



The City of Inglewood, CA

HOME Investment Partnerships Program



Issue Date: December 6, 2012

Audit Report Number: 2013-LA-1001

TO: William Vasquez, Director, Los Angeles HUD Office of Community Planning and Development, 9DD

Tanya E. Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: The City of Inglewood, CA, Did Not Administer HOME Investment Partnerships Program Funds in Accordance With HUD Rules and Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the City of Inglewood's HOME Investment Partnerships 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 8L, 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 213-534-2471.



December 6, 2012

The City of Inglewood, CA, Did Not Administer HOME Investment Partnerships Program Funds in Accordance With HUD Rules and Requirements

Highlights

Audit Report 2013-LA-1001

What We Audited and Why

We reviewed the City of Inglewood's HOME Investment Partnerships Program. We initiated the review because of the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Community Planning and Development's expressed concerns about the City's administration of its program funds. Our objective was to determine whether the City complied with HOME rules and requirements for obligations, commitments, expenditures, program income, monitoring, and reporting.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development recapture more than \$2.6 million in uncommitted and unexpended HOME funds. We also recommend that the Director require the City (1) to develop better planning processes to commit and expend program income and funds and (2) establish and implement sufficient internal control policies and procedures to ensure compliance with program rules and requirements. Otherwise, consider revoking the City's status as a participating jurisdiction for HOME funds.

What We Found

The City did not commit or disburse its HOME funds in accordance with HUD rules and requirements. This condition occurred because the city council failed to approve the City's policies and procedures that were needed to ensure that it committed and expended HOME funds before HUD's required deadlines, which resulted in its incurring more than \$2.6 million in unused HOME funds that should have been used to further affordable housing activities.

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BACKGROUND AND OBJECTIVE

The City of Inglewood's HOME Investment Partnerships Program is funded through the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) Division, which is dedicated to implementing programs that meet community development and housing needs. Using a formula-based method, HUD allocates HOME funds to eligible State and local governments to strengthen public-private partnerships to provide more affordable housing. Fifteen percent of these funds must be allocated to designated community housing development organizations. The City uses the remaining 85 percent of the program funds to expand the supply of decent, safe, sanitary, and affordable housing for very low- to moderate-income persons.

From fiscal years 2009 to 2011, HUD allocated more than \$3 million in HOME funds to the City. However, the City had expended only \$246,156, or 8 percent, of those funds on HOME-eligible projects. From fiscal year 2009 to 2011, the City's HOME-funded activities generated \$1,943,705 in program income. HUD requires the City to expend earned program income before using funds on HOME-eligible projects. The City's accumulation, as well as slow expenditure of program income attributed to delays in committing and expending program funds on HOME-eligible projects.

The City attempted to accomplish the objective of providing decent, safe, sanitary, and affordable housing through the implementation of housing programs and projects that provided housing assistance in the form of grants and deferred loans to eligible participants.

HUD allows recipients to use HOME funds for the following activities:

- Program administration,
- New housing construction,
- Housing rehabilitation,
- Home mortgage and purchase assistance, and
- Short-term rental assistance.

As a recipient, the City used HOME funds for the following activities:

- Housing rehabilitation and home improvement programs,
- A tenant-based rental assistance program,
- Community housing development organizations, and
- A first-time home buyer program.

The objective of this review was to determine whether the City complied with HOME rules and requirements for obligations, commitments, expenditures, program income, monitoring, and reporting.

RESULTS OF AUDIT

Finding: The City Did Not Administer Its HOME Funds in Accordance With Applicable HUD Rules and Requirements

The City did not commit and expend HOME funds in accordance with HUD rules and requirements. This condition occurred because the city council failed to approve the necessary policies and procedures to commit and expend program funds before HUD’s required deadlines. As a result, the City had more than \$2.6 million in unused HOME funds that should have been used to further the City’s affordable housing activities.

The City Did Not Commit HOME Funds in Accordance With HUD Requirements

The City did not commit program funds before HUD’s 24-month required deadline. HUD regulations at 24 CFR (Code of Federal Regulations) 92.500(d)(1)(B) required the City to commit program funds to designated eligible activities within 24 months of the agreement date (see appendix C). The City received HOME funds in fiscal years 2008 and 2009 and was required to commit 100 percent of those funds by the end of the respective 24-month period. See the table below for the results of our review of committed funds.

Fiscal year	Total funds authorized	Agreement date	Deadline date when funds must be 100 percent committed	Total funds committed	Percentage of funds committed	Remaining funds not committed as of 8/7/12
2008	\$473,901	10/22/08	10/21/10	\$228,045	48 percent	\$245,856
2009	\$1,266,948	10/28/09	10/27/11	\$126,695	10 percent	\$1,140,253
Total	\$1,740,849			\$354,740		\$1,386,109

As shown above, the City did not commit more than \$1.3 million in program funds before HUD’s 24-month required deadline. Discussions with the City’s CDBG department determined that the City had a few projects to which it had committed HOME funds that were in progress. However, the City stated that there were not enough projects in development to cover the amount of HOME funds authorized through the fiscal years in question and meet its required deadlines.

The City Did Not Expend HOME Funds in Accordance With HUD Requirements

The City did not expend program funds before HUD’s 5-year deadline. HUD regulations at 24 CFR 92.500(d)(1)(C) required the City to expend program funds on eligible program activities within 5 years of the agreement date (see appendix C). The City received HOME funds in fiscal years 2005, 2006, and 2007 and was required to expend 100 percent of those funds by 2010, 2011, and 2012, respectively. See the table below for the results of our review of expended funds.

Fiscal year	Total funds authorized	Agreement date	Deadline date when funds must be 100 percent expended	Amount expended	Percentage of funds expended	Amount not expended
2005	\$1,256,967	9/22/05	9/21/10	\$1,068,422	85%	\$188,545
2006	\$1,184,626	11/21/06	11/20/11	\$1,145,914	97%	\$38,712
2007	\$1,178,116	10/3/07	10/2/12	\$169,789	14%	\$1,008,327
Total	\$3,619,709			\$2,384,125		\$1,235,584

As shown above, the City did not expend more than \$1.2 million in program funds before HUD’s 5-year required deadline, and it did not appear that it would be able to expend its HOME funds by the designated deadline. For example, the City’s CDBG department stated that it planned to commit \$2.5 million of these program funds to its housing rehabilitation program for single-family homes in fiscal years 2011 and 2012. The rehabilitation work was to commence once the city council had reviewed and approved the formal policies and procedures for the program in July 2012. The city council had to approve these policies and procedures before the City could start the program. However, there was no documentation showing that the city council had approved these policies and procedures. As a result, the City could not start the rehabilitation program, further delaying its ability to expend program funds before HUD’s required deadline.

The City’s Slow Expending of Program Income Contributed to It Not Meeting Commitment and Expenditure Requirements

During fiscal years 2007 to 2011, the City accumulated more than \$2.6 million in program income earned from HOME activities. These earned program funds were in addition to its program funding received from HUD. HUD requires recipients of HOME funds to use earned program income before expending program funds. Therefore, the City’s slow expending of earned program income

contributed to its inability to commit and expend program funds before HUD's required deadline.

The City's Inability To Commit and Expend HOME Funds Had Been a Continuing Issue

The City's inability to commit and expend HOME funds in accordance with HUD rules and requirements had been a continuing issue. In fiscal year 2008, HUD's Los Angeles Office of Community Planning and Development conducted an onsite monitoring of the City to ensure that it complied with applicable HUD-specific HOME requirements, regulations, and statutes and to evaluate the City's organizational and project performance. It issued a report expressing concerns about the progress of the City's program. Based on the results of the report, the City was given verbal and written warnings regarding its deadlines for committing and disbursing HOME funds. The Los Angeles Office of Community Planning Development determined that the City's slow-moving projects were the reason for timeliness issues in the area of disbursements. It also stated that the City had not entered older project activities into HUD's Integrated Disbursement and Information System within the required 120 days to indicate final project drawdowns and completions.

In 2010, these issues were further emphasized in a report documenting the HOME technical assistance that the City received to improve its program. HUD's Los Angeles Office of Community Planning Development hired technical assistance consultants to provide assistance to the City in correcting issues related to its program. During the technical assistance, the consultants found that the City reported open project activities in the Integrated Disbursement and Information System. The consultants recommended canceling activities with no draws that had been committed for a year. Additionally, the City continued to exhibit problems with committing and expending HOME funds in accordance with HUD rules and requirements. The technical assistance consultants determined that the City needed to address outstanding project activity commitments and reprogram HOME funds to other activities, which could have provided more effective results.

Both the technical assistance and monitoring were instances in which the City had been advised of its continued practice of not committing and expending HOME funds before HUD's required deadlines. The City's continued inability to follow HUD's rules and requirements underscores the need for HUD to consider revoking the City's status as a participating jurisdiction in keeping with HUD regulations at 24 CFR 92.107.

The City's Grant Management Administrative Policy Was Not Sufficient To Ensure That HOME Program Funds Were Committed and Expended

The City's grant management administrative policy was not sufficient to ensure that HOME funds were committed and expended according to HUD's rules and requirements. The City must comply with these rules and requirements when committing and expending HOME funds. HUD's deadline requirements stated that the City had 24 months to commit HOME funds once the funds were granted to the City. Further, the City had 5 years to expend those HOME funds. Such requirements were not defined in the City's grant policies and procedures. The absence of these requirements resulted in the City's poor planning in committing and expending program funds before HUD's required deadlines. In addition, the absence of written policies and procedures to guide the City in committing and expending HOME funds caused delays in payments for current projects, as well as hindering the initiation of future projects.

Conclusion

The City did not administer its HOME funds in accordance with applicable HUD rules and requirements. We attributed this deficiency to the city council's failure to approve the City's policies and procedures needed to commit or expend HOME funds according to HUD's rules and requirements. Also, the City lacked sufficient grant policies and procedures to ensure that HOME funds were committed and expended in accordance with HUD's required deadlines. This deficiency resulted in the City's incurring more than \$2.6 million in HOME funds (\$1.3 million uncommitted and \$1.2 million unexpended) that went unused and should have been used to further the City's affordable housing activities.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development:

- 1A. Recapture the \$2,621,693 in uncommitted and unexpended HOME funds and return these funds to the HOME Investment Trust Fund United States Treasury account. Once in the HOME Investment Trust Fund United States Treasury account, HUD could allocate these funds to other eligible grantees for use towards eligible HOME activities, thereby putting these funds to better use.

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to:

- 1B. Develop better planning processes to ensure that it can commit and expend its program income and program funds toward eligible activities before the required deadlines.
- 1C. Establish and implement sufficient internal control policies and procedures to ensure that HOME funds are committed and expended in accordance with HUD rules and requirements.

If the City fails to successfully implement recommendations 1B and 1C, we recommend that the Director of HUD's Los Angeles Office of Community Planning and Development:

- 1D. Consider revoking the City's status as a participating jurisdiction for HOME funds pursuant to 24 CFR 92.107.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the City's main office in Inglewood, CA, from May 3 to September 25, 2012. Our review generally covered the period October 1, 2009, to April 30, 2012, and was expanded to other periods as necessary.

To accomplish the review objective, we:

- Conducted interviews with pertinent City personnel involved with the administration of HOME funds and HUD Office of Community Planning and Development program staff;
- Reviewed Integrated Disbursement and Information System PR performance reports provided by HUD;
- Reviewed supporting documentation for payments made on voucher and activity expenditures;
- Reviewed City monitoring reports, HOME funding agreements, consolidated action plans, and consolidated annual performance and evaluation reports;
- Reviewed the City's grant management administrative policies and procedures;
- Reviewed the City's internal control policies and procedures, as well as accounting records;
- Reviewed community housing development organization policies and procedures;
- Reviewed program income attributable to HOME funds;
- Reviewed documentation related to the City's HOME-funded projects;
- Reviewed the City's organizational charts;
- Reviewed the City's audited financial statements for fiscal years 2009 and 2010; and
- Reviewed applicable CFR references and Office of Management and Budget requirements and regulations.

We selected and tested a nonstatistical, representative sample of program vouchers for completeness and eligibility. We based our universe and sample on documentation provided by HUD. As a result, we did not assess the data reliability of the City's computer-processed data in determining our universe or sample. Our methodology for sample testing included choosing vouchers with the largest total amount for each fiscal year in our audit period, October 1, 2009, to April 30, 2012. We chose and tested four vouchers from a sample universe of 36 program

vouchers totaling more than \$10.6 million from fiscal years 2009 to 2011 from an Integrated Disbursement and Information System report provided by HUD's Los Angeles Office of Community Planning and Development. Due to the small universe, we sampled just under \$5.2 million, or 49 percent (\$5,196,290/\$10,600,975), of the total universe of funds used for HOME activities.

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 - Implementation of policies and procedures to provide reasonable assurance that HOME funds were committed and expended in accordance with applicable HUD rules and requirements;
- Reliability of financial information - Implementation of policies and procedures to reasonably ensure that relevant and reliable financial information was obtained to adequately support program expenditures; and
- Compliance with applicable laws and regulations - Implementation of policies and procedures to ensure that program activities were in accordance with applicable HUD rules and requirements.

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:

- The City lacked sufficient grant management administrative policies, procedures, and planning processes to ensure that HOME funds were committed and expended in accordance with HUD rules and requirements (finding).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$2,621,693

- 1/ 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, the funds to be put to better use totaled \$2,621,693 in HOME funds (\$1,386,109 uncommitted and \$1,235,584 unexpended) that should have been used to further the City's affordable housing activities.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Artie Fields
CITY MANAGER

November 13, 2012

Ms. Tanya E. Schulze
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General – Region 9
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017

Subject: Response to Draft Audit Report Number: 2013-LA-10XX

Dear Ms. Schulze:



Comment 1

Thank you for the opportunity to meet with you and your staff to discuss the results of your office's audit report. The draft OIG Audit Report indicates a finding that the City of Inglewood did not administer its HOME Funds in accordance with applicable HUD rules and requirements. Specifically, the audit report states that from fiscal years 2008 to 2011, HUD allocated more than \$3 million in HOME funds to the City; however, the City had expended only \$246,156, or 8 percent, of those funds on HOME-eligible projects during this period.

Comment 2

Having begun my employ with the City of Inglewood in July 2011, I found it extremely shocking to be advised of the situation affecting the City's HOME Investment Partnerships Act (HOME) Program funding and the threat to the City's status as a HOME Participating Jurisdiction. It was one of my highest priorities to rectify this troubling situation. In the City's defense, it is important to note the City's overall political atmosphere, as well as the situation governing the City's executive and administrative management during the time frame under review by HUD/OIG.

Comment 3

In fiscal year 2007, the former Mayor and Council Members of the City of Inglewood allocated HOME funds in the amount of \$6.8 million to build 58 units of senior citizen resident housing, in conjunction with the construction of a senior center facility. The addition of the housing component to the senior center project became a severely contested issue within the City Council. The cost to construct the facility expanded to the point where it became necessary for the City to secure multiple sources of financing to complete the project, while continuing to direct staff to maintain the HOME funding committed to the housing portion of the project.

Comment 4

Several issues arose which caused chaos within the City, effectively paralyzed the staff and preventing effective decision-making to occur that would result in HOME funds being expended to produce and maintain affordable housing. First, the housing project became a hotly contested political issue on the City Council. Then, in February 2009, the Community Development Director, under whose direction the CDBG Division was accountable, left the City and was not

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replaced. In November 2009, the Finance Director left the City and was not replaced, resulting in no financial oversight and accountability for HOME Program Income and expenditures. In January 2010, the former Mayor resigned, leaving a vacancy which caused political friction and difficult decision-making until January 2011. In March 2010, the City Administrator resigned and was not replaced with a permanent City Manager until July 2011. Additionally, the city suffered a severe financial crisis due to the economic downturn resulting in a workforce reduction of over 100 employees.

Comment 5

In August 2010, the City Council cancelled the residential component of the senior housing project and in April 2011 the City remitted repayment of \$2.1 million to HUD for HOME funds expended on the project predevelopment phase. In July 2011, the City was able to re-allocate, commit and expend the remaining \$4 million to 24 new construction HOME-assisted units in the Regent Square Apartments located at 527 West Regent Street, Inglewood. Construction is scheduled to be completed on the units in spring, 2013.

Comment 6

With the recent stability achieved in the political and executive management of the City, Inglewood is experiencing a positive turnaround in the management and administration of the HOME Program. A new Mayor was elected in January 2011 and the City Council has reached its full capacity. Additionally, the City recently hired an experienced Assistant City Manager/Chief Financial Officer to provide direction in establishing appropriate administrative policies, financial controls and grants management procedures designed to comply with applicable HUD regulations.

Comment 7

Upon review of the final OIG Audit Report and issuance of corrective actions from the HUD Los Angeles Office of Community Planning and Development, the City shall provide specific documentation evidencing implementation strategies to improve the City's administration of the HOME Investment Partnerships Act (HOME) Program. Responses to the draft audit report are attached as Exhibit A.

Comment 8

Again, I thank you for the time to discuss the situation and circumstances surrounding the events leading to the findings of your report and the opportunity for the City of Inglewood to offer additional information that, hopefully, will provide a broader view of the City's efforts to correct errors. Should there be any questions, please contact my office at (310) 412-5301.

Sincerely,



Artie Fields
City Manager

Cc: William Vasquez, Director, Los Angeles HUD Office of Community Planning and Development, 9DD
Robert Ilumin, Deputy Director, Los Angeles HUD Office of Community Planning and Development, 9DD
Rufus Washington, Program Manager, Los Angeles HUD Office of Community Planning and Development, 9DDM2

Develyn Rhodes-Johnson, Financial Analyst/Community Planning and Development
Representative, Los Angeles HUD Office of Community Planning and Development,
9DDM3
David L. Esparza, Assistant City Manager/Chief Financial Officer, City of Inglewood
Pamela Thigpen, Grants Manager, City of Inglewood

EXHIBIT A

CITY OF INGLEWOOD COMMENTS TO DRAFT OIG AUDIT REPORT

OIG Comment 1A:

Recapture the \$2,621,693 in uncommitted and unexpended HOME funds and return these funds to the HOME Investment Trust Fund United States Treasury account. Once in the HOME Investment Trust Fund United States Treasury account, HUD could allocate these funds to other eligible grantees for use towards eligible HOME activities, thereby putting these funds to better use.

Comment 9

City of Inglewood Response:

It is requested that HUD not recapture the \$2,621,693 in uncommitted and unexpended HOME funds. On November 27, 2012, the City Council is scheduled to approve a HOME loan agreement in the amount of \$1,800,000 with the Housing Corporation of America (HCA), a local non-profit developer in collaboration with Thomas Safran and Associates, a highly respected and well-known housing developer, for the acquisition and rehabilitation of 91 units of affordable housing for very low-income senior citizens located at 811 North Eucalyptus Avenue, Inglewood, CA 90302. The project is expected to close escrow on the acquisition in December 2012. Finally, the City Council is also scheduled to approve a HOME grant agreement in the amount of \$266,150 with Home Ownership Made Easy, a local provider of affordable rental housing opportunities, and one of the City's six Community Housing Development Organizations (CHDO). The HOME agreement provides funding to rehabilitate four units of a rental property owned by the non-profit agency for extremely low-income developmentally disabled adults, located at 615 Aerick Street, Inglewood, CA 90301. These two projects total HOME Program allocations/expenditures in the amount of \$2,066,150. The remaining HOME Program funding in (\$555,543) is committed to the Fiscal Year 2012-2013 Tenant-Based Rental Assistance Program to provide monthly rental assistance for very low-income senior citizens, permanently disabled persons and honorably discharged veterans of the United States Armed Forces who do not receive any other rental assistance.

OIG Comment 1B:

Revoke the City's status as a participating jurisdiction pursuant to 24 CFR 92.107 due to its continued inability to follow HUD's rules and requirements.

Comment 10

City of Inglewood Response:

It is requested that HUD maintain the City of Inglewood as a HOME Investment Partnerships Act (HOME) Program Participating Jurisdiction. Revocation of the City's status as a PJ would cause the City to reduce the workforce of staff currently working to implement the HOME Program Administration. The City's inability to commit and expend HOME Program funding was caused mainly by an environment of extended political and executive administration transition during the period under review by the OIG. From 2009 through 2011, the City of Inglewood experienced the resignation of both the Mayor and former City Administrator, six elections affecting the composition of the City Council, city management under two interim City Managers, the retirement of the Community Development Director (under whose direction the CDBG Division was placed), retirement of the former Finance Director and up to 80 city-wide

layoffs due to the economic down turn. As of Fiscal Year 2011-2012, the City of Inglewood has undergone a transition resulting in the election of a full-term Mayor, stability on the City Council, and the hiring of an experienced City Manager, as well as an experienced and highly qualified Assistant City Manager/Chief Financial Officer. These significant adjustments resulted in administrative stability as demonstrated by the increased HOME Program allocations and expenditures identified in HUD's Integrated Information and Disbursement System (IDIS).

OIG Comment 1C:

Require the City to:

Develop better planning processes to ensure that it can commit and expend its program income and program fund toward eligible activities before the required deadlines; and,

OIG comment 1D:

Require the City to:

Establish and implement sufficient internal control policies and procedures to ensure that HOME funds are committed and expended in accordance with HUD rules and requirements.

City of Inglewood Response to both 1C and 1D:

With the hiring of the Chief Financial Officer, the City of Inglewood is committed to establishing internal controls, policies and procedures which coordinate the program administration activities of the HOME Investment Partnerships Act (HOME) Program with all City-wide administrative and financial policies and procedures to ensure planning processes that adhere to the HUD requirements for HOME Program fund allocations and expenditures. This includes a commitment to developing policies for adoption by the Mayor and City Council Members and procedures for implementing policies by City staff. As of November 13, 2012, the City of Inglewood has no program income on account in the local HOME Investment Trust Account, as all accumulated HOME program income was committed/allocated and expended during Fiscal Year 2011-2012. HOME Program procedures will include staff directives for receipting all program income received by the City immediately upon receipt, and allocating towards current HOME Program activities and expending program income funds first, immediately after receipt of such funds.

Comment 11

OIG Evaluation of Auditee Comments

- Comment 1** We thank the City for the opportunity to discuss the report and address questions and concerns related to our report.
- Comment 2** We acknowledge the fact that the current city manager for Inglewood has only been on board since July 2011. We recognize that the political and administrative situation that occurred in the City of Inglewood during our audit period contributed to the findings stated in the report. Nevertheless, under the direction of the city manager and the city council, the City of Inglewood is still accountable for the actions and subsequent outcomes related to ensuring HOME program funds are committed and expended in accordance with HUD rules and regulations.
- Comment 3** During our review, the City informed us of the circumstances related to the proposed construction and funding of the senior citizen resident housing and senior center facility. We considered the circumstances as a factor in the City's situation related to its inability to commit and expend HOME funds before HUD's required deadline.
- Comment 4** As indicated during the course of the review and expressed during the exit conference, we understood and acknowledged the various issues that hampered the City's ability to meet HUD requirements, as well as completion of the HOME-funded construction projects. Among the issues included, but not limited to, high administrative staffing turnover, political factors, and ill-advised decisions made by the city council. However, the city manager and city council are responsible for ensuring that actions such as the approval of policies and procedures are executed. Such actions are necessary for the City staff to perform their duties that include ensuring HOME funds are committed and expended before HUD's required deadlines. In addition, both the city manager and city council are accountable for the outcomes that affect the City's ability to comply with HUD requirements.
- Comment 5** As stated in Comment 3 above, we acknowledged the circumstances related to the construction and funding of the senior housing development. We acknowledged the City's initiative to commit and expend \$4 million in HOME funding towards its construction of Regent Square Apartments with an anticipated completion in the Spring 2013. However, our review identified at least \$3.5 million of program income that the City had to expend on the new construction project before using any HOME funds. Further, our review showed that the City did not commit or expend its allocated HOME funds during the period of October 1, 2009 through April 30, 2012, resulting in the City missing HUD's required deadlines.

Comment 6 We acknowledged the City's effort towards establishing a stable political environment that included new staffing charged with the administration and management of its HOME program. We commend the City in hiring a new Assistant City Manager/Chief Financial Officer (CFO) with experience in dealing with HUD and OIG matters and assisting the City in complying with HUD requirements.

Comment 7 We acknowledge the City's proactive stance in addressing the issues identified in the report. Further, the City's coordination with HUD to resolve these issues will ensure it commits and expends HOME funds in accordance with HUD requirements.

Comment 8 We thank the City for the opportunity to discuss the report and address questions related to our report.

Responses to Exhibit A (Auditee Comments)

The City incorrectly titled "OIG's Recommendations" as "OIG Comments". For consistency purposes, the City's comments are to OIG's recommendations 1A to 1D. Based on discussions with HUD and the City regarding the corrective actions taken to ensure compliance with HUD requirements, we revised recommendations 1B to 1D.

Comment 9 We disagree with the City's comment that Recommendation 1A be eliminated from the draft audit report. We commend the City for its progress in committing and expending HOME funds to designated new HOME developments totaling more than \$2 million. However, these projects and pending HOME funds did not occur during the course of our review. Our report covered the City's HOME program funding for the period of October 1, 2009 through April 30, 2012. During this period, as stated in our report, the City did not commit and expend more than \$2,6 million in HOME funds before HUD's required deadline. As a result, we believe that Recommendation 1A should remain in the report as a means for HUD CPD to consider in corrective actions against the City. HUD can further evaluate the recommendation during the audit resolution and determine whether that is the most appropriate course of action.

Comment 10 The City requested to remain as a participating jurisdiction for its HOME Investment Partnership program and not have its status revoked as stated in Recommendation 1B. This recommendation to revoke the City's status as a participating jurisdiction was based on the concerns expressed by HUD CPD, numerous CPD training attempts, and continued HUD-approved technical assistance provided to the City as ways to address issues related to the administration of its HOME program. Given the numerous opportunities that HUD provided the City still could not commit or expend HOME funds before HUD's required deadlines. As stated previously, we acknowledge the City's proactive stance in taking appropriate corrective actions towards ensuring that the HOME program is in compliance with HUD requirements. We have taken the

City's steps to correct and improve its administration into consideration and advise HUD CPD to consider whether to revoke the City's status as a participating jurisdiction if the City continues to be in noncompliance with HOME requirements. HUD can further evaluate the situation during the audit resolution process and determine whether this is an appropriate course of action.

Comment 11 We commend the City's efforts to commit and expend all of its program income. As of November 13, 2012, the City stated that it had committed and expended all program income, thereby allowing it to spend HOME funds accordingly. We acknowledge the City's plan to initiate appropriate policies and procedures that will ensure it allocates program income "upon immediate receipt...towards current HOME Program activities and expending program income funds first, immediately after receipt of such funds." We acknowledge the City's plan for the immediate use of program income, thereby ensuring HOME funds can be committed and expended towards eligible activities before the required deadlines.

Appendix C

CRITERA

The following sections of HUD rules and requirements were relevant to our audit of the City's administration of HOME funds.

24 CFR Part 92, HOME Investment Partnerships Program – Final Rule

In general, HUD allocates HOME funds through a formula-based method among eligible State and local governments to strengthen public-private partnerships and expand the supply of decent, safe, sanitary, and affordable housing with primary attention to rental housing for very low-income and low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, and new construction of housing and tenant-based rental assistance. We have documented the following sections of 24 CFR Part 92 that related to our audit.

24 CFR 92.107, Revocation of Designation as a Participating Jurisdiction, states:

HUD may revoke a jurisdiction's designation as a participating jurisdiction if:

- a. HUD finds, after reasonable notice and opportunity for hearing as provided in Section 92.552
- b. The jurisdiction is unwilling or unable to carry out the provisions of this part, including failure to meet matching contributions requirements; or
- c. When HUD revokes a participating jurisdiction's designation as a participating jurisdiction, HUD will reallocate any remaining funds in the jurisdiction's HOME Investment Trust Fund established under Section 92.500 in accordance with Section 92.451.

24 CFR 92.500(d)(1)(B), The HOME Investment Trust Funds, states:

HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of: Any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

24 CFR 92.500(d)(1)(C), The HOME Investment Trust Funds, states:

HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of: Any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

24 CFR 92.500(d)(2), The HOME Investment Trust Funds, states:

For purposes of determining the amount by which the HOME Investment Trust Funds will be reduced or recaptured under paragraphs (d)(1)(B) and (C) HUD will consider the sum of commitments to CHDOs [community housing development organization], commitments, or expenditures, as applicable, from the fiscal year allocation being examined from and from subsequent allocations. This sum must be equal to or greater than the amount of the fiscal year allocation being examined, or in the case of commitments to CHDOs, 15 percent of that fiscal year allocation.

24 CFR 92.552, Notice and Opportunity for Hearing; Sanctions, states:

- a. If HUD finds after reasonable notice and opportunity for hearing that a participating jurisdiction has failed to comply with any provision of this part and until HUD is satisfied that there is no longer any such failure to comply:
 1. HUD shall reduce the funds in the participating jurisdiction's HOME Investment Trust Fund by the amount of any expenditures that were not in accordance with the requirements of this part; and
 2. HUD may do one or more of the following:
 - i. Prevent withdrawals from the participating jurisdiction's HOME Investment Trust Fund for activities affected by the failure to comply;
 - ii. Restrict the participating jurisdiction's activities under this part to activities that conform to one or more model programs which HUD has developed in accordance with section 213 of the Act;
 - iii. Remove the participating jurisdiction from participation in allocations or reallocations of funds made available under subpart B or J of this part;
 - iv. Require the participating jurisdiction to make matching contributions in amounts required by § 92.218(a) as HOME funds are drawn from the participating jurisdiction's HOME Investment Trust Fund United States Treasury Account. Provided, however, that HUD may on due notice suspend payments at any time after the issuance of a notice of opportunity for hearing pursuant to paragraph (b)(1) of this section, pending such hearing and a final decision, to the extent HUD determines such action necessary to preclude the further expenditure of funds for activities affected by the failure to comply.