
AUDIT REPORT



THE CITY OF NEW ORLEANS
DESIRE COMMUNITY HOUSING CORPORATION
NEW ORLEANS, LOUISIANA

2004-FW-1007

June 22, 2004

OFFICE OF AUDIT, REGION 6
FORT WORTH, TEXAS



Issue Date

June 22, 2004

Audit Case Number

2004-FW-1007

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

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

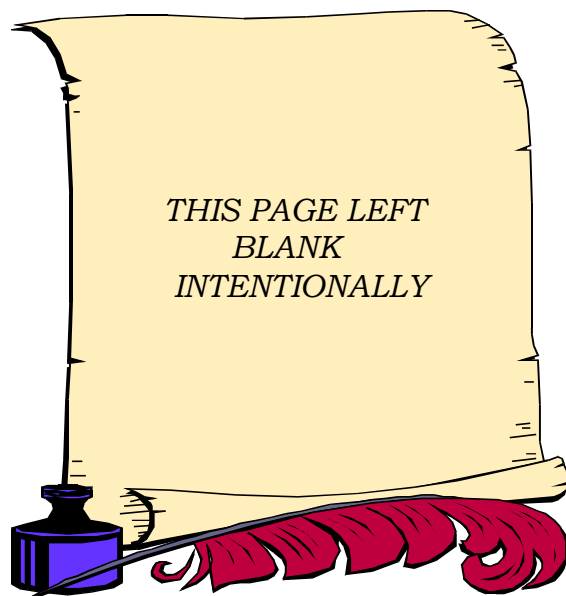
SUBJECT: Audit of the City of New Orleans
Desire Community Housing Corporation
New Orleans, Louisiana

We are performing an audit of the City of New Orleans (City). The purpose of the audit is to determine whether the City implemented its housing and economic development programs in an effective, efficient, and economical manner and in accordance with HUD rules and regulations. As part of the audit, we reviewed the Desire Community Housing Corporation (Desire), a subrecipient of the City, to determine if Desire performed in accordance with HUD, City, and contractual requirements.

The report contains three findings requiring follow-up actions by your office. We will provide a copy of this report to the City and Desire.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Please call William W. Nixon, Assistant Regional Inspector General, at (817) 978-9309 if you or your staff has any questions.



Executive Summary

We completed a review of the Desire Community Housing Corporation (Desire) as part of our audit of the City of New Orleans (City) housing and economic development programs. As a subrecipient of the City, Desire received HUD funding through the City's Division of Housing and Neighborhood Development.

Objective

The objective of our review was to determine whether Desire administered its HOME 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. Through the audit, we also determined whether the City properly monitored Desire and its use of HUD funds.

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.¹ 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 provided a discussion draft to Desire and City officials on April 26, 2004, and held an exit conference with City and Desire officials on May 6 and 7, 2004, respectively. The City provided a written response on June 8, 2004. We summarized and evaluated pertinent parts of the City's response in the three findings. Generally, the City agreed with the report and recommendations. We have included the City's entire response as Appendix B. Desire provided a written response on June 2, 2004. Desire generally disagreed with the conclusions and provided documentation supporting its positions. We summarized and evaluated pertinent parts of Desire's response in the three findings.

¹ 24 CFR 92.504(a).

Recommendations

Upon request, we will provide a copy of Desire's response. We considered Desire's and the City's response in preparing our final report and amended the report as necessary.

We recommend HUD and the City ensure Desire has the necessary controls before awarding any additional grants to Desire. Further, Desire should repay the City the \$1.1 million and either support or repay the \$322,352 of unpaid loans from program income and \$91,885 in unsupported disbursements. We also recommend HUD aid the City in establishing the appropriate controls, reprogramming funds, and taking appropriate administrative actions.

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Abbreviations

CDBG	Community Development Block Grant
CHDO	Community Housing Development Organization
City	City of New Orleans
CPA	Certified Public Accountant
CPD	Community Planning and Development
Desire	Desire Community Housing Corporation
ESA	Eileen Shanklin Andrus, CPA
HOPWA	Housing Opportunities for People with AIDS
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General

Introduction

Desire misused grant funds.

Desire Community Housing Corporation (Desire), established in 1968, is a 501 (c) nonprofit community development organization. According to its mission statement, Desire provides affordable housing and community revitalization. Desire offers housing management, housing counseling, housing rehabilitation, and planning and developing commercial developments services. Desire receives HUD funding through the City of New Orleans Division of Housing and Neighborhood Development (City).

Desire has received City funds for various programs including:

- Repairing the homes of senior citizens;
- Constructing homes;
- Rehabilitating blighted houses;
- Providing daycare services; and
- Providing counseling and relocation services to families referred by the Housing Authority of New Orleans.

Background.

We reviewed Bayou Apartments and Liberty Terrace projects because of the large dollars involved and the City suggested them. We did not review Desire's other programs. Between September 1993 and July 2003, Desire received and expended the following for the Bayou Apartments and Liberty Terrace grant allocations:²

GRANT NAME	AMOUNT	EXPENDED	BALANCE
Liberty Terrace	\$2,753,672	\$2,235,320	\$518,352
Bayou Apts.	\$1,737,000	\$1,070,255	\$666,745
TOTALS	\$4,490,672	\$3,305,575	\$1,185,097*
* Desire lost its designation as a Community Housing Development Organization (CHDO) in February 2003. Pending the litigation, the \$1,185,097 remaining on the two grants may be reallocated by the City.			

Bayou Apartments³ Desire received \$1,737,000 to purchase Bayou Apartments, a 78-unit complex located in eastern New Orleans, and rehabilitate 38 apartment units

² February 5, 2004.

³ Grant number CHDO96-006.

and 2 recreation rooms.⁴ Desire agreed to rehabilitate the remaining 38 units using the cash flow generated from rents received on the rehabilitated units. The apartments were to provide housing for mothers and children with AIDS. Desire purchased the site in two transactions in 1996 and 1998. Construction began in 2000 and ceased in 2001 without renovating one unit.

Liberty Terrace Subdivision⁵ Under this grant, Desire received \$2,753,672 in HOME funds to build 17 single family homes. Desire was to use program income derived from the sale of the houses to build an additional 26 homes.⁶ Desire completed 28 homes and accumulated \$2,039,150 in program income from the sale of the 28 homes. Desire used some of the program income from the sale of the original 17 homes to build the other 11 homes as intended. Based upon a cursory visit to the area of the 28 homes built, the homes appeared good quality and an enhancement to the neighborhood. Unfortunately, Desire did not continue the proper use of the program income to complete the remaining 15 houses promised.

Desire's offices are located at 2709 Piety Street, New Orleans, Louisiana. The City maintained its records at 1515 Poydras Street, Suite 1150, New Orleans, Louisiana.

Scope and Methodology

With respect to Desire, our objective was to determine whether Desire administered its HUD funds in an economical and efficient manner and in accordance with the terms of the grant agreements, and applicable City and HUD requirements. Through the audit, we also determined whether the City properly monitored Desire and its use of HUD funds.

To accomplish our audit objective we performed the following:

- Reviewed Desire's grant agreements and applicable regulations.
- Non-statistically selected 29 of 75 drawdowns from the City's 2000 through 2002 check register to determine accuracy and timeliness.

⁴ Desire also received \$150,000 from the City under the Neighborhood Housing Improvement Funds to assist in the purchase of the property.

⁵ Grant number HOME95-015.

⁶ According to the grant agreement amended on June 28, 1999, Desire agreed to build 43 homes.

- Reviewed program income of Liberty Terrace for compliance with HOME requirements.
- Non-statistically selected 32 of 316 disbursements from the Bayou Apartment and Liberty Terrace projects accounts to determine eligibility and controls over financial management.
- Interviewed appropriate staff from Desire, the City, HUD, and others, including local contractors and former City employees.
- Analyzed files, financial documents, records, monitoring reports, audit reports, and other reports maintained by Desire and the City.

Throughout the audit, we obtained and reviewed computer-generated data from the Desire and the City. We did not test the reliability of computer-generated data. Desire lacked controls over receipts, disbursements, and program performance to rely upon its data. Specifically, Desire maintained over 60 bank accounts for which they were cited in a previous audit. To complicate the matter further, Desire commingled the accounts by making loans to and from various accounts. The extensive work required to trace the transactions limited our reliance upon the data.

We provided a discussion draft to Desire and City officials on April 26, 2004, and held an exit conference with City and Desire officials on May 6 and 7, 2004, respectively. The City provided a written response on June 8, 2004. We summarized and evaluated pertinent parts of the City's response in the three findings. Generally, the City agreed with the report and recommendations. We have included the City's entire response as Appendix B. Desire provided a written response on June 2, 2004. Desire generally disagreed with the conclusions and provided documentation supporting its position. We summarized and evaluated pertinent parts of Desire's response in the three findings. Upon request, we will provide a copy of Desire's response. We considered Desire's and the City's response in preparing our final report and amended the report as necessary.

We conducted our fieldwork on Desire from May 2003 to March 2004. The audit generally covered Desire operations from January 1, 2000, to July 31, 2003. We expanded our scope as necessary. We performed our audit in accordance with generally accepted government auditing standards.

Desire Failed to Adequately Administer HUD Funds

Violating grant agreements and City and HUD requirements, Desire lacked controls over disbursements, accounting, and procurement to adequately administer HUD funds. As a result, Desire commingled HOME funds, lacked adequate support for \$91,885 in disbursements, and contributed to the conditions cited in Findings 2 and 3.⁷ Further, Desire hired an auditor who may not have been independent. These deficiencies occurred because Desire did not have adequate controls over disbursements or over its program administration. The City did not properly monitor Desire. The City should ensure that Desire has the controls necessary to comply with its agreements and either support or return the funds. Additionally, Desire may have overstated the availability of funds it had in an application to HUD. HUD should consider whether to reprogram these funds.

Desire could not support \$91,885 in disbursements.

Desire did not have receipts for 22 of the 32 disbursements reviewed totaling \$91,885. Desire's financial management system did not meet federal requirements. Desire's incomplete records and commingling of funds made it difficult to determine eligibility of expenditures. For instance, Desire made numerous payments to itself without any supporting documentation or explanation and some checks did not have matching invoices. We attempted to locate supporting documentation of our sample expenditures rather than deeming all expenditures unsupported.

Desire could not support 69 percent of the disbursements reviewed.

We reviewed 32 of 310 disbursements (10 percent) from Desire's Bayou Apartments and Liberty Terrace accounts. Desire did not have adequate and complete documentation for 22 of the 32 disbursements reviewed totaling \$91,885. Of the \$91,885, \$90,867 related to Desire's commingling of funds and Desire had no evidence that the funds were used for eligible purposes. Desire could not account for the numerous bank deposit slips missing from the bank statements. As a result, we did not rely upon Desire's check register or bank reconciliations. Desire did not have documentation to support \$1,018 in payments to First Insurance Funding Corporation. The unsupported amounts include payments to:

⁷ The \$91,885 does not comprise amounts included in Finding 2 or 3.

Schedule of Unsupported Payments

Payee	Number of Instances	Total Disbursement	Unsupported Amount
Desire	17	\$52,929	\$52,929
Liberty Terrace	2	\$29,859	\$29,859
Desire-St. Ferdinand Place	1	\$7,079	\$7,079
Desire Square	1	\$1,000	\$1,000
First Insurance Funding Corporation	1	\$1,018	\$1,018
Totals	22	\$91,885	\$91,885

Desire should either support or repay the City for the \$91,885 in unsupported funds. Desire should cease the commingling of funds. Further, the City should require Desire to provide a reconciliation of all payments that it made to itself with a determination of the eligibility of the transaction.

Desire did not have an effective financial management system.

Violating HUD requirements, Desire did not have effective controls and accountability over HOME funds. According to staff, Desire did not have an operations manual prior to January 2003.⁸ HUD regulations state: "Records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest."⁹ As shown with the commingling of and unsupported funds, Desire did not meet these requirements.

Desire procurement policy did not comply with requirements.

Desire did not implement a procurement policy that complied with applicable City and federal requirements by providing full and open competition; procurement history; cost analyses, contract administration; and standards of conduct. As a result, Desire did not have adequate controls over procurement and expenditure of funds. Further, Desire could not assure HUD that Desire properly managed the grant funds.

⁸ Desire provided copies of the manuals. The manuals appeared sufficient.

⁹ 24CFR84.21(b)1-3.

HUD required an adequate procurement policy.

HUD required Desire's procurement policy to reflect the City and federal regulations as it relates to procurement. Specifically, the procurement policy should contain procedures on the necessity of full and open competition; cost analyses; documentation of procurement history; contract administration and standards of conduct.¹⁰

Desire's 2-page procurement policy failed to meet the minimum requirements of 24 CFR 85.36. Desire's policy limited competition. The policy did not delineate the need to advertise for proposals or bids or explain the method for conducting evaluations of the proposals received and the method for selecting the awardees. The policy lacked competitive proposals procedures.

HUD required Desire to perform a cost or price analysis for all procurements including contract modifications and change orders. Desire's procurement policy did not discuss price or cost analyses. These analyses ensure the reasonableness of contract prices. Without the analyses Desire had no way of knowing whether it paid a reasonable price for goods and services received.

Desire did not maintain procurement documentation or files, as required by the regulations. HUD required Desire to document the procurement history. Documentation of procurement history helps ensure adequate and/or required procedures were performed during the procurement process. Desire procurement policy did not address the need to document and maintain procurement history.

Inadequate controls over procurement of goods and services.

Due to the ineffective procurement policy and management's inability to implement adequate policies, Desire did not procure goods and services as required by HUD. Specifically:

- *Desire non-competitively procured a \$1 million construction contract*

As discussed in Finding 2, Desire failed to advertise a \$1 million rehabilitation contract at Bayou Apartments. Instead of advertising, Desire solicited bids from seven contractors from a City approved list and received quotes from only one contractor. HUD required Desire to conduct all procurement in a

¹⁰ 24 CFR 85.36.

manner to provide full and open competition. Desire should have publicly advertised for this contract and accepted sealed bids.

➤ *Accounting and auditing services contracts procured without full and open competition*

During the procurement of the accounting services contract, Desire contracted with Eileen Shanklin Andrus, Certified Public Accountant, L.L.C. (ESA), for an accounting services based upon the recommendation of an outgoing accountant. Desire did not advertise for the accounting services and did not consider other providers. As discussed later, ESA may have impaired her independence by accepting the audit engagement for the year that she was contracted to perform accounting work. Although Desire was not required to advertise for these services, it should have documented its selection methodology to ensure competition and price reasonableness.

Desire misinformed HUD in its \$1.2 million HOPWA grant application.

Desire inappropriately claimed it would commit \$1.7 million in CDBG funds¹¹ in a June 2002 application for a \$1.2 million HUD HOPWA¹² grant. According to HUD staff, HUD awarded Desire the HOPWA grant based upon the claim by Desire. Desire stated it would commit \$1.7 million of its City CDBG funds to the HOME-HOPWA Collaborative. According to its application, Desire would make the funds available from October 1, 2002, to September 30, 2003. However, as of July 2002, Desire only had \$666,745 remaining under this grant that it could commit.

Including the \$1.7 million, HUD gave Desire's application 75 points, the minimum points needed to receive funding. According to HUD's scoring system, Desire received 8 of 10 points for leverage funds. HUD would not comment on whether Desire would have received less points if it provided accurate information on its application. Therefore, it is unknown whether the overstatement of available funds would have affected HUD's award, but it does seem plausible.

¹¹ Desire did not have \$1.7 million in CDBG funds; it appears Desire meant its \$1.7 million Bayou Apartments HOME grant.

¹² Housing Opportunities For People With AIDS.

HUD granted Desire \$1.2 million in HOPWA funds effective March 10, 2003. Desire received \$631,000 for Supportive Services, \$400,000 for Rehabilitation and \$248,890 for Administrative and Other. Desire pledged to use Bayou Apartments as the housing component for the HOPWA program and planned to use the \$400,000 in rehabilitations funds on Bayou Apartments. When HUD learned of the possible misleading statements and a lawsuit filed by the City, HUD suspended funding on the HOPWA grant. HUD has allowed Desire access to the supportive services funds of the HOPWA grant. HUD should evaluate whether it should recapture and reprogram the \$400,000 in rehabilitation funds and determine if it should terminate the entire grant. If HUD does not terminate the grant or reprogram the rehabilitation funds, then HUD should consider the grant high-risk and monitor appropriately.

In October 2003, Desire, in a move to resuscitate the rehabilitation of Bayou Apartments, received a \$2.5 million commitment letter from a bank using Bayou Apartments as collateral. Due to the pending litigation, Desire will not have access to the funds.

Desire's CPA may have violated professional ethics.

ESA may not have been independent when she performed Desire's audits for years ending December 31, 2000, and 2001. Federal regulations require auditors to be free in both fact and appearance from personal, external and organizational impairment to independence.¹³ Furthermore, the State of Louisiana prohibits a licensed Certified Public Accountant (CPA) to perform professional services for a client whom the CPA has performed such services as an audit or review of financial statements and prepare original or amended tax returns.¹⁴

In August 2000, Desire contracted with ESA to perform accounting and annual services. Here is a partial listing of services listed in ESA's contract:

- Prepare monthly financial statements and a detailed general ledger;
- Monitor accounting staff in the most efficient use of time and talents;
- Approve preparation of bank reconciliations;

¹³ Government Auditing Standards 3.11-3.12.

¹⁴ Louisiana Revised Statutes 37.83L(1).

- Meet with the Executive Director no less than monthly to discuss problems and concerns; and
- Preparation of annual payroll tax forms.

According to the contract, ESA would perform services for Desire for 1 year from September 5, 2000. According to ESA, ESA stopped performing accounting services in January 2001. Shortly thereafter ESA entered into a contract to perform the 2000 audit. Eventually, ESA performed the 2001 audit and according to ESA, Desire still owes ESA fees. ESA received almost \$33,000 in accounting and auditing fees between October 2000 and December 2002. ESA claims it did not perform accounting services but rather worked with management “putting out fires.” Nonetheless, it appears ESA audited work that ESA performed or supervised in 2000 and as a result appears to have violated independence standards. Desire should have known that ESA was not independent and should not have hired ESA to perform the audit. Since Desire did not receive an independent audit as required, Desire should return any portion of the \$31,068 that came from the City that Desire paid to ESA for the audits that came from HUD funds.¹⁵

Desire did not submit the December 31, 2002 annual audit report in a timely manner.

Desire did not submit the annual audit report for the year ending December 31, 2002 in a timely manner. The Desire audit report for the year ending December 31, 2002, was due by June 30, 2003. According to the Louisiana Legislative Auditor, Desire submitted the report on July 31, 2003. Desire was required to submit the audit report 6 months after the close of the fiscal year. Desire was cited for untimely audit reports on three occasions in the last 4 years: 2002, 2001, and 1999.

The City did not properly monitor Desire.

Based upon City correspondence, the City provided inadequate oversight of Desire. The City could not provide documentation that it reviewed Desire’s performance annually as required by HUD.¹⁶ Further, when the City determined a problem existed, it did not take sufficient action to correct the problem or limit its loss.

For instance, it appears the City knew of the lack of progress on the rehabilitation of Bayou Apartments but was unsuccessful at resolving the problems it noted. According

¹⁵ In its response, Desire claimed it only paid ESA \$13,010 from federal sources for the 2000 and 2001 audits.

¹⁶ 24 CFR 92.504(a).

to February 2002 correspondence, City officials knew Desire had been “struggling for several years with the redevelopment of” Bayou Apartments. According to documentation, Desire had not performed any work since at least June 2001, 8 months earlier. Considering the consistency of concerns throughout the grant, the City should have terminated Bayou Apartments sooner and reviewed all of its operations to determine if the causes were systemic.

In another example, at Liberty Terrace, the City knew there was a funding flaw¹⁷ with Liberty Terrace, but took no action to reduce the funding flaw. To the contrary, the City knew the actions taken by it and Desire would only increase the funding flaw.

Irrespective of Desire’s actions, the City’s inadequate oversight of Desire contributed to the delays and problems cited in both Findings 2 and 3. As the participating jurisdiction, the City is responsible for managing the day-to-day operations of its HOME Program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. Further, use of Desire did not relieve the City of this responsibility.¹⁸

Auditee Comments

On June 2, 2004, Desire provided its response. Desire disagreed with the finding and included documents to support its position. Specifically, Desire stated it supplied documentation supporting the \$91,885. It contended the City was responsible for its lack of effective financial management system. Further, Desire believed the City approved of its procurement practices. In addition, Desire stated the Certified Public Accountant was responsible for making the determination of independence. Desire believed the report was “very harsh” in describing the error in its HOPWA grant application. Further, Desire wanted to make it clear that the City required on-site inspection approval before any drawdown of funds. Desire listed actions it would take to address the recommendations.

¹⁷ A funding flaw exists when the amount of grant funds exceeds the allowed subsidy for the project.

¹⁸ 24 CFR 92.504(a).

On June 8, 2004, the City provided its response. The City concurred with this finding and cited the April 8, 2003 lawsuit against Desire as one of the corrective actions. In addition, the City stated it plans to improve the procedures for certifying subrecipients. Specifically, the City will perform a thorough review of the subrecipients' financial system and staff credentials.

With respect to monitoring Desire, the City maintained it adequately monitored the construction activities of the project and adequately reviewed the payment requests prior to processing.

OIG Evaluation of Auditee Comments

Desire provided some of the missing documentation. Based upon review, Desire did not provide sufficient documentation to eliminate any of the \$91,885 determined unsupported. Contrary to its position, Desire is responsible for following HUD requirements and establishing the necessary controls. With respect to the HOPWA grant, we have clarified the issues in the report.

We commend the City's commitment to implement or enhance controls to correct the deficiencies cited. We maintain if City had adequately monitored Desire that the City would have taken preventative and corrective actions much sooner.

Recommendations

We recommend the New Orleans CPD Director require the City to:

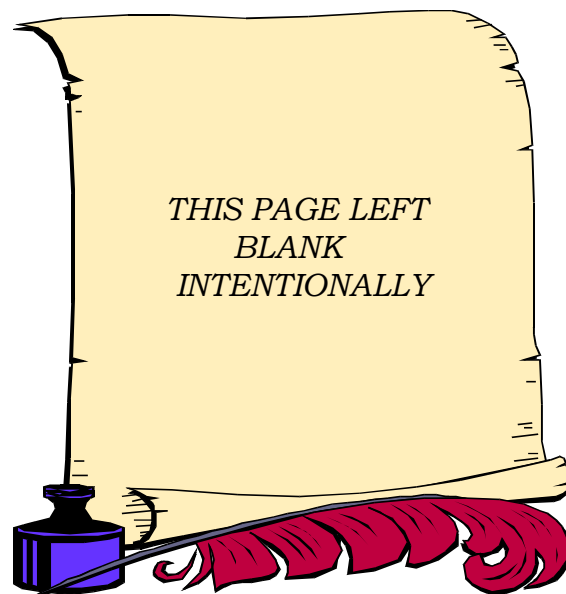
- 1A. Require Desire to support or repay the City for the \$91,885 in unsupported funds. Further, the City should require Desire to provide a reconciliation of all payments that it made to itself with a determination of the eligibility of the transaction.
- 1B. Prior to awarding an additional grant or making payments on existing grants, require Desire to implement proper controls to ensure it:
 - Properly accounts for grants, i.e. does not commingle funds;

- Properly procures goods and services; and
- Timely submits annual reports.

- 1C. Provide procurement training to Desire staff.
- 1D. Implement the systems to ensure that subrecipients have and implement adequate policies and procedures.
- 1E. Refer ESA to the State Board of Certified Public Accountants of Louisiana for possible independent violations. If independent violations occurred, require Desire to reimburse it for the \$31,068 paid for audits performed by ESA.
- 1F. Adequately monitor its subrecipients and take timely action against subrecipients that do not meet its performance requirements.

Further we recommend the CPD Director to:

- 1G. Evaluate whether it should recapture and reprogram the \$400,000 in rehabilitation funds and determine if it should terminate the entire grant.
- 1H. Consider the recently awarded HOPWA grant high-risk and monitor appropriately, if it does not terminate the grant. Further, HUD should satisfy itself that Desire has corrected the control problems cited in this report.
- 1I. Consider taking administrative sanctions against Desire for conditions cited in this report.



Desire Expended Approximately \$1.1 Million in Grant Funds without Benefiting the People Intended

After spending approximately \$1.1 million in grant funds to purchase and rehabilitate Bayou Apartments, Bayou Apartments was still uninhabitable. Desire solicited City funds to purchase 2 buildings and renovate 78 units¹⁹ to provide housing for women and children with HIV/AIDS and battered women assigned by the courts. However, Desire did not efficiently and effectively rehabilitate Bayou Apartments and violated its grant agreement. As a result of Desire's inability to provide adequate oversight and management, it spent \$1.1 million in grant funds without renovating one unit or benefiting the people intended. After construction stopped, Desire did not take sufficient measures to safeguard the site and protect the improvements. Desire should repay the City the \$1.1 million HOME funds since it did not comply with the grant agreement. Further, the City should deobligate the remaining \$666,745 balance under its grant agreement.

HUD and the City required Desire to adequately safeguard all assets.

According to the grant agreement, Desire agreed to renovate 76 apartments and 2 recreational units in accordance with regulations.²⁰ HUD regulations²¹ required Desire to "provide effective controls over and accountability for all funds, property and other assets", and adequately safeguard such assets and assure the assets were used solely for authorized purposes. Ultimately, HUD holds the City accountable for ensuring the proper use of the funds, irrespective of its grant agreement with Desire.²²

Desire agreed to rehabilitate 78 apartments units for HIV/AIDS victims.

Desire agreed to rehabilitate the Bayou Apartments²³ located in eastern New Orleans. The rehabilitation entailed the renovation of 76 apartment units and 2 recreational units. According to the grant agreement, Desire agreed to complete the rehabilitation of all 78 units in 2 phases. Phase I involved the complete renovation of the 38 apartments and 2 recreational units composing 1 building. In Phase II, Desire would renovate the remaining 38 units in the other building with the cash flow generated from Phase I operations along with private financing.

¹⁹ Desire would renovate 38 apartment units and 2 recreational facilities with the grant and then use proceeds from the renting of the units to complete the renovation of the remaining 38 units.

²⁰ HOME regulations are located at 24 CFR 92.

²¹ 24 CFR 84.21.

²² 24 CFR 92.504(a).

²³ The apartment complex is composed of two buildings located at 13545 and 13565 Chef Menteur Highway.

When completed, Desire intended to provide safe, clean, and sanitary housing for women and children with HIV/AIDS and battered women assigned by the courts.

Picture of Phase 1 building²⁴



Desire received \$1.7 million in grant funds.

The City and Desire executed the first Bayou Apartments grant agreement on September 1, 1993, for \$300,000.²⁵ On three occasions, Desire requested and the City approved additional grant funds. From January 1, 1998, to March 2001, the grant increased from \$300,000 to \$1,737,000. The grant agreement was to expire on March 31, 2002.

Rehabilitation ceased in June 2001 without completion of one unit.

In April 2000, Desire hired a contractor to begin the rehabilitation of the apartments. The contractor worked on the building from May 2000 through June 2001, when work ceased. Desire was unable to complete the renovation of any units.

²⁴ Picture taken June 24, 2003.

²⁵ Desire only used \$188,646 of these HOME funds for the purchase of the property. Desire received \$150,000 in non-HUD City funds that it also used to purchase the property.

In June 2001, renovation of Bayou Apartments stopped when Desire refused to pay the contractor. According to City records, Desire received \$1,070,255 reimbursement from the City.

Bayou Apartment Reimbursements	
Soft costs ²⁶	\$188,646
Payments to contractors	\$636,120
Desire's developer's fees	\$166,575
Permits, financing, fees, and inspections	\$56,607
Other	\$22,307
Total	\$1,070,255

According to the City, the contractor had completed 50 percent of the construction work. None of the units were habitable. Since the project was terminated prior to completion, the City spent \$1,070,255 ineligibly and must repay its program.²⁷

Picture of unit being rehabilitated.²⁸



²⁶ According to Desire, these funds never went into their accounts. The City paid the seller of the property directly.

²⁷ 24 CFR 92.503.

²⁸ Picture taken on June 24, 2003.

Desire lacked financial capacity to complete Bayou Apartments.

Based upon the review of its records, Desire lacked the financial capacity to complete the renovation of Bayou Apartments. The grant agreement required the City to reimburse Desire for eligible expenditures. This necessitated Desire to exercise fiscal responsibility including timely submission of drawdown requests and payment of expenditures to ensure the continuation of the rehabilitation. Under a cost reimbursement system, Desire should have sufficient capital to finance the timing differences between expenditures and reimbursement. As of May 2002, Desire received \$166,575 in developer's fees. However, the contractor stopped performing because Desire did not pay them. Desire did not have the capital to keep the project going.

In October 1998, Desire obtained a \$200,000 line of credit for interim financing of Bayou Apartments. Desire used the City's grant as collateral for the line of credit. Desire should have used these funds to cover expenditures until it received reimbursement from the City. However, it appears Desire did not use the line of credit effectively because it continued to have financial problems with the project. Further, the grant agreement did not permit Desire to use the grant as collateral without the prior written approval of the City, which it did not have.

Desire claimed the City did not pay them timely. As the table shows, there was no evidence of significant delays between the time Desire requested the funds and the City reviewed the invoices and made payments promptly. It appears Desire delayed in requesting the funds from the City.

Schedule of Invoices and Date Paid by the City

Contractor Invoices		Desire Drawdown Request		City Payments ¹	Payments to Contractor ²	
Date	Amount	Date	Amount	Date	Date	Amount
4/11/2000	\$150,000	5/10/2000	\$154,000	5/15/2000	5/10/2000	\$150,000
5/4/2000	228,459	7/10/2000	170,549	7/13/2000	7/17/2000	170,549
8/7/2000	126,800	10/3/2000	90,118			
		10/3/2000	36,682	10/9/2000	10/11/2000	126,800
10/24/2000	60,250	11/28/2000	95,418	11/30/2000	12/5/2000	60,250
1/8/2001	32,230	3/27/2001	32,230	3/29/2001	4/05/2001	32,230
TOTALS	\$597,739		\$578,997			\$539,829

¹ Payments equaled Desire requests.

² Date of check to the contractor.

Desire did not safeguard units from theft and vandalism.

Once construction stopped, Desire failed to safeguard the property from theft, vandalism, and exposure to the elements. HUD required Desire to adequately safeguard all assets.²⁹ As of June 24, 2003, the buildings were unsecured and unprotected from theft, vandalism, and exposure to the elements. With tables, sofas, and water heaters being discarded in the rear of the property, the site apparently served as a dump. Further, Desire may have increased its exposure to litigation if something happened in the unsecured complex.

Example of an un-renovated unit



A Navy SEAL unit used the property to conduct special tactics training.

The units were in such poor condition that a United States Navy SEAL unit (SEAL unit) used the structures for tactical maneuvers. The Navy contracted with Desire to conduct special tactics training in November 2002. The contract stipulated the Navy would repair any damage. According to the Navy, SEAL units routinely conduct special tactics training at condemned or isolated buildings. In essence, after Desire had spent \$1.1 million to purchase and renovate Bayou Apartments, Navy officials considered the property condemned or isolated.

²⁹ 24 CFR 84.21(b)3.

Squatter dwelled at Bayou Apartments.

Even though the units were not safe, decent, and sanitary,³⁰ Desire allowed a squatter to reside at the site. The squatter obtained electricity for the unit, possibly through theft. After questioning, Desire officials acknowledged the squatter. They contend the squatter protected the buildings and cleaned up debris at the site. Further, Desire stated they did not pay or have a written agreement with the squatter. Nonetheless, Desire should properly secure the units and not allow people to reside in unsafe, unsanitary, and indecent units. Desire's unwillingness to properly secure the units may have created a potential liability.

Unit where squatter lived



The City files a lawsuit against Desire.

In an April 2003 lawsuit filed against Desire, the City alleged Desire abandoned the project and failed to secure the property from vandalism. The City alleged "Desire did not rise to the ability demonstrated and Desire failed miserably to perform its obligations." The petition asked that Desire repay the City \$1,070,255 that Desire received pursuant to the grant agreement.

According to the grant agreement, Desire must repay grant funds to the City in the event that Desire failed to implement the program in accordance with the

³⁰ 24 CFR 92.251.

requirements of the grant agreement and HUD regulations.³¹ The City should require liens against properties purchased with grant funds to allow more expeditious recovery of assets and resolution of disputes. Further, the City could identify problems if it timely performed on-site monitoring of subrecipients.

Auditee Comments

Generally, Desire disagreed with the finding and the recommendations to repay and reprogram funds. Desire stated it did its best to secure the property and complete the rehabilitation of Bayou Apartments. It cited its \$200,000 of interim financing as evidence that it wanted to complete the rehabilitation work. Desire stated the reason the apartments were not completed was "due to the City of New Orleans (sic) failure to honor the organization's a (sic) contract to continue renovating the property." Desire disagreed with the amount of funds it spent and some of the information in the tables, specifically the dates of Desire's requests for payments. Desire disagreed with the reasons stated in the report of why the Navy Seal team selected Bayou Apartments for maneuvers. Desire stated its disagreement with the City's lawsuit and reiterated: "the project needs to be completed."

The City agreed with this finding and again cited the April 8, 2003 lawsuit as a means to recover funds from Desire. It cited successes it has had in the litigation. The City agreed to reprogram the remaining funds and to seek administrative sanctions against Desire.

OIG Evaluation of Auditee Comments

We reviewed Desire's documentation and revised the report as necessary. When information obtained from Desire and the City differed, such as dates, we placed more reliance upon the City's data.

We appreciate the City's response. Irrespective of how its litigation with Desire is resolved, it is the City's responsibility to support or repay any unsupported or ineligible funds.

³¹ 24 CFR 92.

Recommendations

We recommend HUD require the City to:

- 2A. Repay its program \$1,070,255 that it gave to Desire to purchase and renovate the buildings. The City should obtain the funds from Desire. Alternatively, the City could complete the rehabilitation of Bayou Apartments with non-federal funds.
- 2B. Ensure subrecipients secure property being renovated with grant funds.
- 2C. Prohibit subrecipients from allowing people to live in unsafe, indecent, or unsanitary units.
- 2D. Legally cancel Desire's grant on Bayou Apartments and reprogram the \$666,745 balance.
- 2E. Seek administrative sanctions against Desire.
- 2F. Ensure subrecipients have adequate financial management procedures in place.

Desire Misused \$533,604 of Program Income

Desire failed to use or sufficiently report \$533,604 in program income as required. Desire obtained the funds from the sale of homes in the Liberty Terrace subdivision. Instead of using program income to build additional homes as intended, Desire inappropriately used the \$533,604 for other activities. Based upon its records, Desire only repaid its Liberty Terrace accounts \$211,252, leaving a balance of \$322,352. The inappropriate use of program income occurred because Desire did not follow requirements and commingled funds.³² As a consequence of Desire's actions, Desire only built 28 of the 43 homes that it had committed to in its application. Further, Desire did not report the program income to the City as required. However, the City did not compel Desire to submit the reports or follow-up on deficiencies in the rare instances where Desire submitted the reports. The City should require an accounting of the \$533,604 in program income and obtain reimbursement for all funds improperly used. The City needs to implement the necessary management information systems to ensure all subrecipients submit the required reports and properly account for program income. Due to the inactivity on this project and problems listed, the City should legally cancel its agreement and reprogram the remaining \$518,352 it has obligated for this project. Since Desire only constructed 28 of the 43 (65 percent) homes promised, HUD should make a determination if the entire \$2,235,320³³ needs to be repaid to the City's program under 24 CFR 92.503. Also, HUD needs to determine if the \$2,039,150 in program income needs to be returned under 24 CFR 92.503.

Desire agreed to build 43 homes.

Under its grant agreements, Desire agreed to construct 43 single family homes using a grant totaling \$2,753,672. The development was called Liberty Terrace. As planned, Desire would construct 17 homes using the grant funds and construct the remaining 26 homes using the sale proceeds (program income) of the homes. Desire could only use program income for eligible HOME activities and with the approval of the City.

Desire built 28 homes.

From January 1997 to July 2001, Desire completed 28 of the 43 homes required in the grant agreement. Desire constructed the first 17 homes with grant funds and the additional 11 homes with program income. The 28 homes, located in eastern New Orleans, appeared to be well constructed and adequately maintained by the owners. The homes, intended for low-income first time homebuyers, were constructed using one of five designs. According to the construction contract, the cost of each home ranged from \$86,128 to \$98,280, and Desire sold the homes for \$69,000 to \$75,800. Even though it appears Desire had the program

³² As previously mentioned, Desire commingled its numerous accounts and did not have an adequate accounting system to document and support the transfers.

³³ The amount of the \$2,753,672 grant expended.

income to continue to construct additional homes, Desire did not complete the 15 homes promised.

Home constructed by Desire



Program income misused
by Desire.

Based upon Desire's bank records, Desire gave \$533,604 of Liberty Terrace program income to other Desire activities.³⁴ This represented approximately 25 percent of the \$2,039,150 program income resulting from the sale of the homes.³⁵ The purpose of the program income was to construct additional houses and not to subsidize other activities. HUD required program income be used on eligible HOME activities. From May 10, 2000, to March 8, 2002, Desire made a total of 55 transfers from Liberty Terrace to other Desire activities. Desire did return \$211,252 of these funds, but the transfers were never appropriate.³⁶

³⁴ Desire officials considered the funds "loaned" to the other accounts.

³⁵ Total sales price of the 28 homes.

³⁶ Expenditures did not relate to Liberty Terrace.

Liberty Terrace Program Income Account

Expenditure	Transfer amount	Returned	Amount Owed
Bayou Apartments	\$213,872	\$183,859	\$30,013
Developers Fees	\$51,105	\$11,032	\$40,073
Desire	\$245,850	\$10,351	\$235,499
Legal fees	\$12,992		\$12,992
Insurance	\$1,918		\$1,918
Accounting and Auditing fees	\$6,010	\$6,010	
Telephone	\$1,857		\$1,857
Totals	\$533,604	\$211,252	\$322,352

As an example of how Desire commingled and misused program income, on May 10, 2000, Desire transferred \$181,000 of Liberty Terrace program income to Bayou Apartments. On May 19, 2000, Desire returned \$154,000 to the Liberty Terrace account, leaving \$27,000 unreturned. It appears Desire needed the funds from Liberty Terrace to pay the Bayou Apartments contractors.³⁷ As another example, on September 11, 2000, Desire transferred a total of \$67,208 to itself. Desire provided no evidence that it returned these funds or why it transferred the funds.

Desire had missing records.

Desire did not have Liberty Terrace bank records or documentation for:

- 13 checks in 2000 totaling \$190,635;
- 11 deposits in 2000 totaling \$94,719; and
- 35 deposits in 2001 totaling \$505,925.

Desire officials maintained City officials informed them the program income belonged to Desire and they could use the funds as they wanted. Neither Desire nor the City had documentation to support this claim. To the contrary, the grant agreement stated program income belongs to the City and any other use must be in writing.

As a result of the misuse of program income, it appears Desire did not have sufficient funds to complete the

³⁷ See Table in Finding 2.

Desire failed to report program income to the City.

The City did not adequately monitor Desire.

remaining 15 houses under its grant. Desire should return all misused program income funds to the City.

Between January 2000 through July 2003, Desire submitted only 2 monthly reports out of a possible 43³⁸ reports. In March 28, 2000, Desire submitted a report covering January and February 2000. Desire was required to submit reports monthly.

The City did not compel Desire to comply with the grant requirements. Furthermore, the City did not document Desire's failure to submit monthly reports. The City did not have systems in place to collect or obtain program income data or follow-up when reports were not submitted. According to HUD requirements,³⁹ the City was responsible for:

- Managing the day-to-day operations of its HOME program;
- Ensuring that HOME funds are used in accordance with all program requirements and written agreements; and
- Taking appropriate action when performance problems arise.

The misuse of the program income by Desire did not relieve the City of its obligations. The City needs to have systems in place to require subrecipients to report the accumulation and use of program income and to take appropriate action when subrecipients fail to meet its obligations under HUD requirements and grant agreements.

Based upon the City's documentation, the City knew there was a funding flaw⁴⁰ with Liberty Terrace but took no action to reduce the funding flaw. To the contrary, the City knew the actions taken by it and Desire would only increase the funding flaw.

As of February 5, 2004, the City still had \$518,352 obligated for Liberty Terrace. Due to the inactivity of the project and the problems cited, the City should legally terminate its agreement with Desire and reprogram the \$518,352.

³⁸ January 2000 through July 2003 is 43 months.

³⁹ 24 CFR 92.504.

⁴⁰ A funding flaw exists when the amount of grant funds exceeds the allowed subsidy for the project.

HUD needs to make a determination of whether the City and Desire completed its project when it constructed only 28 of the 43 homes promised. If HUD considers the entire 43 homes the project, then the City should repay to its program the \$2,235,320 paid to Desire as of February 5, 2004. Further, if HUD determines the City did not complete the project then it should also repay its program the \$1,505,546 in program income it earned on the grant funds.⁴¹

Auditee Comments

Desire disagreed with the finding and recommended that HUD and the City allow Desire to utilize the remaining funds to complete the project. Specifically, Desire maintained, "proceeds which it was allowed to retain, were not considered program income." Further, Desire stated it had an accounting of the program income and used the funds "within the spirit of the program requirements." Desire believed the net amount received for the sale of the homes, \$1,921,212, should have been cited.

The City agreed with this finding and agreed to "seek to obtain repayment of any and all funds not sued for eligible project costs under the Liberty Terrace agreement." Further, the City agreed to reprogram the grant balance of \$518,352 to other eligible HOME activities.

According to its response, the City has implemented policies and procedures to monitor program income and to ensure compliance by subrecipients with HOME Program requirements.

OIG Evaluation of Auditee Comments

Desire did not supply evidence supporting its contention that they could retain and use the program income as it wanted. Desire did not supply evidence supporting the use of program income for "loans" to other activities. Further, neither Desire nor the City supplied evidence that the City approved of Desire's position in writing as required. According to Desire's response, of the \$1,921,212 received from the sale of the homes, Desire received \$173,869 as a

⁴¹ \$2,039,150 in program income less the \$533,604 determined ineligible or unsupported in other areas of the finding.

developer's fee and \$292,200 for operating costs, almost 25 percent of the amount received. Further, as Desire acknowledges, the project called for the construction of 43 homes and Desire and the City completed 28. Desire did supply support for the repayment of \$29,859 in loans and provided some of the missing documentation. We have made the necessary adjustments to the report.

We commend the City for its willingness to obtain repayment and strengthen its controls. However, the City will need to repay any amounts not used for eligible costs irrespective if it obtains repayments or not.

Recommendations

We recommend the New Orleans CPD Director require the City to:

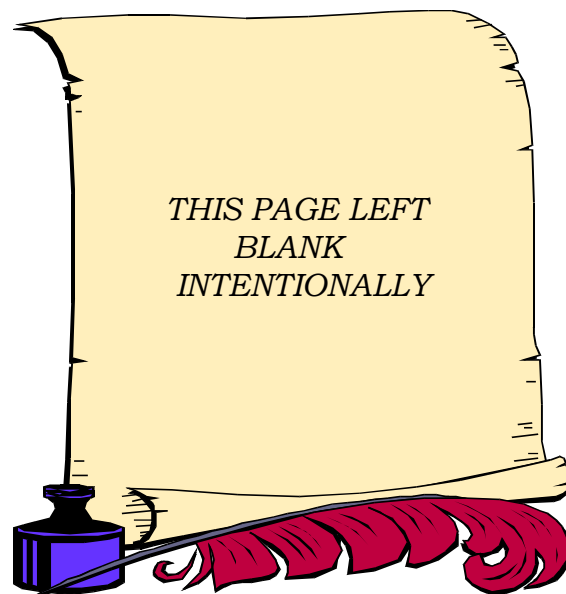
- 3A. Require Desire to provide an accounting of the \$533,604; immediately return the \$322,352; and return any other funds improperly used.
- 3B. Determine if Desire should reimburse the City for interest earned on the loans.
- 3C. Establish controls and systems to ensure subrecipients comply with grant agreements.
- 3D. Establish controls and systems to ensure the reporting of the accumulation and disposition of program income.
- 3E. Require Desire to provide an accounting of all program income since 2000 to determine if Desire expended the program income in accordance with requirements. Further, any funds spent inappropriately should be returned to the program or the City.
- 3F. Legally cancel Desire's grant on Liberty Terrace and reprogram the \$518,352 balance.

Further, we recommend the New Orleans CPD Director:

- 3G. Determine if actions of those responsible warrant administrative action.

- 3H. Make a determination of whether Desire and the City completed the project by constructing only 28 of the 43 homes. If not, then the City should repay its program the \$2,235,320 if Desire and the City did not complete the project. Alternatively, the City could complete the construction of the remaining house using non-federal funds.
- 3I. Make a determination of whether Desire and the City completed the project by constructing only 28 of the 43 homes. If HUD determines the City did not complete the project, then it should also repay its program the \$1,505,546 in program income it earned on the grant funds.⁴² Alternatively, the City could complete the construction of the remaining house using non-federal funds.

⁴² \$2,039,150 in program income less the \$533,604 determined ineligible or unsupported in other areas of the finding.



Internal Controls

In planning and performing our audit, we obtained an understanding of the internal controls that were relevant to our audit. Management is responsible for establishing effective internal controls. Internal controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Internal controls include the processes for planning, organizing, directing, and controlling program operations. Internal controls include the systems for measuring, reporting, and monitoring program performance.

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 eligibility of expenditures.
- Adequacy of controls over and compliance with program policies and procedures.
- Management philosophy and operating style.
- Monitoring performance to ensure program goals are met.
- Ensuring physical safeguarding of assets.
- Ensuring reliability of financial data.
- Ensuring proper procurement of services.

Significant Weaknesses

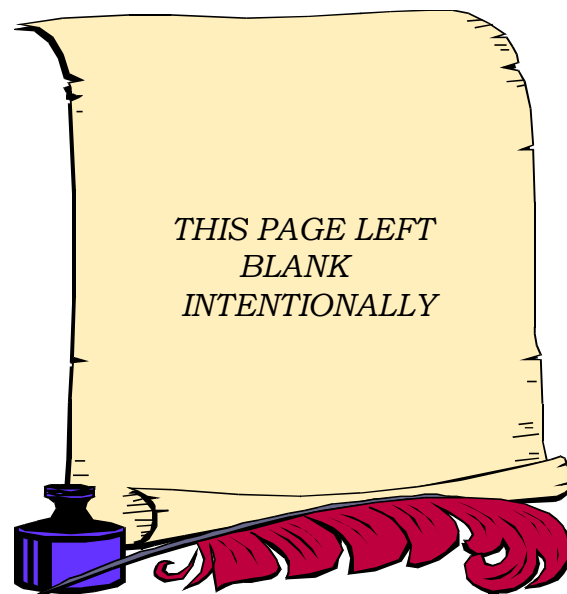
A significant weakness exists if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations and policies; that resources are safeguarded against fraud, waste, and abuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Based on our review, we believe significant weaknesses existed in the following areas:

- Cash management including receipts and disbursements.
- Eligibility of expenditures.
- Compliance with program requirements and procedures including procurement requirements.
- Management philosophy and operating style.
- Ensuring program goals are met.

- Safeguarding of assets.
- Ensuring reliability of financial data.

Follow-Up on Prior Audits

This is the first audit of Desire Community Housing Corporation, New Orleans, Louisiana, by the Office of Inspector General.



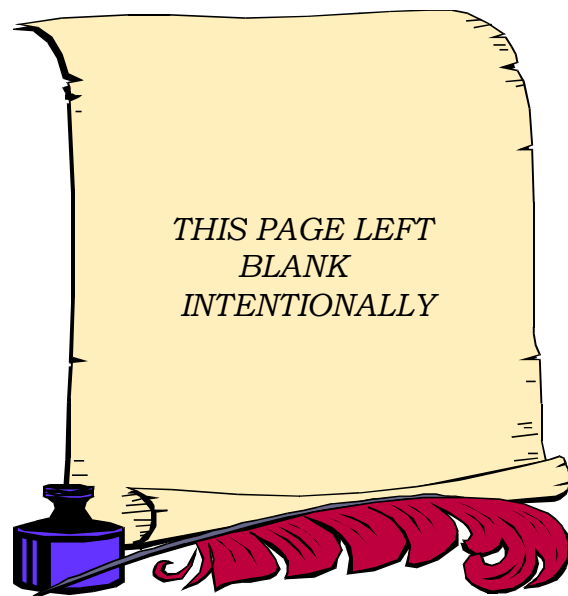
Schedule of Questioned Costs

<i>Recommendation No.</i>	<i>Ineligible¹</i>	<i>Unsupported²</i>	<i>Funds Put to Better Use³</i>
1A		\$ 91,855	
1E	\$ 31,068		
1F			\$ 400,000
2A	1,070,255		
2C			666,745
3A	322,352	211,252	
3G			518,352
3I		2,235,320	
3H		1,505,546	
Totals	<u>\$1,423,675</u>	<u>\$4,043,973</u>	<u>\$1,585,097</u>

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 costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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 the OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.



Auditee Comments

DIVISION OF HOUSING AND
NEIGHBORHOOD DEVELOPMENT

CITY OF NEW ORLEANS

C. RAY NAGIN, MAYOR

ALBERTA S. PATE
Executive Assistant
to the Mayor

June 8, 2004

Mr. D. Michael Beard
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: DESIRE COMMUNITY HOUSING CORPORATION

Dear Mr. Beard,

The City of New Orleans has received and reviewed the OIG audit of the Desire Community Housing Corporation and its administration of HOME Investment Partnership Program funds for the Bayou Apartments and Liberty Terrace development projects. The City's response to the findings stated in the report is listed below.

Finding 1 – Desire Failed to Adequately Administer HUD Funds

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

On April 8, 2003 the City of New Orleans filed a *Petition on Contract and for Writ of Attachment* (lawsuit) against the Desire Community Housing Corporation ("Desire") in Civil District Court for the Parish of Orleans, State of Louisiana. This pending lawsuit for requests that Desire refund to the City of New Orleans an amount of funds "estimated to be \$1,737,000.00, less approximately \$666,746.00 which has not yet been disbursed to Desire..." for the Bayou Apartments development project. The lawsuit also seeks and the City has been successful in obtaining a writ of attachment, a pre-judgment seizure that, in effect, prevents Desire from selling any of its real estate holdings without obtaining a release from the City of New Orleans or the Court.

The Bayou Apartments development project has not produced a single unit of habitable housing of the 38 units required by contract. Therefore, the dollar amount to be repaid to the City from the lawsuit reflects not only the amount of unsupported costs stated in the OIG audit, but the entire amount of disbursements made to Desire under the contractual agreement.

The City is strengthening its procedures for certifying agencies prior to determining their eligibility to submit applications for funding. The enhanced procedures will include a more thorough review of an agency's financial systems and staff credentials. Further, while the City agrees that Desire had inadequate internal procedures regarding the procurement of construction and professional contracts, the City maintains that it adequately monitored the construction activities of Desire and that payment requests were reviewed prior to

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processing to assure that construction work was performed in conjunction with applicable housing quality standards. The City will continue to improve upon its policy and procedures to monitor other aspects of subrecipient activity, particularly in the areas of procurement and approval of subcontracts for other professional services.

Finding 2 – Desire Expended Approximately \$1.1 Million in Grant Funds without Benefiting the People Intended

As stated in the response to Finding 1 above, the City of New Orleans has taken legal action against Desire seeking that the agency return to the City the total amount of funds reimbursed on the Bayou Apartments project. Because the City has been successful in securing a pre-judgment seizure of assets, the City is in a better position to collect funds from Desire for the repayment since Desire is not allowed to sell property without the permission of the City or the Court. Because Desire breached their contractual obligation by failing to produce a single unit of habitable housing of the 38 units identified in the contract, the City has allowed the agreement with Desire to expire, thereby terminating the contractual relationship with the City. The balance of funds from the original contractual agreement will be reprogrammed to other eligible HOME activities. Finally, because of the egregious nature of the deficiencies by Desire the City will seek to impose actions against Desire in accordance with 24CFR24 regarding debarment and suspension.

Finding 3 – Desire Misused \$533,465 of Program Income

The City of New Orleans will seek to obtain repayment of any and all funds not used for eligible project costs under the Liberty Terrace agreement. Like the Bayou Apartments agreement, the Liberty Terrace contract has expired and will not be renewed. The remaining balance of funds will be reprogrammed to eligible HOME activities.

The City has implemented stronger monitoring and technical assistance procedures that assure subrecipient compliance with HOME program requirements. The City has recently developed a policy for the accumulation and reporting of program income for all HUD funded projects and is implementing systems where reimbursements to agencies will be held until administrative compliance requirements, such as reporting and use of program income are met.

The City of New Orleans is committed to the highest administrative standards of all of its HUD programs to assure an improved quality of life for the low- and moderate-income members of our community. 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 504-299-4800 if you have any questions or need more information.

Sincerely,



Alberta S. Pate