

Memorandum



DATE October 30, 2020

CITY OF DALLAS

TO Honorable Mayor and Members of the City Council

SUBJECT **Update on HUD OIG and Reconstruction Program Audit 2018-FW-1004 and CHDO Program Audit 2019-FW-1004**

This memorandum will provide an update on three open audits that were previously briefed to the Housing and Homeless Committee on February 24, 2020, and disclosed to City Council by Taking Care of Business memorandums on August 2, 2019 and November 15, 2019, respectively, see attached links below:

2017 HOME Monitoring and OIG HOME Reconstruction Program Audit 2018-FW-1004:

[https://dallascityhall.com/government/citymanager/Documents/FY18-19%20Memos/Updates-on-HUD-OIG-Audit-of-the-City%27s-HOME-Program-and>Status-of-Open-Findings-from-the-2017-On-Site-Monitoring Memo 080219.pdf](https://dallascityhall.com/government/citymanager/Documents/FY18-19%20Memos/Updates-on-HUD-OIG-Audit-of-the-City%27s-HOME-Program-and>Status-of-Open-Findings-from-the-2017-On-Site-Monitoring_Memo_080219.pdf)

HUD OIG CHDO Program Audit 2019-FW-1004:

https://dallascityhall.com/government/citymanager/Documents/FY19-20_Memos/HUD%20OIG%20CHDO%20Program_Memo_111519.pdf

As is the standard practice with HUD audits and monitoring reports, a considerable amount of negotiation is undertaken to mitigate adverse effects or consequences of any finding. The length of time required for negotiations is uncertain and repayments made to HUD have historically been less than initially identified. As disclosed in the City Council briefing dated February 24, 2020 (summary chart attached), the City was faced with a potential repayment of \$60M from HUD audit findings dating from 2016-2020. To-date, the City has repaid a total of \$693,433 relative to those findings.

In this case, and although the Housing Department does not agree with the penalties for the findings described below, after three years of negotiation with HUD and after all options were exhausted, the Housing Department agreed to a reduction in FY 2020-21 HOME Investment Partnership Program funds in the amount of approximately \$4.3M to address the findings.

Audit	Finding	HUD Original Penalty Amount	Agreed Amount
2017 HOME Monitoring	Finding 7: Conversion of rental properties to homeownership.	\$1.4M	\$739,000.26
HUD OIG HOME Reconstruction	Finding 1C: The recommendations for the two deficiencies that remain open are (1)		\$103,000

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Program Audit 2018-FW-1004	hiring of a qualified entity to determine and correct deficiencies related to eight reconstructed homes, including the structural integrity of the homes and (2) the potential for the City to repay its HOME program from non-federal funds which were misspent reconstructing homes.	\$1.3M	
HUD OIG CHDO Program Audit 2019-FW-1004	Finding 1: The City did not follow environmental requirements; Finding 2: The City did not effectively manage its Community Housing Development Organizations (CHDO).	\$5.2M	\$3.46M
	Totals	\$7.9M	\$4,302,343.26

The \$4.3M reduction in HOME Investment Partnership funds will impact production of approximately 80 new housing units anticipated for developed in 2020-21. The home repair and homebuyer assistance programs **will not** be impacted by this reduction. Although this is a significant impact to new housing production, the Housing Department has over \$17.6M in unspent CDBG and HOME funds for development activities to work through in the next few years. In addition to the annual federal funding from CDBG and HOME for development, the Housing Department will receive approximately \$4M in Bond funds over the next 2 years for development activities.

The City of Dallas is prepared to move forward with HUD to build a stronger partnership to address community needs and close out long-standing audit findings that have taken a considerable amount of time to resolve. The Housing Department will move forward on a Preliminary Substantial Amendment to the FY 2020-21 Action Plan to reduce the HOME Program development funding and call for a public hearing. Should you have any questions concerning this matter, please contact Dr. Eric Anthony Johnson, Chief of Economic Development and Neighborhood Services.



Dr. Eric A. Johnson
Chief of Economic Development and Neighborhood Services

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

HUD Audits from 2016-Present

Year	Audit, Monitoring, Review	Potential Repayment	Results
2016	<p>Internal Audit on Development Projects: Auditor required 10 items associated with the following two categories to be implemented:</p> <ol style="list-style-type: none"> 1) Recommend the Director of the Department of Housing and Neighborhood Revitalization develop and implement formal (written, approved, and dated) policies and procedures for the following processes; 2) Recommend the Director of the Department of Housing and Neighborhood Revitalization develop, implement, and retain complete and consistent documentation for the following processes 	\$29.9M	On August 21, 2019 Internal Auditor report identified nine of the ten items were implemented (cleared); The final item could not be cleared pending a lack of new construction projects to review. The item will be tested in FY 2019-20.
2016	<p>Entitlement Program DEC Review: HUD Ft. Worth requested copies of all documentation that the Auditor's Office referenced in the audit report.</p>	\$29.9M	April 2017, Review was closed. No repayment.
2016	<p>Pleasant Oaks OIG Audit: HUD Ft. Worth requested Pleasant Oaks Project files to provide to OIG for review.</p>	\$1.6M	November 2016, Review was closed. No repayment.
2016	<p>HOME Program Financial HUD Monitoring: HUD Ft. Worth performed monitoring review of the HOME Program financial records.</p>	\$1.4M	No Findings Issued. No repayment.
2016	<p>CDBG Housing Rehabilitation Administration DEC Review: DEC requested information regarding staffing and administrative costs associated with the housing rehabilitation program.</p>	\$1.2M	August 2016, Repayment of \$106,568 for ineligible administrative costs and Finding closed
2017	<p>HOME HUD Monitoring: HUD Ft. Worth reviewed administration, programs, CHDOs, reporting, financials, program income and compliance for the HOME Program.</p>	\$1.4M	Repayment of \$424,634 for ineligible project costs and TBRA administrative costs; Awaiting HUD's final review of Finding #7-Conversion of rental properties to homeownership.

HUD Audits from 2016-Present

Year	Audit, Monitoring, Review	Potential Repayment	Results
2017	NSP DEC Monitoring: DEC reviewed all aspects of the NSP including administration, programs/projects, financials, monitoring, Land Banking, program income and reporting.	\$14M	August 2017, Repayment of \$50,809 for ineligible administrative costs and Review closed.
2017	NSP HUD Monitoring: During the 2017 HOME Monitoring, NSP was reviewed by HUD DC.	\$14M	August 2017, Review closed. No repayment.
2017	5203 Bexar DEC Review: DEC reviewed all aspects of the project including contracts, expenditures, eligibility, and monitoring.	\$1.9M	Repayment of \$111,422 for untimely distribution of funds; Review closed.
2017	OIG HOME Reconstruction Program Audit: HUD reviewed housing reconstruction activities, policies and procedures, expenditures, loan agreements, inspections, and environmental process.	\$1.3M	Nine Findings issued; One Finding remains open for Engineer to review 8 properties and Housing to complete repairs.
2017	DEC Review of Contracts referenced in 2016 Audit: DEC reviewed ICDC Peabody Project, ICDC Pittman Project, NBCDC Pleasant Oaks Project, and BOH Creekside Project files and expenditures.	\$4M	March 2018, Review was closed. No repayment.
2018	OIG CHDO Audit: OIG reviewed CHDO projects, certifications and expenditures from 2018 prior.	\$3.3M	City received HUD response letter on November 1, 2019. Housing is working with the HUD FT. Worth Office to complete its review of the documentation and work towards final actions and closure.
	TOTAL	\$60m	\$693,433