

Memorandum



CITY OF DALLAS

DATE January 11, 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 May 8, 2018, HUD OIG issued an audit finding that the City of Dallas, specifically, the Department of Housing and Neighborhood Revitalization (Housing) did not: follow HOME regulations as outlined in 24 Code of Federal Regulations Part 92, follow its own policies and procedures under the reconstruction program, or appropriately administer its match contributions. HUD OIG found, for example, that the City did not adequately perform environmental reviews as required and did not properly assess a contractor to ensure that it had the ability and financial capacity to fulfill its contractual responsibilities. As a result of the finding, HUD OIG issued nine recommendations that the Fort Worth Office of Community Planning and Development (CPD) Director require the City to address in response to the finding, including: repaying its HOME program from non-federal funds in the amount of \$1,322,280, which were misspent reconstructing homes; hiring a qualified entity to determine and correct deficiencies related to 13 reconstructed homes, including the structural integrity of the homes; and support or reduce its match contributions by \$2,967,568.

Since receiving notification of the finding, staff from Housing and the Office of Budget have regularly communicated with the Fort Worth CPD to respond to the management decisions for the nine recommendations in the audit. The City's goal in this process was to strengthen its administration of its reconstruction and match programs, and to propose acceptable resolutions to each recommendation, so that each recommendation could be "closed."

On December 18, 2018, the Fort Worth CPD notified the City that:

- Three of the nine recommendations that relate to: (1) ensuring that staff responsible for conducting environmental reviews understand and comply with environmental requirements, (2) providing a detailed plan for covering the cost of

any potential warranty work needed on the 13 reconstruction projects subject to the audit, and (3) reducing its match contributions unless supported by adequate documentation, are **closed with no requirement that the City repay funds**.

- Two of the recommendations that require: (1) the hiring of a qualified entity to determine and correct deficiencies related to 13 reconstructed homes, including the structural integrity of the homes and (2) the City to repay its HOME program from non-federal funds in the amount of \$1,322,280, which were misspent reconstructing homes **remain open**. However, the City expects to submit documentation of compliance with these recommendations within the next six months. The City has already received structural inspection reports related to the 13 homes subject to the audit. Repairs are underway to the 8 homes that were determined to need repair.
- The remaining 4 recommendations propose that the City develop and adopt policies and procedures to address: (1) HOME match contributions, (2) a homeowner rehabilitation written agreement template, (3) contractor procurement and (4) determining homeowner income eligibility. These recommendations also **remain open**. The City expects to submit documentation of compliance with these recommendations on or before February 10, 2019.

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, three of the findings remain open with a total potential repayment amount of \$1,377,074.12:

Finding 4: *Underwriting and Subsidy Layering*—HUD determined that, for two HOME activities, the City had not demonstrated that it applied its existing underwriting and subsidy layering guidelines in a manner that limited the HOME subsidy to the minimum amount necessary to provide quality affordable housing. HUD has asked for repayment of \$66,287.27 in non-federal funds to the local HOME trust fund account. **Staff contest this repayment amount and are providing additional information to HUD in an effort to reduce the repayment amount.**

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 \$1,242,985.83 in non-federal funds to the local

DATE January 11, 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
PAGE Page 3 of 3

HOME trust fund account. **Staff contest this repayment amount and are providing additional information to HUD in an effort to reduce the repayment amount.**

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 conferred with the Office of Homeless Solutions for additional source documentation. No additional documentation and/or arguments are available to further reduce the amount. This is the final repayment amount.**

Staff will continue to work in close collaboration with the Fort Worth CPD 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 City Council abreast of our progress and update you throughout the process.

Should you have any questions, please contact Director of Housing and Neighborhood Revitalization David Noguera.



T.C. Broadnax
City Manager

c: Chris Caso, City Attorney (I)
Carol A. Smith, City Auditor (I)
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer 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
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
M. Elizabeth Reich, Chief Financial Officer
Directors and Assistant Directors