



Neighborhood Housing Services of South Florida, Miami, FL

Neighborhood Stabilization Program 2

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2017-AT-1004
May 8, 2017**



To: Ann D. Chavis, Office of Community Planning and Development, Miami Field Office, 4DD

From: //signed//
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: Neighborhood Housing Services of South Florida, Miami, FL Did Not Ensure That NSP2 Funds Were Used for Eligible Purposes and Sufficiently Supported

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 Miami-Dade NSP Consortium's administration of the Neighborhood Stabilization Program 2, particularly whether the use of grant funds by two consortium members, Neighborhood Housing Services of South Florida and the Urban League of Greater Miami, were eligible and sufficiently supported.

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 website. 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 404-331-3369.



Audit Report Number: 2017-AT-1004

Date: May 8, 2017

Neighborhood Housing Services of South Florida, Miami, FL Did Not Ensure That NSP2 Funds Were Used for Eligible Purposes and Sufficiently Supported

Highlights

What We Audited and Why

The U.S. Department of Housing and Urban Development (HUD) awarded the Miami-Dade NSP Consortium more than \$89.3 million in Neighborhood Stabilization Program (NSP) 2 funds. We audited two of the consortium members, Neighborhood Housing Services of South Florida, the lead member, and the Urban League of Greater Miami, in accordance with our annual audit plan. The audit objective was to determine whether the two members used NSP2 funds for eligible activities in compliance with HUD requirements and whether the use of the funds was sufficiently supported.

What We Found

Neighborhood Housing Services did not ensure that some NSP2 funds were used for an eligible purpose and properly supported. Specifically, it drew down \$59,523 in NSP2 funds to reimburse payments on a loan used to acquire a piece of land before the NSP2 grant was executed and for a cost item that was not an NSP2-funded activity. In addition, it lacked documentation to justify payroll costs or that purchases of materials and supplies were made. This condition occurred because Neighborhood Housing Services was not aware that HUD did not allow NSP2 funds to be used to retroactively pay for acquisition costs. It also did not adequately manage its resources to ensure that sufficient documentation was maintained. As a result, it charged \$59,523 in unallowable costs and \$228,037 in insufficiently supported costs to NSP2.

Our review of select transactions and events administered by the Urban League disclosed no reportable conditions.

What We Recommend

We recommend that the Director of the Miami HUD Office of Community Planning and Development require Neighborhood Housing Services to (1) reimburse NSP2 \$59,523 for ineligible disbursements from non-Federal funds; (2) provide documentation to support that \$224,868 in NSP2 funds drawn down from four vouchers was eligible or repay the program from non-Federal funds; and (3) provide documentation to support that the differences resulting from the payroll costs for three vouchers, which netted \$3,169, were offset in later drawdown vouchers or repay the program from non-Federal funds.

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Background and Objective

In 2008, Congress appropriated funds for neighborhood stabilization. In 2009, Congress appropriated additional neighborhood stabilization funds under the American Recovery and Reinvestment Act. This grant, referred to as the Neighborhood Stabilization Program (NSP) 2, was used to stabilize neighborhoods, the viability of which had been and continued to be damaged by the economic effects of properties that had been foreclosed upon and abandoned. NSP funds may be used to (1) establish financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties; (2) purchase and rehabilitate abandoned or foreclosed homes and residential properties; establish land banks for foreclosed homes; demolish blighted structures; and redevelop demolished or vacant properties. The U.S. Department of Housing and Urban Development (HUD) competitively awarded NSP2 funds to eligible applicants, which included States, units of general local government, nonprofits, and consortia of nonprofits. A consortium is defined as two or more private or public nonprofit organizations that collectively have the capacity and experience to carry out the proposed NSP2 activities in the target area.

In February 2010, HUD executed a grant agreement for more than \$89.3 million in NSP2 funds with Neighborhood Housing Services of South Florida as the lead member of the Miami-Dade NSP Consortium. The lead member was authorized to act as a representative of the consortium members and assume overall responsibility for ensuring that the consortium's NSP2 program was carried out in compliance with program requirements. The consortium is made up of six other members, one of which is the Urban League of Greater Miami. The 2009 Recovery Act required grantees to expend at least 50 percent of allocated funds within two years of the date funds become available for obligation, and 100 percent of the funds within three years. HUD's 2014 monitoring report of the consortium indicated that both expenditure deadline dates were met by the required time frame. The entire award amount had been disbursed.

Neighborhood Housing Services is a nonprofit organization, the mission of which is to collaborate with residents and other stakeholders to stabilize neighborhoods and develop sustainable housing. To that end, it is committed to educating consumers in their housing choices, offering residents access to appropriate financial products for buying and maintaining their homes, and providing homeowners with environmentally safe and affordable housing. Neighborhood Housing Services used NSP2 funds for administration costs and three activities, one of which had been canceled, totaling more than \$11.3 million. One activity entailed the acquisition and rehabilitation of scattered-site single-family properties for resale to income-eligible individuals and households. The other activity entailed the construction of new single-family houses in a subdivision for sale to income-eligible individuals and households.

The Urban League of Greater Miami is a nonprofit community service agency that provides services in the community in the areas of employment, childcare, senior citizen services, housing, economic development, training, community service, political advocacy, and education. New Urban Development, LLC, the housing development affiliate of the Urban League, was our point of contact during the review. The Urban League used NSP2 funds for administration costs and the redevelopment of five properties totaling more than \$21.9 million.

The audit objective was to determine whether the Miami-Dade NSP Consortium administered its NSP2 in accordance with HUD requirements. Specifically, we focused on determining whether the use of grant funds by consortium members, Neighborhood Housing Services and the Urban League, were eligible and sufficiently supported.

Results of Audit

Finding: Neighborhood Housing Services Did Not Ensure That Some NSP2 Funds Were Eligible and Properly Supported

Neighborhood Housing Services did not ensure that NSP2 funds were used for an eligible purpose and were sufficiently supported in compliance with HUD requirements. Specifically, it drew down \$59,523 in NSP2 funds to reimburse payments on a loan that was used to acquire a piece of land before the NSP2 grant was executed and for a cost item that was not an NSP2-funded activity. In addition, Neighborhood Housing Services lacked documentation to justify payroll costs or that purchases of materials and supplies were made. This condition occurred because Neighborhood Housing Services was not aware that HUD did not allow NSP2 funds to be used to retroactively pay for acquisition costs. It also did not adequately manage its resources to ensure that sufficient documentation was maintained. The lack of knowledge of NSP policy and inadequate resource management resulted in \$59,523 in unallowable costs that did not achieve program purposes and \$228,037 in insufficiently supported costs, for which HUD had no assurance that the costs achieved program purposes.

Use of NSP2 Funds Not Eligible

Neighborhood Housing Services drew down \$59,508 in NSP2 funds to reimburse loan payments. The loan was used to acquire a piece of land, which Neighborhood Housing Services later used to build 27 new single-family houses with NSP2 funds for sale to income-eligible individuals and households. Four of the fourteen drawdown vouchers reviewed related to this loan repayment.

Our review of NSP policies and communications with HUD revealed that Neighborhood Housing Services' use of NSP2 funds to reimburse the loan payments was not eligible as the NSP2 grant award came after the acquisition of the land. Although the mortgage was executed in December 2007, the NSP2 grant agreement was executed in February 2010. In essence, Neighborhood Housing Services used NSP2 funds to make payments on a loan used to acquire the land for a project that was not yet an NSP2-funded project. It believed that once financing on the project was in place and the construction began, previous cost items, such as the acquisition cost, became development costs and could be reimbursed with NSP2 funds.

Neighborhood Housing Services was not aware that HUD did not allow NSP2 funds to be used to retroactively pay for the acquisition cost. HUD's policy (see NSP FAQ (frequently asked questions) ID 776) states that retroactive reimbursement for property acquisition is not an eligible use and NSP funds cannot be used to pay property acquisition costs. The grantee may recover the cost of acquisition at sale or refinancing. HUD officials agreed with this position. Thus, the drawdown from the four vouchers for reimbursement on the loan payments totaling \$59,508 was not allowable.

In addition, one of the vouchers included a \$15 cost item for a canceled Neighborhood Housing Services NSP2 activity. Since the activity was canceled at the time the cost was incurred, the amount was not eligible.

By using NSP2 funds contrary to regulations, \$59,523 (\$59,508 + \$15) was not available to assist in benefiting eligible aspects of the program. Table 1 below details the unallowable costs for the five vouchers.

Table 1

#	Voucher	Voucher submit date	Voucher drawdown amount	Unallowable cost
1	204500	10/18/2012	\$12,148	\$12,148
2	204993	10/22/2012	203,720	15
3	210859	12/18/2012	11,578	11,577
4	215661	02/01/2013	57,424	11,928
5	223180	04/03/2013	151,946	23,855
Totals				59,523

NSP2 Funds Not Sufficiently Supported

Neighborhood Housing Services did not maintain documentation to sufficiently support some of the disbursements in 6 of the 14 vouchers reviewed. Specifically, the voucher packages did not contain invoices or written explanations to support the payroll amount, travel expenses, or that purchases of appliances or supplies were made. The net unsupported costs for the six drawdown vouchers totaled \$228,037. See table 2.

Table 2

#	Voucher	Voucher submit date	Voucher drawdown amount	Cost with inadequate documentation		
				<i>Missing documents</i>	<i>Payroll: actual vs. estimated</i>	<i>Total</i>
1	126262	06/08/2010	\$148,930	\$18,351		\$18,351
2	161476	07/08/2011	97,454	44,125	\$6,540	50,665
3	204993	10/22/2012	203,720	159,104		159,104
4	205583	10/26/2012	43,003		4,428	4,428
5	215661	02/01/2013	57,424		(7,799)	(7,799)
6	223180	04/03/2013	151,946	3,288		3,288
Totals				224,868	3,169	228,037

Below are examples of two vouchers.

- Drawdown voucher 204993 consisted of cost items for the construction of new single-family houses. The documentation contained purchase orders and requests for payment for appliances, materials for interior framing packages, and roofing supplies. However, the voucher package did not also contain documentation to support that the materials were purchased and paid for. The purchase orders and requests covered \$158,941 in material costs. Another payment for \$163 had no corresponding invoice to determine what the payment was for. The lack of documentation resulted in \$159,104 (\$158,941 + \$163) in insufficiently supported costs.
- Drawdown voucher 205583 for \$43,003 was based on an estimated payroll amount for the pay period ending October 26, 2012. Although estimated, the voucher package contained documentation summarizing and supporting the actual payroll costs for the pay period and other administrative costs. The payroll and other invoices in the package supported total actual costs of \$39,790. According to the voucher document, the drawdown amount subtracted \$1,215, which was notated as an amount due to HUD from an earlier pay period. Thus the amount to be requested for drawdown should have been \$38,575 (\$39,790 – \$1,215). Since Neighborhood Housing Services drew down \$43,003 but the voucher package supported the actual amount of \$38,575, a \$4,428 (\$43,003 – \$38,575) overpayment occurred. Therefore, Neighborhood Housing Services did not support that \$4,428 was eligible for NSP2.

Of the 14 vouchers reviewed, 5 were drawdowns for administration costs, and all 5 included drawdowns for payroll costs. Three of the five vouchers, or 60 percent, consisted of drawdowns based on estimated payroll costs resulting in differences with the actual payroll amounts. According to the drawdown voucher report from HUD's Disaster Recovery Grant Reporting system,¹ Neighborhood Housing Services drew down 207 vouchers for administration costs. Because it provided no documentation to evidence that the resulting differences for the three vouchers were later offset and there were 202 (207 – 5) other drawdown vouchers related to administration costs, additional differences could exist that would require a reconciliation of the drawdown of NSP2 funds for payroll costs to the actual payroll amount to ensure the appropriate use of program funds.

HUD regulations at 24 CFR 84.21(b)(2) state that a recipient's financial management system must provide for records that adequately identify the source and application of funds for federally sponsored activities. These records are to contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest. Yet Neighborhood Housing Services did not adequately manage its resources and tools to ensure that it maintained sufficient documentation to support the use of the NSP2 funds. With the lack

¹ Grantees use the Disaster Recovery Grant Reporting system to access grant funds and report performance accomplishments for grant-funded activities to HUD. HUD also uses the system to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

of documentation to support the disbursements, HUD had no assurance that Neighborhood Housing Services used \$228,037 in NSP2 funds to achieve the program's purpose.

Conclusion

Neighborhood Housing Services did not ensure that some NSP2 funds were used for eligible purposes and sufficiently supported. Specifically, it drew down \$59,523 in NSP2 funds for reimbursement of loan payments used to acquire a piece of land before the NSP2 grant was executed and for a cost item that was not an NSP2-funded activity. In addition, it did not sufficiently support NSP2 disbursements of \$228,037. The lack of knowledge of NSP policy and inadequate resource management resulted in unallowable disbursements that did not achieve program purposes and in insufficiently supported disbursements for which HUD had no assurance that the costs achieved program purposes.

Recommendations

We recommend that the Director of the Miami Office of Community Planning and Development require Neighborhood Housing Services to

- 1A. Reimburse NSP2 from non-Federal funds for the \$59,523 in ineligible disbursements on the five vouchers.
- 1B. Provide documentation to support that the \$224,868 in NSP2 funds drawn down from the four vouchers was eligible or repay the program from non-Federal funds.
- 1C. Provide documentation to support that the differences resulting from the payroll costs for the three vouchers, which netted \$3,169, were offset in later drawdown vouchers or repay the program from non-Federal funds.
- 1D. Review all administration drawdown vouchers² and provide documentation to support that the drawdowns for estimated payroll costs are reconciled with the actual payroll costs for the pay periods. Any calculated overpayment by NSP should be returned to the program to meet program purposes.

² HUD's Disaster Recovery Grant Reporting system showed that there were 207 drawdowns under the administration activity code, submitted from June 8, 2010, to July 25, 2014.

Scope and Methodology

Our audit objective was to determine whether the use of grant funds by consortium members, Neighborhood Housing Services and the Urban League, were eligible and sufficiently supported. We performed the following audit work to accomplish the objective:

- reviewed relevant program and HUD requirements;
- reviewed HUD's monitoring reports of the consortium;
- analyzed the drawdown voucher report generated from HUD's Disaster Recovery Grant Reporting system;
- reviewed the consortium's Action Plan and quarterly performance reports;
- reviewed the reports required by Office of Management and Budget Circular A-133 and consolidated financial statements;
- reviewed the compliance reports on the two consortium members;
- interviewed officials from Neighborhood Housing Services and the Urban League to understand the processes followed by staff to administer the NSP2 grant and to obtain explanations and clarifications during the audit work; and
- communicated with HUD officials to obtain their position on certain events and discuss audit results.

The audit period was January 1, 2010, through May 31, 2015, which covered the period from when HUD approved the NSP2 grant to the consortium to the date of the last drawdown transaction listed in the consortium's drawdown voucher report. We conducted the audit fieldwork mainly from September 2016 to February 2017 at the Miami HUD field office and also performed interviews at the offices of Neighborhood Housing Services and the Urban League, both located in Miami, FL.

Neighborhood Housing Services

The drawdown report from HUD's Disaster Recovery Grant Reporting system showed that Neighborhood Housing Services drew down \$11,397,301 in program funds and was approved \$1,673,400 in program income, for a total of \$13,070,701. The total came from 776 vouchers, 660 for program funds and 116 for program income. We did not review 100 percent of the drawdown vouchers and did not use statistical sampling. We selected for review 12 drawdown vouchers to determine whether the use of NSP2 funds was eligible and sufficiently supported. Neighborhood Housing Services used NSP2 funds for administration costs and 2 activities, each represented by different activity codes in HUD's reporting system. The 12 vouchers included 5 from the activity code for administration, 5 from the activity code used to construct the new single-family homes, and 2 from the activity code used to purchase and rehabilitate single-family houses. More vouchers were selected from the first two activities because of concerns raised in

the Single Audit report and an accounting assessment report performed by a hired consultant. The vouchers from the activity codes were then selected based on their high dollar amount for the activity code or time period. The 12 vouchers selected totaled \$1,332,223 or 10.2 percent of the total NSP2 funds drawn down and approved for the consortium member (\$1,332,223 ÷ \$13,070,701). During our review of the loan payments, two additional vouchers used to reimburse the loan payments were identified and included in the review. The review of the 14 vouchers resulted in 2 deficiencies as detailed in the finding.

The results from the review of the drawdown vouchers and the corresponding supporting documentation reflect only the vouchers reviewed and will not be projected to the universe of vouchers for the program funds drawn down and program income approved. The questioned costs were based on the review of the documentation provided for the vouchers. Thus, it was not necessary to test the reliability of computer-processed data.

Urban League

Our review of the compliance reports and consolidated financial statements identified certain issues that we evaluated further. We evaluated for eligibility (1) the use of NSP2 funds for a bridge loan on the construction of one of its projects (ULG007-ULG007A) and determined whether the Urban League repaid the loan and (2) the use of NSP2 funds to set up and pay off a prior construction lien on one of its other projects (ULG002-ULG002A and ULG008-ULG008A). We also determined whether the \$520,932 spent by the attorney who worked with the Urban League was from NSP2 funds and if so, whether the funds were repaid. To make our assessments, we interviewed officials from Neighborhood Housing Services and the Urban League, obtained and reviewed pertinent documentation, and discussed the issues with HUD. In addition, we reviewed the corresponding drawdown voucher packages to determine whether the related disbursements were sufficiently supported. The review of the select transactions and events resulted in no reportable conditions.

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 findings and conclusions 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 program operations – Controls over program operations include policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Relevance and reliability of information – Controls over the relevance and reliability of information include policies and procedures that the audited entity has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Controls over compliance include policies and procedures that the audited entity has implemented to reasonably ensure that program implementation is in accordance with provisions of laws, regulations, contracts, and grant agreements.
- Safeguarding of assets – Controls over the safeguarding of assets and resources include policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- Neighborhood Housing Services inappropriately drew down NSP2 funds to reimburse loan payments and did not adequately manage its resources, thereby resulting in a lack of documentation to sufficiently support some of the NSP2 disbursements (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$59,523	
1B		\$224,868
1C		3,169
Totals	59,523	228,037

- 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.


Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



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April 28, 2017

Nikita N. Irons, Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
Office of Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Re: Neighborhood Housing Services of South Florida, Miami, FL
Audit Report of Miami-Dade NSP Consortium's Administration of its NSP2 Grant

Dear Ms. Irons:

We have reviewed the draft of the Audit Report that you have sent to us concerning the referenced HUD NSP2 Grant that we administered as Grantee. You requested our written comments to be forwarded to you electronically. This letter serves as our response.



In the "Highlights" in the Audit, your Office is recommending that the Director of the Miami HUD Office of Community Planning & Development require Neighborhood Housing Services to do three things, detailed below:

(1) Reimburse NSP2 \$59,523 for ineligible disbursements from non-Federal funds.

In the "Results of Audit" on Page 5 of the Audit Report, under "Use of NSP2 Funds Not-Eligible", your Office details our use of NSP2 funds to reimburse ourselves for payments made on a land loan, originated before the Grant Award, which is an ineligible use, supplying us a copy of a Question & Answer in HUD Exchange. For clarity, I supply it below, then, break it up into pieces.

HUD Exchange Q&A, #776: "If a developer owns a vacant property that was acquired with non-Federal funds prior to applying for NSP funds, can NSP funds be used to repay the acquisition loan and/or the construction of this project?"

At first reading, it would appear that, if we made such payments, those reimbursements would be ineligible. But in re-reading it, it is really two Questions, one about repaying an acquisition loan, and another about using funds for construction.



Miami-Dade: 300 NW 12th Avenue • Miami, FL 33128 • Tel: 305-751-5511
Broward: 2880 W Oakland Park Blvd, Suite 115 • Fort Lauderdale, FL 33311 • Tel: 954-564-4037

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

The Answer, in quotes, addresses those two questions separately, adding a third point.

- 1) "Retroactive reimbursement for property acquisition is not an eligible use and NSP funds cannot be used to pay for the cost of the acquisition of the property." (We agree.)
- 2) "NSP funds can, however, be used for the cost of new construction under Eligible Use E - Redevelopment, if it is located in a target area. (We agree.)
- 3) The grantee or sub-recipient may recover the costs of acquisition at sale or refinancing. (We agree.)

In accordance with those Answers:

- 1) NHS did not use NSP funds for retroactive reimbursement of any principal or interest payments prior to the start of construction.
- 2) Once construction began, the FCLF loan became part of the Sources, that is, the loan provided the financing on the land needed to build the houses. Only then, did we begin to pay the contractual monthly principal and interest payments, going forward, not retroactively.
- 3) Finally, when the houses were sold, we paid Florida Community Loan Fund the stipulated release amounts in the mortgage documents for each house sold.

In other words, we did not violate NSP regulations in making those contractual payments. If we hadn't made the payments, the lender could have foreclosed during construction. Therefore, we can affirm that we did not use NSP fund for 'Retroactive Reimbursements' of payments made to FCLF before we began building houses. We respectfully request that this section of the Draft Audit Report be deleted.

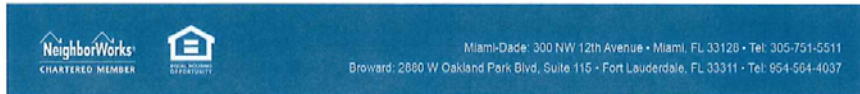
The next recommendation in the Audit Report:

- (2) Provide documentation to support that \$224,868 in NSP2 funds drawn down from four vouchers were eligible for reimbursement, or, alternatively, repay the Program from non-Federal funds.

In response, first, we must say that your Office and its two representatives, [REDACTED], Senior Auditor, and her associate, [REDACTED], who assisted from time to time, were very understanding of our task of providing the numerous documents needed for their review.

Some context on our efforts to supply documents: As the Lead Member of an NSP2 Consortium of six non-profits and one municipality, to date, we have processed over 3,000 draws, advancing just short of \$100,000,000 on an \$89,375,000 Grant, continuing to recycle Program Income back into projects.

Comment 2



**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

During the Grant Period and subsequently, we have monitored to date 24 multi-family projects, and over 100 single-family homes in rehab or being constructed. We have already passed our Grant Goal of producing 1,255 affordable housing units, which will grow to over 1,500 with units in production.

By 4/1/2013, two months after the Grant Expiration, we had exhausted our Program Administration funds. Since then, Neighborhood Housing Services has had to cover Program Administration Costs (PAC) from its own resources. Our staff dedicated to the Grant is now down to two part time independent contractors, whose time is paid from other operating funds.

With that context, we have continued to do research to fully support the expenditures that are not fully documented. Since receiving the draft of the Audit Report, we are concentrating on Voucher # 204993 in the amount of \$203,720 of which \$159,104 was noted as not fully documented yet. When one of our two independent contractors, who administered over one billion dollars in construction draws for a major bank, reviewed the Voucher, she noted that the vast number of ineligible draws were for payments to a nationally-known hardware chain, based on Purchase Orders, not Invoices, contrary to HUD protocol. She said that such payments were common in the construction lending world. We are further reviewing that.

We understand that the Audit has taken longer than anticipated. The Office's Recommendation to the Miami Office is to request that we repay the Program from non-Federal funds on any unresolved payments. In a power outage last year we lost some data in one of our software systems that holds NSP2 records. We are looking for alternate sources of this data. Because of this, and because we do not have any accounting staff remaining on our staff who worked on NSP2, and because we have only two part time independent contractors working on this document search, we need additional time to fully document this Voucher and the other three Vouchers 126262 (\$18,351), 161476 (\$44,125), 223180 (\$3,288) from 4.5 years ago.

The last recommendation in the Audit:

Comment 3

(3) Provide documentation to support that the differences resulting from the payroll costs for three vouchers, which netted \$3,169, were offset in later drawdown vouchers, or repay the Program from non-Federal funds.

Between normal turnover, and down-sizing of staff after the Grant Expiry, only one person, presently in our Accounting Department, was employed during the Grant Period. She was a bookkeeper, now a junior accountant, who was not involved in the Grant's accounting work. During the Audit, it was difficult for the existing staff to backtrack on the methodology used for the payroll reimbursements. Recognizing this impediment, we have decided to reimburse the Program the \$3,169.

Comment 4

Having responded to the three recommendations, we want to thank the Office for its work in evaluating the Program, realizing the complexities of the assignment. We remain available in this middle ground between Grant Expiry and Grant Closeout. HUD Miami has provided the resources of two consultants to help us with the Closeout, which we have found valuable.



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Ref to OIG Evaluation

Auditee Comments

In closing, we reiterate that we do not have funding for any Program Administration Costs, unlike municipalities that get 20% of HUD funds to cover their ongoing administrative cost. This has to be a problem for other NSP2 Consortium Grantees across the country, and must be kept in mind in the drafting of this report.

Sincerely,



Arden Shank
President & CEO

CC: Ann Chavis, HUD Miami, CPD Director
[REDACTED] HUD OIG, Senior Auditor
Peter McDougal, NHSSF Independent Contractor for NSP2



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OIG Evaluation of Auditee Comments

Comment 1 Neighborhood Housing Services disagreed with HUD OIG's conclusion that its use of NSP2 funds for reimbursement of the loan payments was not allowable. It stated that it did not use NSP funds for retroactive reimbursement of principal and interest payment before the start of construction on the houses. Neighborhood Housing Services reasoned that when construction began, the acquisition loan became part of the sources of funds used to finance the land on which to build the houses and only after construction began did it make the loan payments with NSP funds. In addition, Neighborhood Housing Services stated that if loan payments were not made, the lender could have foreclosed during construction. Given the rationale, it requested that this issue of concern be removed from the audit report.

In accordance with HUD's directive, our position remains that Neighborhood Housing Services' use of the NSP2 funds to repay the acquisition loan was not an allowable cost to the program. In the FAQ ID 776, HUD stated that NSP funds cannot be used to pay for the cost of the acquisition of the property when the property was acquired before applying for NSP funds. In this case, Neighborhood Housing Services used NSP2 funds to make principal and interest payments on a loan used to acquire the property before it applied for the NSP2 funding. The property was acquired through mortgage financing from the lender in December 2007. Neighborhood Housing Services applied for the NSP2 grant in July 2009 and HUD executed the grant agreement in February 2010. As the NSP funds were expended to repay the loan used to acquire the property before NSP funds were applied for, the use is not allowable regardless of when NSP funds were used to make the repayments (i.e., after construction began). Therefore, recommendation 1A remains unchanged.

Comment 2 Neighborhood Housing Services provided context in supplying the documentation. As the lead member of the consortium, it indicated that it had processed over 3,000 drawdown vouchers, totaling almost \$100 million (\$89,375,000 grant plus program income) and monitored 24 multifamily projects and more than 100 single-family houses in rehab or construction. By April 2013, Neighborhood Housing Services had exhausted its program administration funds, and had been paying the two part-time independent contractors dedicated to the grant from other operating funds. Within that context, it explained that it is continuing its research to fully support the expenditures from the drawdown vouchers that are not adequately supported. Specifically, for voucher 204993, one of its independent contractors noted that most of the \$159,104 in unsupported expenditures were based on purchase orders and said that such payments were common in the construction lending industry. In addition, Neighborhood Housing Services explained that in a power outage last year, it lost one of its software systems that held NSP2 records. It is looking for alternate sources of this NSP2 data. Because of this, the lack of accounting staff who worked on the grant and having only two part-time independent contractors working on the research, it

stated that additional time is needed to obtain documentation to sufficiently support vouchers 126262, 161476, 204993, and 223180.

We recognize Neighborhood Housing Services' efforts in administering the grant responsibilities as the lead member and acknowledge its cooperation in providing requested documentation during the audit. In December 2016, we requested explanation or documentation to support the cost items for several of the vouchers selected for review. In February 2017, we provided the list of vouchers with outstanding items needing sufficient support, which included the four vouchers listed. For voucher 204993, the drawdown package contained purchase orders and payment requests for appliances, materials for interior framing packages, and roofing supplies. By itself, the purchase orders and payment requests are insufficient to support that the materials were purchased and paid for. Therefore, to resolve recommendation 1B, Neighborhood Housing Services will be required to provide documentation to adequately support the questioned costs for the four vouchers, or to repay the program from non-Federal funds for those cost items without sufficient support.

Comment 3 Neighborhood Housing Services stated that they will reimburse the NSP2 program the \$3,169. The decision was based on the existing staff's lack of knowledge on the grant's accounting to be able to backtrack on the methodology used for payroll reimbursements.

Neighborhood Housing Services' reimbursement of the \$3,169 from non-Federal funds to the program will resolve recommendation 1C.

Comment 4 Neighborhood Housing Services did not address recommendation 1D in its response. It should work with HUD during the audit resolution process to resolve the recommendation.