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Audit Report Number	2006-AT-1013
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TO: Larry Knightner, Director, Office of Public Housing Program Center, 4EPH

FROM: *James D. McKay*
James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: The Housing Authority of the City of North Charleston, South Carolina,
Inappropriately Pledged Assets to Secure a Loan and Caused Delays in Its
Oakleaf Homeownership Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of North Charleston's (Authority) implementation of the U.S. Department of Housing and Urban Development (HUD) Section 5(h) homeownership program and its use of Public Housing Capital Fund program funding (capital funding) to renovate and convert 68 public housing units to 64 homeownership housing units, known as Oakleaf Estates (Oakleaf). We conducted the audit in response to a request from HUD's Columbia, South Carolina, Public Housing Program Center (HUD).

What We Found

The Authority inappropriately pledged public housing program funds covered by its annual contributions contract with HUD to secure a \$400,000 commercial bank loan for real estate improvements at Oakleaf. In addition, the Authority's noncompliance with program requirements and untimely planning caused delays in its Oakleaf homeownership program. The delays hampered the Authority's

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ability to provide homeownership opportunities to low-income individuals and families in a timely manner.

What We Recommend

We recommend that the director of the Office of Public Housing Program Center ensure that the Authority obtains prior approval from HUD before entering into any future contract or agreement that obligates annual contributions contract funds to secure debt. We also recommend that the director require the Authority to provide a reasonable plan for completing the project and selling the units, and properly assess and document homebuyers progress and related time extensions.

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 discussed the findings with the Authority and HUD officials during the audit. We provided a copy of the draft report to the Authority Officials on May 31, 2006, for their comments. We discussed the report with the Authority and HUD officials at the exit conference on June 27, 2006. The Authority provided its written comments to our draft report on June 15, 2006.

The complete text of the Authority's response, along with our evaluation of that response, can be found in Appendix B of this report. The Authority also provided exhibits with its response that are available for review upon request.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of North Charleston (Authority) is a public body corporate and politic organized under the laws of the state of South Carolina by the city of North Charleston to provide housing for qualified low-income individuals. The city of North Charleston appoints a governing board for the Authority, and the board designates its own management.

In March 2002, the Authority submitted a Section 5(h) homeownership program (plan) to HUD's Special Application Center to convert 68 Oakleaf public housing units to homeownership housing units for low-income individuals and families. On June 6, 2002, the Special Application Center executed the implementing agreement (agreement) and incorporated the Authority's plan. The Authority later reduced the number of homeownership units included in the project from 68 to 64 units. The plan stated that Public Housing Capital Fund program funds (capital funds) would be used to fund the project. From 2000 through 2005, the Authority received more than \$7.1 million in capital funds, of which it appropriated and spent nearly \$2.3 million for the Oakleaf project. At the time of our audit, the project was not complete. The 64-unit project contained 36 completed units, 21 units that were under renovation, and 7 units that were awaiting renovation. However, due to project management concerns, HUD's South Carolina field office refused to approve the Authority's request for additional capital funds to complete the project.

The plan allowed qualified homebuyers 18 to 24 months to clear up credit issues and qualify for loans to purchase the units they occupied under the Authority's lease purchase agreement. Homebuyers signed a lease with option to purchase under the homeownership program when they moved into the renovated unit they planned to purchase. The Authority then worked with the homebuyers to help ensure that they would qualify to purchase their unit within the 18- to 24-month period.

Our audit objectives were to determine whether the Authority administered its capital funding for Oakleaf in accordance with HUD's program requirements for financial management and reasonableness and necessity of expenditures and whether the Oakleaf project was adequately progressing toward accomplishing its homeownership objective.

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RESULTS OF AUDIT

Finding 1: The Authority Inappropriately Pledged Its Annual Contributions Contract Funds to Secure a Bank Loan

The Authority inappropriately pledged funds covered under its annual contributions contract with HUD (HUD contract) to secure a \$400,000 bank loan. The executive director stated that this occurred because the Authority did not know the loan agreement included language that pledged HUD contract funds to secure the loan. The security clause placed HUD contract funds at risk of not being available when needed to meet the affordable housing needs of low-income individuals and families the funds were intended to assist.

HUD Contract Funds Pledged as Collateral

The Authority inappropriately pledged HUD contract funds to secure a \$400,000 loan obtained to pay for improvements at Oakleaf. Section 7 of the HUD contract, dated January 14, 2003, states "...the HA [housing authority] shall not in any way encumber any such project, or portion thereof, without the prior approval of HUD. In addition, the HA shall not pledge as collateral for a loan the assets of any project covered under this ACC [annual contributions contract]."

The executive director stated that the Authority did not know the loan agreement included language that pledged all funds on deposit to secure the loan. The Authority had more than \$2.9 million in HUD contract funds on deposit with the bank when it made the loan. An Authority representative stated that the Authority obtained the \$400,000 loan to pay Oakleaf renovation costs after HUD denied the Authority's request for additional capital funding for the project. HUD denied the request because of concerns raised during its March 2004 management review regarding the Authority's noncompliance with various requirements that included financial management and procurement issues. HUD questioned, among other things, the Authority's lack of documentation to support the reasonableness of Oakleaf's renovation costs.

Conclusion

At the time of our on-site review, the Authority had not drawn any funds against the loan. We informed the Authority that the loan agreement inappropriately obligated HUD contract funds. The Authority contacted the bank and amended the loan agreement to remove the security clause that obligated HUD contract

funds. We examined the amended loan agreement and verified that the terms and provisions that obligated HUD contract funds had been removed.

Recommendations

We recommend that the director of the Office of Public Housing Program Center, Columbia, South Carolina, ensure that the Authority

- 1A. Deobligates the \$400,000 in HUD contract funds used to secure the bank loan.
- 1B. Obtains approval from HUD before entering into any future contracts or agreements that encumber or pledge HUD contract funds as collateral.

Finding 2: The Authority's Noncompliance with Requirements and Untimely Planning Delayed the Oakleaf Homeownership Program

The Authority's noncompliance with various program requirements and incomplete planning for the homeowners association caused delays that might have been avoided or reduced. The delays hampered the Authority's timely completion of Oakleaf for homeownership opportunities to low-income individuals and families. For instance, the 64-unit project has been underway for more than three years, but only 36 (56 percent) of the units have been completed; 21 units were under renovation, and renovation had not begun on seven units. Only four units had been sold, and eight units were vacant.

Delays Due to Noncompliance with Program Requirements

The Authority's noncompliance with various requirements caused HUD to suspend the Oakleaf project in May 2004 and deny the Authority's request for capital funds to complete the project. These actions resulted from HUD's March 2004 management review of the Authority's implementation of the project. At the time of our and HUD's review, the Authority had spent the \$2.3 million in capital funds that HUD approved for the project. The suspension and resulting project delay might have been avoided or reduced if the Authority had complied with requirements. HUD made recommendations to address financial management and procurement concerns noted during its review. However, HUD requested that we audit the project primarily due its concerns about whether the project costs were reasonable.

We obtained the services of a HUD construction analyst, whose assessment indicated that the project's overall costs were not excessive. We examined contracts and other supporting documents (e.g., invoices) for more than \$852,000 spent on the Oakleaf project. The amounts were for contract services, materials, and/or supplies incurred for Oakleaf.

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Unsupported Time Extensions Granted to Prospective Homebuyers

The Authority did not document why it allowed four of six homebuyers included in our test to exceed the time allowed by its homeownership plan to purchase their units. The plan, section 907.7, "Method of Sale," provides that the lease purchase phase will be available to all participants who can qualify for a mortgage within an 18-month period. The homebuyer may request one six-month extension. If at the end of the extension period, it is determined that the homebuyer is still not eligible for homeownership, the homebuyer will have a choice of becoming a renter at an alternative property or through the Section 8 program. The files for the four homebuyers did not adequately document the basis for the extensions granted by the Authority. The Authority also granted the extensions without providing evidence that the homebuyers had requested them.

Unit Number	Move-in Date	Date of review	Months elapsed	Months beyond the 18 allowed in the plan	Expected months to close
2797	Apr. 23, 2003	Feb. 2006	34	16	2
2790B	Aug. 4, 2004	Feb. 2006	19	1	12
2722C	Mar. 28, 2003	Feb. 2006	35	17	Immediate
2767	May 4, 2004	Feb. 2006	22	4	Immediate

For instance, the homebuyer in unit 2797 had lived in the unit for more than 34 months but had not qualified to purchase the unit. The Authority's October 2005 letter to the homebuyer noted that the homebuyer was no longer employed and had not taken steps to resolve credit issues noted in action plans, dated April 2003, September 2004, and May 2005. Yet, on January 17, 2006, the Authority amended the lease addendum contract through June 1, 2006. The file did not contain adequate documentation to support the Authority's continued extension of the contracts. The files for the other three cases contained a similar lack of documentation for time extensions.

Delay in Resolving Legal Matters

The Authority did not resolve in a timely manner legal matters that delayed the sale of two completed housing units. An Authority representative told us that in July 2004, the two homebuyers were ready to purchase their units. The representative stated that the Authority could not finalize the sales because it had not completed the legal steps associated with incorporation of the homeowners association, association bylaws, and association covenants. As a result, one homebuyer did not purchase the unit until January 2006, and the other homebuyer developed credit problems and had not purchased the unit at the time of our review. On March 19, 2002, the Authority obtained an opinion from its legal council pursuant to the requirement at 24 CFR

[Code of Federal Regulations] 906.21(g). The legal opinion did not mention any problems associated with incorporation of the homeowners association.

We requested but the Authority did not provide an adequate explanation for the delays associated with the homeowners association.

Conclusion

The delays postponed the availability of affordable homeownership opportunities to low-income individuals and families.

Recommendations

We recommend that the director of the Office of Public Housing Program Center, Columbia, South Carolina, require the Authority to

- 2A. Develop and submit to HUD a reasonable plan for completion of the renovation and sale of the remaining 60 Oakleaf units to qualified homebuyers.
- 2B. Assess and document the adequacy of all homebuyers' progress toward qualifying to purchase their units.
- 2C. Offer and document alternative housing options to homebuyers who are ineligible to purchase their unit or who decline to purchase their unit and the homebuyers response to the offers.
- 2D. Ensure that each file contains proper documentation for all time extensions granted to homebuyers to qualify to purchase their unit.

SCOPE AND METHODOLOGY

Our audit objectives were to determine whether the Authority administered its capital funding for Oakleaf in accordance with HUD's program requirements for financial management and reasonableness and necessity of expenditures and whether the Oakleaf project was adequately progressing toward accomplishing its homeownership objective. To accomplish our objectives, we

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed HUD's files, including management reviews and related correspondence concerning the Authority's homeownership program.
- Reviewed the Authority's records, including the homeownership plan, Section 5(h) implementation agreement, procurement plan, homeownership program files, financial records supporting project disbursements, and tenancy (e.g., contracts, check vouchers, invoices, tenant records).
- Toured the Oakleaf project site and walked through several units.
- Interviewed HUD and Authority program staff and Authority contract staff.
- Requested, obtained, and considered a legal opinion from the HUD Office of Inspector General's (OIG) Office of Legal Counsel on whether the one-for-one replacement requirement applied to Oakleaf's reduction from 68 to 64 units. The requirement did not apply.
- Examined contracts, invoices, and other supporting documents for \$852,000 of the \$2.3 million in project costs. We selected contracts and invoices for large individual amounts or for repetitive purchases that we considered material. We discontinued testing based on an independent assessment we requested and obtained from a cost analyst from HUD's Columbia Multifamily Housing Division. The cost analyst estimate indicated the overall Oakleaf project costs were reasonable.
- Examined homeowner files for 6 of the 24 completed occupied units to determine whether the homebuyers had made adequate progress toward qualifying to purchase their units.

We conducted our fieldwork from October 2005 to February 2006 at the Authority's office in North Charleston, South Carolina; HUD's Office in Columbia, South Carolina; and our office in Jacksonville, Florida. Our audit period was from July 1, 2001, through November 30, 2005. We expanded our audit period as needed to accomplish our objectives. We performed our review in accordance with generally accepted government auditing standards.

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 compliance with laws and regulations.
- Controls over the implementation of the homeownership program.
- Controls over the safeguarding of resources.

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:

- The Authority needs to improve controls to prevent the inappropriate pledging of Authority assets to secure loans (Finding 1).
- The Authority needs to improve controls to ensure proper implementation of its homeownership program (Finding 2).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

<u>Recommendation</u>	<u>Funds to be put to better use 1/</u>
1A	\$ 400,000
Total	<u>\$ 400,000</u>

- 1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. In this instance, if the Authority implements our recommendation, it will deobligate the Authority’s inappropriate obligation of HUD contract funds and make them available to accomplish their intended purpose.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



*Board of
Commissioners*

*Chairman
Sandra R. Kite*

*Vice Chairman
James L. Gibbs*

*Robert L. Phillips
Keith M. Thompson, Sr.*

*Executive Director
George L. Saldaña*

City of North Charleston Housing Authority *"Providing Safe and Decent Housing to the Citizens of North Charleston"*

June 15, 2006

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region 4 Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay:

First of all, I want to say what a pleasure it was to have your staff, Ms. Kim Tran, Mr. Bill Glover, Ms. Tracy Edwards, and Mr. Narcell Stamps here on site. They were very professional and courteous. They made the process less painful. We did receive the draft audit report that was presented by your office for our review. After reviewing the draft report and researching the information that was previously forwarded to your auditors, the 24CFR (Part 906) regulations, the 5(h) implementing agreement that was approved by HUD, and other information, we strongly disagree with the findings that were presented.

The North Charleston Housing Authority (NCHA) is providing information related to the draft report that was presented by the Office of Inspector General:

FINDING NUMBER ONE

The Authority Inappropriately Pledged Its Annual Contributions Contract Funds to Secure a Bank Loan

NCHA RESPONSE

The NCHA originally approached First Citizens Bank in February 2005 for an unsecured line of credit in the amount of \$400,000.00. The NCHA had a meeting with First Citizens Bank and explained that NCHA wanted an unsecured loan because the NCHA could not pledge any of its annual contribution received from HUD. Exhibit no. 1 is a letter from the bank stating that the loan was unsecured. When the original document was signed on April 18, 2005, the loan officer indicated under the pledge of collateral section that there was no additional collateral. First Citizens Bank indicated that there was no additional collateral, in an effort to identify the fact that this note was unsecured, as per the letter labeled Exhibit #1.



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Comment 1

Comment 1

The OIG auditors discussed this line of credit with the Financial Director, the Executive Director, and with First Citizens Bank. During the discussion, it was noted the OIG was uncomfortable with certain lines in the loan contract. To satisfy the OIG concern, First Citizens Bank deleted those particular lines. The NCHA is forwarding the revised commercial note as Exhibit #2.

Comment 1

Since the original finding was satisfied, the NCHA is requesting that Finding Number One be removed from the final audit report. The NCHA obtained the loan as an unsecured loan, as per Exhibit #1 and the loan documentation. The NCHA and First Citizens Bank amended the note to address the concern of the OIG. The NCHA does not believe that this Finding should be included in the final audit report.

FINDING NUMBER TWO

The Authority's Noncompliance with Requirements and Untimely Planning Delayed the Oak leaf Homeownership Program

Comment 2

Transforming Public Housing to allow Low-Income families to become homeowners is a very tedious, painstaking and lengthy procedure. The NCHA is committed to the endeavor of making homeownership opportunities available to these families. 24 CFR (Part 906) does not specify a time period to complete the sales of the units, and the NCHA's 5(h) Plan didn't specify a time period to complete the sales of the units. The NCHA's timetable specified that sales would "Effectuate" in July 2002 with no end date. The NCHA is committed to selling the units as quickly as possible.

Other 5(h) Homeownership Conversion Time-frame Comparisons:

- 1) Myrtle Beach - approved April 2002 - 18 units - final sale February 2005
- 2) Muskegon, Michigan - approved May 1997 - 25 units - final sale - May 2005
- 3) Boyne City, Michigan - approved April 1996 - 26 units - still have 10 to sell
- 4) Philadelphia Housing - approved May 1996 - 300 units - sold 97 to date.

Comment 2

The only timetable the NCHA had was under the Capital Fund Program (CFP). The NCHA had two years to obligate and four years to spend the funds. All of the funds under the CFP were obligated and spent in a timely manner.

- A. As of June 15, 2006, thirty-five (35) families are living at the Oakleaf Estates Development with five (5) families moving in within the next two weeks. Five (5) of the current residents are Homeowners, and another four (4) will close on June 22, 2006. We have been hosting open houses at the development, running ads in the paper and sending notice to churches soliciting buyers for the units. As a buyer is identified for the unit, the unit is completed.
- B. As discussed in detail with the OIG auditors, 24 CFR (Part 906), which was published in April 1994, was the Federal Regulation that regulates the 5(h) Homeownership Program, which was written and approved for the Oakleaf Estates Development in May 2002. This regulation was originally written in 1990 amended in 1994 and was on the books as the

regulation for the 5(h) Homeownership Program until March 2003. In March 2003, several amendments were made to the regulations (24 CFR 906), and the name of the homeownership program was changed to the Section 32 Homeownership Program.

We have included, listed as Exhibit #3, a copy of the 24 CFR (Part 906) regulations, which was published as of April 1, 1990, which was used to develop and implement the homeownership plan for the Oakleaf Estates Development.

Comment 3

Regulation 24CFR (Part 906.10) discusses non-purchasing residents. The regulation states that “if an existing resident of the dwelling authorized for sale under a homeownership plan is ineligible for purchase or declines to purchase, the resident shall be given the choice of either relocation to other suitable and affordable housing or continued occupancy of the present dwelling on a rental basis, at a rent no higher than that permitted by the Act”. Displacement (permanent, involuntary move) in order to make a dwelling available for sale is prohibited.

Comment 3

All four (4) of the reviewed Homebuyers were originally residents of the Oakleaf Estates Development. All four (4) Homebuyers decided to stay in the renovated homes, so that they could participate in a lease to purchase program, and purchase their first home. The NCHA did provide the four (4) Homebuyers with information about their choices in accordance with the regulations. All four (4) Homebuyers have decided to stay and work toward purchasing their home.

Comment 2

The 5(h) plan, which was approved by HUD, does not specify the timing of sales of homeownership sales. The 5(h) plan that was approved and included in the implementing agreement, allowed Homebuyers additional time, to work on their credit, and move forward in purchasing their first home. The 5(h) plan does not specifically identify how requests for extension to the lease to purchase period are made. The 5(h) plan also does not specifically identify the specific documentation, relating to the Homebuyers decision not to relocate. The 5(h) plan does state that the NCHA will work with each client, who chooses not to purchase, or is having difficulty purchasing, in order to assist the client in becoming a Homeowner.

Comment 4

Comment 5

As explained to the auditors, the first extension that was given to the Homebuyers that were living in the Oakleaf Estates Development was an extension that was decided upon by the NCHA. The NCHA made the decision to extend each person’s contract for an additional period of six (6) months, due to the fact that the NCHA was delayed because of the HUD review. Therefore, there was not a necessity to obtain a request from the individual, as the NCHA extended everyone that was on site. Since the 5(h) plan did not have language to indicate that the Housing Authority could not extend the process, we took the liberty to expand the contract dates.

Comment 4

Comment 5

Therefore, even though the program participant described in your report, had lost her job, she was automatically extended, due to the fact that we made a decision to extend every participant.

Comment 4

The 5(h) plan does not clearly state that there cannot be additional extensions, if there are items above and beyond the control of the Homebuyer. The 5(h) plan does specifically state, that each Homebuyer will be reviewed on a case by case basis. Therefore, the NCHA has desperately tried to assist the low income Homebuyer overcome their problems, so that they are able to purchase their first home.

Comment 6

Your draft report clearly states, in its conclusion section, that the delays postponed the availability of affordable homeownership opportunities to low income individuals and families. We disagree, as affordable homeownership opportunities, have been provided, through the lease to purchase program. The NCHA has done everything in their power to support the Homebuyer in their efforts to overcome the barriers of homeownership.

The participants, have developed a stronger sense of ownership, and have worked toward purchasing their home. We have provided them additional time to save the money that is necessary, to achieve their overall homeownership goals.

Comment 7

Also, in your recommendation section, under 2E, you indicate that each file contains documentation required by the homeownership plan for all time extensions. The 5(h) plan does not specifically identify what documentation should be placed in the file for the time extensions. We have worked with the Special Applications Center in Chicago, Illinois to prepare the files in accordance with their guidelines.

Comment 4

Comment 8

C. Your draft report indicates that the Authority did not resolve in a timely manner legal matters that delayed the sale of two completed housing units. It particularly points to the period from July 2004, when the first two program participants were individually ready to purchase their units until the first actually closing in January 2006, and indicates that the delay was due to non-completion of the legal steps associated with incorporation of the homeowners association, association bylaws, and restrictive covenants.

Comment 8

The time line for finalizing and filing or recording restrictive covenants and homeowner's association organizational documents for the Housing Authority's Oak leaf Estates project was driven by the elements of the project which were required to be reflected in various ways in the final documents themselves. Included were construction issues, government zoning, subdivision, and similar regulatory approvals, coordination of insurance issues, and special attention paid to the needs of the owners in effectively managing the homeowners association.

Comment 8

The homeowner's documents and restrictive covenants were drafted early on in the process. As issues arose and were resolved, modifications in language were made to reflect those resolutions. Adoption and recording awaited finalization of all other issues precedent to closing so that the final language and provisions could be tailored appropriately. Revisions to these documents occurred dozens of times over the course of the project as issues came to the forefront and were addressed. Earlier closeout of these documents would not have allowed earlier closing as the issues on which they were waiting affected the overall project and were precedent to the first closings. In fact, early closeout of those documents would have resulted in additional work, costs, and delays in

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filing multiple amendments as issues were identified and addressed. All documents requiring recording or filing were promptly recorded or filed within weeks after all other closing related issues were resolved and within the agreed final schedule for closing.

Comment 8

By way of further example and explanation, this project involved the conversion of public housing rental units to home ownership units. Necessarily included in that process were many items, including both construction related issues and legal items. Both the homeowners' association documents and restrictive covenants required that they be tailored to the special circumstances of the home ownership conversion as well as to specially address the needs of a mixed income community which would include significant low to moderate income persons as the development matures. Special consideration was given to which structures and services should be covered by the property owners association through the 'common elements' of the development. Many of the issues involving the common elements, such as the common recreational elements, areas to be included in common maintenance, including the exterior of the buildings, issues of access to common utility line runs through the attics of multiple units, etc. Others involved zoning and subdivision issues, which required coordination with multiple governmental agencies. These individual issues often affected others, such as issues of insurability. For example, while the construction of the two units in question was completed and the participants ready to move forward with closing in July 2004, the City had not yet approved final street names and addresses for the units (although previously requested). Ongoing discussions were also being had with the City Public Works Department regarding the necessity of maintaining and possibly reconstructing existing drainage lines and easements. The resulting approvals for an appropriate plat for closing were not received until June 2005, with the plat references in the documents being modified accordingly.

Comment 8

Another example lies in the area of insurance. A decision had been made early on to approach the project as a townhouse development to maximize the participants' sense of ownership, owning the lots in fee simple, with the property owners association being responsible for elements common to all units and the common areas of the development. Since the units were being converted from rental units, maintenance easements for access to the attic spaces of all units were necessary to ensure accessibility to the utility runs. This required close review by insurers due to access requirements through the units. Also, the Authority has attempted to maintain insurance through the South Carolina State Insurance Reserve Fund on not only the individual units but also common areas for as long as possible as the rates through the State are substantially lower than those available in the private market. A conversion from mixed multi-family and single family units to townhouse and single family with common elements and areas was something the State had not previously experienced. Substantial discussions were undertaken to ensure that coverage would be available at the lowest possible cost to the project as a whole as well as individual units once sales had begun. It was only in the final few weeks prior to the first closing in January of 2006 that all issues as to maintenance and insurability of the common elements and the transition issues from the State insurance were resolved and it was determined that no further modifications were needed to address insurance matters.

Dozens of issues such as these were identified and addressed prior to the adoption and recording of the legal documents. When all issues were identified and closing was at hand, the language of the documents was promptly closed out and the documents themselves adopted and filed.

CONCLUSION

Comment 1

The NCHA is requesting that Finding Number One be removed from the report. Exhibit #1 and the loan documents showed that the loan was an unsecured loan; also the loan documents were edited to satisfy the concern of the OIG before they left. The NCHA is also requesting that Finding Number Two be amended. Although the construction was delayed, the NCHA does have thirty-five plus (35) participants housed or in the process of being housed. The construction is being completed to meet the housing needs of the new participants. All homes will be completed and sold prior to April 2007.

Comment 9

Comment 4

Documentation on the Homebuyers, who are currently living at the Oakleaf Estates Development, has been included in the Homebuyer's file in accordance with the approved 5(h) plan and it's supporting implementing agreement. The regulations clearly state that a Housing Authority cannot move original occupants from their home to promote the sale of the home. The regulations override any language in the 5(h) plan, as HUD is promoting the sale of the homes to the original residents.

Comment 3

Comment 5

The North Charleston Housing Authority did make a universal decision to extend each person's lease to purchase contract an additional six months, regardless of their individual circumstances, because of the fact that the NCHA did cease action during the HUD review.

**Comment 5
Comment 4**

The NCHA's representative did speak to Mr. Ainars Rodin, Director of the Special Applications Center and he does indicate that the regulations are clear that the original residents cannot be displaced, due to the homeownership plan. Mr. Rodin also indicated that North Charleston Housing Authority does have the discretion of increasing each participant's contract an additional six months, due to reasons beyond the control of the participants.

Comment 8

As to the period of July 2004 through January 2006 when the two participants were awaiting closing, the normal development process for this type of project resulted in the individual units being completed prior to the conclusion of development issues for the project as a whole being resolved. Once the overall questions were resolved, in normal and due course, closings have begun and are proceeding in a timely and deliberate manner.

Please contact me at (843) 747-1793, so we can discuss these comments in further detail.

Sincerely,



George L. Saldana
Executive Director

Evaluation of Auditee Comments

- Comment 1** Contrary to the Authority’s position, the written provisions of the loan agreement obligated the Authority’s annual contribution contract funds. The finding is valid and will not be removed from the report. We further discussed this issue with the executive director during the exit conference held on June 27, 2006, and he agreed with our observation.
- Comment 2** We recognize that the regulations do not specify a time-period for project completion. We revised recommendation 2A to focus on requiring the Authority to provide HUD a reasonable plan for completing the renovation and sale of all Oakleaf units.
- Comment 3** We recognize that the HUD’s Section 5(h) homeownership regulations do not permit an Authority to require original occupants of homeownership projects to move in order to make a dwelling available for sale to someone else. The regulations and the Authority’s homeownership plan do, however, permit and encourage Authority’s to offer alternative housing options to individuals who are ineligible for purchase or decline to purchase their unit. This was the point made in the finding. We found some evidence that the Authority provided this option to homebuyers but we found no documentation of the homebuyers response.
- Comment 4** We recognize that the homeownership plan does not specifically state how the Authority is to document time extensions granted to homebuyers. We also recognize that there are many justified reasons to grant such extensions. However, the Authority’s management is responsible for ensuring the files contain proper documentation for allowing homebuyers to remain in the program beyond the 18 months specified in the plan and the extension periods allowed by the plan. The absence of specific documentation methods in the homeownership plan does not excuse the Authority from its responsibility to ensure that the files contain proper information needed to track and assess homebuyers progress, or lack thereof toward homeownership. We further discussed this issue with the executive director during the exit conference held on June 27, 2006, and he agreed with our observation.
- Comment 5** The Authority’s written response was the first information we received that it had granted a one-time extension to all Oakleaf homebuyers. The files did not contain documentation of the extension. The executive director stated that the extension was not in writing. The Authority is responsible for ensuring that such decisions are properly documented.
- Comment 6** Contrary to the Authority’s position, the delays discussed in the finding postponed the availability of affordable housing opportunities to low-income individuals and families. Without the delays, the project would have been completed earlier and the units would have been available for sale earlier.

- Comment 7** We revised recommendation 2D to remove reference to the homeownership plan. The revision focused on ensuring that the Authority includes proper documentation in its homeownership files.
- Comment 8** While we were on site conducting the audit we asked the Authority several times to explain why the legal issues associated with the homeowner’s organization were not resolved earlier. The Authority did not provide an adequate explanation. The detail provided in the Authority’s written comments to the finding is the first detailed explanation received for the delays. The Authority’s comments cite obstacles but they do not adequately explain and justify the delays that prevented their ability to immediately sell completed units to the first homebuyers who qualified to purchase their units. The issues mentioned in the Authority’s comments mostly included predictable issues that should have been anticipated and resolved prior to any units being completed and made available for sale.
- Comment 9** The Authority requested that we revise finding two but provided no support to justify the requested revision. We did not revise the finding.