



**Community Development -
Neighborhood Stabilization Program
Audit No. 2014-11**

Issued by the
Internal Audit Office
February 26, 2015

City of El Paso
Internal Audit Office
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EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Community Development Neighborhood Stabilization Program. Based on the results of the audit, three (3) findings have been identified. All three (3) of these findings are considered significant.

Listed below is a summary of the findings identified in this report:

1. Expenditures exceeded reimbursements by \$123,954.66 in both the Texas Department of Housing and Community Affairs (TDHCA) and the United States Department of Housing and Urban Development (HUD) Neighborhood Stabilization Program (NSP) grants.
2. The Community and Human Development Department has not sold a home that was purchased with HUD NSP funds. The home has been available for sale for 2 years and 8 months.
3. A review of NSP reimbursements identified that the Community and Human Development Department is taking an average of 851.68 days (2.33 years) to request reimbursements for NSP expenditures to reimburse the City's General Fund.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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BACKGROUND

The Neighborhood Stabilization Program (NSP) is funded by a provision under the Housing and Economic Recovery Act of 2008 (HERA). It was created to address the negative impact of the nation’s economic decline and housing market collapse. It was intended to stabilize and revitalize the hardest hit communities/areas. The City of El Paso received \$3,032,465.00 from the Department of Housing and Urban Development (HUD) and \$230,848.00 (revised grant) from the Texas Department of Housing and Community Affairs (TDHCA) in NSP round 1 (NSP) funding. The City of El Paso participated in the following four eligible NSP Activities:

- Use A – Financing Mechanisms
- Use B – Purchase and Rehabilitation of Abandoned or Foreclosed Homes
- Use C – Demolition of blighted structures
- Use E – Redevelopment of Demolished or Vacant Properties

AUDIT OBJECTIVES

The purpose of this audit was to ascertain that the Community Development Neighborhood Stabilization Program (NSP) is adhering to the terms and conditions of NSP Grant No. B-08-MN-48-0003 from the Department of Housing and Urban Development (HUD) and contract No. 77090000112 from the Texas Department of Housing and Community Affairs (TDHCA). To determine this, our audit will assess the following categories:

- Compliance with Grant and Contract terms
- Grant drawdowns are appropriate and timely
- Grant drawdowns have sufficient supporting documentation
- Compliance with Reporting Requirements

AUDIT SCOPE

The scope of this audit focused on operations and documents of the Community Development Neighborhood Stabilization Program, for the period of Fiscal Year 2013-2014.

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AUDIT METHODOLOGY

In order to achieve the audit objectives we:

1. Conducted interviews with management and staff from the Community and Human Development Department and Office of the Comptroller;
2. Reviewed U.S. Department of Housing and Urban Development (HUD) grant No. B-08-MN-48-0003;
3. Reviewed Texas Department of Housing and Community Affairs contract No. 77090000112 with the City of El Paso;
4. Tested drawdown documents, quarterly reports, NSP loan documents, and grant reconciliations;
5. Reviewed property liens filed with the County of El Paso for properties sold under NSP;

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding 1

Overdrawn NSP Grants

The City of El Paso’s Strategic Plan 2015

Section 6.6: *“Ensure continued financial stability and accountability through sound financial management, budgeting and reporting”.*

Code of Federal Regulations, Administrative Requirements For Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments, title 24, sec. 85.20 (4): *“Budget control. Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant.”*

The City of El Paso’s Grants Management Manual Pre-Award and Post-Award Procedures Section 5 Drawdowns dated July 2008: *“Program managers at the department level are responsible for ensuring that all funds have been drawdown and accurately reflected on their reports”.*

Based on our review, as of April 29, 2014 and January 12, 2015 respectively, expenditures exceeded reimbursements by \$123,954.66 in both the Texas Department of Housing and Community Affairs (TDHCA) and the United States Department of Housing and Urban Development (HUD) Neighborhood Stabilization Program (NSP) grants. The expenditures were paid from the City’s General Fund and will not be fully reimbursed. 10% of the proceeds from the sale of the remaining NSP home can be used to recover some the HUD Administrative expenditures. The reimbursement shortfall is broken down in the following NSP activities:

TDHCA Activity	Expenditures	Reimbursements	Shortfall
Administration	\$48,685.13	\$10,933.00	(\$37,752.13)
Single Family	\$81,239.23	\$68,082.50	(\$13,156.73)
Total	\$129,924.36	\$79,015.50	(\$50,908.86)

The time period for the TDHCA expenditures was January 8, 2010 to April 29, 2014.

HUD Activity	Expenditures	Budget	Shortfall
Administration	\$412,957.18	\$339,911.38	(73,045.80)
Total	\$412,957.18	\$339,911.38	(73,045.80)

The time period for the HUD expenditures was June 8, 2009 to January 12, 2015.

Recommendation

The Community and Human Development needs to ensure that:

- Expenses for NSP activities are being monitored to ensure that all expenses will be reimbursable through NSP grants.
- Reconciliations are up to date for all NSP activities.

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Management's Response

Background:

The City was awarded two grants for the NSP1 program; one directly from HUD and one by the Texas Department of Housing and Community Development (TDHCA) with the later developing a different structure, reporting and reimbursement system making administration more complicated.

Many grantees, including the City of El Paso, struggled with the fast pace of this foreclosure crisis-response program. To further complicate matters locally, there have been three changes in staff managing the grants in the Community and Human Development Department (CD) since the effective date of the HUD grant (January 2010). In addition, there was also turnover in the Office of the Comptroller grants management staff from January 2010 to April 2013; Office of the Comptroller (OTC) staff is responsible for the actual drawdown process. The first set of staff set up the accounts, determined the target areas, purchased and rehabilitated the homes. (January 2010 to July 31, 2011). The next set of staff worked on selling the properties to eligible homebuyers (four out of nine home sales were completed) and implementing a development agreement with the Housing Authority of the City of El Paso to construct and manage a multifamily affordable housing property for seniors. The current coordinator assumed grant responsibility in April 2013. As of April 2013, draws had been processed for acquisition and rehabilitation costs for the single family homes and most of the construction costs for the multifamily development under HUD. The purchase and rehabilitation of two homes under TDHCA NSP had been completed but no draws for construction or project delivery (soft costs) had been done and the sale of these houses had not been completed although homebuyers had been identified nearly one and one-half years before.

Both grants failed to meet the initial NSP1 18 month obligation deadlines as did most of the grantees nationwide. HUD amended the NSP1 re-allocation process to allow jurisdictions to maintain their funding by developing a plan to address implementation issues and provided technical assistance to jurisdictions. TDHCA extended the obligation deadline from February 28, 2011 to May, 2011 and when that deadline was not met, they decreased and re-allocated grant funds to other sub-recipients.

TDHCA

The original award issued in September 2009 was for \$1,731,066 with administrative costs capped at 5% or \$86,553.30. This is an unusually low percentage cap for large scale grants. CDBG, for example, has a 20% administrative cap and HOME has a 10% administrative cap. In May 2011, the state administered NSP grant was decreased from the \$1,731,066 to \$354,375 reducing the administrative maximum to \$10,933 meaning that any expenses over that limit were not reimbursable after this action; 74% of the TDHCA shortfall is due to administrative expenses (primarily salaries) that exceeded the funds available under the administrative cap. No administrative expenses have been charged to the TDHCA grant since July 2011.

A major reconciliation of the grant resulted in the elimination of all ineligible and inappropriate project delivery charges to the grant since April 2013 when the current coordinator assumed responsibility. The shortfall in the project delivery expenditures is because expenditures were not included in the final expenditure report in August of 2013 and were therefore disallowed although they were eligible expenses.

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Management’s Response Continued

HUD

The shortfall in the HUD grant is due to administrative costs exceeding the 10% administrative cap. No ineligible administrative costs have been charged to the grant since April 2013, and as a result of an intensive reconciliation, over \$15,000 in expenditures inappropriately charged to administration were transferred to the appropriate account and have been reimbursed. Unfortunately, because of inaccurate accounting of the expenditures related to the two different grants, the City failed to meet the final expenditure deadline.

Community and Human Development and the Office of the Comptrollers will review to ensure that only eligible (reimbursable) expenses per grant guidelines are charged to the NSP grants. Revenues will also be reviewed and reconciled on a quarterly basis. Currently Community and Human Development and the Office of the Comptroller are working together to reconcile the revenue between PeopleSoft general ledger and the HUD draws and receipts.

Responsible Party

Community and Human Development: Verónica Soto, AICP, Director; Jane Tomchik, Project Coordinator

Implementation Date

Reconciliation of the program income and program funds revenue will be completed by the end of July 2015.

A checklist for reviewing eligible expenses based on the NSP regulations will be prepared by the Project Coordinator by April 15 2015 for use by the Office of the Comptroller and the Director to review expenses approved by the Project Coordinator.

Expenditures will continue to be reviewed by the Project Coordinator prior to submitting a draw request to Office of the Comptroller. The Office of the Comptroller will provide a second review prior to entering the draw request in HUD DRGR.

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Finding 2

NSP Home For Sale

City of El Paso Strategic Plan 2015 Section 8.2 “Stabilize neighborhoods through community, housing and ADA improvements”.

United States Department of Housing and Urban Development HUD Exchange website states the following: the goal of NSP is to stabilizing communities that have suffered from foreclosures and abandonment.

Code of Federal Regulations, Administrative Requirements For Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments, title 24, sec. 85.20 (3): “Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.”



The Community and Human Development Department has not sold a home that was purchased with HUD NSP Funds for 2 years and 8 months. The home is located at 12497 Jon Evans. The City of El Paso has owned the home for approximately 4.6 years.

Since the home has not been sold in the previous 2 years and 8 months, the City of El Paso has lost \$1,850.87 in property taxes.

Below is a table outlining key events for the home at 12497 Jon Evans:

#	Key Events	Event Date
1	Purchase of 12497 Jon Evans.	7/22/2010
2	Home is ready for sale according to Community and Human Development Department.	6/20/2012
3	Date break-in discovered to home. \$900.00 of damages done to home.	6/6/2013
4	The date the contract to sell home to potential buyer.	7/16/2013
5	The contract to sell the home falls through.	7/23/2013
6	Home has not been sold as of :	2/7/2015

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Recommendation

The Community and Human Development Department needs to work with the City of El Paso's Real Estate Manager to market and sell the home as soon as possible. The selling price of the home should be as close as possible to the listing price of \$111,000.00 to ensure the highest amount of administration costs are reimbursed to the City of El Paso.

Management's Response

Community and Human Development staff met with the City's Real Estate Manager about assisting in selling the property given expertise on real estate matters and have gotten some general assistance on this. Community and Human Development will investigate the feasibility of developing a broker agreement for listing the property and if possible, implement such an agreement. Community and Human Development will partner with the Real Estate Division if a current prospect falls through and the house does not sell in the next 2 months.

Community and Human Development has an interested homebuyer (prospect) who has completed the required housing counseling course and been pre-qualified by a credit union for a conventional loan sufficient to purchase the property at the listing price. The prospect is currently completing the NSP application and collecting the necessary documentation.

Responsible Party

Community and Human Development: Verónica R. Soto, AICP, Director; Jane Tomchik, Project Coordinator

Implementation Date

Complete the sale of the house to an eligible homebuyer by December 31, 2015
Complete investigation of the feasibility of listing property with a Broker by May 15, 2015
Complete implementation of marketing plan by August 1, 2015 (if the house is not sold by then)

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Finding 3

Drawdowns

City of El Paso’s Strategic Plan 2015 Section 6.6: “*Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*”

The City of El Paso’s Grants Management Manual Pre-Award and Post-Award Procedures Section 5 Drawdowns dated July 2008: “*Program managers at the department level are responsible for ensuring that all funds have been drawdown and accurately reflected on their reports*”.

The Community and Human Development Department is taking an average of 851.68 days (2.33 years) in requesting reimbursement for NSP expenditures to reimburse the City’s General Fund. Forty (40) transactions were selected for review with the following results:

- 35 of the 40 (87.5%) transactions took longer than a year to request reimbursement from the granting agency.
 - 12 transactions ranged from 36.1 to 48 months totaling \$9,448.73
 - 15 transactions ranged from 24.1 to 36 months totaling \$17,647.32
 - 8 transactions ranged from 12.1 to 24 months totaling \$298,692.39
- 5 of the 40 (12.5%) transaction took less than a year to request reimbursement from the granting agency.
 - 1 transaction 9 months totaling \$4,562.61
 - 4 transactions ranged from 6 months or less totaling \$7,352.95

Recommendation

The Community and Human Development Department needs to ensure that NSP expenditures are drawn down on a monthly basis to ensure the City receives reimbursement in a timely manner.

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Management’s Response

The draws reviewed were a combination of draws from TDHCA (31) and HUD (9).

HUD

As of April 2013 when the current project coordinator assumed responsibility for the grant, a total of \$2,828,672.16 in program funds and \$208,042.84 in program income had been drawn. Unfortunately there were multiple problems with these draws as a result of a financial audit by HUD in the beginning of April 2013; a complete reconciliation between the HUD records and the general ledger was necessary. The result was that it appeared that not only were there multiple errors including submission of ineligible costs, and duplicate reimbursements but we were “overdrawn” in two of the activities of the grant. Subsequent reconciliation between the HUD and the TDHCA grant resulted in transferring inappropriately posted charges to the appropriate grant and account. Pursuant to this reconciliation, it no longer appeared that we were “overdrawn”. During this reconciliation period (April 2013 to May 2014) only one draw was made to cover the final payment on the multifamily development. In May 2014, we completed two draws to bring our reimbursement requests up to date.

Because current expenditures charged to the NSP grant are very small on a monthly basis, the Community and Human Development Department will submit a draw request whenever unreimbursed expenditures exceed one thousand (\$1,000) to Office of the Comptroller. The draw request is to be reviewed within a timely manner by Office of the Comptroller. Any differences or questionable items will be resolved in a timely manner. Both departments must be in an agreement with the draw amount.

Community Development will continue to work with the Comptroller’s office to ensure timely and accurate draws.

Responsible Party

Community and Human Development: Verónica Soto, AICP, Director; Jane Tomchik, Project Coordinator

Implementation Date

Policies and procedures to ensure timely and accurate draws will be developed jointly with the Office of the Comptroller and monitored by the Director. These will be implemented by May 1, 2015

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded our work on the objectives of the Community and Human Development Neighborhood Stabilization Program Audit. In accordance with Generally Accepted Government Auditing Standards, we are required to conclude whether the Community and Human Development Department met the objectives of this audit. Based on our audit work, we have determined the following:

1. The Community and Human Development Department has met the objectives of the audit in the following areas:
 - Grant drawdowns have sufficient supporting documentation.
 - Compliance with U. S. Department of Urban Housing (HUD) reporting requirements.

2. The Community and Human Development Department did not meet the audit objectives in the following areas:
 - NSP grant expenditures are not being monitored to ensure that they are reimbursable within the grant budget.
 - There is no sense of urgency to sell the remaining NSP home to ensure the goals of the NSP grant are met and expenditures are reduced.
 - Reimbursements are not requested in a timely manner to ensure that the City's General Fund is reimbursed for NSP expenses.

The Internal Audit Office has determined the sale of the remaining NSP home should be expedited in order to recover the shortfall in the HUD administrative expense and close the HUD grant. 10% of the proceeds from the sale of the home can be used to reduce the shortfall. The Community and Human Development Department has been working with the City of El Paso's Real Estate Manager in order to expedite the sale.

Implementing the recommendations contained in this Audit Report will assist the Community and Human Development Department in strengthening the internal controls over the Neighborhood Stabilization Program.

We wish to thank the Community and Human Development Department's management and staff for their assistance and numerous courtesies extended during the completion of this audit.

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