listed information required for CPD to determine an applicant's capability. This included: (1) the organization's program objectives as they relate to HUD's Homeless Initiative; (2) evidence that there are financial and other resources allocated to the organization to carry out the Homeless Initiative; (3) evidence on how the organization will comply with federal, state and local laws, and regulations; and (4) evidence that the organization

has current audited financial statements as well as for the past 2 years.

A memorandum from the Assistant Secretary to all CPD Directors in November 1990 provided additional guidance on how to administer responsibilities for the Homeless Initiative. The memorandum supplemented Notice H 90-15 and the Homeless Initiative regulations. The memorandum listed specific areas that must be covered by applicants in the qualification process. Paragraph 17 of the memorandum states:

If any group was pre-approved, either by Housing or CPD, without adequate consideration of all the factors discussed above, or if monitoring or other information brings the group's qualifications into question, the Field Office should immediately request the appropriate information. Do not lease any additional properties until you are satisfied that the group is qualified.

In addition, paragraph 18 of the memorandum states:

The purpose of this program is to help the homeless transit to self-sufficiency. If any information comes to your attention that the program in your region may not be achieving that purpose, or if anything appears to be a program abuse, even if it complies with the letter of these instructions and the regulations, it is your responsibility to use common sense in making determinations and to notify the Assistant Secretary for CPD or the Director of the Headquarters SNAPS Office.

CPD approved Safety Net's application based on vague and missing information

Safety Net's application did not include information required by the Homeless Initiative regulations and guidelines. The application did not: (1) clearly define a homeless population; (2) have information showing how laws and regulations would be complied with; (3) include audited financial statements; or (4) show sufficient assets to carry out the Homeless Initiative objectives. CPD approved Safety Net to participate in the Homeless Initiative in July 1990 without questioning, or following up on, the missing information.

Homeless population not clearly defined. Safety Net described the purpose and goal of its program as to provide and assist homeless youth in making a successful transition to self-sufficient living and to prevent long-term dependency on social services. Safety Net did not define youth in its application. Youth is a broad term and it is questionable whether individuals below a certain age could achieve self-sufficiency during the period Safety Net could lease properties. The Interim Rule provided for a maximum 3-year lease period. CPD agreed with Safety Net's purpose and goal without question. Additionally, the audit showed Safety Net never intended for its program to assist homeless youth. CPD became aware of this problem after performing a monitoring review of Safety Net in December 1990. CPD's review determined Safety Net did not establish a firm description of the homeless population it would serve. Although CPD sent a letter to Safety Net requiring a complete description of the homeless population it would serve, they never followed up to ensure compliance (see Finding 2).

Application lacked information on compliance with laws and regulations. Safety Net's application omitted this information. Instead, the CPD Homeless Coordinator that reviewed the application reported Safety Net did submit evidence of compliance. Safety Net only provided a resolution adopted by its Board of Directors saying Safety Net's Executive Director is authorized and empowered to abide by the necessary responsibilities contained in the lease with HUD. In addition, Safety Net's application indicated it owed over \$17,000 for federal and state income taxes and unemployment taxes for the 6-month period ending March 31, 1990. This is a violation of federal and state law and an apparent "red flag" problem indicator. CPD did not follow up with this problem.

Audited financial statements not submitted. The Safety Net application did not include audited financial statements. Instead, Safety Net submitted a compilation report of assets and liabilities for a 6-month period. Also, the compilation report omitted substantially all of the disclosures ordinarily included in financial reports. The Certified Public Accountant said if the omitted disclosures were included, they might influence the user's conclusions about Safety

Net's financial condition. In addition, OMB Circular A-133 requires financial statement audits when a nonprofit entity receives federal funds exceeding \$25,000 a year. The Safety Net compilation report indicates it received \$132,850 in federal grant funds for the 6-month period reported. CPD should have identified this and required Safety Net to submit the reports. Instead, the CPD Homeless Coordinator that reviewed Safety Net's application erroneously reported that Safety Net did have audited financial statements for the current year as well as the previous 2 years.

Assets insufficient to carry out the Homeless Initiative. Safety Net's compilation report identified only \$4,090 in working capital (current assets less current liabilities). This appears insufficient because Safety Net indicated it expected to lease 30 properties and estimated \$300 per month to operate each property. Also, since Safety Net said its goal was to assist homeless youth, very little operating income could be obtained through rental charges. Although the compilation report did identify a Fund Balance of \$78,697, this amount appears to relate solely to donated equipment and furniture and not available for operations. CPD did not question this deficiency. The Homeless Coordinator performing the review indicated Safety Net had sufficient assets to carry out the Homeless Initiative.

CPD did not follow regulations and guidelines and ignored problem indicators. The above examples indicate CPD did not follow the Homeless Initiative regulations and guidelines in approving Safety Net. CPD did not require Safety Net to submit pertinent information as required thus ensuring Safety Net was capable of managing the Homeless Initiative. Also, CPD ignored problem indicators in the initial approval process and 5 months later when they performed a monitoring review of Safety Net. The established regulations and guidelines made CPD responsible for identifying these problems, ensuring Safety Net submitted proper information and notifying Headquarters of the problems. CPD did not follow the regulations and guidelines and otherwise performed inadequate work in approving Safety Net to participate in the Homeless Initiative.

Safety Net violated
Homeless Initiative
regulations

CPD allowed Safety Net to participate in the Homeless Initiative for almost 6 years. During this period, Safety Net violated many regulations and guidelines. For example, Safety Net used the Homeless Initiative to house individuals that did not meet the requirements for homelessness, including leasing properties to relatives and employees. Because of these violations, HUD Headquarters Offices of CPD and Single Family Housing terminated Safety Net from the Homeless Initiative on May 8, 1996. These violations also led the United States Attorney in Baton Rouge to initiate a criminal investigation of Safety Net.

CPD Director and
Homeless Coordinator
Respond

In interviews with the CPD Director and the Homeless Coordinator¹ that performed the review of Safety Net's application, OIG staff discussed the problems identified in the audit regarding CPD's approval of Safety Net.

The CPD Director said Headquarters CPD wanted to get homeless providers approved quickly, but he felt no pressure to disregard the Homeless Initiative requirements. He said a competent staff person (the Homeless Coordinator) knowledgeable in the Homeless Initiative requirements, performed the work necessary to approve Safety Net. He also said different automation clerks worked in CPD over the past few years and some of the information could be missing from the files. The Director further stated he relies on the work of his staff and does not review all of their work. In his opinion, nothing happened in the Safety Net approval process to preclude it from participating in the Homeless Initiative.

The Homeless Coordinator said the Homeless Initiative was "loose" in the beginning and HUD did not issue any definitive guidelines. He did not remember all of the guidelines and regulations, but they did not offer much guidance. The Homeless Coordinator said he did not remember much about the Safety Net approval process. He said he only made recommendations for approval, not decisions.

¹ The Homeless Coordinator retired from HUD in May 1994 and is currently employed as the Director of Housing, City of New Orleans.

Finding 1

OIG Evaluation of HUD Comments

We disagree with the CPD Director's comments. The audit results as reported in this finding clearly show CPD did not perform the work necessary to approve Safety Net or adequately supervise the approval process. Had CPD properly performed the approval process, Safety Net would not have been approved for program participation. The Homeless Coordinator's comments regarding inadequate guidance may have some validity; however, the audit results show he did not adhere to what guidance there was.

Recommendations

We recommend that the Louisiana State Coordinator require CPD to:

- 1A. Ensure all potential Homeless Initiative participants submit all required information prior to approval.
- 1B. Ensure proper follow-up on all serious problem indicators identified during the approval process.

CPD's Inadequate Monitoring Did Not Ensure Safety Net Assisted the Homeless

CPD did a poor job of monitoring Safety Net. Safety Net abused the Homeless Initiative by failing to assist homeless individuals as required. This occurred because the CPD Homeless Coordinator in charge of monitoring Safety Net ignored the Homeless Initiative regulations and guidelines. Also, CPD supervisors did not do their job. The Homeless Coordinator did not receive any formal training on the Homeless Initiative before monitoring Safety Net in 1990. Also, the CPD Director has yet to receive any formal training on the Homeless Initiative. Safety Net's abuses of the Homeless Initiative included leasing properties to relatives and employees, leasing properties to non-homeless individuals, and re-selling purchased properties to unqualified individuals. CPD was aware of these problems but did not require corrective action by Safety Net. Instead, CPD continued to approve Safety Net to lease additional properties and complimented them for strict compliance with the Homeless Initiative regulations. CPD's poor monitoring, along with adverse press reports by the *Baton Rouge Advocate*, resulted in HUD sending a Special Needs Assistance Programs team to investigate Safety Net. HUD terminated Safety Net from the Homeless Initiative on May 8, 1996, because homeless individuals did not benefit from the Homeless Initiative. Also, the United States Attorney in Baton Rouge initiated a criminal investigation against Safety Net because of the Homeless Initiative abuses.

Homeless Initiative regulations identify purpose and define homeless

The Interim and Final Rules² stated the purpose of the Homeless Initiative is to assist the homeless by providing transitional housing and supportive services to help them move to independent living. The Interim Rule defined homeless as those: (a) lacking a fixed, regular, and adequate nighttime residence or (b) residing in shelters providing temporary accommodations, in institutions for those intended to be institutionalized, or in places not intended as regular sleeping accommodations for human beings. The Final Rule expanded the definition of homeless. It said homeless means: (a) individuals or families with income not exceeding 50 percent of the area's median income who lack resources to obtain housing and (b) those at imminent risk of homelessness because they face immediate eviction and have been unable to identify a

² 24 CFR Part 291, published January 11, 1990, and September 16, 1991, respectively.

HUD guidelines address CPD monitoring responsibilities

subsequent residence (which would result in their emergency shelter placement).

Notice H 90-15 (March 1990) made CPD responsible for annual monitoring to ensure leased properties were used for intended purposes. The Assistant Secretary for CPD supplemented the Notice by issuing memoranda in November 1990 and February 1991 that provided guidance on monitoring. The Assistant Secretary required reviews of provider records and interviews to determine if: (1) tenants met the homeless definition; (2) supportive services are being provided; (3) rents charged to tenants do not exceed their ability to pay or the properties' operating costs; (4) actual property operating costs are reasonable, documented, and that tenants in the program do not pay expenses of others residing in properties with higher operating costs; (5) providers verified the potential occupant's income; (6) tenants verified data in the provider's files; and (7) providers violated the conflict-of-interest provisions.³

The November 1990 memorandum said the key to ensuring Homeless Initiative compliance is to monitor the provider. The memorandum said it is extremely important to monitor each provider each year. Further, the memorandum required CPD to immediately request information from providers in writing whenever monitoring reviews identified inappropriate tenants living in Homeless Initiative properties.

Safety Net abused the Homeless Initiative

Safety Net abused the Homeless Initiative by not assisting homeless individuals. The audit included a review of 43 of Safety Net's leased property tenant files.⁴ Based on the review, only 1 of the 43 tenants met the definition of homeless. The audit also showed Safety Net: (1) leased one property to a relative of the Executive Director; (2) did not verify tenant's income; (3) did not provide tenants with supportive services; (4) did not maintain documentation to support tenant rental charges; (5) sold purchased properties to a relative of the Executive Director and a former Board

³ Homeless Initiative regulations prohibit providers from leasing or selling properties to employees, relatives, or Board members.

⁴ Safety Net provided 108 leased property files. The 43 files reviewed represents 40 percent. Some of the 75 properties leased by Safety Net between 1990 and 1996 had multiple tenants.

member; and (6) sold purchased properties to individuals that did not meet the definition of low-income.⁵ HUD created the Homeless Initiative with the main purpose of assisting the homeless. Safety Net did not meet this purpose.

CPD's first monitoring review did not resolve major deficiencies

CPD first performed a monitoring review of Safety Net in December 1990. CPD did not communicate the results of the review to Safety Net until April 1991. Also, CPD never followed up to ensure Safety Net corrected significant problems. In the letter to Safety Net, CPD reported five findings of noncompliance as follows:

- Selection of Homeless Clients. The review indicated Safety Net does not adhere to the definition of homeless individuals authorized to occupy HUD properties.
- Rents - Calculations and Collections. Safety Net accumulates rental charges in a commingled account. The commingled funds are used to pay various operating expenses for all of Safety Net's properties. There is no basis for Safety Net's computation of rental charges. Some tenants do not pay anything although their properties' expenses are paid from the commingled account. In one example, a family that paid no rent had a \$697.02 telephone bill. Safety Net paid the telephone bill with the commingled funds generated from other tenants.
- Supportive Services. Safety Net did not document that it provided supportive services to tenants.
- Agreement with Occupants. Safety Net's sublease agreement with tenants allows subsequent purchase of the properties by the tenants. This is not in conformity with the Homeless Initiative regulations. The Homeless Initiative is not intended as a home ownership program.
- Homeless Population. Interviews with occupants failed to establish a firm description of the homeless population served by Safety Net.

⁵ Safety Net's property leases prohibit sales of homes to individuals other than low income. Safety Net also certified to this in its sales contracts with HUD.

CPD required specific corrective action for each of the above findings. These findings appear significant. However, CPD staff actions indicate they believed otherwise because Safety Net never responded to the findings and CPD did not follow up to ensure compliance. Instead, CPD continued to approve Safety Net for leasing additional properties and did not perform another monitoring review for almost 2 years. This occurred despite instructions contained in a February 1991 memorandum from the Assistant Secretary. The memorandum said that providers must be reviewed each year and no additional properties should be leased until a determination is made that the program is proceeding properly.

CPD's monitoring letter to Safety Net also omitted other Homeless Initiative violations. The CPD Homeless Coordinator prepared worksheets during the monitoring review. The worksheets identified one tenant as the nephew of Safety Net's Executive Director. The Homeless Coordinator ignored this conflict-of-interest violation. CPD's Financial Analyst also prepared worksheets during the review. The Financial Analyst indicated Safety Net did not establish requirements or procedures for: (1) selecting qualified applicants; (2) setting guidelines relating to income; (3) defining homelessness; (4) determining operating costs; and (5) verifying income and employment.

1992 and 1993 monitoring reviews overlooked serious problems

CPD performed two additional monitoring reviews of Safety Net in September 1992 and August 1993. Neither of these reviews identified problems with Safety Net's operation. CPD even cited Safety Net for strict compliance with the Homeless Initiative regulations. CPD also told Safety Net its financial system allows for an accurate review of Homeless Initiative fund accountability. These reviews, performed by the same Homeless Coordinator responsible for the 1990 review, overlooked serious problems.

Our audit included a review of the same tenant files the Homeless Coordinator reviewed in 1992 and 1993. For 1992, we reviewed seven of eight files the Homeless Coordinator reviewed. For 1993, we reviewed five of seven files the Homeless Coordinator reviewed. Our

review concluded Safety Net: (1) did not verify that tenants were homeless; (2) did not verify tenant's income; (3) did not document how it computed monthly rental charges; and (4) did not verify it sold purchased properties to low-income individuals. In one example, the tenant sought Homeless Initiative housing because she did not feel an apartment was appropriate for raising children. In addition, the Homeless Coordinator did not interview any of the 15 tenants whose files he examined in 1992 and 1993 as required by HUD guidelines.

The Homeless Coordinator's worksheets did not show he reviewed any of Safety Net's financial records. We reviewed Safety Net's 1993 financial records and concluded they did not meet generally accepted accounting principles as required by the regulations. Safety Net did not support payments with invoices. Also, Safety Net did not support large payments to its Executive Director and her assistant. Further, Safety Net operated with a negative cash flow in 1993 and did not have sufficient financial resources to continue as a going concern.

Homeless Initiative training and supervision lacking

CPD staff training appeared inadequate at the start up of the Homeless Initiative. Training records indicate the Homeless Coordinator did not receive any Homeless Initiative training prior to recommending Safety Net's approval to participate in the program (Finding 1). The Homeless Coordinator also performed CPD's first monitoring review of Safety Net without any Homeless Initiative training. In addition, the CPD Director has yet to receive any formal Homeless Initiative training, despite having overall responsibility for carrying out the Homeless Initiative objectives.

CPD supervisors did not do an adequate job. A review of the Homeless Coordinator's worksheets shows no evidence of supervisory review, although the CPD Director approved his work by signing all monitoring review letters to Safety Net. Also, the CPD Director gave the Homeless Coordinator Outstanding Performance Ratings for his work on the Homeless Initiative in fiscal years 1991 through 1993. The 1991 rating said the Homeless Coordinator effectively monitored the Program, and "...was largely responsible for avoiding the scandals that have plagued the

Adverse press reports led to 1996 monitoring review and investigation

Program elsewhere in our Region." Evidence also exists that the former CPD Program Manager⁶ was aware of Safety Net's problems in 1994 but did not act on the information (Finding 3).

In a March 31, 1996 article, the *Baton Rouge Advocate* reported Safety Net's abuses of the Homeless Initiative. This article prompted CPD and a Special Needs Assistance Programs team from Headquarters to initiate a programmatic review of Safety Net's participation in the Homeless Initiative. The review resulted in the Deputy Assistant Secretary for Economic Development and the Deputy Assistant Secretary for Single Family Housing terminating Safety Net from the Homeless Initiative on May 8, 1996. The termination letter to Safety Net said it did not demonstrate that tenants were homeless, charged the correct rent, or received supportive services. The letter also pointed out an obvious conflict-of-interest violation. In addition, the news article led the United States Attorney in Baton Rouge to initiate a criminal investigation against Safety Net and its Executive Director. The investigation is on-going.

CPD Staff Respond

At the audit entrance conference held April 10, 1996, the CPD Director emphatically assured us CPD did an adequate job of monitoring Safety Net.⁷ The CPD Director said although CPD did identify problems during the first monitoring review in 1990, subsequent reviews performed in 1992 and 1993 showed Safety Net corrected the problems. He also said CPD commended Safety Net in 1993 for how well it operated the Homeless Initiative. In addition, the CPD Director said that, if the allegations reported by the *Baton Rouge Advocate* are true, it is because Safety Net changed and started disregarding the Homeless Initiative regulations and guidelines after the monitoring reviews were performed.

⁶ The Program Manager retired from HUD in March 1995.

⁷ The HUD Louisiana State Coordinator attended the entrance conference.

The audit also included interviews with the CPD Director, the former Homeless Coordinator and the former Program Manager to obtain their responses regarding this finding. These three individuals had responsibility for oversight of Safety Net's administration of the Homeless Initiative.

The CPD Director maintained his staff, in particular the Homeless Coordinator, did an adequate job of monitoring Safety Net. The CPD Director did not comment on the deficiencies identified in the audit. He said he relies on the work performed by his staff and cannot personally review all of their work. The CPD Director could not explain why CPD did not follow up with the findings identified in the 1990 monitoring review of Safety Net. He did say the Homeless Coordinator had telephone discussions with Safety Net regarding the review. He said CPD's monitoring reviews in 1992 and 1993 showed Safety Net had corrected all the problems identified in 1990. The CPD Director said they did not perform any reviews of Safety Net after 1993 because the Homeless Initiative was "winding down," meaning HUD's inventory of properties did not allow Safety Net to lease additional homes. He said CPD planned on monitoring Safety Net late in 1996 as part of their "close out" reviews.

The Homeless Coordinator explained the purpose of monitoring the Homeless Initiative was to provide technical assistance. He was not certain if Safety Net ever responded to the 1990 monitoring review but thought they did respond. The Homeless Coordinator admitted making a mistake during the 1990 review by not questioning the conflict-of-interest violation. He did not comment on the deficiencies noted in this finding regarding the 1992 and 1993 monitoring reviews.

The Program Manager said he and the CPD Director required the Homeless Coordinator to submit documentation to support monitoring review letters. The Program Manager also said he and the CPD Director normally reviewed the supporting documentation. He could not explain why CPD did not require corrective action by Safety Net on the findings identified in the 1990 review. He said Safety Net's Executive Director may have verbally agreed to take action. The Program Manager also did not

know why the 1992 and 1993 monitoring reviews did not identify problems with Safety Net. He said the Homeless Coordinator was knowledgeable of the Homeless Initiative regulations.

OIG Evaluation of
HUD Comments

The CPD Director's comments are inconsistent with the audit results reported in this finding. His comments imply that, after CPD's 1993 monitoring review, Safety Net went from being a good operation to a bad one. However, CPD and Safety Net records evidence serious deficiencies in Safety Net's operations, and CPD's monitoring of Safety Net, from 1990 until the provider's termination in May 1996.

Recommendations

We recommend that the Louisiana State Coordinator require CPD to:

- 2A. Perform monitoring reviews, at least annually, of all Homeless Initiative participants and ensure corrective action is taken on all findings.
- 2B. Not approve any additional properties for lease to Homeless Initiative participants if corrective action has not been taken on all outstanding monitoring review findings.
- 2C. Ensure all staff responsible for the Homeless Initiative receive adequate training regarding the applicable regulations and guidelines.
- 2D. Request CPD Headquarters to evaluate the performance of the CPD Director in light of this report, and take appropriate action to improve supervision of CPD activities at the New Orleans office.
- 2E. Ensure all staff are properly supervised and that all monitoring review work is reviewed prior to notifying Homeless Initiative participants of the review results.

- 2F. Terminate all Homeless Initiative participants that abuse the regulations and guidelines.

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Single Family Did Not Adequately Oversee Safety Net Activities

The New Orleans Single Family Property Disposition Branch (Single Family) did not adequately perform its responsibilities for the oversight of Safety Net. Specifically, Single Family did not ensure Safety Net had current property leases nor properly communicate potential Homeless Initiative abuses to CPD. Also, Single Family failed to follow up on taxes, penalties, and interest Safety Net owed HUD. The Homeless Initiative regulations and guidelines made Single Family responsible for lease renewals, communicating and coordinating with CPD, and ensuring the payment of all taxes. However, Single Family exercised little or no oversight over the Homeless Initiative and Safety Net between April 1994 and March 1996, and ignored regulations and guidelines. As a result, Safety Net owes HUD \$11,410 for taxes, penalties, and interest on eight properties. Also, two of Safety Net's leases exceeded the 5-year maximum time period. In addition, HUD had to terminate Safety Net from the Homeless Initiative for allowing relatives, employees, and non-homeless individuals to live in its leased properties.

Single Family allowed leases to expire

The audit showed Single Family allowed all of Safety Net's property leases to expire in 1994. Housing Notice H 91-91 made Single Family responsible for lease renewals. As of May 1996, Safety Net still had control of 17 properties without current leases. Although Louisiana State Law provides that the leases automatically revert to a month-to-month basis on expiration, two of Safety Net's leases exceeded the 5-year limitation in 24 CFR 291.415 (Final Rule). The Final Rule states the property will be placed on the market for sale to the general public at the end of the 5-year lease period.⁸ Single Family did not follow these regulations.

No oversight by Single Family

Single Family exercised little oversight over Safety Net's program after April 1994. In April 1994, the Housing Specialist responsible for Safety Net received a re-assignment to other duties. Although records show Single Family did send Safety Net lease renewal forms in September 1994, Safety Net did not respond and Single Family did not follow up. The Single Family Director said

⁸ Providers may opt to purchase the home at a 10 percent discount from fair market value.

Indicators of affluent tenants not communicated to CPD

they apparently "dropped the ball" regarding Safety Net's leases. The Single Family Director said his staff had not informed him about any problems regarding Safety Net since he assumed the Director duties in December 1994.

Single Family did not properly communicate potential Homeless Initiative abuses discovered during its inspections of Safety Net's properties. Single Family Housing Specialists noted indicators of affluent tenants during inspections performed in June 1994 and March 1996. The Specialists noted multiple examples of new expensive cars, expensive furniture, big screen televisions, and other items. Homeless Initiative regulations say only homeless individuals can reside in these properties. Although homeless determination is a CPD function, Homeless Initiative guidelines require Single Family to cooperate, coordinate, and communicate with CPD in all aspects of the Homeless Initiative. The audit did not show any evidence that Single Family communicated its inspection results to CPD. The former Single Family Branch Chief said he verbally communicated the indicators of affluent tenants to the CPD Program Manager on several occasions. He said the Program Manager told him it was not Single Family's job to monitor tenant eligibility. The Branch Chief said he also discussed the problem with the Housing Director. He and the Housing Director agreed it would be "politically incorrect" for Single Family to send correspondence to CPD regarding the matter. A July 1994 electronic mail message the Branch Chief sent to the Housing Director substantiates his statements (names omitted as appropriate; footnote added):

"(Person A) and (Person B) recently performed inspections of leased properties in Baton Rouge. (Person A) was struck by the very large number of very prosperous looking folks who are occupying these houses. I told (Person C) about these impressions and he asked to see a copy of (Person A's) report. I already talked to the IG about this problem. She said that I should make a referral and send a copy to CPD. Any such referral from us is an implied criticism of the manner in which CPD has discharged its monitoring responsibilities. How do you suggest that we handle this problem? It has

been my impression for a very long time that both Safety Net and Second Chance Academy have flouted the rules of this program in a most egregious way. In fact, both Ms. Veal and Ms. Perkins⁹ have each accused the other of nefarious and self-serving conduct. If even half of what we suspect turns out to be true the Department could wind up with a very black eye. There is no real reason to believe that CPD will be any more attentive to their responsibilities in the future than they have been in the past."

The former Branch Chief did not refer the matter to CPD and OIG until February 29, 1996. This communication resulted after the former Branch Chief learned of an impending newspaper article in the *Baton Rouge Advocate*.

Single Family did not ensure Safety Net paid taxes

Single Family did not ensure Safety Net reimbursed HUD \$11,410 for taxes, interest, and penalties. HUD paid these fees on eight properties leased, and subsequently sold, to Safety Net. Its leases with HUD require Safety Net to pay all taxes associated with the properties. HUD Notice H 91-91 made Single Family responsible for ensuring the payment of all taxes and to promptly advise CPD of the failure of a lessee to reimburse HUD. Although Single Family did not advise CPD of the problem, they did issue a demand letter to Safety Net on June 9, 1995, for \$14,187. The audit showed a title company repaid the taxes on one property and partially repaid the taxes on another property. However, as of May 1995, Safety Net still owed HUD \$11,410. The demand letter gave Safety Net 30 days to repay the funds but Safety Net did not respond. Single Family did not follow up with the demand letter.

Single Family Response to OIG Concerns

Single Family officials generally agreed with the audit results.

⁹ Ms. Veal and Ms. Perkins are the Executive Directors of Safety Net and Second Chance Academy (another Homeless Initiative provider), respectively.

Recommendations

We recommend that the Louisiana State Coordinator require Single Family to:

- 3A. Ensure Safety Net repays HUD \$11,410 for taxes, interest and penalties owed on eight properties.
- 3B. Ensure all Homeless Initiative leases under its control are current.
- 3C. Require all properties that have been leased in excess of the 5-year period to be returned to its inventory.
- 3D. Perform inspections, at least annually, of all Homeless Initiative properties and communicate the results of the inspections to CPD in writing including any indications of program abuse.

Internal Controls

In planning and performing the review of the Homeless Initiative, we studied Single Family and CPD administrative controls related to the audit objectives.

Internal controls consist of the plan of organization, methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports.

Relevant Internal Controls

We considered 24 CFR Parts 291, Housing Directive 91-91, all CPD Memoranda regarding the Homeless Initiative and related directives. We assessed Homeless Initiative controls over Safety Net in Single Family and CPD. We also assessed Safety Net's compliance with Homeless Initiative requirements.

Significant Weakness

As discussed in the findings, Single Family and CPD controls need strengthening to ensure homeless providers comply with the Homeless Initiative regulations and guidelines.

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Schedule of Ineligible Costs

<u>Recommendation Number</u>	<u>Ineligible¹⁰</u>
3A	\$11,410

¹⁰ Costs clearly not allowed by law, contract, HUD, or local agency policies or regulations.

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Letter to Assistant United States Attorney

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