



Issue Date	April 8, 2005
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Audit Report Number	2005-FW-1008
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TO: Gregory Hamilton
Director, Community Planning and Development, 6HD

FROM: *//Signed by Jerry R. Thompson for//*
Frank E. Baca
Regional Inspector General for Audit, 6AGA

SUBJECT: The City of New Orleans, Louisiana, Did Not Contribute Approximately \$3.6
Million in HOME Funds

HIGHLIGHTS

What We Audited and Why

We reviewed the City of New Orleans' (City) matching contributions to its HOME Investment Partnerships program (HOME) funds because during our audit of a subrecipient,¹ we noted the City may not have met its HOME matching requirements.

Accordingly, we expanded our original audit objectives to include determining whether the City documented and matched its disbursed HOME funds in accordance with U.S. Department of Housing and Urban Development (HUD) regulations.

What We Found

Between fiscal years 2000 and 2003, the City did not provide \$3.6 million in matching HOME funds as required by HUD. In addition, the City

¹ Audit Report Number 2004-FW-1007, "Audit of City of New Orleans Desire Community Housing Corporation New Orleans, Louisiana," issued June 22, 2004.

failed to maintain a system that identified the type and amount of each matching contribution.

What We Recommend

We recommend that the Director of Community Planning and Development require the City to: (1) submit matching contributions in the amount of \$3.6 million; (2) update its policies, ensuring that the policies are in compliance with HUD and other federal rules and regulations; and (3) provide documentation of its matching contributions as it draws funds until it has a plan to ensure continued compliance with HUD requirements. Further, HUD should review and monitor the City's plan to ensure the matching deficiency is corrected.

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

Auditee's Response

We provided HUD and the City a draft report on March 10, 2005, and held an exit conference on March 16, 2005. In its April 1, 2005 response, the City agreed with the finding and provided a plan to correct the match deficiency. The complete text of the auditee's response, along with our evaluation of that response, can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The City of New Orleans, Louisiana (City), is the largest recipient of the Department of Housing and Urban Development's (HUD) Community and Planning Division funds in the State of Louisiana. The City receives the following formula grants from HUD: Community Development Block Grant, Emergency Shelter Grant, HOME Investment Partnerships program (HOME), and Housing Opportunities for Persons with AIDS. In addition, the City has pledged Community Development Block Grant funds in excess of \$35 million under the Section 108 loan guarantee program.

Between 2000 and 2004, HUD awarded the City more than \$36.6 million in HOME funds. The purpose of the HOME funds is to "strengthen public/private partnerships to expand the supply of decent, safe, sanitary, and affordable housing to low- and very low-income families." As discussed in previous reports,² the City did not adequately monitor its HUD funds.

While performing our audit of Desire Community Housing Corporation, we identified a potential issue with the City's matching of its HOME program funds. We noted the City may not have met its HOME matching fund requirement. Accordingly, we expanded our original audit objectives to include determining whether the City documented and matched its disbursed HOME funds in accordance with HUD regulations.

² Audit Report Numbers 2005-FW 1005, 2005-FW-1001, 2004-FW-1007, and 2004-FW-1003.

RESULTS OF AUDIT

Finding 1: The City of New Orleans Did Not Contribute Approximately \$3.6 Million in HOME Funds

Between fiscal years 2000 and 2003, the City did not provide \$3,591,209 in matching HOME funds as required by HUD.³ The City did not maintain a system identifying the type and amount of each matching contribution. As a result, the City did not provide its required contribution for its HOME funds, thereby compelling HUD grants to fund the entire cost of the activities. The City should document and submit matching contributions of \$3,591,209 in addition to matching its current HOME expenditures. Further, the City should implement a plan to document its matching of HOME funds.

HUD Required the City to Match HOME Funds

Section 220 of the Cranston-Gonzales National Affordable Housing Act established the general requirement that each HOME participating jurisdiction make contributions to its HOME-assisted projects equal to 25 percent of the HOME funds drawn down during each fiscal year. HUD allows⁴ a participating jurisdiction to receive a 100 percent reduction if both its poverty rate and per capita income falls below a set level. If a participating jurisdiction's poverty rate or per capita income falls below a set level, HUD allows a 50 percent reduction in its matching requirement. Because the City's poverty rate fell below the set level, it received a 50-percent reduction in its matching requirement. Therefore, the City had to match only 12.5 percent of HOME funds disbursed.

HUD required the City to maintain records, including individual project records and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project. Further, HUD required the City to document and support the matching contributions as part of its Consolidated Annual Performance Evaluation Report (Annual Report). HUD regulations allow for the suspension of HOME drawdowns if the City fails to submit the HOME matching reports.

³ 24 CFR [Code of Federal Regulations] 92.218.

⁴ 24 CFR [Code of Federal Regulations] 92.222.

The City's Annual Report Only Showed \$156,014 in Matching Contributions

For fiscal years 2000 through 2003, the City's Annual Report only showed \$156,014 in matched HOME funds, \$3,591,209 short of the required \$3,747,223 match. As listed below, the City had the following disbursements that required matched funds.⁵

Computation of the City's Required Matching Funds

Fiscal Year	Disbursements Requiring Match	Match Rate	Match Liability
2000	\$13,017,605	0.125	\$1,627,201
2001	\$ 8,213,996	0.125	\$1,026,749
2002	\$ 5,694,762	0.125	\$ 711,845
2003	<u>\$ 3,051,424</u>	0.125	<u>\$ 381,428</u>
Totals	\$29,977,787		\$3,747,223

Although its 2000 Consolidated Plan committed \$1,260,000 in Neighborhood Housing Improvement Fund funds as HOME matching contributions, the City documented no matching contributions for the 2000 program year in its Annual Report. The City's 2001 Annual Report showed \$156,014 in matching HOME contributions, far less than the required match of \$1,026,749. Neither the City's 2002 nor the 2003 Annual Report documented HOME matching funds.

The City Has Not Met Its Matching Obligation since 1993

According to the City, it has not met its matching obligation since 1993, the year the matching requirement was established. The City attempted to require subrecipients to assist in matching HOME funds through grant agreements. This was never accomplished, and the City eventually agreed that the burden to match should not fall on the subrecipients.

The City failed to submit matching documentation to HUD. For example, in June 2004 during the review of the City's 2003 Annual Report, HUD noted that the City did not submit the required form and supporting documentation for fiscal years 2002 and 2003. HUD threatened to suspend the City's drawdowns if it did not submit the reporting forms.

⁵ Information obtained from HUD's Integrated Disbursement and Information System HOME Match Liability Report, dated August 13, 2004.

The City's management controls did not adequately ensure the City complied with HOME matching requirements. The City's HOME policy and procedure manual has not been updated or implemented. Further, the City's HOME manual did not specify the process the City uses to allocate and administer HOME funds or a plan for matching HOME funds. A City official stated that policies and procedures would be updated and finalized based upon input from our audits.

The City Acknowledged the Matching Deficiency

In an August 12, 2004, meeting between the City and HUD, the City acknowledged its failure to match the HOME funds. On November 10, 2004, the City submitted a plan to address the HOME matching deficiency.

According to the plan, the City has:

- A matching obligation of \$8 million, dating back to 1993.
- Accumulated and documented since 1993, matching contributions of \$4.2 million.
- Accumulated and documented \$1.1 million in matching contributions in fiscal year 2005.

If the City's information is accurate, it has acknowledged a net matching deficiency of \$3.8 million. The City agreed to submit monthly reports to HUD to document its progress in implementing the plan. Further, the City forecast a \$7,549,395 match for fiscal year 2005. According to the City's calculations, it should exceed its matching requirement by the end of fiscal year 2005. As of February 18, 2005, the City could not provide documentation to support the implementation or progress of the plan.

The City should implement its plan to ensure it matches its HOME funds, both past and future.

Recommendations

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

- 1A. Require the City to submit documentation of its matching deficiency of \$3,591,209 for the fiscal years 2000-2003.
- 1B. Require the City to update its policies, ensuring that the policies comply with HUD and other federal rules and regulations, including submitting required reports demonstrating appropriate matching of HOME funds.

- 1C. Require the City to provide documentation of its matching contributions as it draws funds until it has a plan to ensure continued compliance with HUD requirements.⁶
- 1D. Review the City's plan to ensure it complies with the requirements and will correct the past matching deficiency while still meeting its current matching obligation.
- 1E. Monitor the implementation of the City's plan including obtaining and reviewing the required monthly reports.

⁶ 24 CFR [Code of Federal Regulations] 92.551c(1)(vii).

SCOPE AND METHODOLOGY

To achieve our audit objectives we performed the following:

- ✓ Analyzed files, financial documents, records, monitoring reports, audit reports, manuals, and other reports maintained by the City and HUD;
- ✓ Reviewed applicable regulations; and
- ✓ Interviewed appropriate staff from the City and HUD.

Throughout the audit, we obtained and reviewed computer-generated data from the City. We did not test the reliability of computer-generated data. As discussed in previous reports,⁷ the City lacked controls over its subrecipients and failed to adequately monitor them. The lack of controls limited our reliance upon the data.

We performed our fieldwork from January 2003 to January 2005. The audit generally covered the City's operations from January 1, 2000, to December 31, 2003. We expanded the scope as necessary.

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

⁷ Audit Report Numbers 2005-FW 1005, 2005-FW-1001, 2004-FW-1007, and 2004-FW-1003.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls over and compliance with program policies and procedures,
- Management philosophy and operating style, and
- Monitoring performance to ensure program goals are met.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- Fiscal management and
- Ensuring program goals and objectives are met.

FOLLOW UP ON PRIOR AUDITS

The Office of Inspector General (OIG) has not performed an audit of the City's HOME program since 1995.⁸ The audit disclosed significant problems in the program. The findings were closed before our current audit.

Bruno & Tervalon completed the most recent audit of the City's financial statements for the 12-month period ending December 31, 2003. Bruno & Tervalon issued an unqualified opinion on the financial statements and a qualified opinion on compliance for major programs. The report contained findings that required reporting under section 510(a) of Office of Management and Budget Circular A-133. The audit report contained 11 audit findings that affected our audit objectives. The findings were in the areas of cost allocation, the Davis-Bacon Act, eligibility, equipment and real property management, matching, earmarking, suspension and debarment certifications, program income, financial reporting, monitoring, and special tests and provisions-on-site inspections.

From 2000 through 2003, Bruno & Tervalon cited the City for not matching its HOME funds in its audit reports.

⁸ Audit Report Number 95-FW-255-1007.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Unsupported ¹</u>
1A	\$3,591,209
Total	<u><u>\$3,591,209</u></u>

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

DIVISION OF HOUSING AND
NEIGHBORHOOD DEVELOPMENT
CITY OF NEW ORLEANS

C. RAY NAGIN
MAYOR

ALBERTA S. PATE
Executive Assistant
to the Mayor

April 1, 2005

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

RE: HOME MATCH

Dear Mr. McKay,

The City of New Orleans has received and reviewed the OIG audit of the City of New Orleans' contribution to its HOME Investment Partnerships program matching funds. The City's response to the findings stated in the report is listed below.


Finding 1: The City of New Orleans Did Not Contribute Approximately \$3.6 Million in HOME Funds

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

On November 3, 2004, the City of New Orleans submitted a detailed plan to achieve compliance with HOME match requirements to Mr. Gregory Hamilton, HUD New Orleans CPD Director. This plan included contributions through the end of FY 2004. A second report was submitted on February 17, 2005; it included over \$3 million of additional, FY 2005, Match.

The City has created a Match Log to track the accumulation of HOME Match. It includes the individual entries that comprise the Match reported in the November 3, 2004 letter to HUD. The records associated with each entry in the log are now being reviewed to determine that they properly document the eligibility of the contribution. Any eligible contributions not previously documented or reported will be added to the Log; accordingly, reported contributions that are not properly documented will be deleted from the Log. The applicable date of the contribution will be recorded so that the data can be sorted by federal fiscal year. Match reports, HUD form 40107-A, for each federal fiscal year will be re-published.

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Match contributions will be recorded in the Match Log as they are documented. Match liability will be calculated from IDIS reports every month and a report will be prepared to assess the City's compliance with the Match requirement. The City will issue the next Match report on April 7, 2005, detailing cumulative Match liabilities and contributions through the first half of FY 2005. Thereafter, reports will be issued monthly.

Implementation of the City's plan will result in the City exceeding the current match deficiency of \$3,765,959.83 by \$2,658,435.17. When combined with match logged to date, the City's cumulative HOME contribution at the end of FY 2005 will be \$10,659,150, an amount sufficient to match \$21,667,690.40 of HOME expenditures at a 12.5% match rate. Since the City does not expect to disburse that amount of HOME funds in FY 2005, a match surplus condition is expected before the end of the fiscal year.

The City will meet future match requirements by continuing to implement the strategies of selecting projects for funding that contribute to the City's match obligation, quantifying and documenting all potential sources of match, and using locally generated Neighborhood Housing Improvement Funds to augment match contributions to the required levels.

The City of New Orleans is committed to the highest administrative standards of all of its HUD programs and will continue to take the necessary steps to come to full compliance with statutory and regulatory requirements. We will continue to build on the restored public trust in City government and its leaders under the Nagin administration. Please do not hesitate to contact me at 504-658-4290 if you have any questions or need more information.

Sincerely,



Alberta S. Pate

ASP/EML/DBK

copy: Mayor C. Ray Nagin
Anthony M. Faciane, Deputy Executive Assistant for Housing
Ellen M. Lee, Deputy Executive Assistant for Neighborhood Development
Doug B. Kahn, Director of Housing

OIG Evaluation of Auditee Comments

Comment 1 We commend the City for its efforts to identify and correct the HOME matching deficiency. The City should continue working with HUD to implement the necessary controls to track and document HOME matching funds.