

Memorandum



CITY OF DALLAS

DATE August 2, 2019

TO Honorable Mayor and Members of the City Council

SUBJECT **Updates on HUD OIG Audit of the City's HOME Program and Status of Open Findings from the 2017 On-Site Monitoring of the City's HOME Program**

This memorandum serves to provide an update regarding the Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG) audit of the City of Dallas' Home Investment Partnerships Program (HOME), specifically its reconstruction program, and HUD's 2017 onsite review of the City's HOME program.

HUD OIG Audit of the City's HOME Program

On March 15, 2019, the Housing and Neighborhood Revitalization Department (Housing) provided a letter to the Mayor and City Council on the status of the outstanding recommendations that HUD OIG issued in an audit finding covering the period from 2012 to 2016. These findings assert that Housing did not follow HOME regulations as outlined in 24 Code of Federal Regulations Part 92, its own policies and procedures under the reconstruction program, or appropriately administer its match contributions. In the letter, nine areas of deficiency were identified. As of this most recent update, of the nine deficiencies, two remain open for further action. HUD provided a response letter dated July 15, 2019 detailing the following:

- The recommendations for the two deficiencies that remain open are (1) 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.

HUD requires that Housing complete inspections of the structural integrity and repairs on the eight homes related to the Dry Quick project. Due to concerns regarding the structural engineer that originally inspected the homes (detailed in the [Council Memo provided on July 12, 2019](#)), Housing will obtain a new structural engineer and a contractor to complete the repairs. Housing anticipates the process of obtaining a new engineer and contractor for completing repairs to take six months. Following are the next steps:

DATE August 2, 2019
SUBJECT Updates on HUD OIG Audit of the City's HOME Program and Status of Open Findings
from the 2017 On-Site Monitoring of the City's HOME Program

- Post a Request for Qualifications (RFQ) for a structural engineer
- Post a Request for Proposal (RFP) for selection of an engineer
- Inspect the homes for structural integrity
- Submit reports to HUD for review
- Bid the repair work for selection of a contractor
- Complete repairs on the eight homes

Status of Open Findings from the 2017 On-Site Monitoring of the City's HOME Program

In addition to the HUD OIG audit, Housing has been working to resolve the 12 findings from HUD's 2017 onsite review of the City's HOME program. Currently, two of the findings remain open with a total potential repayment amount of \$806,801.28 (attached HUD letter dated July 15, 2019):

Finding 7: Conversion of Rental Units—HUD determined that the City allowed the sale of single-family rental development units to households that were either not in-place tenants or where there was no evidence in the file to support that the units were sold to in-place tenants. HUD has asked for repayment of \$739,000.26 in non-federal funds to the local HOME trust fund account. **Staff contests this repayment amount and are providing additional information to HUD in an effort to challenge the repayment.**

Finding 8: Tenant Based Rental Assistance (TBRA) Project Delivery Costs—HUD determined that the City charged ineligible costs, such as case management, to the TBRA activity. HUD has asked for repayment of \$67,801.02 in non-federal funds to the local HOME trust fund account. **Staff will make this payment to the local HOME trust fund account and will reuse these funds for future affordable housing activities. These funds are available through 2024.**

Housing will continue to work with HUD to close the remaining recommendations from the audit of the Home Program and provide additional information to reduce remaining repayment amounts. We will keep the Council abreast of our progress and update you throughout the process. Once Council Committees are established, we will brief the appropriate Committee on the status of audits conducted in the past three years.

DATE August 2, 2019
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Should you have any questions, please contact Director of Housing and Neighborhood Revitalization, David Noguera at (214) 670-3619 or myself at (214) 670-3390.



Michael A. Mendoza
Chief of Economic Development and Neighborhood Services

- c:
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| T.C. Broadnax, City Manager | Joey Zapata, Assistant City Manager |
| Chris Caso, City Attorney (Interim) | Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer |
| Mark Swann, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
| Biliera Johnson, City Secretary | Laila Aleqresh, Chief Innovation Officer |
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
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JUL 15 2019

T.C. Broadnax, City Manager
City of Dallas
Attention: David Noguera
1500 Marilla, 4EN
Dallas, TX 75201



Dear Mr. Broadnax:

SUBJECT: On-Site Monitoring of HOME Investment Partnerships (HOME) Program
Status of Open Findings – Final Action

This letter addresses the two remaining open findings from HUD's onsite review of the city's HOME program, conducted in 2017. The status of each finding is based on the city's response of May 1, 2019, and additional documentation submitted on May 28, 2019.

Finding 7: Conversion of Rental Units. This finding included 54 single-family properties in 11 activities where single-family rental development units were sold to households that were either not in-place tenants, or where there was no evidence in the file to support that these units were sold to eligible in-place tenants.

The initial corrective action required the city to identify all HOME-assisted rental housing activities where units were converted to homeownership; for each of the units that were sold, evidence of the purchaser's address at the time of sale; and if the purchaser's residence was identified as the unit being converted, a copy of the lease that was in place at the time of conversion. The city was also required to amend all HOME funding agreements for rental activities where homeownership conversion was anticipated so that requirements of 24 CFR 92.255(a) are clearly stated. Our review of the documentation provided by the city was addressed in two sets of correspondence.

1. Our letters of September 12 and 18, 2018 addressed 12 of the 54 properties (in two activities). The final corrective action for the 12 properties required repayment of \$, which the city completed in October 2018.
2. Our review of the documentation submitted for the remaining 42 properties (in nine activities) was addressed in our December 18, 2018 letter and is summarized below.
 - 21 properties were either sold to the tenant or the tenant was not forced out of the property
 - One property was removed from the review because HOME funds were not used to develop the property

- 20 properties were sold to someone other than the original in-place tenant and the tenant was not provided with an opportunity to continue leasing the property when they were unable or unwilling to purchase

The city used \$2,912,353.10 in HOME funds to construct the 20 properties that were not sold in compliance with the HOME regulations at 92.255. On December 17, 2018, the city submitted documentation showing it previously received \$1,584,038.56 in rents and sales proceeds on these 20 properties, and that the funds had been deposited to the city's local HOME trust fund account and receipted in the Integrated Disbursement and Information System (IDIS) as program income, to be used for additional HOME activities. These local account deposits reduced the amount of HOME funds to be repaid to the local account from non-federal sources to \$1,328,314.54. Additionally, the city documented receipt of \$85,328.71 in sales proceeds for one of the properties included in our letters of September 12 and 18, 2018, which further reduced the net repayment amount to \$1,242,985.83.

In our December 21st letter, we asked the city to provide a status report on amending its written agreements with the developers for IDIS activities 11455, 11687, and 11793, to ensure the requirements for converting rental to homebuyer housing are clearly stated. This information was not included in the city's responses, to date.

However, the city did provide additional documentation on May 28, 2019, that will reduce the required repayment amount from \$1,242,985.83 to \$739,000.26. To clear the finding, the city must:

- Repay \$739,000.26 to its local account by the process outlined at the end of this letter, and
- Provide written assurance that it has amended its written agreements with the developers for IDIS activities 11455, 11687, and 11793, to ensure the requirements for converting rental to homebuyer housing are clearly stated, and

Finding 8: Tenant-Based Rental Assistance (TBRA) Project Delivery Costs. This finding addressed two TBRA activities set up by the city for the costs associated with the caseworker and housing inspectors administering the TBRA program. Costs other than those for conducting unit inspections and determining participant eligibility were charged as activity delivery costs instead of program administration and general oversight. It also appears that ineligible costs not related to program administration, such as case management, may have been charged to the TBRA program. The corrective action required the city to determine how much of the HOME funds drawn for IDIS activities 12230 and 12232 were for property inspection and determining income eligibility of HOME TBRA clients as allowed by 24 CFR 92.209(a), and submit that information to HUD along with the methodology used. In its June 9, 2017 response the city reported that \$32,198.98 of the \$100,000 in HOME funds drawn from activities 12230 and 12232 were for eligible project delivery costs and provided relevant details for property inspections. The city's February 26, 2018 response provided the balance of information needed to support the funds drawn for the cost of income eligibility determinations. As explained in

detail in our December 21, 2018 email to the city's Housing Department, \$32,198.98 in draws will need to be revised in IDIS from activities 12230 and 12232 to the appropriate tenant-based rental assistance activities. The balance of funds drawn from those two activities, \$67,801.02, must be repaid.

The city's May 1, 2019 response stated that the city will repay the city's local account in the amount of \$67,801.02 and make the adjustments in IDIS by IU. The payment must be made with non-federal funds in accordance with the instructions provided below, so that the two activities can be canceled in IDIS. This finding will remain **open** until that process is complete.

Repayment must be made from non-federal sources to the city's local HOME trust fund account in accordance with HOME Facts Vol. 7, No. 1. Additional steps in the repayment process are:

- Receipt the amount of the repayment as IU in IDIS
- Submit documentation of the source and deposit of funds to this office
- Disburse the IU funds for eligible HOME activities

The city's documentation of the source and deposit of funds must be submitted to this office within 30 days of the date of this letter. If you have any questions about this letter please contact Kristin Hadawi, Senior CPD Representative, at 817-978-5959 or Jerry Jensen, Program Manager at 817-978-5940.

Sincerely,



Shirley J. Henley
Director

cc: Chan Williams



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
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JUL 15 2019

T.C. Broadnax, City Manager
City of Dallas
Attention: David Noguera
1500 Marilla Street, Room 4EN
Dallas, Texas 75201-6390



SUBJECT: Inspector General Audit Report Number 2018-FW-1004
Closure of Recommendations 1G and 1I

Dear Mr. Broadnax:

Thank you for your letter of May 17, 2019, providing the City of Dallas' response to the management decision for Recommendations 1G and 1I in the subject audit. The results of our review are discussed below.

Recommendation 1G. Homeowner rehabilitation written agreement template

The Management Decision for Recommendation 1G directed the city to submit a revised written agreement template for its homeowner rehabilitation program. The HOME Regulations at 24 CFR 92.504(b) state before disbursing any HOME funds to any entity, the participating jurisdiction must enter into a written agreement with that entity. When HOME funds are used to homeowner rehabilitation, the PJ must enter into a written agreement with the contractor and a written agreement with the homeowner. For its Home Improvement and Preservation Program (HIPP), the city has elected to use a Triparty Agreement between the city, the contractor and the homeowner. We reviewed the proposed agreement template to ensure it meets the requirements for both contractor and homeowner agreements. The city plans to fund the HIPP with both HOME and CDBG, so the proposed template includes both programs. Since the OIG Recommendation and Management Decision is specific to the HOME Program, we limited our review to the HOME regulatory requirements. We did not review the agreement for other requirements. The city's revised agreement template received on July 3, 2019 was found to meet the minimum HOME requirements for written agreements. This recommendation is closed.

Recommendation 11. Develop policies and procedures for determining homeowner income eligibility

The city submitted policies and procedures for determining homeowner income eligibility, along with a process flow map showing the steps starting with homeowner application submission to completion of construction and activity closeout. The city contracted with TDA Consulting to provide guidance on policies and procedures, internal controls, compliance and monitoring. TDA conducted an Income Determination training for the city staff on May 8-9, 2019. along with a description of the planned process for implementation. We have found the city's response of acceptable and approve the policies and procedures submitted on May 17, 2019. This recommendation is closed.

If you have any questions about this letter, please contact Kristin Hadawi, Senior Community Planning and Development Representative, at 817-978-5959 or by email at kristin.d.hadawi@hud.gov.

Sincerely,



Shirley J. Henley
Director

cc: Chan Williams