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April 24, 1998

98-FW-241-1810

MEMORANDUM FOR: Katie S. Worsham
Director, Office of Community Planning and Development, 6AD

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

SUBJECT: Congressional Inquiry and Citizen's Complaint
City of Dallas Housing Department
Dallas, Texas
and
Community Planning and Development
HUD Texas State Office
Fort Worth, Texas

In response to a citizen's complaint and the resulting Congressional Inquiry, we reviewed allegations against officials of the City of Dallas, Texas, and the HUD Office of Community Planning and Development (HUD) in Fort Worth, Texas. Our objective was to determine whether the citizen had valid complaints and decide whether they warrant an in-depth audit of the Dallas Community Development Block Grant (CDBG) and HOME Programs. The citizen alleged:

1. The City of Dallas contracted with the Enterprise Foundation to administer its CDBG Housing and HOME funds in violation of procurement requirements.
2. HUD is not providing oversight to the Enterprise Foundation because the Enterprise Foundation is staffed with former HUD employees.
3. The Enterprise Foundation violated HUD requirements and used HUD money to participate in legal action between the NAACP and the City of Irving.
4. The Enterprise Foundation or one of the Community Housing Development Organizations (CHDOs) violated HUD requirements and spent \$50,000 to qualify a family for a house.
5. One of the CHDOs received HUD funds from the City of Dallas and misused or improperly used the funds in connection with three unsold homes involved in foreclosure.

6. HUD is selling properties for prices above market value.
7. Organizations have attempted to extort lenders by offering not to investigate discrimination in exchange for technical assistance contracts.

To achieve our objective, we interviewed the complainant and employees of the Dallas Housing Department and HUD in Fort Worth. We reviewed monitoring procedures in both offices. Also, we reviewed material provided by the complainant and the files on the Enterprise Foundation at the City and HUD, including the procurement documents relating to contract awards. In addition, we reviewed all files of reimbursable expenditures and supporting documentation for Enterprise Foundation contracts with both the City of Dallas and the HUD Fort Worth Office.

If you have any questions, please contact Jerry R. Thompson, Assistant District Inspector General.

SUMMARY

Of the seven allegations, our review disclosed the first five of them are not valid and the remaining two are unsupported. The complainant could provide no information to support the allegations that HUD sold properties above their market value or that organizations have attempted to extort lenders for technical assistance contracts. If we receive valid information supporting these allegations in the future, we will consider a review of the matters then. We decided the matters do not warrant an in-depth audit of the Dallas CDBG and HOME Programs at this time.

BACKGROUND

The City of Dallas contracts with the Enterprise Foundation (Enterprise) to administer its CDBG Housing and HOME programs. Enterprise is a large national foundation headquartered in Columbia, Maryland. It provides technical assistance to HUD, cities, and nonprofit owners and developers using CDBG and HOME funding and other resources. From October 1996 to September 1997, the Enterprise Foundation administered the Dallas Affordable Housing Partnership (DAHP) program on behalf of the City of Dallas. It also processed applications for the Infill Housing Program and the CHDO program. From October 1997 to September 1998, the Enterprise Foundation will administer the City's CDBG and HOME funds and the Upfront Cost Assistance Program (UCAP) and DAHP programs under the City's Mortgage Assistance Program.

The programs under the Mortgage Assistance Program provide assistance to lower income first-time homebuyers. Specifically, the DAHP program leverages private funds with public assistance for up to 20 percent of the purchase price of the home to provide acquisition loans to

lower income first-time homebuyers. The Infill Housing program provides homeownership opportunities to lower income first-time homebuyers through the construction of new, single family homes. Under the CHDO program, the City is required to fund 15 percent of its HOME allocation to assist in the development of community organizations to enhance their capacity to develop affordable houses, either single family units or single and multifamily rental projects. The UCAP program provides downpayment and related closing cost assistance up to \$2,000 to lower income first-time homebuyers when acquiring homes through participating lenders.

RESULTS OF REVIEW

Allegation 1: The City of Dallas contracted with the Enterprise Foundation to administer its CDBG Housing and HOME funds in violation of procurement requirements.

CONCLUSION: The allegation is not valid.

We reviewed the Request for Proposal (RFP), the Proposal Response from the Enterprise Foundation, and the RFP rating schedule showing how all bidders were rated for the City of Dallas contract. The review disclosed no evidence of procurement requirement violations. The City followed proper procurement procedures in awarding the contract to the Enterprise Foundation.

Allegation 2: HUD is not providing oversight to the Enterprise Foundation because the Enterprise Foundation is staffed with former HUD employees.

CONCLUSION: The allegation is not valid.

Interviews with City of Dallas and HUD officials disclosed none of the parties was aware of any former HUD employees who work for the Enterprise Foundation. Monitoring records and reports show the City and HUD monitored the Enterprise Foundation no differently than other contractors.

Allegation 3: The Enterprise Foundation violated HUD requirements and used HUD money to participate in legal action between the NAACP and the City of Irving.

CONCLUSION: The allegation is not valid.

Supporting documentation for expenditures submitted under all Enterprise Foundation's reimbursable contracts showed no payments to the NAACP or its representatives. The City reimbursed the Enterprise Foundation for some legal expenses, but these legal expenses were for corporate office legal review of loan closing documents. This expense appeared reasonable considering the number of closings per month.

Allegation 4: The Enterprise Foundation or one of the CHDOs violated HUD requirements and spent \$50,000 to qualify a family for a house.

CONCLUSION: The allegation is not valid.

The City of Dallas' annual performance and evaluation report disclosed one property appeared to cost over \$43,000 to qualify a family for a house. A further investigation disclosed the cost was inflated over \$33,000 due to computer reporting problems. Also, the cost of the house was within program limits.

Allegation 5: One of the CHDOs received HUD funds from the City of Dallas and misused or improperly used those funds in connection with three homes that could not be sold and were involved in foreclosure.

CONCLUSION: The allegation is not valid.

The complainant included in her written complaint a flyer listing three properties she believed indicated the CHDOs misused or improperly used HUD funds. The files on these properties disclosed they were part of the Infill program. The properties were among some of the last properties to be built before the program closed. Since these properties could not be sold within the allotted time period, the City of Dallas purchased them from the bank to save interest. The City of Dallas is currently trying to sell them. We found no misconduct on the part of the CHDO.

Allegation 6: HUD is selling properties above their market value.

CONCLUSION: We could not validate the allegation.

The complainant had no information to support the allegation. However, the complainant told us her organization was doing an extensive study of HUD sales of HUD owned properties and would present the study directly to Congressman Armev. She does not intend to provide a copy of the study to HUD before presenting it to the Congressman. We will review the information when it is provided to us.

Allegation 7: Organizations have attempted to extort lenders by offering not to investigate discrimination in exchange for technical assistance contracts.

CONCLUSION: We could not validate the allegation.

The complainant would not provide us information to support the allegation. The complainant refused to provide information on the basis of confidentiality and said she would try to get the informants to call us. They did not contact us before the conclusion of this review. If the complainant provides the information, we will review it.

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