



State of Rhode Island

Neighborhood Stabilization Program



To: Robert D. Shumeyko
Director of Community Planning and Development, 1 CPD

From: //SIGNED//
Karen A. Campbell-Lawrence
Acting Regional Inspector General for Audit, 1AGA

Subject: The State of Rhode Island Did Not Always Operate Its Neighborhood Stabilization Program in Compliance With HUD Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the State of Rhode Island's Neighborhood Stabilization Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (212) 264-4174.



Audit Report Number: 2015-BO-1003

Date: March 4, 2015

The State of Rhode Island Did Not Always Operate Its Neighborhood Stabilization Program in Compliance With HUD Regulations

Highlights

What We Audited and Why

We audited the State of Rhode Island's Neighborhood Stabilization Program (NSP) based on a risk assessment that considered the amount of funding, the U.S. Department of Housing and Urban Development's (HUD) risk assessment, and HUD findings related to one of the State's subrecipients. Our overall audit objective was to determine whether the State properly administered the NSP and ensured that costs incurred were in accordance with HUD regulations.

What We Found

The State did not properly administer the NSP and ensure that costs incurred were in accordance with HUD regulations. Specifically, State officials did not ensure that their subrecipients (1) had an adequate process in place for selecting and approving applicants for NSP funding, (2) always funded activities that were eligible and supported program costs, and (3) charged only eligible and supported administrative costs directly related to the NSP. Additionally, we found instances of potential conflicts of interests. These deficiencies occurred because State officials did not (1) ensure that the proper agreements were in place to define NSP responsibilities or (2) provide adequate oversight of their subrecipients to ensure that they followed NSP requirements and had adequate policies and procedures in place for the NSP. As a result, HUD had no assurance that more than \$6.3 million in NSP funds was effectively and efficiently used.

What We Recommend

We recommend that the Director of HUD's Boston Office of Community Planning and Development require State officials to (1) repay more than \$1.4 million in ineligible costs, (2) provide adequate documentation to support or repay more than \$4.5 million in NSP costs, (3) provide support for the necessity and reasonableness of \$489,518 in unexpended NSP funds or reallocate the funds for other eligible NSP activities, (4) ensure that proper affordability restrictions are put in place, (5) establish an agreement between the State and Rhode Island Housing to define responsibilities, and (6) properly monitor and oversee its subrecipients.

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Background and Objective

The Neighborhood Stabilization Program (NSP) was authorized under Title III of the Housing and Economic Recovery Act of 2008 and was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. In 2008, HUD allocated \$3.92 billion for NSP¹ on a formula basis to States, territories, and local governments. The goal of the NSP was to purchase and redevelop foreclosed-upon and abandoned homes and residential properties. The funding was provided through the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program. The NSP provided grants to every State, certain local communities, and other organizations to purchase foreclosed-upon or abandoned homes and to rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline in value of neighboring homes.

On March 12, 2009, HUD awarded the State of Rhode Island \$19.6 million in NSP1 funds, of which \$16.3 million was administered by Rhode Island Housing and \$3.3 million was administered by the City of Providence, Office of Community Development.² The State's Office of Housing and Community Development was responsible for administering its CDBG and CDBG-Disaster Recovery programs, the NSP, and other housing and community development initiatives.

According to the State's NSP substantial amendment, which outlined the State's planned uses for the NSP1 funding, the State planned to use NSP funds for the following types of activities:

- Establishing financing mechanisms for purchase and redevelopment of foreclosed-upon homes and residential properties, including such mechanisms as soft-second³,³ loan loss reserves, and shared equity loans for low- and moderate-income home buyers;
- Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed upon to sell, rent, or redevelop such homes and properties;
- Establishing land banks for homes that have been foreclosed upon; and
- Demolishing blighted structures and redeveloping demolished or vacant properties.

The audit objective was to determine whether the State, through its subrecipients, properly administered the NSP and ensured that costs incurred were in accordance with HUD regulations.

¹ Congress appropriated a second round of NSP funding (NSP2) totaling \$1.93 billion under the American Recovery and Reinvestment Act of 2009 and a third round (NSP3) totaling \$1 billion under Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010. The State of Rhode Island did not receive any NSP2 funds but did receive NSP3 funds, which at the time of this audit, were being reviewed by HUD officials. This report addresses only NSP1 funding.

² Although the City of Providence, Office of Community Development, administered the NSP, the agreement was between the Providence Redevelopment Agency and the State's Office of Housing and Community Development.

³ "Soft seconds" refers to a subsidized second mortgage.

Specifically, we wanted to determine whether there was an adequate process in place for selecting and approving applicants for NSP funding, NSP activities were eligible and supported, and administrative costs charged to the NSP by the City were eligible and supported.

Results of Audit

Finding: The State’s NSP Activities Were Not Always Administered in Accordance With HUD Regulations

State officials did not ensure that their subrecipients properly administered the NSP and that costs incurred were in accordance with HUD regulations. Specifically, they did not ensure that (1) the selection and approval of applicants for NSP funding were properly conducted or documented, (2) activities were always eligible and supported, and (3) administrative costs charged to the NSP by its subrecipient⁴ were eligible and supported. Additionally, we found instances of potential conflicts of interests. These deficiencies occurred because State officials did not provide adequate oversight of their subrecipients to ensure that they followed NSP requirements and had adequate policies and procedures in place for the NSP and that the proper agreements were in place to define NSP responsibilities. As a result, HUD lacked assurance that the State used more than \$6.3 million in NSP funds effectively and efficiently.

The Developer Selection Process Was Not Always Adequately Conducted or Documented

State officials did not ensure that there was an adequate process to document how the developers were selected to receive NSP funds. The State’s NSP substantial amendment states that NSP funds will be distributed using an open cycle application process by which applications meeting the minimum threshold criteria will be funded on a first-come, first-served basis. According to State and Rhode Island Housing officials, there was a funding committee comprised of two staff members from the State and two from Rhode Island Housing. However, there were no scoring sheets provided for each project to document that the minimum threshold criteria were met, and it was not clear whether the committee followed the process or acted objectively in its selections. Also, officials did not provide a summary sheet of all applicants to show whether projects were denied and if so, the reasons for those denials.

In addition, the City of Providence’s files did not always include an application for NSP funds, and when there was an application, the files did not always include an evaluation of the application. Further, the files that included an application and evaluation sheet showed that the evaluations performed by the City were completed and approved by one individual. Also, there was no summary sheet available to show whether projects were denied and if so, the reasons for denials. Further, the points assigned to many of the projects were fairly low, but projects received approval and were awarded NSP funds. Therefore, it was not clear that the City’s process was fair and objective.

⁴ The City of Providence

NSP Costs Were Not Always Eligible and Supported

We reviewed 22 properties that received a combination of acquisition, rehabilitation, and home-ownership assistance funding and found that the files did not always contain documents needed to support the eligibility of NSP activities and costs. Specifically, the subrecipients did not document that

- Activities met a national objective,
- NSP agreements were executed with the developers,
- Proper affordability restrictions were in place,
- Rehabilitation costs were necessary and reasonable,
- Purchase price discounts were supported,
- Resale prices were in accordance with NSP requirements,
- Rental amounts were affordable,
- Developers assumed risk by investing some of their own money in the project, and
- Waivers were obtained for potential conflicts of interest.

We attribute these deficiencies to State officials' not properly monitoring their subrecipients to ensure that they followed NSP requirements and had adequate policies and procedures to ensure compliance with NSP requirements. Neither Rhode Island Housing nor the City had adequate record-keeping controls related to the NSP. The files did not always contain the necessary documents to support the eligibility of NSP costs. Many of the files were missing key documents, including (1) the application for NSP funds; evaluation of the application; (2) NSP agreements; (3) affordability restrictions for NSP funds; (4) initial, progress, and final inspections; (5) scope of work, cost estimates, and a review of cost reasonableness; (6) "as is" and final appraisals; (7) budgeted and actual project costs, including the sources and uses of the funds; (8) support for the NSP funds requisitioned; and (9) support to document developer investment in the property.

We also performed a limited review of an additional 19 properties, which received rehabilitation funds and were administered by the City. The review of these properties was limited to determining whether the City supported that the costs were necessary and reasonable and whether an NSP agreement was executed. The costs were not supported as necessary and reasonable and four properties did not have an executed NSP agreement.

As a result, the State incurred more than \$1.3 million in ineligible costs, \$4.2 million in unsupported costs, and \$489,518 in unexpended funds that could be reallocated to other eligible NSP activities (see tables in appendixes C and D). The details are described below.

National Objectives Not Met or Properly Documented

State officials did not ensure that their subrecipients documented that 14 of the 22 properties reviewed met a national objective. Specifically, beneficiary information was not always adequate to ensure that the homeowners and tenants were income eligible. The Housing and Economic Recovery Act of 2008, section 2301(f)(3), requires that all funds appropriated or otherwise made available under this section be used with respect to individuals and families

whose income does not exceed 120 percent of area median income. In some cases, tenant income and family size documentation was inconsistent, which made it difficult to determine whether the households were income eligible. In one instance, the property was sold to an individual whose income exceeded 120 percent of the area median income. The home buyer paid \$350,000 in cash for the property, which had three rental units. However, the owner occupied at least 50 percent of the house, and the tenants' income documentation was not adequate to ensure that they met the income requirements. In another instance, the home buyers paid \$230,000 in cash for a single-family property, but the City's file did not adequately support that the home buyer was income eligible. Further, the property was resold to a new home buyer the following year, but there was no income documentation in the file for the new home buyer. This deficiency occurred because the developers did not always provide adequate documentation to support homeowner and tenant income eligibility. Additionally, in March 2014, City officials admitted that they had not performed monitoring of tenant income information for the NSP projects that were completed.

In addition, we identified two properties that had been awarded a total of \$218,600 in NSP funds in December 2012 and for which the State had set December 31, 2012, as the expenditure deadline. According to the City's NSP agreement with the developers, construction work was required to commence within 6 months of the agreement, or the City was to terminate the agreements. However, as of August 2014, rehabilitation work had not begun on the projects (see photos below), and the activities did not meet a national objective. Therefore, the \$218,600 awarded to these two properties will need to be paid back to the NSP.



100 Burnside Street, Providence, RI



7 Parkis Avenue, Providence, RI

NSP Agreements Not Always Executed

State officials did not ensure that their subrecipients executed an NSP agreement for nine activities, including five properties from the sample and four properties from the limited review. The NSP, like other Federal grant programs, requires that the grantee enter into written agreements with subrecipients and developers before funds are spent. According to 24 CFR (Code of Federal Regulations) 570.503(a), before distributing funds to a subrecipient, the recipient must sign a written agreement with the subrecipient. The agreement must remain in effect during any period in which the subrecipient has control over funds, including program income. The NSP agreements are necessary to ensure that NSP regulatory requirements are followed and HUD and the grantee have provisions in place to recover funds as necessary. The City originally planned to fund four of the activities with HOME Investment Partnerships Program funds but switched the funding source without appropriately awarding the funds and ensuring that the proper agreements were in place. The other five activities had applications and award letters for the funds in the file, but an NSP agreement was not executed. As a result, the State spent \$889,060 in ineligible NSP funds. However, since \$90,000 was paid back as program income, the questioned costs were reduced to \$799,060.

Affordability Restrictions Not Always Put in Place

State officials did not ensure that their subrecipients documented that the proper affordability restrictions were in place for 14 of the 22 properties reviewed. The State adopted the HOME program standards at 24 CFR 92.252(a), (c), (e), and (f) and 92.254 (Affordable Rents and Continued Affordability) as a minimal standard for any unit acquired or rehabilitated with NSP

resources. For example, some of the files did not contain NSP deed restrictions to ensure that the home-ownership or rental units remained affordable, and in many cases, when both HOME and NSP funds were used, there was a HOME deed restriction in place, but the restrictions were specific to the HOME investment and in case of default, would not cover the NSP funds. Rhode Island Housing staff assumed that the HOME deed restriction was adequate to ensure affordability; however, although some of the properties had a deed restriction in place, the affordability period required by NSP was either not listed or not correct. Further, a review of land records disclosed that the deed restrictions were not always recorded. Additionally, when a rehabilitated property was sold to a home buyer and there was an NSP deed restriction in place with the developer, the home buyer was not made aware of the NSP restriction through a written agreement. Therefore, more than \$2.2 million in NSP funds was invested in 14 properties, which were at risk of not remaining affordable.

Additionally, the State did not include in its substantial amendment whether it would use resale or recapture provisions to recover NSP funds in instances when a project no longer met NSP requirements during the affordability period. Rhode Island Housing also did not include this information in its NSP notices. The Providence Redevelopment Authority's rules and regulations stated that housing must remain affordable through resale restrictions; however, City staff members stated that they were not aware of these rules and regulations and they were not always followed.

Lack of Documentation Supporting That Costs Were Necessary and Reasonable

State officials did not ensure that their subrecipients documented that rehabilitation costs were necessary and reasonable for 17 of the 22 properties from our sample⁵ and in all 19 rehabilitation properties from our limited review.⁶ Therefore, the State was not able to support that more than \$5.2 million in NSP funds was necessary and reasonable. However, almost \$1.1 million was paid back to the NSP as program income so we reduced questioned costs based on this deficiency to around \$4.1 million. Further, as of July 2014, the State had not spent \$489,518 in NSP funds allocated to one project in April 2013. Unless the State can support that these funds were necessary and reasonable and will be spent soon, it should reallocate the funds to other eligible NSP activities.

Specifically, Rhode Island Housing and City staff did not document an initial inspection of the property to show what work was necessary or that a cost reasonableness review was performed before awarding the NSP funds. An initial inspection and a cost reasonableness review would ensure that the rehabilitation work was a necessary expense and that the costs were reasonable.

Further, the files did not always include progress or final inspections of the work performed to document that the repairs were made and met NSP requirements. In some instances, according to the "as-is" appraisals, the condition of the property was fair to good; however, the developers

⁵ See appendix C.

⁶ See appendix D.

performed a total rehabilitation of the properties or invested a large amount of Federal funds for rehabilitation, which may not have been necessary.

In addition, in some instances, the estimated cost according to the building permit was substantially lower than the budgeted development costs. For example, one developer submitted documentation to the City estimating development hard costs as \$640,081; however, the building permit in the file showed the estimated cost of material and labor as \$267,500. Rhode Island Housing and City staff also did not ensure that the files included support for the final actual total development cost. Therefore, we could not accurately determine the amount of funds invested in the properties.

In some cases, developers spent \$200,000 to \$250,000 per unit on rehabilitation costs.⁷ In one instance, the total development cost for a single-family property was approximately \$500,000,⁸ of which \$134,933 was funded by NSP; however, the market value after rehabilitation was only \$169,000. This does not appear to be a reasonable use of NSP funds. Further, since developer fees are based on a percentage of development costs, the fees may have been inflated based on the substantial cost of the rehabilitation.

HUD does not specify per unit subsidy limits for NSP grantees. However, the Office of Management and Budget cost principles at 2 CFR Part 225, appendix A, paragraph (C)(1)(a), require NSP grantees and their subrecipients to ensure that all costs incurred are reasonable and necessary for proper and efficient performance and administration of Federal awards. Otherwise, home buyers and developers could receive undue enrichment.

Lastly, Rhode Island Housing and the City did not have adequate controls in place to ensure that the amount of the grant was not exceeded. In one instance, the City drew down \$8,760 over the NSP amount awarded to a developer; however, it was later identified and paid back at closing as program income.

Purchase Price Discount Not Properly Supported

The Housing and Economic Recovery Act of 2008, section 2301(d)(1), provides that any purchase of a foreclosed-upon home or residential property must be at a discount from the current market appraised value, taking into account its current condition, and such discount must ensure that purchasers pay below market value for the property. Federal Register 74, FR 29225 (June 19, 2009), requires the discount to be at least 1 percent from the current market appraised value. The address, appraised value, purchase offer amount, and discount amount of each property purchased must be documented in the grantee's program records.

⁷ This amount was based on the estimated total development costs, not just NSP funds invested in the property.

⁸ The files did not contain cost certifications or actual total development costs so it was difficult to determine how much was spent per property.

However, State officials did not ensure that their subrecipients documented that the purchase price discount of 1 percent was supported for 3 of the 22 properties. For example, in one case, officials avoided the NSP purchase price discount by initially acquiring the property from the Rhode Island Housing land bank (not the NSP land bank) and then using City NSP funds to purchase the property from the land bank. However, the property would still have to be purchased at a 1 percent discount to meet the NSP requirements. The property was appraised at \$20,000, and it was purchased by the Rhode Island Housing land bank for \$29,000. The property was then purchased by a developer for \$30,005 using City NSP funds. Therefore, \$10,205, the amount above the 1 percent discount, was an ineligible use of NSP funds. In another instance, a property purchased with NSP funds was grouped with several other properties in a large low-income tax credit deal, and the appraisal was for all of the properties. State officials did not ensure that they obtained an appraisal of each property separately to document the discount price. Therefore, we had no assurance that the purchase price was discounted.

Resale Prices Not Always in Accordance With NSP Requirements

State officials did not ensure that their subrecipients supported that the resale price set was in accordance with the requirements for 3 of the 22 properties. Federal Register 73, FR 58330 (October 6, 2008), requires that the maximum sales price for a property be determined by combining all costs of acquisition, rehabilitation, and redevelopment. Costs to board up or maintain the property in a static condition are not to be included in determining the sales price. In its records, each grantee must maintain sufficient documentation about the purchase and sale amounts of each property and the sources and uses of funds for each activity so HUD can determine whether the grantee complies with this requirement. While the files did not always include the actual sources and uses of funds to determine the total development cost, we were able to determine the cost through alternative means; however, for the three files, there was inadequate documentation to support that the sales price was set in accordance with the requirements.

Lack of Documentation To Support That Rental Amounts Were Affordable

State officials did not ensure that their subrecipients documented that rental amounts were affordable for 9 of the 22 properties. According to the State's substantial amendment, it used the upper HOME rent limits for its NSP-funded projects. However, there was no documentation in the City's or Rhode Island Housing's NSP files for these activities, such as a tenant lease, to support the rental price of the unit.

Lack of Documentation To Support That Developers Assumed Some Risk in the Properties

Based on HUD guidance,⁹ the right to charge a developer's fee is available only to an entity that receives assistance from the grantee or the subrecipient and assumes some of the risk in the project by investing some of its own money in the project. However, State officials did not ensure that developer investments were documented for 3 of the 22 properties after the guidance

⁹ NSP policy alert, entitled Guidance on Developers, Subrecipients, and Contractors, dated November 16, 2011

was issued, although the developers received a developer fee for these properties. Without proper developer investment, receipt of a developer fee may have been undue enrichment.

Further, the State and its subrecipients did not document developer investment for an additional 10 properties that were started before the guidance issued in 2011, and these 10 projects received developer fees. Additionally, for 5 of these 10 projects, the developers may have also received undue enrichment if program income was not paid back to the NSP or one of the other grant sources. For example, one developer sold a property for \$169,000, and no funds were paid back to the NSP upon sale of the property. Since the subrecipient did not document a developer investment, the entire \$169,000 may be developer profit in addition to the \$47,000 developer fee received by the developer.

No Waivers for Potential Conflicts of Interest

State officials did not obtain HUD approval to waive the conflict-of-interest provision in 24 CFR 570.611(b) and (c) before providing NSP home-buyer assistance funds to two Rhode Island Housing employees. According to 24 CFR 570.611(d), upon written request, HUD may grant an exception on a case-by-case basis. Based on discussions with State officials, Rhode Island Housing officials did not notify the State of the potential conflict of interest for these two employees so that they could request a waiver from HUD. Therefore, the State could not assure HUD that the home buyers who were provided NSP funding did not have a conflict of interest. In the absence of a HUD waiver, we considered \$39,200 in NSP-funded mortgages granted to these two employees to be unsupported costs.

NSP Administrative Costs Were Not Always Supported or Eligible

State officials did not ensure that all administrative costs claimed by one of their subrecipients were eligible NSP costs. The City received \$300,000 in administrative costs and used an additional \$69,654 in program income to pay administrative costs. However, City officials did not have adequate controls in place to ensure that administrative costs were eligible and supported. As a result, the State incurred \$100,250 in ineligible costs and \$265,572 in unsupported costs.¹⁰

Specifically, City officials used \$100,250 in administrative costs to pay for four Web sites used by City departments; however, the contract and scope of work did not mention the NSP or show how the NSP would benefit from these Web sites. Therefore, we considered the \$100,250 paid to this contractor an ineligible program expense. In addition, \$55,359 was paid to two contractors without adequate documentation showing that the costs were eligible and the contracts were procured in accordance with Federal regulations. In one case, \$39,459 in administrative costs was paid for services, some of which may have been related to the NSP; however, City officials were not able to provide a contract detailing the scope of work or show that proper procurement policies were followed. Further, the services provided began in November 2008, which was before the City's subrecipient agreement with the State to administer

¹⁰ \$265,572 = (\$39,459 in administrative costs + \$15,900 in contractor service cost + \$210,213 in staff salaries)

the NSP.¹¹ Also, while the invoices showed that the work was related to various programs and tasks, the entire amount was charged to the NSP and not allocated to any other program, and one of the invoices showed that the costs were to be reimbursed by another source. Therefore, it was not clear why all of the costs were charged to the NSP or whether any reimbursement by the other source was credited back to the NSP. In the second case, the only documents provided by City officials were invoices for \$15,900, which did not indicate what services were provided.

Further, while City officials charged \$210,213 in salaries for staff members who worked on the NSP, they were not able to provide support for the allocation of these salaries to the NSP. According to the City's director of fiscal operations, in 2013, City officials evaluated the budgeted time charged compared to the actual time charged to each program to determine whether the percentages were correct. However, this evaluation was performed after the NSP was completed. The director agreed that the time charged to the program should be based on the actual time spent working on the program; however, City officials did not have support to show that it was. Therefore, we questioned the \$210,213 charged for salaries as an unsupported NSP cost.

Written Agreements Were Not Properly Executed

According to the State's NSP substantial amendment, the Office of Housing and Community Development and Rhode Island Housing submitted a joint application for NSP funds on behalf of the State. As the agency responsible for administering the State's CDBG program, the Office of Housing and Community Development served as the lead applicant. According to the substantial amendment, the State NSP was to be administered through a partnership, established through a memorandum of agreement, which would use the respective capabilities and expertise of the operating agencies as appropriate. The State's NSP substantial amendment spelled out some of the responsibilities; however, the State and Rhode Island Housing did not execute a memorandum of agreement to specifically define each office's responsibilities.

For example, for the City's payment requisitions, Rhode Island Housing officials were under the impression that State officials reviewed the supporting documentation before approving Rhode Island Housing to pay the voucher. However, when asked, State officials stated that they did not review the supporting documentation submitted by the City. Specifically, they stated that for the City's requests for payments, they ensured that the funds were available for the project and assuming the funds were available, they informed Rhode Island Housing so that it could create the voucher in the Disaster Recovery Grant Reporting system. Once the voucher was created, it was approved by State officials without a review of the supporting documentation.

Further, the State had an NSP subrecipient agreement with the Providence Redevelopment Authority; however, the City's Office of Community Development staff administered the NSP with limited involvement and oversight by the Providence Redevelopment Agency. Regulations at 24 CFR 570.501(b) provide that when a unit of general local government participates with or

¹¹ The subrecipient agreement was dated March 13, 2009.

as part of an urban county or as part of a metropolitan city, the recipient is responsible for applying to the unit of general local government the same requirements as are applicable to subrecipients. Section 1-7 of Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight further clarifies that because 24 CFR 570.501(a) provides that local governments are subject to the same requirements as subrecipients, interagency or interdepartmental agreements should include the same provisions as those required in a subrecipient agreement, which is described in 24 CFR 570.503(b).

In addition, the Providence Redevelopment Agency did not execute an agreement with the City's Office of Community Development for administration of the NSP. City officials did not believe that an agreement between the two departments was necessary and confirmed that no agreement existed between the departments to ensure compliance with 24 CFR 570.503(b). By not having a written agreement to define the responsibilities of each department, the Providence Redevelopment Agency, as the designated department, may not have had adequate control over or accountability for the decisions made by the Office of Community Development, which may have negatively impacted the program objective.

State Officials Did Not Provide Adequate Oversight of Their Subrecipients

The State delegated the administration of its entire NSP allocation to Rhode Island Housing and the City but remained accountable for the administration and monitoring of those funds. HUD has developed various guidebooks to assist grantees with grant administration, and HUD's Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight provides grantees, such as the State, with detailed information "for the major steps in selecting, training, managing, monitoring and supporting subrecipients" and notes that "together, these elements constitute the basic components of a subrecipient oversight system." However, State officials performed limited oversight of their subrecipients. They also did not review supporting documentation for the NSP request for funds from Rhode Island Housing or the City. Instead, they relied on the subrecipients to review their own support and ensured only that the NSP funds were available before they approved a request for payment.

According to the Guidebook, "Monitoring should not be a 'one-time event.' To be an effective tool for avoiding problems and improving performance, monitoring must involve an on-going process of planning, implementation, communication, and follow-up." However, State officials did not monitor their subrecipients to ensure that they followed program rules and regulations. Specifically, the State did not monitor Rhode Island Housing during the grant period, and while State officials did perform a monitoring review of the City in 2012, the results were provided only in a draft and not communicated to the City.¹²

¹² According to the officials at the Office of Housing and Community Development, the monitoring results were not provided to the City because HUD had also performed a review of the City at that time; therefore, officials stated that the results were similar and they did not want to interfere with HUD's actions.

State officials contended that they had planned to conduct a file review at Rhode Island Housing in January 2014 but did not do so. Instead they planned to work with HUD to conduct a full monitoring before closeout. In June 2014, the supervisor from the Office of Housing and Community Development was at Rhode Island Housing reviewing its files; however, this was done after the NSP1 was completed and all of the projects were finished and funded.

Conclusion

State officials did not ensure that their subrecipients properly administered the NSP and that costs incurred were in accordance with regulations. As a result, they spent more than \$6.3 million in NSP funds for costs that were not properly supported and eligible. We attribute these deficiencies to the State's failure to (1) execute the proper agreements to define NSP responsibilities and (2) implement oversight controls and monitoring sufficient to ensure compliance with all applicable regulations. As a result, State officials could not assure HUD that reasonable and necessary costs were charged to the NSP and that NSP funds were used effectively and efficiently.

Recommendations

We recommend that HUD's Director of Community Planning and Development instruct State officials to

- 1A. Repay \$1,306,205 in NSP funds spent for ineligible activity costs from non-Federal funds.
- 1B. Provide documentation to support that \$4,235,773 in NSP funds was spent for eligible costs by obtaining documentation showing that the projects met a national objective, purchase price discounts were met, rehabilitation costs were reasonable and necessary, resale prices were in accordance with NSP requirements, rental amounts were affordable, and developers assumed risk by investing some of their own money in the project as applicable and if such support cannot be provided, repay the amount.
- 1C. Provide support for the necessity and reasonableness of \$489,518 in unexpended NSP funds or reallocate the funds for other eligible NSP activities.
- 1D. Repay \$100,250 in NSP funds that were spent for ineligible administrative expenses.
- 1E. Provide documentation to support \$265,572 in unsupported administrative expenses. Any expenses determined not to be properly supported should be considered ineligible and reimbursed.
- 1F. Ensure that all of the NSP activities have the proper deed restrictions in place to ensure that the NSP properties remain affordable for the required affordability period and the NSP funds are protected.

- 1G. Establish an agreement between the State and Rhode Island Housing to define responsibilities for the Federal programs they administer.
- 1H. Establish an agreement between the Providence Redevelopment Agency and the City of Providence, Office of Community Development, to define responsibilities for the NSP activities.
- 1I. Develop proper record-keeping controls for its federally administered programs to ensure that all of the required documents and support are available for review.
- 1J. Properly monitor and oversee its subrecipients to ensure that they follow Federal requirements.

Scope and Methodology

The audit focused on whether State officials established and implemented adequate controls to ensure that the NSP was administered in accordance with program requirements. We performed the audit fieldwork from January to July 2014 at the Office of Housing and Community Development, One Capitol Hill, 3rd Floor, Providence, RI; Rhode Island Housing, 44 Washington Street, Providence, RI; and the Office of Community Development, City of Providence, 444 Westminister Street, Providence, RI. Our audit covered the period July 2009 through June 2013 and was extended when necessary to meet our audit objective.

To accomplish our objective, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, Rhode Island Housing's policies and procedures, and the Providence Redevelopment Agency's rules and regulations.
- Conducted discussions with State officials, Rhode Island Housing officials, and City of Providence officials to gain an understanding of organizational structure and administration of the NSP.
- Reviewed records of independent public auditors' reports and monitoring reviews by HUD.
- Reviewed the State's substantial amendment, grant agreement executed between HUD and the State for the NSP1 funds, memorandum of understanding with Rhode Island Housing, and subrecipient agreement with the Providence Redevelopment Agency.
- Reviewed various Disaster Recovery Grant Reporting system reports to document the State's activities and disbursements. Our assessment of the reliability of the data in this system was limited to data reviewed and reconciled with State records; therefore, we did not assess the reliability of this system. However, the data were sufficiently reliable for our purposes.
- Selected a nonstatistical sample of 22 NSP properties with an authorized amount of more than \$5.5 million to test for compliance with HUD regulations. This amount represented 25 percent of the more than \$21.7 million obligated by the State. These properties were selected based on risk identified by the HUD Boston Office of Community Planning and Development, conflict-of-interest issues, and NSP funding provided for the properties.
- Performed a limited review of 19 NSP rehabilitation properties, which received more than \$1.6 million, administered by the City to determine whether the City supported

that rehabilitation costs were necessary and reasonable.

- Performed inspections of selected activities to determine whether the rehabilitation had been completed.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and abuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The State did not have adequate controls over the efficiency and effectiveness of program operations when officials did not monitor and oversee the State's subrecipients, establish

adequate policies and procedures, and ensure that the proper agreements were in place to define NSP responsibilities (see finding).

- The State did not have adequate controls over the reliability of financial data when officials did not establish adequate financial controls to ensure that the requisitions for funds were adequately supported and costs were eligible, necessary, and reasonable (see finding).
- The State did not have adequate controls over compliance with laws and regulations when officials did not always comply with HUD regulations to ensure that activities met a national objective, the purchase price discount was properly supported, resale prices were in accordance with NSP requirements, and the rental amounts were affordable (see finding).
- The State did not have an adequate system to ensure that resources were properly safeguarded when officials did not always execute NSP agreements with the developers and ensure that the proper affordability restrictions were put in place, developers assumed risk by investing some of their own money in the project, and waivers were obtained for potential conflicts of interest (see finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$1,306,205		
1B		\$4,235,773	
1C			\$489,518
1D	\$100,250		
1E		\$265,572	
Totals	\$1,406,455	\$4,501,345	\$489,518

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the State implements our recommendation to determine the necessity and reasonableness of the \$489,518 in unspent allocated rehabilitation funds, it can assure HUD that these funds will be supported or properly put to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT
One Capitol Hill
Providence, RI 02908

December 16, 2014

Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General for Audit
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Dear Mr. Moore:

Please accept this correspondence as the State of Rhode Island's initial response to the draft audit report of the Rhode Island Neighborhood Stabilization Program (NSP), presented at the exit conference on December 5, 2014.

The goal of the Neighborhood Stabilization Program was to purchase and redevelop foreclosed-upon and abandoned homes and residential properties, assisting in the revitalization of areas which were highly impacted by foreclosure. Overall, the State believes funds were allocated to projects consistent with program objectives and in substantial compliance with program requirements.

We appreciate the time and effort your agency has spent reviewing records relative to this program. Your recommendations and guidance will assist the State in strengthening policies adopted for the administration of all federal and State housing programs. We hope to work with the Community Planning and Development (CPD) Field Office of the U.S. Department of Housing and Urban Development (HUD) to adequately respond to concerns identified.

While we appreciate HUD/IG extending the deadline to respond to the draft audit to December 16th, it is difficult to comprehensively address all findings of this report in the allocated time. In consult with Rhode Island Housing and the City of Providence, who have worked collaboratively with the State in the administration of this program, we have assembled the following preliminary responses to the content

Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 1

Page 2

of the report. The State will work through appropriate corrective actions on the specific findings with its HUD Field Office representative(s).

In general, we believe many of the issues identified, including those related to costs which were deemed ineligible/unsupported, likely relate to the lack of documentation available or reviewed at the time of the audit. It is, however, difficult to fully assess the basis for many conclusions without viewing the backup documentation from auditors. We hope that our HUD Field Office can work with you to determine the specific basis for your findings so they can be properly responded to.

Comment 2

As HUD/IG staff indicated in the exit conference, both Rhode Island Housing and the City of Providence have taken steps to improve recordkeeping and compile complete files on projects. Such efforts will continue. Documentation, including information possibly not available and/or viewed at the time of the audit, will be made available to our HUD field office in an effort to resolve issues identified.

Following you will find our comments and clarification responding to issues and recommendations contained in the report.

Comment 3

(1) "National Objective Not Met or Properly Documented"

On Page 7, the report indicates "State officials did not ensure... properties reviewed met a national objective". We request that you modify the language to indicate the State "did not sufficiently document national objective at the time of the audit". We feel documentation is available to sufficiently document compliance with program requirements, including national objective.

Comment 4

(2) Administration

The report indicates some City of Providence administrative costs were not eligible/unsupported. We are working with the City of Providence to develop a comprehensive list of administrative expenditures incurred relative to the Neighborhood Stabilization Program to date. Specific concerns identified in the report, such as the ineligibility of website development, have previously been raised as an issue with the municipality.

Comment 5

(3) Conflict of Interest

Please note the conflict of interest issue referenced in the monitoring report had been substantially resolved prior to issuance of the draft. On 9/24/14, Rhode Island Housing repaid, from its general funds, \$39,200 into the NSP checking account.

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(4) Necessary and Reasonable Cost

Your agency indicated that insufficient documentation was available to verify project expenditures were "necessary and reasonable". Additional documentation will be necessary in many instances to properly respond to this finding. While Rhode Island Housing did conduct pre- and post- inspections of properties, in many instances, written documentation of those reviews was not available. In anticipation of this overall concern, Rhode Island Housing and the City have been collecting information from subrecipients to document compliance with this requirement. We hope to provide the field office documentation appropriate to verify compliance.

In addition, please note that units assisted were substantially rehabilitated to ensure the long-term viability of these homes. Such comprehensive rehabilitation of older homes, bringing these units to a higher standard than achieved through moderate rehabilitation, may result in greater costs but ultimately assures longer-term saving in operating expenses for households with limited ability to undertake additional improvements during the term of affordability.

Building Permits - On Page 10, the report notes a lack of correlation between the cost on building permits and the total rehabilitation costs. Please note that the building permit cost is based solely on code related improvements. Many costs of rehabilitation, including non-code related issues addressed such as flooring or costs associated with other trades, would not be included in the value of the permit. For example, electrical, plumbing, heating would be all covered under other, separate permits. Accordingly the value of the general building permit should not be linked solely to the overall cost of the rehabilitation.

(5) Training & Technical Assistance

The reports indicates the State did not provide any training or technical assistance to agencies administering the program, namely Rhode Island Housing and the City of Providence. When this new program was initiated in 2009, HUD conducted a number of trainings. Both Rhode Island Housing and the State participated in these training opportunities jointly. Additionally, Rhode Island Housing is responsible for administration of the State's HOME Investment Partnership Program and is well versed in regulations applicable to HUD housing and community development programs.

In addition, several workshops were held with potential applicants, providing detail on Neighborhood Stabilization Program requirements and regulations. Staff of the Office of Housing and Community Development and Rhode Island Housing conducted these workshops jointly, which were attended by all subrecipients, including the City of Providence. A number of individual meetings were also held with City officials to discuss program requirements and the use of funds. As a direct HUD recipient of Community Development Block Grant (CDBG) funding, Providence has knowledge of the various rules and regulations applicable to the Community Development Block Grant and Neighborhood Stabilization

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Program (NSP). This office can also produce various communications with the City related to specific regulatory or programmatic matters. The intent of these communications was to provide ongoing technical assistance to the municipality in the implementation of their program.

Therefore, the State asserts that sufficient training and technical assistance was provided.

(6) Oversight

The report indicates the State did not conduct proper oversight of its subrecipients. Turn-over of staff in all agencies and the suspension of similarly-operated housing programs of one of its main providers by HUD, had contributed to the limited reviews conducted. A subrecipient oversight handbook has been developed in recent months to develop standards and better guide the subrecipient oversight functions of the State. The State will work to assure adequate oversight is provided of its partners and subrecipients of this program.

(7) Agreements

While a specific Memorandum of Agreement relative to the Neighborhood Stabilization Program was not signed between the State and Rhode Island Housing, a previous agreement generally remains in effect. We acknowledge, however, that the previous agreement does not specify responsibilities relative to the NSP. In accordance with State law, any agreement between the Housing Resources Commission (a unit of the Office of Housing and Community Development) and Rhode Island Housing must be approved by a specific Committee. Since this committee has not met in recent years, updating the agreement had proven difficult. As indicated in the report, it was determined each agency's responsibilities would be detailed in the application in the interim of a new agreement. We do, however, acknowledge an updated MOA must be established between the agencies to clarify roles and responsibilities.

(8) Specific Project (s)

514 Broadway - The State, City and Rhode Island Housing have met with developers to discuss one of the projects detailed in the audit report. Only a portion of the funds obligated to this project have been disbursed to date. It is likely these discussions will result in the ultimate termination of this project and State's de-obligation of the remaining balance of NSP resources.

Burnside and Parkis – The report recognized these projects were currently incomplete. Please note the agency involved is in the process of negotiations to merge with another agency. Issues with these specific properties have been identified and should be addressed during the merger process.

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(9) Developer Risk

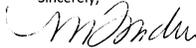
The report indicates that developers must assume risk by investing their own resources in a project. Please note the HUD NSP guidance referenced in the report was released on November 16, 2011, two years after initial implementation of this program. The State, City and Rhode Island Housing recognize the contributions non-profit Community Development Corporations (CDCs) have made to overall development costs. The program substantially invested NSP resources with such CDCs, who take substantial risk in undertaking projects. Our office will work with the HUD field office to determine what an appropriate level of risk is for such non-profit developers in resolution of this issue.

Conclusion

Ultimately, it is important to recognize that the State's Neighborhood Stabilization Program has assisted hundreds of units which would not have likely received investment otherwise. With the help of NSP, the State has contributed to the revitalization of various neighborhoods, eliminating blight and providing units with long-term affordability.

Thank you for the opportunity to comment on your draft report of the State's Neighborhood Stabilization Program and for your consideration of our comments. The State has attached, as part of this letter, additional written responses from Rhode Island Housing and the City of Providence. Please extend our appreciation to your staff, specifically [REDACTED] for their time and efforts in conducting this review. Should you have any questions or require additional information, please do not hesitate to contact this office at (401) 222-6490.

Sincerely,



Michael Tondra
Chief

Pc: K. Flynn
R. Godfrey
B. Hull

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



Rhode Island Housing
working together to bring you home

RICHARD H. GODFREY, JR.
EXECUTIVE DIRECTOR

VIA ELECTRONIC MAIL
AND FIRST CLASS MAIL

December 15, 2014

Michael Tondra, Chief
Office of Housing and Community Development
One Capitol Hill, Third Floor
Providence, RI 02908

Re: State of Rhode Island Neighborhood Stabilization Program
Audit Report Number: 2015-BO-100X

Dear Mr. Tondra:

Thank you for the opportunity to comment on the draft audit report ("Draft Report") of State of Rhode Island Neighborhood Stabilization Program Audit Report Number: 2015-BO-100X recently completed by HUD's Office of Inspector General ("OIG").

Rhode Island Housing worked cooperatively with the Office of Housing and Community Development ("OHCD") to administer the resources provided to the state under the Neighborhood Stabilization Program ("NSP" or "Program"). In addition, OHCD worked with the Department of Planning and Development of the City of Providence (the "City") to administer the Program for properties located in the City. Thus, both Rhode Island Housing and the City were involved in the implementation of the Program based on where the property receiving Program assistance was located.

We have carefully reviewed the Draft Report. Unfortunately, it is difficult to respond specifically to the conclusions set forth in the Draft Report because it lacks adequate specificity for us to determine whether the comments and deficiencies noted relate to Program transactions in which Rhode Island Housing or the City was involved. Nonetheless, Rhode Island Housing believes that it has administered NSP in accordance with the goals set forth in the State's plan for NSP and that all activities with which Rhode Island Housing was involved met Program requirements and were carried out in accordance with applicable HUD requirements.

Rhode Island Housing's response to the Draft Report follows. Our response is limited to those NSP transactions in which Rhode Island Housing was involved. We make no response with respect to transactions involving the City.

44 Washington Street, Providence, RI 02903-1721 • Phone: 401 457-1212 • Fax: 401 457-1136 • www.rihousing.com

Comment 1

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Finding: The State's NSP Activities Were Not Always in Accordance With HUD Regulations

The Draft Report identified five concerns to justify this conclusion:

1. The Developer Selection Process Was Not Adequate
2. NSP Costs Were Not Always Eligible and Supported
3. NSP Administrative Costs Were Not Always Supported and Eligible
4. Written Agreements Were Not Properly Executed
5. State Officials Did Not Provide Adequate Oversight of its Subrecipients

Some of these concerns, notably the second concern, were further broken down into subsidiary observations.

Rhode Island Housing desires to specifically respond to items 1 and 2, above, since they most directly impact our activities under the Program.

The Developer Selection Process Was Appropriate and Consistent With Applicable HUD Guidelines

Rhode Island Housing and OHCD had a process in place to evaluate and approve applicants for NSP funding. Rhode Island Housing is able to provide documentation that funded activities were eligible and supported. Consistent with the State's goal to focus its Program funding on neighborhoods most impacted by the foreclosure crisis, potential participants in the Program were required to file neighborhood plans identifying focus areas for funding. Both OHCD and Rhode Island Housing reviewed the plans and OHCD posted these plans to the state website for public review.

Rhode Island Housing and OHCD worked cooperatively to review proposals for land banking of properties for future development and in evaluation of requests for the rehabilitation of vacant, blighted and foreclosed properties. Recipients of Program funding were required to file requests and applications for land banking of properties within target areas and rehabilitation assistance. All proposals were reviewed by staff of Rhode Island Housing and OHCD. Properties selected for land banking and/or rehabilitation funding were located in NSP 1 eligible areas.

Rhode Island Housing also maintains that NSP 1 funding was used effectively and efficiently by our Community Development Corporation partners to provide the greatest positive impact to neighborhoods with the highest rates of foreclosures in Rhode Island.

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Costs Charged to NSP Were Eligible and Fully Supported

The Draft Report breaks this category down into nine broad areas of concern:

1. National objectives not met or properly documented
2. NSP agreements not always executed
3. Affordability restrictions not always in place
4. Lack of documentation demonstrating that rehabilitation costs were necessary and reasonable
5. Purchase price discount not properly supported
6. Resale prices not always in accordance with NSP requirements
7. Lack of documentation to support that rental amounts were affordable
8. Lack of documentation to support that developers assumed risk in the project
9. No waivers for potential conflicts of interest

Rhode Island Housing provides the following responses to several areas below:

- National objectives not met or properly documented

Rhode Island Housing has documentation to show that the national objective of benefiting low- and moderate-income persons was met with respect to all assisted properties in which it was involved.

- NSP agreements not always executed

Rhode Island Housing has signed NSP Agreements in all property files for projects with which we were involved.

- Affordability restrictions not always in place

Rhode Island Housing can adequately demonstrate that appropriate affordability restrictions are in place for NSP 1 assisted properties with which we were involved. The OIG report indicates that the State and Rhode Island Housing did not specify in notices and materials applicable to the Program whether it would use resale or recapture provisions to assure affordability. In accordance with the HOME implementing rule, which was used for NSP 1 activities, resale requirements were imposed for direct funding of developers and recapture requirements were imposed for direct assistance to homebuyers.

- Lack of documentation demonstrating that rehabilitation costs were necessary and reasonable

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Rhode Island Housing employs a team of construction specialists holding multiple professional licenses in the construction trades to inspect properties at time of application, review architectural drawings and plans/specifications, participate in the evaluation of bidding of projects, oversight of construction and evaluation of the completed work. Each property rehabilitated under NSP 1 was assigned to a construction staff person who worked hands on with the development team to complete each project. Construction staff is required to review and sign off on each requisition for construction expenses.

Rhode Island, and more broadly, New England, has been cited as having high land and development costs. Our housing stock is much older than most areas in the nation which drives construction related costs as does regulatory constraints. In addition, the affordable homes rehabilitated under NSP 1 and the various other resources impose long term restrictions on buyers and owners of affordable rental homes. These restrictions limit a buyer's ability to access additional capital for improvements as well as limit rental income for owners to fund replacement reserves. Due to these impediments to obtaining financing for future capital improvements, it has been Rhode Island Housing's long-standing policy to require up-front substantial rehabilitation to ensure the long-term viability of the homes and rental developments. While the up-front costs may be somewhat higher than moderate rehabilitation efforts, there are long-term savings in operating costs, not to mention a better product following rehabilitation. Moreover, Rhode Island Housing has adequate controls in place that ensure that, in no instance, was the amount of the NSP grant exceeded.

- Purchase price discount not properly supported

Rhode Island Housing has appraisals for all properties acquired under the Program, with which we were involved, demonstrating that the purchase price discount required under the Program was met.

- Resale prices not always in accordance with NSP requirements

Rhode Island Housing has documentation within its files demonstrating that Resale Prices for properties with which we were involved were established in accordance with Program requirements. In fact, Resale Prices set by Rhode Island Housing were below market value of the property based upon the income targeting set forth by the State, which in most instances limited resale to persons at or below 80% of area median income.

- Lack of documentation to support that rental amounts were affordable

Rhode Island Housing has documented the income and rent of all tenants residing within NSP 1 assisted properties with which we were involved.

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- Lack of Documentation to Support That Developers Assumed Some Risk in the Project

Substantially all of the NSP 1 funding administered by Rhode Island Housing was awarded to nonprofit Community Development Corporations ("CDCs" or "Developers") working within neighborhoods that were most greatly impacted by the foreclosure crisis. These organizations are private nonprofit organizations established under Rhode Island law, and constitute "developers" within the meaning of the NSP Policy Alert, Guidance on Developers, Subrecipients, and Contractors – Updated November 16, 2011. These private organizations own the properties which are assisted under NSP, enter into construction contracts and also contract with other development team members as necessary, such as architects, engineers, attorneys, etc. to provide needed services, and are responsible for obtaining all financing necessary to bring the project to completion. At the end of the day, these Developers are responsible for satisfying all financial obligations undertaken to bring the project to completion. They must satisfy any expenses in excess of the financing available for the project. In addition, they are providing oversight and project management services with their own staff and at their own expense. In every sense they have assumed a great deal of the risk of the project.

Comment 5

- No waivers for potential conflicts of interest

Rhode Island Housing provided downpayment assistance loans to two employees of Rhode Island Housing who acquired foreclosed properties in targeted neighborhoods of the State. These individuals met all income and other requirements of the Program. The loans were in the amount of \$17,800 and \$21,400 for a total of \$39,200. Inadvertently we neglected to obtain a waiver for these transactions. These funds were returned to the NSP restricted account on September 24, 2014 from Rhode Island Housing general funds.

Comments 2 and 13

Conclusion

Rhode Island Housing believes that there were adequate record-keeping controls in place to administer the Program and that all files contain the required documentation to support the eligibility of NSP funds expended for each project, and to ensure that funding provided under the Program did not exceed the amount awarded. In addition, Rhode Island has adequate documentation to demonstrate that National Objective was met on properties funded under the Program and that all necessary income documentation verifying National Objective has been provided by developers. We will make all of these materials available to you to share with representatives of HUD.

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We value our partnership with OHCD and HUD and appreciate any recommendations that could result in improvements to programs administered by Rhode Island Housing so that we may continue to respond to the needs of low- and very low-income Rhode Islanders as we work to provide safe and decent housing opportunities and to conduct neighborhood revitalization strategies in our most impacted neighborhoods.

Sincerely,



Richard Godfrey
Executive Director

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CITY OF PROVIDENCE
Angel Taveras, Mayor

December 16, 2014

Michael Tondra
Chief/Executive Director
Office of Housing and Community Development
One Capitol Hill, Third Floor
Providence, RI 02908

Re: Subrecipient, City of Providence's, Response to the U.S. Department of Housing and Urban Development, Office of Inspector General's Audit of the State of Rhode Island's Neighborhood Stabilization Program (NSPI)

Dear Mr. Tondra,

On December 5, 2014 the City was invited to participate in an exit conference wherein the Office of Inspector General (OIG) presented its draft audit report for the State of Rhode Island's Neighborhood Stabilization Program (NSPI) (hereinafter, the "Draft Audit"). As you know, at that meeting, the City was provided its first opportunity to review the Draft Audit. That Draft Audit was the product of at least an eight month investigation conducted by several OIG auditors. However, the State was given two weeks to respond to this Draft Audit, which resulted in a response deadline of December 16, 2014. Candidly, given the scope and impact of the auditors' findings and recommendations, such limited amount of time renders the City unable to adequately assist the State in responding. The City therefore, recommends that the State request a reasonable extension of time as well as file your initial response under protest. To that end, the City respectfully requests that you incorporate this response with any such correspondence to the Draft Audit.

The Neighborhood Stabilization program recognizes that developers are extremely reluctant to invest capital and time in properties in blighted neighborhoods that would ultimately return a negative value. In fact NSPI is designed to effectively subsidize development in blighted areas hit by the national foreclosure crisis. Vital to program success is active local non profit development participation. The City is proud of the work that our developers and local CDC's have made. In the City's opinion, this Draft Audit's findings and recommendations discounts the hard work and attention from the City's local HUD field office as well as the State coordinating work with subrecipients and their developers and local CDC's. The City is concerned that the pronouncement of an ineligible or unsupported finding totaling \$6.3 million is wildly inappropriate and undermines the remarkable impact that NSPI has had on some of the City's hardest hit neighborhoods. Furthermore, it appears that the Draft Audit is now applying a

DEPARTMENT OF PLANNING AND DEVELOPMENT
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CITY OF PROVIDENCE

Angel Taveras, Mayor

higher standard in interpreting program regulations than at the time of NSP1 roll out. It would be unfair and inequitable to retroactively impose such an interpretation.

While appendix A-D of the Draft Audit identifies certain categories of OIG concern on various properties, it ultimately fails to identify what standards were used in its conclusions and it fails to allocate responsibility between the City and Rhode Island Housing (RIH) when both entities participated in the development of any given project. Curiously, all OIG identified properties deemed to be "ineligible" initially have a "failure to meet national objectives" finding. Such an amorphous holding does not identify which "use and/or national objective" has not been met. Therefore, the Draft Audit fails to provide the City with the appropriate information necessary to comprehensively respond.¹ Note that the City earnestly believes that all funds were allocated to projects that were consistent with the "National Objectives." Upon OIG furnishing information that identifies specific elements of that standard that it feels the City failed to meet, the City will provide the necessary documentation to satisfy OIG that all projects are compliant.

FINDING: State officials did not ensure that their subrecipients properly administered the NSP and that costs incurred were in accordance with regulations. As a result, they expended more than \$6.3 million in NSP funds for costs that were not properly supported and eligible. We attribute these deficiencies to the State's failure to (1) execute the proper agreements to define NSP responsibilities, and (2) implement oversight controls and monitoring sufficient to ensure compliance with all applicable regulations. Therefore, State officials could not assure HUD that reasonable and necessary costs were charged to the NSP and the NSP funds were effectively and efficiently used to make the greatest impact in neighborhoods with high foreclosures as was the intent of the program.

RESPONSE: *The City asserts that this finding is inaccurate and largely unsubstantiated, not only in fact² but also in opinion. By way of example, the use of the phrase "the greatest impact" in*

¹ The City has reviewed the legislation, the Code of Federal Regulations thereunder, as well as numerous HUD issued NSP policy alerts, updates, checklists and user tool kits for a clearer understanding of the "national objectives." It appears from at least one publication that HUD concedes that, "there is often confusion around how to demonstrate that each activity meets a national objective." The City respectfully submits that it should not be penalized for such confusion. In spite of such uncertainty as to the term "national objective," the City determined that the national objective for the NSP1 is to address low, moderate and middle income individuals, housing, and areas by way of five eligible activities. Eligible activities include but are not limited to: (1) Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; (2) Purchase and rehabilitate homes and residential properties abandoned or foreclosed; (3) Establish land banks for foreclosed homes; (4) Demolish blighted structures; and (5) Redevelop demolished or vacant properties. Additionally, HUD has recognized that program administration and planning is an eligible activity.

² By way of illustration the Audit Report's appendix D identified a property located at 162 Devonshire Street with an obligation of \$42,800. The entire amount was deemed ineligible for the following reasons as stated by OIG: (1) initial inspection not documented; (2) work writeup not documented; (3) review of cost reasonableness not documented; and (4) NSP agreement not in file. It is respectfully submitted that the City does in fact have a file that it believes demonstrates that all of the above requirements have been met. The City is unsure as to what file was reviewed by the auditors because this file was kept separate

DEPARTMENT OF PLANNING AND DEVELOPMENT

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neighborhoods with high foreclosures is subject to various interpretations. Given the imperative nature of addressing the City's foreclosure and abandoned properties crisis, the City expeditiously implemented the NSP1 program under the program guidelines available at that time. Respectfully, the City strongly disputes any finding that the program as implemented required a "greatest impact" litmus test. Furthermore, the City contends that to impose such a threshold after the fact appears to be disingenuous and patently unfair.

RECOMMENDATIONS: We recommend that the HUD Director of Community Planning and Development instruct State officials to:

1A. Repay \$1,306,205 in NSP funds expended for ineligible activity costs from non-Federal funds.

RESPONSE: *The City has submitted a FOIA request to determine why OIG has deemed these funds ineligible in order to respond in detail. At this time, the City objects to this finding and states that it is confident that it can provide the necessary documentation to prove eligibility.*

1B. Provide documentation to support that \$4,235,773 in NSP funds was expended for eligible costs by obtaining documentation that the projects met a national objective, purchase price discounts were met, rehabilitation costs were reasonable and necessary, resale prices were in accordance with NSP requirements, rental amounts were affordable, and developers assumed risk by investing some of their own money in the project as applicable, and if such support cannot be provided, repay the amount.

RESPONSE: *The City has submitted a FOIA request to determine why OIG has deemed these funds unsupported in order to respond in detail. At this time, the City objects to this finding and states that it is confident that it can provide the necessary documentation to support its expenditures.*

1C. Provide support for the necessity and reasonableness of \$489,518 in unexpended NSP funds or reallocate the funds for other eligible NSP activities.

RESPONSE: *Inapplicable to the City of Providence.*

1D. Repay \$100,250 in NSP funds that were expended for ineligible administrative expenses.

and apart from the remaining NSP1 files because it was a non CDC partner file [copy of file is available upon request]. Another example of the City's concern with the Auditor's findings can be found in the Draft Audit's appendix C #15 referenced as 87 Princeton Avenue with an obligation of \$90,545, all of which has been deemed ineligible for the following reasons as stated by OIG: (1) National Objective not supported [see footnote 1]; (2) purchase discount not supported; (3) necessity and reasonableness of costs not supported; and (4) resale price not supported. The City respectfully submits that this property was a vacant foreclosed upon property located in a state identified target area for NSP funds, purchased without NSP funds, rehabilitated and sold and subsequently resold to income qualified buyers with appropriate covenants and restrictions recorded against the property; importantly, included in the file is a letter from a HUD NSP consultant, Matthew Do of Enterprise Community, who approved the resale price transaction.

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RESPONSE: *Without prejudice to the City and subject to further review and investigation, this finding may be considered appropriate.*

1E. Provide documentation to support \$265,572 in unsupported administrative expenses. Any expenses determined not to be properly supported should be considered ineligible and reimbursed.

RESPONSE: *The City has submitted a FOIA request to determine why OIG has deemed these funds unsupported in order to respond in detail. At this time, the City objects to this finding and states that it has documentation that supports all of its administrative expenses.³*

1F. Ensure that all of the NSP activities have the proper deed restrictions in place to ensure that the NSP properties remain affordable for the required affordability period and the NSP funds are protected.

RESPONSE: *The City will work with its legal counsel and counsel for HUD to establish acceptable deed restrictions and covenants for all properties moving forward. However, the City, has engaged outside counsel specifically to review housing files, including but not limited to NSP1 files. That review, (preliminary at this time), indicates that where certain recorded deeds may have failed to identify restrictions, in most instances contemporaneously recorded covenants (that run with the land) adequately addressed HUD requirements.*

1G. Establish an agreement between the State and Rhode Island Housing to define responsibilities for the Federal programs they administer.

RESPONSE: *Inapplicable to the City of Providence.*

1H. Establish an agreement between the Providence Redevelopment Agency and the City of Providence Office of Community Development to define responsibilities for the NSP activities.

RESPONSE: *The City intends to comply with this recommendation and update any and all agreements that are already in place at this time.*

1I. Develop proper record-keeping controls for its federally administered programs to ensure that all of the required documents and support are available for review.

RESPONSE: *At the time of this audit and over the past year, City staff had been working closely with HUD to establish and implement a system of policies, procedures, and internal controls to effectively*

³ Assuming that this number relates to salaries and proprietary technology utilized by City staff to administer the NSP1, and assuming that this number represents all salaries attributed to NSP1 administration, the City respectfully submits that 4 employees and 1 consultant administered this program over an extended period resulting in approximately 30 successful projects. The City believes that those facts alone demonstrate reasonable administrative expenses and further submits that the cost of administering the NSP1 exceeded allowable administrative reimbursement. In fact, administrative expenditures continue to accrue. The City is confident that it can provide the necessary documentation to support its administrative expenditures.

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administer all of our housing programs. Over the past year, with the guidance of our local HUD representative, the City believes that is has made great progress streamlining programs that frankly were rolled out with minimal administrative clarity.

11. Properly train, monitor, and oversee its subrecipients to ensure that they follow Federal requirements.

RESPONSE: *The City intends to cooperate fully with this recommendation. To a great extent this initiative has already begun. The City intends to continue to engage with its non profit CDC's in cooperative training/education programs as to best management practices under HUD regulations under the leadership of our local HUD field representative and in coordination with the State.*

CONCLUSION:

With all due respect to the efforts made by the OIG, the City disagrees with its conclusions as well as its analysis within the Draft Audit. First and foremost, the City has been constrained by an unreasonable timeframe to reply to an extensive program investigation. With that said, in order to properly address, review and where appropriate correct issues raised by the OIG, the City has submitted a Freedom of Information Act (FOIA) request to HUD, OIG for, among other things, the auditors' working files related to the Draft Audit. Most importantly, the City believes that all funds allocated to projects were consistent with the intent of the NSP1 and in compliance with program requirements. To that end, the City is confident that it can provide the necessary documentation, and will aggressively challenge and if necessary appeal any and all findings to the contrary. Lastly, the City will continue to work cooperatively and diligently with the State, its local HUD field representative(s), and local developers and non profit CDC's to address any and all legitimate issues raised in the OIG Draft Audit. Great efforts and accomplishments have been made in addressing the housing needs within the City of Providence and the City looks forward to continue work with those partners who share in the mission of sustainable affordable housing.

Respectfully,

Brian Hull
Acting Director of Community Development

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OIG Evaluation of Auditee Comments

- Comment 1 We discussed the reported issues with Rhode Island Housing and City staff and their consultant throughout the audit and provided a spreadsheet with the results of our review to the State on November 17, 2014. Further, during the exit conference on December 3, 2014, we stated that we were available to answer any questions related to a specific project; however, we were not contacted to provide additional information. Therefore, any supporting documentation will have to be provided to HUD during the audit resolution process.
- Comment 2 While we acknowledge that the record keeping has improved since we began the audit, Rhode Island Housing did not always have NSP-specific files, and we were provided with every document related to a project, whether it was HOME, low-income tax credit, or any other type of funding provided to the project. Toward the end of the audit, Rhode Island Housing did provide NSP-specific files; however, key documents necessary to document compliance with NSP requirements as detailed in the finding were missing from the files. As State officials suggest, information will be made available to the HUD field office to resolve the issues identified.
- The City had NSP-specific files; however, the majority of the information was missing. There were many empty sections in the files. Throughout the audit, we requested the missing documentation, and it could not be provided. Therefore, the majority of the City's NSP funds were considered unsupported. The City hired a consultant to assist with completing the NSP files after the fact, but this was done during our audit. HUD staff will have to work with the City to determine what the City is able to support with the new documentation it obtains.
- Comment 3 The report was adjusted as suggested to indicate that documentation was not available to support compliance with a national objective.
- Comment 4 State officials noted that they were working to develop a list of administrative costs charged by the City and that some concern with Web site development costs was raised previously. State officials will have to work with HUD to determine the eligibility of costs claimed.
- Comment 5 State officials stated that they repaid the questioned cost. These actions are responsive to our recommendation, and HUD should verify this statement during audit resolution to ensure that the funds were paid back as required.
- Comment 6 State officials said that while pre-inspections and post-inspections were conducted, documentation of such was not always filed and indicated that they would provide the HUD field office the necessary documentation. However when we reviewed the file we found that they did not contain a scope of work or cost

estimates performed by the subrecipients to show that the materials used and the costs incurred were reasonable.

- Comment 7 If there are permits in addition to building permits to support costs; these should be maintained in the files and will need to be provided to HUD during the audit resolution process to support costs.
- Comment 8 Training may have been provided; however, City staff stated that it had not obtained NSP-specific training and was not aware of NSP policies and procedures. We obtained NSP policies and procedures from the Providence Redevelopment Agency, but the staff implementing the NSP was not aware of the policies. It is possible that the City staff members who attended these trainings were no longer employed by the City since there has been turnover in management. Therefore, we revised the report and removed the statement that training may not have been provided. However, when staff is replaced, training should be provided to all staff members working on the program.
- Comment 9 State officials stated they have developed a subrecipient oversight handbook in recent months and will work to assure adequate oversight is provided to its partners and subrecipients. HUD should review the handbook during the audit resolution process.
- Comment 10 State officials agreed that an updated memorandum of agreement needs to be established between the agencies to clarify roles and responsibilities. This action is responsive to our recommendation and HUD should verify this during the audit resolution process.
- Comment 11 State officials stated that the NSP funds will be returned for 514 Broadway and the project will be terminated and that 100 Burnside and 7 Parkis have not been completed and the agency involved with the projects is in negotiations to merge with another agency. However, all of the NSP funding was spent for these two projects at the beginning of 2013, and as of August 2014, no work had been performed. No funds should have been spent for 7 Parkis until the rehabilitation work had been completed. If the City had been conducting ongoing inspections of its projects, it would have known that work was not completed and that the funds should not have been paid to the developer. The City used NSP funds for acquisition of 100 Burnside; however, more than a year has passed, and no work has been performed. Before awarding funds for this project, the City should have ensured that the developer had secured the additional funding necessary to complete the project in a timely manner. Therefore, these projects have not met a national objective, and the funds need to be repaid.
- Comment 12 Without the actual total development costs, which were not documented in the files, we were not able to determine whether there was any investment by the developers, as was required by HUD, as of 2011. Many of the projects only listed

Federal funds as the source, and the developers were provided a developer fee, and in some cases, it also appeared as though the developers were making a profit on the sale of the property since a significant amount of the NSP funds awarded was for grants and not loans. We revised the report to distinguish whether the properties were started before the 2011 HUD guidance.

- Comment 13 Both the State and Rhode Island Housing officials have said that there was a process in place to review the selection of developers; however, neither office was able to provide support to document the evaluation and selection process of the developers reviewed.
- Comment 14 While Rhode Island Housing officials said that they had documentation to show that the national objective to benefit low- and moderate-income persons was met, such documentation was either not in the file or sufficient to determine that the national objective was met. If officials have such documentation, they will need to provide it to HUD during the audit resolution process.
- Comment 15 While Rhode Island Housing officials said that they had signed agreements, the agreements were not in the file or available when requested for the land bank properties. If officials have such documentation, they will need to provide it to HUD during the audit resolution process.
- Comment 16 Rhode Island Housing officials said that they could adequately demonstrate that appropriate affordability restrictions were in place, if officials have such documentation, they will need to provide it to HUD during the audit resolution process. For example, as stated in the report under section, Affordability Restrictions Not Always Put in Place, there were several projects that did not have NSP affordability agreements in the file. We requested these documents during the audit, and they were not provided. Rhode Island Housing staff stated that if it had a HOME or low-income housing tax credit affordability restriction in place, that restriction also covered the NSP funds in the property. However, there should be an affordability restriction on the property specific to the NSP funds. In other instances, the NSP amount of funds listed in the affordability agreement or the term of the affordability period was not always accurate.
- Comment 17 The files reviewed at Rhode Island Housing and the City did not contain evidence of inspections before, during, or after rehabilitation. Inspections before rehabilitation are needed to ensure that the work done was necessary. The files also did not contain a scope of work or cost estimates performed by the subrecipients to show that the materials used and the costs incurred were reasonable. The State officials stated that the cost of the rehabilitation was higher due to ensuring long-term affordability; however, without cost estimates and a scope of work, it is not possible to determine the reasonableness of costs.

- Comment 18 Rhode Island Housing officials said that they had appraisals for all properties; however, appraisals were not always available in the file. If they are available, they will need to be provided to HUD to determine that the purchase price discount was obtained and supported.
- Comment 19 Without knowing the actual total development costs, in three cases, it was not possible for us to determine whether the sales price met NSP requirements.
- Comment 20 Tenant income and tenant leases were not always in the file for review. Rhode Island Housing and the City may be able to obtain this documentation from the developers; however, it was not in the file during our review. Therefore, since Rhode Island Housing and the City do not have the documentation, they rely on the developers to ensure that the tenant's income and the rents meet NSP requirements. It is the subrecipient's responsibility to determine income eligibility and ensure that the rents are affordable.
- Comment 21 Rhode Island Housing stated that the developers own the properties, which may be true, but in most cases, the properties were purchased with Federal funds, which are either grants or not required to be paid back until the property is sold so the developers' risk in the property is limited.
- Comment 22 OIG provided the report to the State, which was the auditee. It was the State's responsibility to provide the report to the City. Additionally, City staff was kept apprised of our results throughout the audit, and we met with City staff and the City's consultant to request missing documentation to determine whether it could be obtained before the end of the audit. The City's files had limited documentation available during the audit, which is why all of the projects reviewed were either considered ineligible or unsupported. If additional documentation was available to support the projects, it should have been provided as requested many times during the audit.
- Comment 23 The City's files had inadequate documentation to support the funds classified as ineligible and unsupported. City staff members said during the audit that they trusted the developers to determine the necessity and reasonableness of costs. In addition, City officials lacked documentation showing that initial and ongoing inspections were conducted to document the condition of the property and the necessity of the rehabilitation. City officials contend that we are holding them to a higher standard than required; however, we are only applying the requirements in the NSP regulations.
- Comment 24 The national objective was considered unsupported in most cases due to conflicting information in the file that was not followed up on by City staff or missing documentation to support that all households in the project were low to moderate income. There were three instances in which we determined that the national objective was not met. See comment 11 for two of them. For the other

project (153 Ontario), we determined that the owner was not income eligible and he occupied at least half of the property. In addition, there were three tenants in this project, but their income documentation was conflicting and not adequate to determine whether they were low to moderate income.

- Comment 25 We revised the report and removed the “greatest impact” statement.
- Comment 26 If City officials are uncertain as to how best demonstrate and support that a national objective is met, they should contact their HUD representative for assistance.
- Comment 27 We requested all NSP documentation from City staff related to the properties that were reviewed. After several requests, the City provided a file for 162 Devonshire Street. City staff did not indicate that another file was available that was not provided. With regard to 87 Princeton, we had several concerns with this project. The original owner’s income documentation was conflicting and no followup was performed to determine whether the owner was income eligible. Further, City staff stated that it did not obtain income documentation to verify that the next owner was income eligible as required by the affordability agreement. City staff also stated that it did not have a relationship with the new owner, which is why we were not able to perform a site inspection of the project as requested.
- Comment 28 We requested the necessary information several times throughout the audit, and it was not provided. We are willing to provide any information that may be needed by the City or the HUD field office to resolve the finding during the audit resolution process.
- Comment 29 City officials agreed to take corrective actions to ensure affordability of the assisted projects. They also agreed to update the written agreements between the Providence Redevelopment Agency and the City of Providence, Office of Community Development, to define responsibilities for the NSP; develop proper record-keeping controls for its federally administered programs; and train, monitor, and oversee its subrecipients to ensure that they follow Federal requirements. These actions are responsive to our recommendations and should be verified by HUD during the audit resolution process.

Appendix C

Schedule of Sampled NSP Properties

	Address	National objective not supported	NSP agreement not executed	Purchase discount not supported	Proper affordability restrictions not in place	Necessity and reasonableness of costs not supported	Resale price not supported	Affordable rental price not supported	Potential conflict of interest identified	Developer investment in the project not supported	Unsupported costs	Ineligible costs	Funds to be put to better use
1	100 Burnside Street, Providence	X			X	X				X		\$43,600	
2	1040 Broad Street, Providence	X		X	X	X		X		X	\$500,000		
3	1380 Broad Street & 24 Calla Street, Providence	X	X			X		X			\$593,947	\$207,400	
4	153 Ontario Street, Providence	X	X		X	X		X		X		\$377,521	
5	175 Cross Street, Central Falls	X			X	X	X	X		X	\$29,980		
6	367 Friendship Street, Providence	X			X	X		X		X	\$200,192		
7	395 Central Street, Central Falls	X			X	X				X	\$276,103		
8	41 Pekin Street, Providence	X	X		X	X		X		X	\$63,495	\$25,000	
9	43 Hyatt Street, Providence		X	X		X				X		\$90,000	
10	47 Powhatan Street, Providence	X			X	X	X	X		X	\$51,000		
11	514 Broadway Street, Providence					X				X	\$130,482		\$489,518

	Address	National objective not supported	NSP agreement not executed	Purchase discount not supported	Proper affordability restrictions not in place	Necessity and reasonableness of costs not supported	Resale price not supported	Affordable rental price not supported	Potential conflict of interest identified	Developer investment in the project not supported	Unsupported costs	Ineligible costs	Funds to be put to better use
12	5-7 Osborn Street, Providence	X	X	X	X	X					\$300,000	\$81,349	
13	7 Parkis Avenue, Providence	X			X	X				X		\$175,000	
14	87 Comstock Avenue, Providence					X				X	\$134,934		
15	87 Princeton Avenue, Providence	X				X	X					\$90,545	
16	88 Northeast Street, Woonsocket					X		X		X	\$768,450		
17	526 Power Road, Pawtucket				X						\$22,000		
18	81 Dawson Street, Pawtucket				X				X		\$21,400		
19	157 Dexter Street, Cumberland	X			X						\$38,500		
20	29 Starr Street, Johnston												
21	203 Chandler Avenue, Pawtucket								X		\$17,800		
22	113 Hendricks Street, Providence	X			X	X		X			\$47,850		
	Totals	14	5	3	14	17	3	9	2	13	\$3,196,133	\$1,090,415	\$489,518

Appendix D

Schedule of Limited Review NSP Properties

	Activity address ¹³	Total obligations	Total expenditures	Program income for activity	Initial inspection not documented	Work writeup not documented	Review of cost reasonableness not documented	NSP agreement not in file	Ineligible amount	Unsupported amount
1	169 Congress Avenue	\$199,900	\$199,900		X	X	X			\$199,900
2	162 Devonshire Street	\$42,840	\$42,840		X	X	X	X	\$42,840	
3	51 Hyat Street	\$75,000	\$75,000	\$64,000	X	X	X			\$11,000
4	102 Mitchell Street	\$150,000	\$150,000	\$100,000	X	X	X			\$50,000
5	31 Mawney Street	\$90,000	\$90,000		X	X	X			\$90,000
6	39 Burnside Street	\$67,000	\$67,000		X	X	X	X	\$67,000	
7	118 Potters Avenue	\$75,000	\$75,000		X	X	X			\$75,000
8	110 Ford Street	\$196,440	\$196,440	\$109,800	X	X	X			\$86,640
9	14 Lilian Avenue	\$52,000	\$52,000		X	X	X			\$52,000
10	42 Violet Street	\$56,000	\$56,000		X	X	X			\$56,000

¹³ All of the properties are located in Providence, RI.

	Activity address ¹³	Total obligations	Total expenditures	Program income for activity	Initial inspection not documented	Work writeup not documented	Review of cost reasonableness not documented	NSP agreement not in file	Ineligible amount	Unsupported amount
11	63 Candace Street	\$75,000	\$75,000		X	X	X			\$75,000
12	25 Lillian Avenue	\$100,000	\$100,000		X	X	X			\$100,000
13	93 Goddard Street	\$199,000	\$199,000	\$125,000	X	X	X			\$74,000
14	162 Porter Street	\$80,000	\$80,000		X	X	X			\$80,000
15	37 Stillwater Avenue	\$49,400	\$49,400		X	X	X			\$49,400
16	90 Cumerford Street	\$30,700	\$30,700		X	X	X			\$30,700
17	41 Whitmarsh Street ¹⁴	\$10,000	\$10,000		X	X	X			\$10,000
18	19 Mt. Vernon Street	\$40,950	\$40,950		X	X	X	X	\$40,950	
19	10 Tobey Street	\$65,000	\$65,000		X	X	X	X	\$65,000	
	Totals	\$1,654,230	\$1,654,230	\$398,800	19	19	19	4	\$215,790	\$1,039,640

¹⁴ The City was not able to locate this file.