



# Neighborhood Housing Services of Los Angeles County Los Angeles, CA

## Neighborhood Stabilization Program 2

**Office of Audit, Region 9  
Los Angeles, CA**

**Audit Report Number: 2021-LA-1002  
January 5, 2021**

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**OFFICE OF INSPECTOR GENERAL**  
U.S. Department of Housing and Urban Development

**To:** Rufus Washington, Director, Los Angeles Office of Community Planning and Development, 9DD

//SIGNED//

**From:** Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

**Subject:** Neighborhood Housing Services of Los Angeles County, Los Angeles, CA, Did Not Always Follow Program Requirements in Administering Its NSP2

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Neighborhood Housing Services of Los Angeles County's Neighborhood Stabilization Program 2 (NSP2).

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.

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**Neighborhood Housing Services of Los Angeles County, Los Angeles, CA, Did Not Always Follow Program Requirements in Administering Its NSP2**

## Highlights

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### What We Audited and Why

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We audited Neighborhood Housing Services of Los Angeles County's (NHSLA) Neighborhood Stabilization Program 2 (NSP2). The audit was based on a complaint alleging questionable NSP2 financial activity, double payments to contractors, and payments to contractors for incomplete work. Our Office of Audit received the referred complaint in late 2018. However, because the complaint included concerns regarding activities and auditee actions from at least 5 years before, we did not address the specific complaint issues but instead reviewed more recent program activities. The objective of the audit was to determine whether NHSLA administered its NSP2 in accordance with program requirements, focusing on procurement and contracting, expenditures of program income, and tracking and accounting of program income.

### What We Found

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NHSLA did not always follow program requirements in administering its NSP2. Specifically, it (1) could not support NSP2 activities in its interfund account and revolving loan fund, (2) borrowed NSP2 program income and deposited those funds into its non-NSP2 accounts, (3) could not support administrative and project delivery costs, and (4) did not have proper documentation to support the procurement of its construction contract. As a result, the U.S. Department of Housing and Urban Development (HUD) did not have assurance that more than \$5.1 million in program income was used for its NSP2, \$1.7 million in salary expenditures was in accordance with program requirements, and \$856,692 in construction costs was reasonable.

### What We Recommend

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We recommend that the Director of the Los Angeles Office of Community Planning and Development require NHSLA to (1) support the eligibility of interfund activities or repay the program \$3.4 million from non-Federal funds, (2) return \$529,745 in program income funds to its NSP2 account, (3) support the use of its loan proceeds or repay the program \$658,261 from non-Federal funds, (4) support transfers of NSP2 funds or repay the program \$500,000 from non-Federal funds, (5) support its administrative and project delivery costs or repay the program more than \$1,388,545 from non-Federal funds and not reimburse another \$324,478, (6) support the reasonableness of the construction contract or repay the program \$856,692 from non-Federal funds, and (7) develop and implement procedures and controls for its procurement.

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# Background and Objective

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Neighborhood Housing Services of Los Angeles County (NHSLA) was incorporated in 1984 to promote the restoration and revitalization of certain neighborhoods in Los Angeles County. Specifically, NHSLA and its affiliated organizations are comprised of Neighborhood Housing Services of Los Angeles County (NHS), NHS Neighborhood Lending Services, Inc. (NHSNLS), and NHS Neighborhood Redevelopment Corporation (NHSNRC), all of which are nonprofit organizations. Collectively, these organizations are referred to as “the Organization.” NHSLA services include developing and maintaining affordable housing, creating and preserving affordable home-ownership opportunities, supporting local leaders, providing education, and increasing the financial independence of families and people in need. NHSLA assigned its lending and redevelopment services to NHSNLS and NHSNRC, respectively, in 1997.

The Neighborhood Stabilization Program 2 (NSP2) was authorized under Title XII of Division A of the American Recovery and Reinvestment Act of 2009 and provided 56 grants nationwide on a competitive basis totaling \$1.93 billion. NSP2 was established to stabilize neighborhoods, the viability of which has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. The NSP2 grant recipients included 37 consortiums, 3 nonprofits, 15 local government entities, and 1 State. These grantees were selected on the basis of foreclosure needs in their selected target areas, recent past experience, program design, and compliance with NSP2 rules.

The U.S. Department of Housing and Urban Development (HUD) awarded \$60 million in NSP2 funding to NHSLA and executed a grant agreement with it on February 11, 2010. According to NHSLA’s NSP2 grant application, it proposed to establish and lead a consortium with 12 other organizations that would carry out a broad range of community development activities, including the acquisition and rehabilitation of single-family homes and residential properties, downpayment assistance, and administrative activities, including \$150,000 for home-buyer counseling. Based on its September 30, 2015, performance report, NHSLA had drawn down all of the awarded funds of \$60 million and had been operating its NSP2 on the resulting program income since then. Based on the available quarterly reports from the Disaster Recovery Grant Reporting (DRGR) system,<sup>1</sup> the total program income received and drawn for the year had not changed since the January to March 2016 performance report, which listed program income received totaling more than \$4.3 million.

Our audit objective was to determine whether NHSLA administered its NSP2 in accordance with program requirements, focusing on procurement and contracting, expenditures of program income, and tracking and accounting of program income.

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<sup>1</sup> The DRGR system was developed for the Community Development Block Grant Disaster Recovery program and other special appropriations, such as the NSP. The DRGR system is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities. The DRGR system is used by HUD to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

# Results of Audit

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## **Finding 1: NHSLA Did Not Support NSP2 Income Expenditures or Report Activities in DRGR**

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NHSLA could not adequately support NSP2 interfund activities of \$3.4 million and inappropriately borrowed \$529,745 in program income funds. It also could not adequately support the use of \$658,261 in loan proceeds, or the transfer of \$500,000 in NSP 2 funds to the revolving loan fund. Further, it did not calculate its program income accurately and it did not report program activities in DRGR between April 2016 and March 2019. These conditions occurred because NHSLA lacked sufficient financial procedures and controls to properly account for and record program income to its NSP2 account, did not have an adequate administrative staff to manage the program, and lacked a sufficient understanding of HUD requirements. As a result, HUD had no assurance that more than \$5.1 million in program income was used for the operation of its NSP2 to further the restoration and revitalization of Los Angeles County neighborhoods. In addition, the lack of accurate reporting gave HUD and the public no visibility regarding the program.

### **Interfund Account Transactions Were Unsupported**

NHSLA did not adequately document NSP2 funds tracked through an interfund account to ensure that program income was used in accordance with 24 CFR 84.24 and NSP Policy Alert – Program Income. (See appendix C.) It did not provide documentation to support the reclassification of \$3.4 million and increased the risk of misusing \$529,745 of income earned from NSP2 activities. This occurred because NHSLA lacked written financial procedures and controls for the use of its interfund general ledger to properly account for and record program income. As a result, NHSLA’s use of more than \$4 million in NSP2 funds was questionable.

NHSLA deposited NSP2 income<sup>2</sup> directly into multiple non-NSP2 general ledger accounts, which may have been associated with one or more of its affiliate business organizations (NHS, NHSNLS, and NHSNRC),<sup>3</sup> rather than consistently depositing the funds into its NSP2 account. These non-NSP2 accounts commingled program income funds with funds from other sources and reduced NHSLA’s ability to identify how it applied Federal funds. NHSLA used an interfund account to track funds that it borrowed and deposited into the non-NSP2 accounts. It then reduced the interfund’s rolling balance that NHSLA owed to NSP2 to record payments of NSP2 expenses, including accumulated lump sum transactions.<sup>4</sup>

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<sup>2</sup> We did not confirm all program income deposited into various non-NSP2 accounts. (See Scope and Methodology).

<sup>3</sup> See the Background and Objective section.

<sup>4</sup> We did not confirm all NSP2 expenses to various non-NSP2 accounts. (See Scope and Methodology).

As of July 1, 2016, the NSP interfund beginning balance was \$4.3 million,<sup>4</sup> indicating that prior-period program income had been drawn from the NSP2 account (or not deposited into the NSP2 account), so it remained due to NSP2. One transaction that significantly reduced the NSP interfund balance was a more than \$3.4 million entry recorded on June 30, 2017. NHSLA documentation indicated that this transaction was made to combine NSP2 with NHSNRC, and it essentially removed the total amount owed to NSP2. NHSLA provided documentation showing how it calculated the \$3.4 million reclassification but did not adequately support how the \$3.4 million was spent or used for eligible NSP2 items once it was removed from the NSP interfund account. The balance did not reappear on the NSP interfund account in the next fiscal year, beginning July 1, 2017. Insufficient documentation was provided to explain how these funds were used.

NHSLA's practice of depositing NSP2 income into non-NSP2 bank accounts and its use of an interfund account allowed it to inappropriately loan NSP2 funds to its other programs. The interfund account did not record how the commingled rolling balance owed to NSP2 was spent if the activity was not directly applied to offset or increase the NSP2 balance. The funds could therefore be used for other purposes without being recorded in either the interfund or NSP2 accounts. Further, NHSLA officials stated that NSP2 funds could be used to cover shortfalls in its other affiliated businesses through its interfund accounts. As a result, there was an increased risk that the funds held in the non-NSP2 accounts may have been used for non-NSP2 purposes. The commingling of funds and the use of an interfund account in this manner were inconsistent with NSP Policy Alert – Program Income, which stated that NSP income must be spent only on NSP eligible activities. (See appendix C.) As a result, the \$529,745 rolling interfund balance of borrowed NSP2 funds as of August 31, 2019, should be moved to the NSP2 accounts and withdrawn as needed for NSP2 expenses.

### **The Use of Revolving Loan Fund Proceeds Was Unsupported**

NHSLA's use of a commingled revolving loan fund was not properly reported to HUD, and it was unclear whether NSP2 funds were properly tracked to maintain their identity in accordance with NSP Policy Alert – Guidance on Revolving Funds. (See appendix C). It could not clearly distinguish the NSP2 loans from its non-NSP2 loans made from its revolving loan fund. This occurred because NHSLA lacked written financial procedures and controls for the use of its revolving loan fund to properly account for and record program income that was deposited into a commingled loan fund. As a result, \$658,262 in NSP2 loan proceeds and \$500,000 in NSP2 transfers were unsupported.

Between July 2016 and April 2019, 14 homeowners sold their NSP2-funded properties and returned \$656,721 to NHSLA. Instead of returning those program income funds to the NSP2 account, NHSLA deposited \$509,535 in loan proceeds into a commingled revolving loan fund and \$147,186 into NHS' general operating account, which funds NHSLA's non-NSP2

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<sup>4</sup> This amount represents two-thirds of a \$6.5 million asset called Center for Sustainable Communities in Compton. According to NHSLA officials, it refinanced the property using NSP program income and the adjustment was made out of the NSP2 interfund account. One-third of the property was attributed to NSP2, with the other two-thirds belonging to NHSLA and NHSNLS. The July 1, 2016, interfund beginning balance therefore reflected the \$4.3 million owed to NSP2 ( $\$6,502,285 \times 2/3 = \$4,334,857$ ).

business. According to NSP Policy Alert – Guidance on Revolving Funds under NSP, HUD allows NSP program income to be deposited into a revolving loan fund, provided the grantee amends its action plan and reports its revolving loan fund activity in DRGR. (See appendix C.) Each revolving fund activity must comply with an eligible use and carry out a specific type of eligible activity that meets a national objective under NSP. NHSLA failed to amend its action plan to include a revolving loan fund, and there was no mention of revolving loan fund activity in DRGR during the period in which the funds were returned.

NHSLA provided a spreadsheet showing loans totaling \$657,500 made for the period July 2016 to June 2019, which matched the timeframe when the loan proceeds-program income amounts were collected. NHSLA also provided its commingled revolving loan fund general ledger; however, neither clearly showed whether the loans were for an NSP property or an NSP-eligible borrower. An NHSLA official stated that the deed of trust would identify the respective properties as NSP. However, only one of a sample of eight deeds of trust that was provided included language indicating that the property was an NSP property. We requested additional documentation to explain this inconsistency but did not receive clarification from NHSLA. Further, one loan on the list appeared to be an NLS loan, although it was initially paid by NSP2. Another loan was paid off less than a year after it was made; therefore, the loan proceeds from the sale should be returned and considered program income. As a result of these issues, we had no assurance that the \$658,262<sup>5</sup> was used for an NSP2-eligible activity.

Further, the revolving loan fund recorded a \$500,000 NSP2 transfer to NLS for lending; however, it was not clear how much was loaned to NSP2 borrowers because the revolving loan fund was commingled and the loans were not clearly labeled. NHSLA stated that it distinguished an NSP2 loan from a non-NSP2 loan by the loan number. However, it did not provide additional clarification on what loan numbers were associated with NSP and non-NSP2 loans. Therefore, NSP2 loans could not be clearly distinguished from non-NSP2 loans in the revolving loan fund.

### **NHSLA Did Not Accurately Calculate Program Income**

NHSLA did not calculate its program income in accordance with NSP Policy Alert – Program Income, which defines program income as gross income less costs incidental to the generation of the income. (See appendix C). Instead, NHSLA calculated its program income by taking the difference between the beginning and ending balances of NSP2 assets along with any proceeds generated from resale of NSP2 properties. NHSLA officials stated that this methodology was in place because of a change in HUD policy, which allowed program income to be calculated based on funds expended on assets. However, no change in policy occurred and NHSLA’s methodology was incorrect. As a result, NHSLA incorrectly calculated the total NSP2 income earned for fiscal years 2017 and 2018.<sup>6</sup> In addition, HUD has no assurance that

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<sup>5</sup> The \$658,262 amount was calculated by taking \$656,721 in loan proceeds - \$60,000 loan tied to NSP through deed of trust + \$61,541 loan that was repaid.

<sup>6</sup> According to NSP Policy Alert – Guidance on Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities, NHSLA was allowed to charge 10 percent of its program income earned for administrative costs. Because NHSLA was not accurately calculating program income earned, the basis it used to determine its fiscal year 2017 and 2018 administrative expenses was incorrect. (See finding 2).

NHSLA can determine and report the correct program income amounts, due to its failure in following HUD requirements, its staff's lack of sufficient understanding of HUD requirements, and the complexities that result from NHSLA borrowing NSP2 program income through its interfund account and depositing loan proceeds into a commingled revolving loan fund.

### **DRGR Was Not Updated**

Contrary to its NSP2 policies and procedures manual and Docket Number Federal Register 5321-N-01 (appendix C), NHSLA last updated and reported NSP2 income received and spent in DRGR during the period January to March 2016. It had not updated its NSP2 activities in DRGR between April 2016 and March 2019; therefore, program income received and funds that were spent went unreported. NHSLA had periodically submitted quarterly reports in DRGR for April 2016 through March 2018; however, the submissions did not update or report the program income received or spent despite continued program income activity. In May 2019, NHSLA submitted overdue reports through March 2019, but these reports were also incomplete, and no additional reports had been submitted. This condition occurred because NHSLA did not have adequate qualified administrative staff to manage the program. An NHSLA official stated that the staff member who previously submitted information into DRGR no longer worked for the organization and the official also did not know how to report program income activities in the system. As a result, the lack of reporting left HUD and the public with no visibility regarding how the NSP funds had been used.

### **Conclusion**

NHSLA did not support NSP2 income activities and expenditures, borrowed and did not accurately report program income, and did not report activities in DRGR. These conditions occurred because NHSLA lacked financial procedures and controls for the use of its interfund and revolving loan fund to properly account for and record program income. NHSLA stated that NSP2 was no longer relevant to its business as most of the grant funds had been spent; therefore, the program was not a priority. However, NHSLA used millions in NSP2 income during the audit period and continued to generate program income through the sale of its NSP2 property holdings and rental activity. Further, NHSLA did not follow HUD's requirements for calculating program income and it lacked written procedures for how it would use its interfund and revolving loan fund accounts. It also did not have an adequate number of administrative staff members to manage the program or who sufficiently understood NSP2 and HUD requirements. As a result, neither NHSLA nor HUD was assured that more than \$5.1 million in program income was used for NSP2 to further the restoration and revitalization of Los Angeles County neighborhoods. In addition, the lack of accurate reporting gave HUD and the public no visibility regarding the program.

## Recommendations

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

- 1A. Provide documentation to support that program activities within NHSLA's interfund were for eligible NSP2 activities or repay the program \$3,425,679 from non-Federal funds.
- 1B. Return the outstanding balance of \$529,745 owed to NSP2. In addition, cease the practice of depositing NSP2 funds in non-NSP2 accounts and making them available to be used or borrowed for non-NSP2 activities.
- 1C. Provide documentation to support that \$658,261 in loan proceeds was used for an eligible NSP2 activity or property or repay the program from non-Federal funds.
- 1D. Provide documentation to support that \$500,000 in NSP funds transferred to the revolving loan fund was used for an eligible NSP2 activity or property or repay the program from non-Federal funds.
- 1E. Develop and implement sufficient financial procedures and controls to ensure that program income is appropriately recorded and properly transferred to its NSP2 account.
- 1F. Ensure it has sufficient staffing and capacity to administer the NSP2 program, including obtaining training for its staff to understand HUD requirements and how to use the DRGR system.
- 1G. Amend the NSP2 action plan to include its revolving loan fund.
- 1H. Adjust program income calculation methodology to ensure it is in accordance with HUD requirements.
- 1I. Submit overdue NSP2 quarterly reports to DRGR and update prior reports that did not accurately report program income activity.



## **Finding 2: NHSLA Could Not Support Its Administrative and Project Delivery Costs**

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NHSLA did not provide adequate documentation to properly support its administrative and project delivery costs in accordance with HUD requirements. This condition occurred because NHSLA did not have procedures or controls for its administrative and project delivery expenditures. In addition, NHSLA staff did not accurately interpret the applicable program requirements. As a result, HUD had no assurance that more than \$1.7 million in expenses for fiscal years 2017 and 2018 were for NSP2.

### **Fiscal Year 2017 and 2018 Administrative and Project Delivery Costs Were Questionable**

NHSLA did not use an indirect cost allocation plan to charge staff salaries for its administrative and project delivery costs. It stated that HUD would have taken too long to approve an indirect allocation plan. Therefore, NHSLA stated that it used a direct allocation method in which it charged only direct personnel costs to its NSP2. We reviewed a sample of payroll payments for NHSLA's administration and project delivery costs for the months of April, May, and June 2018. The timesheets did not track actual hours spent on NSP2 activities. Instead, they recorded percentages charged to NSP2. The percentages applied to the employees varied between 10 and 100 percent, and each employee's rate was consistent every pay period. NHSLA had no support or justification for the percentages used. According to NSP Policy Alert – Guide for Charging Administrative Costs Incurred by NSP2 Grantees and the Handbook for CDBG [Community Development Block Grant] Subrecipients on Administrative Systems, Chapter 2.0, Financial Management (see appendix C), time charged to NSP2 for direct staff should be based on the actual time or hours spent working on the program. We also obtained timesheets for fiscal year 2017 and confirmed NHSLA used the same percentage methodology. Based on conversations with NHSLA officials, their methodology of using an allocated percentage to charge NSP2 instead of using actual time was systemic during fiscal years 2017 and 2018.

In addition, a majority of employees allocating their time between NSP2 and NHSLA activities were indirect employees, not those directly involved with the activity delivery. For instance, NHSLA's receptionist, executive assistant, president and chief executive officer, and finance positions (such as chief financial officer, accountants, and finance manager) all charged a portion of their time to NSP2. NSP Policy Alert – Guidance on Allocating Real Estate Development in the Neighborhood Stabilization Program (see appendix C), states that costs of general administrative staff, such as executive director or budget staff, not directly involved in activity delivery is allocable only as part of an approved indirect cost plan.

NHSLA charged NSP2 \$1,713,023 in administrative and project delivery payroll costs for fiscal years 2017 and 2018 (July 2016 through June 2018). Of this amount, \$1,388,545 had been paid, and \$324,478 was still owed.<sup>7</sup> As indicated by NHSLA and confirmed through observation of similar activity, it would reimburse itself from the NSP account in lump sum

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<sup>7</sup> NHSLA asserted that it did not have NSP2 funds to reimburse NHSLA.

transfers when program income was earned and did not generally record amounts owed in the NSP2 account before collection. NHSLA was paid \$973,843 for fiscal year 2017,<sup>8</sup> of which \$963,664 was for payroll and \$10,179 was for direct (nonpayroll) administrative costs it also did not support. In addition, for the \$739,180 in costs for fiscal year 2018, we confirmed that \$414,702 was transferred from the main NSP account to the NHS operating account and that there was no transfer for the \$324,478 balance during our audit period. Although the amount owed had not been collected from NSP2, the underlying costs remained questionable as well due to NHSLA's inappropriate methodology for tracking and recording payroll costs. Accordingly, there are no assurances that the \$1,713,023 charged for administrative and project delivery payroll costs for fiscal years 2017 and 2018 were for NSP2.

### **Total Administrative Costs Were Miscalculated**

NHSLA did not correctly calculate the total amount of administrative costs it could charge to NSP2. According to NSP Policy Alert – Guidance on Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities, NHSLA was allowed to charge up to 10 percent of its program income earned for administrative costs. However, the methodology it used to calculate program income was incorrect. (See finding 1.) Because the administrative cost was based on the total program income earned, NHSLA therefore also miscalculated the total amount it was allowed to charge for its administrative costs for fiscal years 2017 and 2018.<sup>9</sup>

### **Conclusion**

NHSLA could not support its administrative and project delivery expenditures charged to NSP2. It also miscalculated the amount it was allowed to charge for administrative costs. This condition occurred because NHSLA did not have procedures or controls in place to record actual staff time to support its administrative and project delivery expenditures for salary. It also did not properly interpret or understand program rules requiring a cost allocation plan for indirect program costs, nor the rules to track and record the actual time of direct employees and compute the amount it was allowed to charge for administrative costs. Instead, it charged payroll costs to NSP2 with unsupported percentages. As a result, there was no assurance that more than \$1.7 million<sup>10</sup> in expenses was for NSP2.

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<sup>8</sup> We verified the deposits to and transfers made between its NSP2 and NHSLA accounts, along with the credit NHSLA gave itself from its interfund account, and determined that they generally corresponded with the amount it received in full for fiscal year 2017 for its administrative and project delivery costs, as explained in its NSP2 cost reimbursement summary sheet. We attempted to further verify the deposits and transfers through a request to NHSLA, but it did not provide a response by the end of our audit fieldwork.

<sup>9</sup> NHSLA applied the 10 percent program income limitation to total accrued administrative costs, which consisted of administrative payroll costs and direct (non-payroll) administrative costs.

<sup>10</sup> Of the \$1.7 million in questioned costs, \$324,478 in expenses was not reimbursed to NHSLA during our audit period because NHSLA claimed that it did not have sufficient NSP2 funds to do so.



## **Recommendations**

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

- 2A. Provide adequate documentation to support its administrative and project delivery cost expenditures or repay the program \$1,388,545 from non-Federal funds.
- 2B. Provide supporting documentation to show whether the outstanding liability of \$324,478 is correctly classified as an NSP2 liability. If not, HUD should ensure that NHSLA corrects its NSP2 cost reimbursement summary for the 12 months ending June 30, 2018, to reclassify the expenses to a non-NSP2 program. Such funds would be considered funds to be put to better use.
- 2C. Develop and implement a HUD-approved cost allocation plan to properly account for indirect program costs.
- 2D. Establish written payroll policies and procedures in accordance with program requirements for the tracking, recording, and maintenance of direct costs to ensure that time distribution records are in place to support the allocation of charges.
- 2E. Obtain training to ensure that it understands NSP2 regulations and requirements related to payroll allocation for its administrative and project delivery costs and program income calculation methodology to ensure it properly computes the amount it is allowed to charge for administrative costs.

## **Finding 3: NHSLA Did Not Properly Support the Procurement of Its NSP2 Construction Contract**

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NHSLA did not have adequate documentation to support the procurement of its construction contract in accordance with HUD requirements. This condition occurred because NHSLA did not have sufficient controls to ensure that it followed HUD procurement requirements. As a result, HUD did not have assurance \$856,692 in NSP2 funds spent under this construction contract with South Gate Development, Inc., was reasonable.

### **NHSLA Lacked Procurement Documentation**

NHSLA did not have adequate documentation to support the vendor procurement and bidding process for the construction of Alondra Villas. NHSLA chose South Gate Development as the winning bidder for its Alondra project's \$6.9 million construction contract.<sup>11</sup> NHSLA paid \$856,692 in NSP2 funds to South Gate Development for the development.<sup>12</sup> However, our review determined that NHSLA did not maintain supporting documentation required under a "sealed bid" process.<sup>13</sup> Under HUD requirements and NHSLA's own internal policies and procedure for procurement, the procurement process involved developing an invitation for bids, publicly soliciting bids, opening bids and announcing prices, reviewing bids in detail, awarding the contract to the winning bidder, and supporting the basis for contractor selection. (See appendix C.) However, NHSLA lacked sufficient controls to ensure that requirements were carried out.

### **Independent Cost Estimate Not Prepared**

NHSLA did not complete a written independent cost estimate before the bidding process in accordance with HUD requirements at 24 CFR 84.44(e). A recipient should prepare its own independent cost estimate to be compared to the competitive bids received. If the comparisons are significantly different, the recipient will need to examine each to verify that its own estimate is valid. Officials from NHSLA also confirmed that an independent cost estimate was not completed, stating that NHSLA did not do a detailed work write-up (i.e. independent cost estimate) in advance of the bidding because its project management team did not have the extensive new construction background that was needed. As a result, NHSLA had nothing to compare to the bid amounts to determine if costs were reasonable.

### **Inadequate Invitation for Bid**

The invitation for bid NHSLA provided was inadequate and included only an agenda for prospective bidders to walk through the project location for a question and answer session and receive general information about the project's development. Under HUD regulations at 24

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<sup>11</sup> The project was for the rehabilitation and construction of a 28-unit, 2-story townhome complex that was completed and partially funded with NSP funds. The project is an eligible use of NSP2 income.

<sup>12</sup> Documentation showed that the payments were for eligible construction costs.

<sup>13</sup> Under a sealed bid process, prospective bidders are publicly solicited with the most responsible bidder, which conforms with all technical requirements of the invitation for bids and is the lowest priced, being awarded the contract.

CFR 84.44(a)(3)(i-v), solicitations for goods and services must provide the following for procurement:

- A clear and accurate description of the technical requirements for the material, product, or service to be procured. In competitive procurements, such a description must not contain features that unduly restrict competition.
- Requirements that the bidder-offeror must fulfill and all other factors to be used in evaluating bids or proposals.
- A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
- The specific features of “brand name or equal” descriptions that bidders are required to meet when such items are included in the solicitation.
- The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.
- Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient. (See appendix C.)

The invitation for bid provided by NHSLA did not include this information and was, therefore, not properly supported. Without a proper invitation for bid, prospective bidders may not have submitted bids in accordance with the technical construction requirements needed for the Alondra project, and the resulting bid amounts may therefore not have been reasonable.

#### No Public Solicitation of Bid and Public Opening of Bid

The document NHSLA provided as the supposed public solicitation of bid was inadequate. It provided only a one page list containing names of construction vendors, their office locations, phone numbers, and email addresses. Because an invitation for bid was not sufficiently developed, the public solicitation of bids was not properly supported and publicly advertised to prospective bidders. The detailed information in the invitation for bid would have been included in the public solicitation and sent to the bidders for them to review and analyze in order for them to properly respond to, for their respective bids. NHSLA also stated that it did not complete a public opening of bids for the procurement of the Alondra project, as would be recorded in an invitation for bid. As a result, NHSLA did not perform a public solicitation of bid in accordance with HUD requirements, which may have detrimentally impacted competition for the contract.

#### No Detailed Review of Bids or Basis of Contractor Selection

NHSLA did not provide documentation during the course of our audit fieldwork supporting a review of bids. Because documents were not provided to support a review of bids in detail, the related price analysis or evaluation and comparison of submitted price quotations to compare lump sum prices received from contractors in a competitive pricing situation was not performed in accordance with HUD guidelines under 24 CFR 84.44(e) and 24 CFR 84.45, respectively. As a result, there was no assurance NHSLA adequately reviewed the bids to ensure amounts were reasonable.

In addition, NHSLA did not provide documentation supporting a written basis for contractor selection as required under HUD requirements at 24 CFR 84.46(a). (See appendix C.) Because a review of bids and basis of contractor selection was not provided, it is not known whether NHSLA chose the lowest or most responsible bidder (that is, construction vendor) for construction of the Alondra project.

#### Restriction of Competition

In an emailed response to followup questions, NHSLA stated that five potential contractors participated in the walk-through of the project's location. Based on the feedback of the five contractors, NHSLA developed a pro forma detailing a statement of work and recording the projected costs and specifications for the Alondra project. As a result, there was an apparent conflict of interest restricting the process of open and free competition, as contractors who helped produce a statement of work also participated in the bidding process. The contractors that participated in the walk-through should not have been eligible to participate and should have been excluded from the procurement process for Alondra under HUD requirements at 24 CFR 84.43. (See appendix C.)

#### **Conclusion**

NHSLA did not provide proper documentation to support the procurement of its construction contract in accordance with HUD requirements. This condition occurred because NHSLA did not have sufficient controls to ensure that written procurement policies and procedures were followed or that HUD requirements were met. Therefore, there was no assurance that \$856,692 in NSP2 funds paid to South Gate Development, Inc., for construction costs on the Alondra project was reasonable.

#### **Recommendations**

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

- 3A. Support the reasonableness of the South Gate contract or repay NSP2 \$856,692 from non-Federal funds.
- 3B. Develop and implement additional procedures and controls to ensure that HUD procurement requirements are followed.

# Scope and Methodology

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We performed our audit fieldwork at NHSLA's office located at 3926 Wilshire Boulevard, Suite 200, Los Angeles, CA, between May and October 2019. We performed additional audit fieldwork remotely between November 2019 and January 2020. Our audit generally covered the period July 2016 through April 2019. We expanded our scope to August 2019 for the interfund review.

To accomplish our audit objective, we

- Reviewed relevant background information, including organizational charts and employee job descriptions.
- Reviewed related program requirements and applicable HUD Federal regulations.
- Reviewed HUD's relevant monitoring report.
- Interviewed HUD officials from the Office of Community Planning and Development's Los Angeles field office and HUD's NSP specialist.
- Reviewed NHSLA's DRGR quarterly performance reports, action plan, and audited financial statements from fiscal years ending 2016, 2017, and 2018.
- Reviewed NHSLA's grant agreement, consortium agreements, and construction contracts from 2016 to 2019.
- Reviewed NHSLA's internal NSP2 policies and procedures manual.
- Reviewed NHSLA's bank statements for July 2016 to August 2019 and bank reconciliations for July 2016 to April 2019.
- Reviewed general ledger detail for July 2016 to August 2019.
- Interviewed NHSLA's president and recently hired controller. We also repeatedly requested to interview additional employees; however, NHSLA did not respond to schedule the interviews.
- Selected samples and reviewed source records to test procurement and contracting, expenditures of program income, and the tracking and accounting of program income to determine whether NHSLA administered its NSP2 in accordance with program requirements.
- Issued an OIG subpoena to NHSLA for supporting documentation.

## Sampling Information

Our universe and nonstatistical sample consisted of the following:

1. **Procurement and contract:** We selected a nonstatistical sample of more than \$1.8 million from an audit universe of nearly \$2.2 million. We subsampled \$856,692 in payments made to South Gate as it was the largest construction contractor for the Alondra project.
2. **Revolving loan fund:** NHSLA prepared and provided a schedule with 49 loans totaling \$657,500, which according to NHSLA, represented the reloaned program income sales proceeds of \$656,721. We nonstatistically sampled 4 of 49 (8 percent) loans totaling \$185,000, 3 of which represented the largest loan amounts made. The

fourth was chosen at random because it had a loan number similar to the other remaining loans. We determined that the deeds of trust of only one of the four loans contained language showing that the property was tied to NSP2. As a result, we expanded our sample and nonstatistically selected an additional four loans totaling \$42,000 for review. We chose the four additional loans from a closed loans list. Three were selected because they were not in the revolving loan fund account or the general operating account, and the fourth was chosen at random. In total, we nonstatistically sampled 8 of 49 loans (16 percent) totaling \$227,000.

3. **Interfund:** As of July 1, 2016, the beginning interfund account balance was \$4.3 million, and the ending balance as of August 31, 2019, was \$529,745. We nonstatistically selected the three highest credit amounts in the NSP2 interfund account totaling \$5.6 million for the period July 1, 2016, through April 30, 2019, because they significantly decreased the overall balance owed to the NSP2 fund by NHSLA. We subsequently selected a non-statistical sample of NSP2 program income totaling \$5,086,531 and NSP2 expense payments totaling \$9,189,698, for the period July 1, 2016 through April 30, 2019. We traced the amounts from the interfund account to NHSLA's non-NSP bank account general ledgers, to determine how NSP2 income and expenses were being tracked and recorded. We received requested bank account general ledgers that were related to NSP2 activities and verified that some program income and expenses were deposited or paid out of these general ledgers. However, some of the NSP2 program income and expenses were not included in these general ledgers and therefore appear to have been recorded in other non-NSP2 bank account general ledgers. We did not perform further testing to confirm where these amounts were recorded due to time constraints and the auditee's general difficulty in providing documentation during audit fieldwork. Our audit results were limited to the items tested and cannot be projected to the universe.
4. **Expenditures of program income (administrative and project delivery cost):** The universe of NSP2 account number 1019 expenditures that were not directly attributable to a property for fiscal years 2017 and 2018 was \$1.19 million. We selected a nonstatistical sample of \$1.17 million, the total amounts listed as attributable to NHS and NLS.<sup>14</sup> We determined that the amounts were generally for administrative and project delivery costs.<sup>15</sup> We, therefore, subsampled the most recent 3 months (April to June) in fiscal year 2018 totaling \$460,706.<sup>16</sup> Due to issues identified with fiscal year 2018 payroll, we requested documentation to support all of fiscal year 2017. NHSLA provided the complete NSP2 allocation sheets for 10 of the

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<sup>14</sup> The remaining expenditures for NHSNRC and NSP were not as material and, therefore, not selected for review.

<sup>15</sup> As part of our review of administrative and project delivery costs, we identified additional applicable interfund amounts that appeared to have been paid from NSP over the universe above and identified amounts remaining owed to NHSLA that were incorporated into the questioned costs.

<sup>16</sup> Administrative costs are subject to a 10 percent cap, which NHSLA calculates annually. Therefore, the monthly payroll amounts reviewed for the sample period do not directly reconcile to the annual amounts charged in accordance with the cap.

12 months of fiscal year 2017,<sup>17</sup> but it did not provide timesheets or payroll registers. We selected the most recent months with completed allocation sheets (February, March, and June 2017<sup>18</sup>) to determine whether NHSLA consistently applied the same methodology of charging payroll to NSP2.

We could not review all of the expenditures for procurement and contract, revolving loan fund, interfund, and expenditures of program income for administrative and project delivery cost in the audit universe within our audit timeframe and, therefore, selected nonstatistical samples, as detailed above. Our audit results were limited to the items tested and cannot be projected to the universe.<sup>19</sup>

We assessed that the reports and the budget piece reported in the DRGR system were not properly updated (specifically, program income drawn down and received) or accurately recorded for the period July 2016 to March 2019. We, therefore, assessed the computer data to not be sufficiently reliable for use during our audit. The computer-processed data generated by NHSLA were not used to materially support our audit findings, conclusions, and recommendations. Instead, source records were used for review and determination of questioned costs.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain, appropriate evidence to provide 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.

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<sup>17</sup> On January 17, 2020, NHSLA provided the missing 2 months of allocation sheets for fiscal year 2017.

<sup>18</sup> The sample months were selected before NHSLA provided the missing 2 months of allocation sheets for 2017.

<sup>19</sup> Although we sampled fiscal year 2018 administrative and project delivery costs, we questioned the entire fiscal year 2018 payroll amount because we determined that the inappropriate methodology was systemic in nature.

# Internal Controls

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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 ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance 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 Deficiencies

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

- NHSLA lacked sufficient financial procedures and controls to properly account for and record program income in its NSP2 account in compliance with HUD requirements (finding 1).



- NHSLA lacked procedures and controls to ensure that support for its administrative and project delivery costs complied with HUD requirements (finding 2).
- NHSLA lacked sufficient controls to ensure adequate documentation to support the procurement of its construction contract in compliance with HUD requirements (finding 3).

# Appendixes

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## Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	\$3,425,679	
1B		\$529,745
1C	658,261	
1D	500,000	
2A	1,388,545	
2B		324,478
3A	856,692	
<b>Totals</b>	<b>6,829,177</b>	<b>854,223</b>

- 1/ 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. The unsupported costs in this case include a \$3.4 million in reclassifications with no support documentation, \$500,000 in NSP2 funds transferred to the revolving loan without adequate documentation, \$658,261 in loan proceeds that could not be supported, \$1,388,545 in unsupported administrative and project delivery cost expenditures, and \$856,692 in construction costs without sufficient procurement documentation.
- 2/ 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 includes \$529,745 in the interfund account that was deposited or moved to non-NSP2 accounts, putting it at risk for misuse due to NHSLA's current practice of commingling NSP2 with other funds. Also, \$324,478 refers to an NSP2 payroll liability that remained due to NHSLA for 2018 but was not calculated in accordance


with HUD requirements. A determination needs to be made regarding whether the liability needs to be reduced or reclassified.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

  
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June 26, 2020

**VIA EMAIL ONLY**

Ms. Tanya E. Schulze  
Regional Inspector General for Audit  
Office of the Inspector General  
U.S. Department of Housing and Urban Development  
300 N. Los Angeles Street, Room 4070  
Los Angeles, CA 90012

**Re: Neighborhood Housing Services of Los Angeles County  
Response to Draft Audit Report No. 2020-LA-100X dated May XX, 2020**

Dear Ms. Schulze:

This document is the response of Neighborhood Housing Services of Los Angeles County ("NHS") to the draft audit report dated May 12, 2020 issued by the Office of Inspector General, Department of Housing and Urban Development ("OIG") and sent to Lori Gay, President of NHS (the "Audit Report").

**Background.**

NHS is a California nonprofit public benefit corporation. It was organized approximately 36 years ago and has been recognized by the Internal Revenue Service as a tax-exempt public charity since its inception. NHS was formed to help improve the quality of life for low/moderate income families in Los Angeles County. It does this by developing and maintaining quality affordable housing, creating affordable homeownership opportunities, supporting local leaders, providing financial education to prospective homeowners, and increasing the financial independence of families and people in underserved areas. NHS works with residents and government representatives to build stronger neighborhoods for low/moderate income families to revitalize neglected communities and transform them into neighborhoods of choice.

There are two nonprofit entities which are affiliated with and assist NHS in achieving its charitable goals - NHS Neighborhood Lending Services ("NLS") and NHS Neighborhood Redevelopment Corporation ("NRC").

NLS was organized in 1996. It is also a tax-exempt public charity. NLS provides essential financial assistance to residents in NHS' targeted communities to encourage home ownership. It provides these residents with affordable (below market) lending programs. The majority of the persons who participate in the programs offered by NLS would not otherwise qualify for conventional credit. In addition, NLS provides residents in these targeted communities with educational programs to assist them in becoming informed with respect to home ownership

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issues and related financial matters. Providing this knowledge helps to empower families to become more actively involved in their community which, in turn, has a positive effect on revitalizing the community.

NRC was organized in 1996. It, too, is a tax-exempt public charity. NRC complements the activities of NHS and NLS by engaging in the restoration and revitalization of economically depressed neighborhoods in Los Angeles County. It acquires and rehabilitates distressed properties which reduces blight and helps renew these often underserved neighborhoods. NRC also provides full service real estate representation to residents in these areas at below-market rates. This is extremely beneficial because most of these residents would not otherwise be able to build wealth and financial stability in the long term with typical market rate representation.

Due to their complementary services and affiliated structure, NHS, NLS and NRC frequently work together on projects, which was underscored in the documentation provided to, and reviewed by, the OIG audit team.

### **Neighborhood Stabilization Program 2.**

In furtherance of its charitable mission, NHS participates in the Neighborhood Stabilization Program 2 (the "NSP2"). As you are aware, NSP2 is a Department of Housing and Urban Development ("HUD") program created to assist in stabilizing communities that have suffered from residential foreclosures and abandonment. One of its primary functions is to provide nationwide grants to various types of entities, including state and local governments, but also nonprofit entities such as NHS.

NHS applied for and, in 2010, was awarded a grant pursuant to the NSP2 program. It has been awarded a number of grants since then. NHS uses the funds received to engage in a wide range of development activities in its targeted communities. These activities include the acquisition and rehabilitation of single-family residences and other residential property, providing down payment assistance to qualified residents of these communities, and providing counseling to residents as to how to be informed borrowers and homeowners.

For context, NHS is currently servicing 127 NSP2 loans with a total value of \$8,071,342. These loans are all granted at a 0% interest rate with deferred payment. NHS does not collect servicing fees or other revenue from the borrower beyond the \$188 needed for the costs associated with subordination or loan payoff. The overhead needed to service these loans and otherwise provide its services is instead borne by NHS, often at great expense, and is typically paid by funds other than those generated out of the NSP2 program.

### **OIG Audit.**

In response to a complaint received by OIG that alleged irregular financial activity concerning the use of certain of the NSP2 funds received by NHS, OIG conducted an audit of NHS' activities and its use of the NSP2 funds received. The objective of the audit is stated to be to ascertain whether NHS utilized the NSP2 funds it received in accordance with the NSP2

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## Auditee Comments

Comment 1



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requirements. As is customary in such circumstances, the audit focused on procurement, contracting, use of the income generated by NSP2 funds, and the tracking and accounting of NSP2 funds and the related income.

After a lengthy audit period, OIG prepared the resulting Audit Report. It lists several findings to which NHS objects and responds below.

### **Contemporaneous Audits.**

Before discussing the OIG audit findings, we think it helpful to note that NHS was concurrently working with, and responding to, five (5) different outside audit teams, each for a different organization and purpose, at around the same time. Those teams were auditing NHS' activities on behalf of NeighborWorks America, Community Development Financial Institutions Fund, NHS' own annual financial audit, an audit for Fiscal Year 2019 by HUD's Office of Community Planning and Development ("CPD"), and the OIG audit the subject of this response.

The fact that these numerous audits were all taking place at approximately the same time severely taxed the capacity and resources of NHS to respond to any one of the audits, much less to all of them, while continuing to meet its primary mission - serving the residents of its targeted communities. While the staff of NHS typically totals about 40, it is NHS' approach to minimize overhead wherever feasible, and so it routinely keeps its staff as lean as possible. The NHS Finance team consists of three (3) individuals, led by the Controller, who reports to Lori Gay, the President. While there are other staff members who could be called upon to assist in retrieving records in order to respond to specific audit team requests, their daily responsibilities are such that they would not have the knowledge to self-initiate action in the context of any audit (internal or external), but would rather work at the direction of the Finance team and/or Ms. Gay.

Even when receiving new grants to commence fresh projects, NHS does not "bulk up" its staff. Instead, NHS hires with the goal of bringing the new staff on board for the given project, but also with the intent of keeping those individuals employed after the project is completed, if possible. As such, the ability of NHS staff at all levels to respond to requests from the various audit teams was significantly stretched at that time, as would be the case in all but the largest of companies. The complexity of the situation was further enhanced by the fact that the age of the projects being reviewed meant that many of the records were maintained in offsite storage. As such, even once categories of documents could be identified, they had to be located and retrieved from storage, which itself delays the process, and then be carefully reviewed to identify the correct documents to be provided in response to the specific audit team request(s).

### **Draft Audit Report Findings.**

The draft Audit Report contains the following three principal findings: (i) NHS did not support NSP2 income expenditures or report its activities in the Disaster Recovery Grant Reporting ("DRGR") system; (ii) NHS could not support its administrative and project delivery costs; and (iii) NHS did not properly support the procurement of its NSP2 construction contract.

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Comment 2



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Each finding contains several assertions and alleged errors on the part of NHS with respect to its use of the NSP2 funds. NHS disagrees with the conclusions set forth in each of the findings, the assertions which purport to support those conclusions, and contends its use and oversight of all of the NSP2 funds were proper. Moreover, NHS contends that the NSP2 funds it was awarded (and the income generated by those funds) were used as intended by the NSP2 program. NHS has provided the audit team with literally thousands of pages of documents to substantiate the proper use of the NSP2 funds received and the income earned. Based upon our communications with the OIG audit team, it appears that the information contained in some/many of these documents was either not carefully reviewed or was simply misunderstood. We will address a few of these miscommunications and misunderstandings below in order to illustrate the reason for this conclusion.

Comment 3

Notwithstanding the fact that NHS utilized its NSP2 funds properly, NHS acknowledges that, in hindsight, some of its recordkeeping procedures may not have been as refined as might be expected. To address this issue, NHS has begun reviewing its recordkeeping policies and procedures to ensure that, going forward, they will enable NHS to more clearly report the use of its funds. Moreover, NHS has arranged for its staff to receive intensive training on NSP2 and HUD procedures and policies from CPD to ensure that, going forward, its recordkeeping will allow NHS (and its affiliated entities) to be able to respond to HUD inquiries in a more streamlined and efficient manner. At no time, however, did NHS misuse, misapply or fail to account for any of the NSP2 funds it received. In addition, all of the expenses paid by NHS with respect to its NSP2 projects were proper and were incurred in accordance with NSP2 procedures.

Comment 3

Due to the length of the draft Audit Report and the nature of the three principal findings, it would require an extremely lengthy written response to address each of the issues cited therein. Moreover, as stated, NHS has, in prior communications with the OIG audit team, provided hundreds of documents consisting of thousands of pages to substantiate the proper use of the NSP2 funds received. The time and resources needed for NHS to reconstruct that trove of documents, review them, relate them to each of the issues listed in the draft Audit Report and resend them with yet another explanation, would be prohibitive from both a time and cost perspective. As a result, this reply will focus instead on a few of the more significant erroneous conclusions contained in the Audit Report. We address at the end of this response with possible future activity.

Comment 4  
Comment 5

**Request for OIG Audit Work Papers.**

NHS herewith requests copies of all of the work papers prepared, reviewed, or otherwise relied upon by the OIG audit team in preparing the draft Audit Report. Having these work papers will enable NHS to determine the source of all the misunderstandings and miscommunications which apparently occurred and also work more efficiently with the CPD team in the future. Reviewing these work papers will also enable NHS to identify which of its own processes and procedures may require refinement.

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**Issues/Conclusions Raised in Draft Audit Report.**

Comment 5

As noted, there are several points NHS would like to raise to illustrate the level of miscommunication and/or misunderstanding that occurred during the audit process. One relates to the method by which the Alondra housing project was bid and awarded. The second concerns NHS' alleged failure to support NSP2 income expenditures and report its activities in the DRGR. The third relates to the use of the revolving loan fund proceeds. The fourth relates to the assertion that payroll attributed to administrative staff should not be charged to individual projects. Finally, the fifth concerns the process by which the audit itself was conducted.

**The Alondra Housing Project.**

Comment 6

On Pages 12-13 of the draft Audit Report, the assertion is made that NHS permitted prospective bidders to "walk through" the Alondra housing project and, in effect, set their own parameters which, in turn, purportedly allowed them to impose their own contract requirements. This is wholly inaccurate.

Comment 7

The partially completed Alondra project was acquired by NHS from the City of Compton. Detailed plans and specifications for the Alondra project were prepared and approved by the City. These plans were then provided to the prospective bidders for review in preparing their bids. The "walk through" of the project was simply one of many steps in the bidding process. The entire process was repeatedly explained to the audit team and substantiating documentation was presented at the time. Further documentation was provided in response to the Subpoena Duces Tecum dated October 22, 2019 which was issued to NHS (the "SDT"). Notwithstanding all of the information provided, the draft Audit Report totally mischaracterized the bidding process.

Comment 7

To be clear, NHS previously provided copies of the documentation that was given to the prospective bidders as well as the bid submitted by each bidder. These documents are described again herein to reinforce what took place during the bidding and award process.

Comment 7

Representatives from the City of Compton Departments of Building and Safety, Planning, Engineering, and Public Works, along with the Chief Building Inspector were all part of the walk through and the overall project administration.

Comment 7

More pertinent is the bidding process that led up to the walk through. It began with an email dated November 15, 2015 which was sent by NHS to seven (7) different NSP approved contractors, as well as a public notice/request for bids that was repeatedly published in a local newspaper of general circulation. In addition, the City of Compton forwarded the request for bids to the entities on its approved list of contractors. Substantiating documentation for these activities was provided to the audit team while they were onsite at NHS' offices.

Comment 6

The actual walk through took place on or about November 17, 2015, all the contractors invited by NHS attended. A follow-up email was sent dated November 19, 2015 by NHS to all those contractors inviting any questions. Those questions with answers were compiled and distributed

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Comment 7

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on or about November 24, 2015 and sent to all seven (7) contractors. A comparison of the bids took place on or about December 16, 2015 and again on or about December 21, 2015, by then, only two potential awardees remained and the contract was awarded to the lowest bidder. There was nothing improper or unusual about this process. Despite the number of times this information was provided and explained, and the relevant documents shared, the audit team seems to have not understood what occurred. To underscore this conclusion, we point out, once again, the audit team was provided, on more than one occasion, with the architectural plans for the project, which is the principal document provided to all bidders as part of the walk through and bidding process. Except for the architectural drawings (due to their size) and the project public notices (which are available upon request), the documents just described are provided again with this response, see Bates Nos. NHS 3000 - NHS 3024.

It is also important to point out that all but one of the units within the Alondra housing project have been sold to eligible buyers. This final property is currently in escrow and is expected to close shortly. As a result, NHS has done what it was obligated to do with respect to the Alondra project - complete construction of affordable housing and convey each unit to a qualified buyer. The project leveraged an additional \$12.1 million dollars from private and other government sources to assist families of low to moderate income achieve their dream of homeownership.

As noted above, one of the audits recently conducted with respect to NHS' operations was by CPD. That audit report was issued dated April 24, 2020. It focused primarily on a \$60 million grant of NSP funds on February 11, 2020. Those funds were described as having been used for the "purchase of foreclose[d] single or multi-family properties." Those properties are acknowledged to have been rehabilitated and then either sold or rented to families "at between 50% and 120% of the area median income."

The cover letter sent with the CPD audit report, states as follows:

We commend NHS LA County for successfully completing Alondra Villas, a 28-unit affordable homeownership project in Compton ... [and] for leveraging NSP2 funds ... for delivering these units in a very cost-effective manner which allows these units to be affordable to very low income households.

The letter goes on to acknowledge NHS is developing Manchester Urban Homes and HOPE Villas, also in Compton. The HOPE Villas project is in the early planning stages. The Manchester Urban Homes project was opened for bidding on or about June 25, 2020.

**NHS' Support of NSP2 Income Expenditures and Reporting of its Activities in the DRGR.**

With the exception of one quarter (the one ending June 30, 2019), NHS timely reported its activities through the DRGR portal for every quarter of the audit period. Each report submitted was also approved through the local and national HUD offices.

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Comment 9



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As was previously explained, the reason for NHS' delay in reporting its activities through the DRGR portal for the quarter ended June 30, 2019 (and later) is because NHS lost its NSP2 finance manager in early May 2019. As a result, it was unable to timely submit the June 30, 2019 quarterly report due to the HUD security measures in place. These are the protocols which require designated person(s) to have authority to upload financial reports, but not allow others with authorized access to do so or alter those reports. NHS does not object to these security measures, but rather mentions them only to explain the lag in DRGR reporting. At this point, staff had program access but accounting/finance had no access.

Comment 9

When NHS timely alerted HUD staff of the transition, it took until late March, 2020 for the agency to provide NHS with the requisite staff approvals so the designated NHS Finance team could again access the DRGR portal and work to submit the remaining reports. Even to this point, NHS is not able to fully submit its quarterly reports as the "submit" feature is not properly activated. The Help Desk is working on this issue along with the national office of CPD. The current expectation is that this technical challenge will be cleared up in the next week or two. Once it is, NHS anticipates completing the submission process for any pending reports.

Comment 10  
Comment 9

In view of the foregoing, any allegations about the Alondra project bidding process and the lack of DRGR reports should be removed from the final audit report. As to the DRGR reporting, if the audit team feels compelled to mention the situation, then the explanation presented should include a write-up about the technical challenges which cause the inability to file.

**Use of Revolving Loan Fund Proceeds.**

Comment 11

The draft Audit Report states that NHS' use of the revolving loan fund proceeds was not supported. This is incorrect. Where things went sideways for the audit team is it somehow got the impression that information about loan activity could be found on the deeds of trust. Of course, that is not the case. What appears on a deed of trust is dictated by real estate law and tends to be quite minimal beyond property description and ownership/lien holder data, with very little loan data on it.

Comment 11

Sadly, the audit team did not specify what information it was provided or by whom that led to this mistaken conclusion. We discuss below the deeds of trust, starting at the bottom of Page 8, but in conjunction with their related promissory notes. It is on the promissory notes that the NSP2 legend appears most prominently.

Comment 11

What the audit team was also told is that NHS is able to determine the source of the funds for a particular property by reference to the loan number. Since it should have been rather obvious from the outset the deed of trust was not the correct document to reference, it is equally surprising the audit team failed to ask the broader question of on which document(s) can we find the loan number? We cannot speak to why this question was never asked, only that it was not asked. Had it been asked, the loan documentation and the related accounting ledgers could have been provided to address this topic.

This allegation, too, should be removed from the final audit report.

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Comment 12



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**Administrative Staff Payroll.**

The draft Audit Report alleges that NHS improperly charged time and compensation for its administrative staff to NSP2 project costs. Unfortunately, the fact this point was even raised makes clear how confused the audit team was about the roles of the NHS management team members. For example, while other entities may proceed differently, the President and Controller of NHS are both part of its redevelopment team. This is done so there is not only an experienced financial manager on the team but also the President, with more than 30 years of experience with redevelopment in low and moderate income neighborhoods, who can also lend her expertise. Both are active members of these teams so that their efforts to find investment capital to leverage project completions are well informed, but also so that periodic administrative reviews take place in order to help manage project budgets, all in compliance with program parameters.

Here again, this allegation is without merit and should be removed from the final audit report.

**Audit Procedures and Exit Conference.**

At this point, we turn to events which occurred during the audit and the subsequent exit conference which NHS finds troubling. First, without NHS being notified, we understand the OIG audit team and the team conducting the CPD audit met to compare notes and findings in each of their respective audits of NHS. This raises the issue as to whether the audit teams maintained the appropriate degree of independence. We are aware, of course, of Generally Accepted Government Accounting Standard or GAGAS, Standard 3.10. NHS is not asserting this standard was violated per se, but rather, it is impossible to tell at this point whether the OIG audit team was confused solely by what it learned during the audit it conducted of NHS, whether it was confused by what the CPD audit team may have shared, or whether the information became jumbled together which caused the confusion which resulted.

Although we acknowledge these discussions, no doubt, took place with the best of intentions, put another way, at this point it is not possible to determine whether any of the information that was exchanged led to, or compounded, the confusion which resulted on the part of the OIG audit team. Either way, there was clearly confusion (or, if you prefer, misunderstanding) on the part of the OIG audit team.

Equally troubling was the fact that, at the exit conference, which took place by conference call on June 2, 2020, NHS, through its counsel, requested clarity as to the grounds for specific statements made in the draft Audit Report and what ensued was unsatisfactory. In particular, NHS inquired about the following statements:

- 1) Page 6 - "[OIG] requested additional documentation to explain this inconsistency, but did not receive clarification from NHSLA." The claimed inconsistency refers to how to identify that a given property is subject to NSP funding, and goes on to talk in terms of being told the deed of trust would provide the information, but only one deed of trust contained that information, out of the 8 provided.

Comment 13

Comment 14

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Comment 11

Comment 11

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Comment 15



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To clarify the source of this assertion, we were provided by email dated June 3, 2020 with an extract from an OIG December 19, 2019 email to counsel regarding certain "follow-up questions" and were informed the Third Supplemental Subpoena document contained an acknowledgment of the question being received, but "no further emails were provided." To be sure, we were also given another copy of the Third Supplemental Subpoena document.

In response to the SDT, NHS provided exactly the documents requested and did so over a total of six (6) submissions. Regarding the specific topic of the deeds of trust, NHS submitted its Third Supplemental Response dated January 17, 2020, see Bates Nos. 5-NHS-1074 through 5-NHS-1157.

As noted above, where the audit team got confused was in its reliance on only the deeds of trust. What the audit team should have asked for were the promissory notes, but did not. What the audit team could have also asked for, and did not, were any financial records in which the various loans were tracked. To illustrate how easily the matter could have been clarified, please find a set of 18 documents retrieved from NHS' loan processing records. See Bates Nos. NHS 3025 - NHS 3206. Critically, each promissory note has "NSP 2 Program" prominently stated on it. As a result, it was and is relatively easy for NHS to track the repayment of funds related to NSP2 and deposit these funds into its NSP2 accounts.

The audit team was also repeatedly told that NHS is able to determine which loan is funded by NSP2 funds by reference to the loan number. Not one request/question was posed in the SDT or later on this topic. Had any such question been raised, NHS would have provided copies of the separate financial reports it routinely maintains in the ordinary course of business about each of its loans. In fact, NHS utilizes a loan numbering system and loan servicing software to track loans for each of its programs; NSP2 is treated no differently. The data is captured, along with information about loans funded by other sources, and reported on a monthly basis to management.

The most recent version of the Loan Servicing Report is dated May 2020, a copy of it is also included with this submission. See Bates Nos. NHS 3207 - NHS 3258. As indicated at the bottom of the report, the entries highlighted in golden rod are those related to NSP2 funding. Looking at this report, one can also readily validate that the loan number indicates the source of the funds. In particular, the NSP2 related loans all bear a 6 digit number that begins 70xxxx.

Again here, this allegation is without merit and should be removed from the final audit report.

- 2) Next, we asked about Footnote 8 on Page 10 of the Audit Report where OIG states: "[w]e attempted to further verify the deposits and transfers through a request to NHSLA, but it did not provide a response by the end of the audit fieldwork."

In response to the request to clarify the grounds on which this assertion was based, the same June 3, 2020 email was sent and again refers to the same December 19, 2019 email from OIG to counsel and follow-up questions. A copy of that December email was also provided with the relevant point highlighted.

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Note: Referenced documents are available upon request



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Comment 15



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This inquiry relates to Request No. 13 in the SDT. Subsequent responses from NHS include The Third Supplemental Response dated January 17, 2020, see Bates Nos. 11-NHS-1001 to 11-NHS-1013 (Bates numbered as 11-NHS, which should be 13-NHS, as previously advised) and Bates Nos. 13-NHS-1195-1200; the Fourth Supplemental Response dated January 24, 2020, see Bates Nos. 13-NHS-1201-13 NHS-1558; the Fifth Supplemental Response dated February 14, 2020, see Bates Nos. 13-NHS-1559-2157.

Comment 15

In short, NHS provided exactly the documents requested by the audit team. If there was something more that was needed, no such requests were made. We note as well that once the SDT documents were submitted, the audit team did send an email dated December 19, 2019 in which follow-up questions were asked. NHS responded as requested. Why the audit team did not pursue this topic further in an effort to clear up any open issues is unknown to NHS. If the audit team failed to request the proper documentation, that is not something for which NHS should be required to shoulder the blame. After all, the audit team was free to ask NHS to provide any other documents it might have on a specific point, and simply never did.

As previously indicated, this assertion is also without merit and should be removed from the final audit report.

Comment 16

- 3) The other request made at the exit conference had to do with claims that NHS failed to respond to the audit team's request to interview certain employees. The topic appears on Page 15 of the Audit Report.

In response, the June 3, 2020 email from OIG to counsel refers to an email dated January 8, 2020 and the list of employee names it contained. Here again, a copy of the underlying email was provided and the relevant point highlighted.

Comment 16

These interview requests seem a situation where the parties were never in sync. As indicated at the time, the request named six (6) individuals. NHS responded and pointed out one person was retired, two were out on medical and personal leave, and the other three (3) had nothing to do with the relevant project.

Comment 16

A follow-up email was sent by the audit team restating the interview request in a manner as though the earlier one was never sent. Subsequently, when NHS submitted its Third Supplemental Subpoena response on January 17, 2020, it formally responded as to the status (summarized in the paragraph above) of each individual. Surely the audit team did not expect NHS to attempt to bring a person out of retirement or require employees on leave to return to be interviewed by the team. Similarly, given the confusion which was obvious on the part of the audit team, NHS concluded the request to interview the other three individuals was based on either mistaken information or that the roles of those individuals had been misunderstood by the audit team. Either way, NHS did respond to the audit team's request. The audit team had already interviewed Lori Gay [REDACTED] and [REDACTED] while on-site.

Again, this is an invalid assertion and should be removed from the final audit report.

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Note: Referenced documents are available upon request.  
NHSLA staff names removed for privacy.

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**NHS (and its Affiliated Entities) Funded NSP2 Projects With Non-NSP2 Resources.**

It is important to point out, as Lori Gay stated at the commencement of the audit, that NHS uses separate, *i.e.*, non-NSP2 assets, to provide necessary supplemental funding for its NSP2 projects. As summarized in a general ledger report, see Bates Nos. NHS 3259 - NHS 3261, NHS, NRC, and NLS expended approximately \$17.78 million during the period July 1, 2016 through August 31, 2019 on development of NSP2 properties. Only approximately \$3.8 million of these expenses were paid for with NSP2 funding. The remaining approximately \$14.07 million was satisfied with non-NSP2 funds.

Comment 17

The goal of NHS and its affiliated entities is to help build stronger neighborhoods for low/moderate income families so that these underserved communities are revitalized and transformed into desirable neighborhoods. The core of NHS' mission is to complete the projects it starts. As a result, if the funding that NHS receives for a particular project is insufficient to allow its completion, NHS must obtain the additional funding from other sources and routinely does so. Such was the case with the NSP2 properties listed in the cited spreadsheet. As a result, if it is ultimately determined that NHS is required to repay any funds with respect to the NSP2, any such liability should be reduced by the amount of non-NSP2 funds that NHS was required to expend to complete the NSP2 projects.

**Corrective Action.**

Comment 18

As expressed on Page 4 of this response, NHS acknowledges that some of its recordkeeping procedures may need to be refined so that they may be more easily understood by HUD representatives. To that end, NHS has begun the process of reviewing its policies and procedures and is evaluating what refinements may be desirable, but will not be able to complete that analysis until it has the opportunity to study the audit team's work papers.

Comment 4

NHS also acknowledges the transition to the current Finance team was less than optimum, and for that reason, intensive HUD provided training is being arranged with CPD. NHS has an effective loan servicing tracking system in use (as evidenced by some of the documents produced with this response) and has provided those reports to CPD for review. As such, the CPD proposal for NHS to implement a log system overlooked the existing tracking software already in place.

We note here that, at one point, CPD recommended NHS hire a consultant to assist it with DRGR requirements. In future discussions, however, CPD and NHS jointly reached the conclusion that NHS working with national CPD staff would be more efficient and productive for both parties.

Comment 18

The NHS team has already undergone some of the NSP2 training provided by the CPD team. As part of that process, the Finance team has reviewed the fiscal year 2017 and 2018 program income calculations and made selected revisions. As part of this process, the CPD team has agreed to provide additional training on DRGR reporting to NHS.

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Note: Referenced documents are available upon request

Comment 19



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**Conclusion.**

Based on the foregoing, any allegations about the Alondra project bidding process and the lack of DRGR reports should be removed from the final audit report. As to the DRGR reporting, if the audit team feels compelled to mention the situation, then the explanation presented should include a write-up about the technical challenges which caused the inability to file. Additionally, any assertions of non-compliance related to the revolving loan account, payroll charged for the President and/or Controller, loan tracking, deposits, transfers and interviews are equally unfounded and should also be removed from the final audit report.

With respect to the remainder of the assertions and conclusions in the Audit Report, to which NHS again interjects its objections, once NHS receives a final audit report from OIG and the requested work papers, it intends to cooperate with HUD's CPD personnel so as to address each issue/conclusion and further reinforce that the funds received and earned were used properly and in accordance with HUD policies. In addition, the CPD team has already agreed to assist NHS in refining its recordkeeping systems as mentioned above.

Comment 20

The overarching concern expressed in the Audit Report has to do with NHS' recordkeeping. The CPD Monitoring Report issued on or about April 24, 2020 contains a statement which best summarizes the former situation at NHS: "[t]he inadequate staffing levels and experience with NSP2 programs have created financial and program reporting issues." While NHS agrees the circumstances under which the newly hired Finance team members were on-boarded was less than ideal, that does not equate to the improper application of NSP2 funds. Rather, all of the NSP2 funds provided to NHS (including the income generated by these funds) were utilized properly. Information, supported by hundreds of documents (consisting of thousands of pages), was provided to the OIG audit team - on multiple occasions with respect to some of these documents. Based upon the conclusions reached in the Audit Report, it appears much of that information and documentation was either misunderstood or misconstrued, and the most direct obvious requests were not made.

Comment 21

Notwithstanding the fact NHS utilized all of the NSP2 funds it received in accordance with NSP2 requirements, NHS acknowledges that, in hindsight, some of its recordkeeping procedures may require refinement so they may be more readily understood by HUD's representatives. To address this issue, NHS has begun the process of reviewing its recordkeeping policies and procedures to help ensure that, going forward, they will enable NHS to more clearly report the use of its funds. In addition, NHS has arranged for its staff to receive intensive training on NSP2 and HUD procedures and policies from CPD. It is anticipated that this training will allow NHS (and its affiliated entities) to be able to respond to HUD's inquiries in a more streamlined and efficient manner.

We close by quoting from what NHS provided to CPD on June 24, 2020 when responding to its Monitoring Report dated April 24, 2020, which captures the approach NHS applies to its NSP2 projects generally: "... When the program income account was low or depleted, NHS utilized its own funding in excess of \$9 million to help ensure that purchase/rehab and redevelopment projects were completed." Therefore, if by some odd chance it is determined that NHS is

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required to repay funds in any amount, any such potential outcome should be measured against the significant funds NHS expended out of its own pocket to complete the Alondra project and others as it strives to meet its core mission of making affordable housing available to low and moderate income residents in Los Angeles County.

Should you have any questions, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Davine', written over a light blue horizontal line.

Jeffrey D. Davine  
A Professional Corporation of  
MITCHELL SILBERBERG & KNUPP LLP

JDD  
Enclosures  
cc: Client (via email)

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## OIG Evaluation of Auditee Comments

- General Neighborhood Housing Services of Los Angeles County (NHSLA) provided additional documentation in response to the audit report and referenced these documents throughout their comments. Due to the voluminous nature of these attachments, we excluded them from the auditee’s comments in the audit report.
- Comment 1 We acknowledge that HUD’s Office of Community Planning and Development (CPD) conducted a fiscal year 2019 monitoring review of NHSLA’s NSP2 program from September 19 through 27 during our audit field work. Although we were not informed of the other audits that were being conducted, we gave NHSLA sufficient opportunity to provide requested documents during the 9-month audit period.
- Comment 2 We disagree with NHSLA’s assertions that the documents it provided to us for what it contends was proper use of NSP2 funds and income earned were either not carefully reviewed or were misunderstood. We reviewed the documentation provided by NHSLA in detail; however, the information provided was insufficient to fully show that the NSP2 funds were used in accordance with program requirements. Specifically, NHSLA did not provide documentation to support that
- NSP2 program income transferred or deposited into its interfund account was used for eligible NSP2 activities.
  - NSP2 revolving loan proceeds were used for eligible activities or properties.
  - NSP2 program income was correctly calculated.
  - NSP2 administrative and project delivery cost expenditures were allowable.
  - Procurement for its NSP2-funded construction contract was performed in accordance with program requirements.
- NHSLA can further address the findings and recommendations with HUD as part of the audit resolution process.
- Comment 3 We commend NHSLA for taking proactive measures to address the report’s recommendations, which include reviewing its recordkeeping policies and procedures and obtaining NSP 2 training from CPD. NHSLA will have the opportunity to address the findings and recommendations with HUD as part of the audit resolution process.
- Comment 4 We recognize that NHSLA has requested copies of all of our audit workpapers “prepared, reviewed, or otherwise relied upon by the OIG audit team in preparing the draft Audit Report.” NHSLA may file a written Freedom of Information Act (FOIA) request to obtain copies of our audit workpapers after

the audit report has been issued. However, we note that NHSLA was the source of the information and documentation that served as the basis for our findings and conclusions; therefore, NHSLA possesses these documents.

Comment 5 NHSLA asserts that there was miscommunication and misunderstanding on our part throughout the audit process. We disagree. Much of our communication with NHSLA was conducted in writing through emails, including our questions and NHSLA's responses, and we continually provided feedback to help prevent any potential miscommunication. Due to delays in receiving information from NHSLA, we compiled all of our requests for information into weekly email requests between June and September 2019, each of which carried over all outstanding prior requests. However, NHSLA did not fully provide the requested supporting documentation or complete responses to our questions. The lack of NHSLA's cooperation to provide requested information prompted our office to issue a subpoena on October 22, 2019. We held meetings with NHSLA and its attorneys to discuss and clarify the documentation requested in the subpoena, including NHSLA's difficulties in producing the information. Additional email communication with NHSLA's attorneys identified the documents provided and those outstanding, and requested supplementary information. Furthermore, our submission of the preliminary finding outlines to NHSLA on January 16, 2020, provided an opportunity to correct any misunderstandings before providing the draft audit report on May 12, 2020.

Comment 6 NHSLA asserted that the audit report inaccurately stated that NHSLA permitted prospective bidders to walk through the Alondra housing project, which effectively allowed the bidders to "impose their own contract requirements." However, we note that NHSLA previously provided a "pro forma," which was a statement of work that recorded what the projected development and construction costs and specifications would be for the construction of the Alondra project. During the audit, NHSLA officials stated that the pro forma was being developed based on the feedback provided by the contractors' evaluations during the "walk-through" on November 17, 2015, of the project's location. The information used from the contractors' feedback and evaluations substantiates that bidders helped to facilitate the development of a statement of work (including development and construction costs) before the bidding process for the Alondra project. We, therefore, maintain our conclusion that the procurement process was not conducted in accordance with HUD requirements.

Comment 7 NHSLA maintains that it has repeatedly explained and provided us with substantiating documentation regarding the bidding process, that the draft audit report "mischaracterized the bidding process," and that the audit team did not seem to understand what had occurred. However, as discussed in detail in finding 3, the explanations and documents provided by NHSLA did not fully explain or support that the procurement process was in accordance with HUD requirements. (See finding 3.) For instance, NHSLA did not

- Complete a written independent cost estimate before the bidding process.
- Develop a sufficient invitation for bid indicating the project’s needed specifications or technical requirements.
- Provide the related public solicitation of bid that was advertised to prospective bidders.
- Complete a public opening of bids.
- Provide support or explanation for why it did not complete a detailed review of bids.
- Provide an explanation or documentation to support why it did not perform a written basis for contractor selection.

In addition, despite NHSLA’s assertions that the City prepared and approved detailed plans and specifications that were provided to the potential contractors, the procurement was not conducted under an open and free competitive process because potential bidders also helped to develop specifications and the statements of work related to the project’s development and construction costs.

Comment 8 NHSLA stated that the architectural plans for the Alondra project was the “principal document provided to all bidders as part of the walk through and bidding process.” We acknowledge that the architectural plans were provided to potential bidders to prepare their impending bids. However, even if bids were submitted by potential bidders based on the architectural plans, a written independent cost estimate was not completed by NHSLA to properly compare and evaluate bids as part of the selection process. NHSLA did not prepare its own independent cost estimate, which would include a work writeup detailing the projected costs and specifications of the construction project. The independent cost estimate would be used to determine if NHSLA’s own projected costs are in line with bids provided by potential bidders. NHSLA stated in a previous email to us that an independent cost estimate was never prepared in advance of the bidding process. Since an independent cost estimate was not completed, NHSLA had nothing it could use to determine if the costs were reasonable.

Comment 9 We acknowledge that NHSLA had reported its activities through the DRGR system for every quarter of the audit period. However, as stated in finding 1, NHSLA did not report NSP2 program income in DRGR between April 2016 and March 2019. Therefore, the DRGR reports were not accurate.

We also acknowledge the delays NHSLA experienced in reporting activities through the DRGR system and that the organization lost its NSP2 finance manager in May 2019. However, NHSLA had ample time to update its NSP2 activities in the DRGR system before the finance manager’s May 2019 departure. The DRGR reports that NHSLA submitted between April 2016 and March 2018 did not update or report program income received or spent. In May

2019, NHSLA also submitted reports through March 2019, but these reports were also incomplete and had not been properly updated.

NHSLA also maintained that HUD did not provide it with requisite staff approvals for NHSLA's finance team to access DRGR and submit reports until March 2020. NHSLA stated that it was not able to submit its quarterly reports as the "submit" feature was not properly activated in the DRGR system. As noted above, we acknowledge that NHSLA lost its finance manager in 2019 and experienced difficulty in updating DRGR thereafter. NHSLA officials stated during the June 2020 exit conference that they were uploading information into DRGR; therefore, it appears that NHSLA had DRGR system access by that time. In July 2020, CPD confirmed that NHSLA's controller had been approved for certified access to DRGR, allowing him to upload information. In addition, NHSLA's president and vice president are certified officials with DRGR access. However, as of July 2020, NHSLA had not submitted the overdue quarterly reports to HUD.

Further, NHSLA stated that OIG should remove the finding on DRGR reporting from the final audit report or include NHSLA's justifications. Although NHSLA experienced technical challenges with its DRGR reporting, the finding and associated recommendations remain in the final audit report. As to NHSLA's request to include its justifications, we acknowledged in finding 1 that the current reporting situation was partially due to a staff member with DRGR knowledge no longer working for NHSLA and that the official with access to DRGR did not know how to report program income activities in the system. (See finding 1.) However, as discussed above, NHSLA's explanations did not address its inaccurate reporting dating back to April 2016, nor did technical challenges necessarily preclude it from resolving the matter because other officials had system access. We, therefore, maintain our finding conclusion that NHSLA did not properly update or report its NSP2 activities in DRGR between April 2016 and March 2019. NHSLA will have the opportunity to show HUD that it has properly updated or corrected its DRGR submissions as part of the audit resolution process.

Comment 10 We reviewed NHSLA's comments and the additional documentation provided as part of its response; however, NHSLA has provided insufficient documentation to support that the procurement of its construction contract for the Alondra project met program requirements. Therefore, we did not remove our finding related to NHSLA's bidding process for its NSP2 construction contract.

Comment 11 NHSLA asserted that the audit team believed "...information about loan activity could be found on the deeds of trust." The auditee further stated, "...the audit team did not specify what information it was provided or by whom that led to this mistaken conclusion." We disagree. We requested the deeds of trust based

solely on the assertion from NHSLA's president that information on the deeds of trust would confirm that loans identified on a spreadsheet<sup>20</sup> that NHSLA provided to us were related to the NSP2 program.

To verify the president's assertion, we requested the deeds of trust on an initial sample of four loans from NHSLA's spreadsheet, via subpoena on October 22, 2019. NHSLA subsequently provided the deeds of trust on the four loans on November 5, 2019. On December 19, 2019, we expanded our loan sample, requesting the deeds of trust on four additional loans, which NHSLA provided on January 17, 2020, in response to the subpoena. The eight loans reviewed encompassed our total loan sample.

However, our review of the deeds of trust for the sampled loans showed no indication that seven of the loans were related to NSP2. One of eight deeds of trust on the sampled loans did indicate that it was NSP2 related, which appears to contradict NHSLA's written response. NHSLA did not provide additional information to explain this inconsistency or provide other documentation to confirm that the loans were applicable to NSP2. (See finding 1.)

Comment 12 NHSLA states that time and compensation for its administrative staff charged to NSP2 project costs were not improper, specifically for the president and controller. However, we maintain our assertion that NHSLA officials, such as the president and controller, allocated their time between NSP2 and NHSLA activities using unsupported percentages and are also considered indirect employees that are not directly involved with the activity delivery. Under HUD guidance, staff costs not directly involved in activity delivery are allocable only as a part of an approved indirect cost plan. Our audit determined that NHSLA did not have a written cost allocation plan to determine the basis of indirect employee salaries and did not have time distribution records to support and determine how percentage allocations were charged to payroll expenditures. NHSLA appears to imply that the president and controller were direct employees of the redevelopment team; however, they did not track their actual time as would be required if this were the case. Therefore, we maintain our finding conclusion that HUD had no assurance that more than \$1.7 million in administrative and project delivery expenses for fiscal years 2017 and 2018 were for NSP2.

Comment 13 NHSLA asserted that the HUD OIG audit team and the CPD team that conducted its HUD monitoring had convened to compare notes and findings from their respective audits of NHS, raising the issue as to whether the OIG audit team maintained the appropriate degree of independence.

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<sup>20</sup> NHSLA's president provided a spreadsheet listing the loan proceeds in the revolving loan fund, entitled Closed Loans July 2016 – June 2019 (Acct #1018), that were purportedly NSP2 related.

We note that the review scope and objectives differed between the two teams (HUD OIG and CPD). Our audit objective was to determine whether NHSLA administered its NSP2 in accordance with program requirements, focusing on procurements and contracting, expenditures of program income, and tracking and accounting for program income. CPD's monitoring objectives were to review NSP2 areas under continued affordability; national objective of benefit to low-, moderate-, and middle-income persons; cooperative agreements; and financial management and audits (limited in scope). The review objectives differed between the two audit teams, therefore, our review process was not influenced by CPD's dissimilar monitoring review process. Initial coordination was done to prevent potential duplication of efforts.

We routinely obtain auditee-related information from the applicable HUD program staff (including HUD's monitoring reports), hold discussions with HUD concerning external auditees, and inform HUD of in-progress audit issues and findings. In addition, HUD program staff members typically attend our audit entrance and exit conferences. Further, we issue the audit report to the attention of the applicable HUD official, and resolution of the audit recommendations is performed by HUD. Our coordination with HUD does not impair our ability to perform audit work independently and report results objectively.

Comment 14 We reviewed the 18 documents NHSLA provided in its auditee response (including promissory notes). However, none of the documents related to the loans that we had requested from NHSLA's list of purported NSP2 loans.<sup>21</sup> NHSLA provided promissory notes for loans that predated our audit scope period. As a result, the documentation provided by NHSLA was inadequate to support the revolving loans of \$658,262, and our finding conclusion remains unchanged.

We disagree with NHSLA's assertion that it repeatedly told the audit team that loans funded by NSP2 funds can be determined by reference to the "loan number." NHSLA provided no information on NSP2 loan numbers. As previously stated, NHSLA's president provided a spreadsheet listing the purported NSP2 loans and informed the audit team that the deeds of trust would confirm that the loans were NSP2 related. (See comment 11.)

We disagree with NHSLA's comment that the financial report (the loan-servicing report from May 31, 2020) was the document needed to determine that the loans we reviewed were NSP2 related. We previously received an earlier version of the loan-servicing report, dated July 1, 2018, from NHSLA's certified public accountant. However, none of the loans we needed to verify from NHSLA's spreadsheet<sup>21</sup> tied to the loans listed on the July 1, 2018, version

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<sup>21</sup> NHSLA's spreadsheet, Closed Loans July 2016 – June 2019, listing purported NSP2 loans.



of the loan-servicing report file as being NSP2 related. They also did not tie to the loans listed on NHSLA's updated version of the loan-servicing report, dated May 31, 2020. Therefore, the loan-servicing reports did not confirm that the loans in question were NSP2 related. As a result, we continue to question the loan proceeds of \$658,262 as unsupported.

Comment 15 NHSLA asserted that it provided documentation in response to Footnote 8 of the draft audit report<sup>22</sup> through documentation provided in response to an OIG subpoena. However, NHSLA did not provide the documents requested to either explain or support the deposits or transfers, as noted in footnote 8 of the draft audit report. Further, NHSLA did not provide a response or additional supporting documentation to our December 19, 2019, followup email request. As a result, we made no change to footnote 8 in the final audit report.

Comment 16 We recognize NHSLA's assessment (via the third supplemental subpoena, dated January 17, 2020) that of the six individuals listed for interview requests, three of them would not be available (one individual retired, and two individuals were on medical personal leave). However, there was no valid justification for NHSLA to not arrange interviews with the remaining three individuals.

NHSLA stated that the three individuals would not be eligible for interviews because they were "not a program director during the relevant time period." Even if this were the case, these employees had charged time to NSP2 during our audit scope, and we believe interviews with them was a reasonable and necessary step in conducting our audit.

NHSLA further asserted that in addition to NHSLA's president, the audit team had already interviewed three other NHSLA staff members while on site. We disagree. We had spoken with two of these individuals while on site but did not speak with the third individual. For the two individuals we spoke with, we did not interview them with the same purpose as those staff members referred to above.

We, therefore, did not remove our statement on interviewing additional NHSLA employees from the audit report. (See Scope and Methodology)

Comment 17 NHSLA stated that it uses non-NSP2 resources to supplement the funding of NSP2 projects when the NSP funding is insufficient to allow for the project's completion. NHSLA further asserts that if they are required to repay any funds with respect to the NSP2, any such liability should be reduced by the amount of

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<sup>22</sup> Footnote 8 of our draft audit report included a statement that we attempted to further verify the deposits and transfers through a request to NHSLA, but it did not provide a response by the end of our audit fieldwork. More specifically, we attempted to verify deposits and transfers totaling \$412,139 through requests made to NHSLA during fieldwork and in a December 19, 2019, email to NHSLA's legal counsel. This amount was part of the \$973,843 paid to NHSLA for fiscal year 2017, as discussed in finding 2.



non-NSP2 funds that NHSLA was required to expend to complete the NSP2 projects.

Although we recognize NHSLA's goals and efforts to assist low- and moderate-income families in underserved communities, our recommendations remain unchanged. NHSLA will have further opportunity to support the questioned costs and discuss how to address the recommendations with HUD as part of the audit resolution process.

Comment 18 NHSLA stated that it is reviewing its current policies and procedures and evaluating what refinements to its record-keeping procedures are needed to make them "more easily understood by HUD representatives." However, NHSLA asserts that it will not be able to complete this analysis until "it has the opportunity to study the audit team's work papers." We commend NHSLA for beginning to take action in areas where improvement is warranted. NHSLA can request copies of OIG work papers through a written FOIA request after the audit report is issued.

Comment 19 As noted in the comments above, we have not removed the audit finding conclusions and recommendations referred to by NHSLA from the final audit report. The specific comments include the following:

- Bidding process – comments 6, 7, 8, and 10;
- DRGR reporting – comment 9;
- Revolving loan fund – comments 11 and 14;
- Administrative payroll – comment 12;
- Deposits and transfers – comment 15; and
- Interviews – comment 16.

Comment 20 We acknowledge NHSLA's assertion that the performance conducted by the current finance team led to "less than ideal" record-keeping activities. However, we disagree with NHSLA's assertion that NSP2 funds were properly used and that the conclusions reached in the audit report were misunderstood or misconstrued by the OIG audit team. We informed NHSLA officials of our preliminary conclusions and findings during the course of our review. We also held discussions with NHSLA officials and their legal counsel to ensure that appropriate information was requested and received, which served as the basis for our conclusions. We maintain our audit conclusion that NHSLA did not follow program requirements in administering its NSP2 and our recommendations in that regard.

Comment 21 We acknowledge NHSLA's efforts to begin the process of reviewing its record-keeping policies and procedures to ensure clearer reporting on the use of its funds and that it has arranged intensive training from CPD for its staff members regarding NSP2 and HUD procedures and policies.

Comment 22 NHSLA stated that when NSP2 program income was low, NHSLA used its own funding to help ensure that projects were completed. It further states that if NHSLA is required to repay funds, the determination of that amount should be measured against the funds that NHSLA spent from its non-NSP2 funds on behalf of NSP2 projects. NHSLA will have an additional opportunity to support the questioned costs and discuss how to resolve the audit recommendations with HUD as part of audit resolution.

## Appendix C

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### Criteria

#### **Docket Number Federal Register-5321-N-01**

##### **O. Reporting**

###### Requirements

1. Performance report requirement. Reporting requirements for NSP2 differ from the regular CDBG program in order to comply with Recovery Act reporting provisions.

Therefore, the reporting form and timing requirements for NSP2 funds is that:

- a. Each recipient must submit a quarterly performance report, as HUD prescribes, no later than 10 days following the end of each quarter, beginning 10 days after the completion of the first full calendar quarter after grant award.

Each report will include information about the uses of funds, including, but not limited to, the project name, activity, location, national objective, funds budgeted and expended, the funding source and total amount of any non-NSP funds, numbers of properties and housing units, beginning and ending dates of activities, and numbers of low- and moderate-income persons or households benefiting. Reports must be submitted using HUD's web-based DRGR system and, at the time of submission, be posted prominently on the recipient's official website.

#### **24 CFR Part 84: Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations**

##### **24 CFR 84.21, Standards for financial management systems**

(b) Recipients' financial management systems shall provide for the following:

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

(7) Accounting records including cost accounting records that are supported by source documentation.

##### **24 CFR 84.24, Program income**

(b) Except as provided in paragraph (h) of this section, program income earned during the project period shall be retained by the recipient and, in accordance with HUD regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.

- (1) Added to funds committed to the project by HUD and recipient and used to further eligible project or program objectives.
- (2) Used to finance the non-Federal share of the project or program.
- (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.

#### **24 CFR 84.43, Competition**

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered.

#### **24 CFR 84.44, Procurement procedures**

- (a) All recipients shall establish written procurement procedures. These procedures shall provide for, at a minimum, that paragraphs (a)(1), (a)(2) and (a)(3) of this section apply.
  - (1) Recipients avoid purchasing unnecessary items.
  - (2) Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government.
  - (3) Solicitations for goods and services provide for all of the following.
    - (i) A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, such a description shall not contain features which unduly restrict competition.
    - (ii) Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals.
    - (iii) A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
    - (iv) The specific features of “brand name or equal” descriptions that bidders are required to meet when such items are included in the solicitation.
    - (v) The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.
- (e) **Recipients shall**, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as requests for proposals or invitations for bids, independent cost estimates, etc., when any of the following conditions apply.
  - (1) A recipient’s procurement procedures or operation fails to comply with the procurement standards in HUD’s implementation of Circular A-110.

#### **24 CFR 84.45, Cost and price analysis**

Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

#### **24 CFR 84.46, Procurement records**

Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

- (a) Basis for contractor selection;
- (b) Justification for lack of competition when competitive bids or offers are not obtained; and
- (c) Basis for award cost or price.

#### **24 CFR Part 570: Community Development Block Grants**

##### **24 CFR 570.506, Records to be maintained**

(h) Grantees shall maintain evidence to support how the CDBG funds provided to such entities are expended. Such documentation must include, to the extent applicable, invoices, schedules containing comparisons of budgeted amounts and **actual expenditures**, construction progress schedules signed by appropriate parties (e.g., general contractor and/or a project architect), and/or other documentation appropriate to the nature of the activity.

#### **NSP Policy Alert – Guidance on Revolving Funds Under NSP**

##### **Key Requirements of Revolving Funds**

- Grantees must do an action plan amendment to create a revolving fund.
- Grantees must build up a revolving fund from program income.
- Each revolving fund activity must comply with an eligible use and carry out a specific type of eligible activity that meets a national objective under NSP; funds cannot be used for CDBG activities that are ineligible under NSP.
- Simply establishing a revolving fund does not constitute meeting a national objective and is not inherently an eligible activity. A revolving fund is only a mechanism to implement activities that meet national objectives.
- PI [program income] from each program—NSP1, NSP2, NSP3—must be tracked separately.
- A repayment to a revolving fund is NSP program income subject to all CDBG and NSP statutory and regulatory requirements, regardless of the amount of times the funds revolve.

##### **Revolving Funds and Draw Rules**

However, by setting up a revolving fund for a specific activity and thus designating program income toward a specific purpose, grantees are no longer subject to this rule when it comes to PI deposited in a revolving fund. This does not mean that grantees can use a

revolving fund to simply store funds; they are required to use the money in a revolving fund for the next activity with the same purpose as that revolving fund.

### **Program Design for Revolving Funds**

Revolving fund activities must be specific and eligible under NSP. However, this is only one of many factors in deciding which activities to select and how many to undertake.

### **NSP Policy Alert – Program Income in the Neighborhood Stabilization Program**

NSP program income must be spent on NSP-eligible activities only.

Grantees must track program income from NSP1, NSP2 or NSP3 separately and use the funds in accordance with the relevant Notices and rules.

The financial records of the subrecipient (as well as the grantee) must include complete information on the receipt and expenditure of program income.

Program income is defined as gross income less costs incidental to generation of the income.

### **NSP Policy Alert – Guidance on Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities**

The aggregate amount obligated for planning and general program administrative costs by the grantee and its subrecipients shall not exceed 10% of the NSP grant amount plus 10% of program income earned.

### **NSP Policy Alert – Guide for Charging Administrative Costs Incurred by NSP2 Grantees**

#### ***Direct Costs***

Direct Costs payable with NSP funds are those that can be identified specifically with the NSP grant. Typical direct costs chargeable to NSP grants are:

- Compensation of employees for the time devoted and identified specifically with general program administration, planning, or carrying out NSP activities (i.e., activity delivery). Note that if employees work on activities funded with NSP funds and activities funded from non-NSP sources, they are required to maintain time distribution records if their time is charged on a direct basis.

### **NSP Policy Alert – Guidance on NSP Activity Delivery and Administrative Costs**

Regardless of which approach is used, there are several tasks that the grantees must undertake when paying these types of costs:

- **Documentation:** all costs must have source documentation. For staff costs, this include a time card, time sheet or other time keeping mechanism that demonstrates that the time was spent on the eligible NSP activity.

### **NSP Policy Alert – Guidance on Allocating Real Estate Development Costs in the Neighborhood Stabilization Program**

## Administrative Costs for Grantees and Subrecipients

Costs of general administrative staff, such as Executive Director or budget staff, not directly involved in activity delivery – Allocable portion only as part of an approved indirect cost plan.

### **HUD’s Quick Guide to Cost and Price Analysis for HUD Grantees and Funding Recipients:**

Requirements –

#### Who is this guide for?

This guide is for all HUD grantees and funding recipients that contract for services and/or supplies using funds provided in whole or in part by HUD.

#### What is price analysis?

Price analysis is essentially price comparison. It is the evaluation of a proposed price (i.e., lump sum) without analyzing any of the separate cost elements that it is composed of.

#### What is cost analysis?

Cost analysis is the evaluation of the separate elements (e.g., labor, materials, etc.) that make up a contractor’s total cost proposal or price (for both new contracts and modifications) to determine if they are allowable, directed related to the requirement and ultimately, reasonable.

#### Is cost or price analysis always required?

Yes. HUD’s regulations at 24 Code of Federal Regulations (CFR) Part 84, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and 24 CFR Part 85, “Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments,” require grantees to perform a cost or price analysis for *every* procurement action, including contract modifications (e.g., “change orders”), using HUD grant funds.

#### When do I perform a price analysis?

You use price analysis whenever you are comparing lump sum prices not cost estimates - received from contractors in a competitive pricing situation (e.g., when sealed bids are obtained).

#### How do cost analysis and price analysis apply to the different contracting methods?

*Sealed Bidding.* This is the preferred method for contracting for supplies, equipment and construction. (See 24 CFR 85.36(d)(2) for a definition.) Normally, the competitive pricing forces of the marketplace determine the reasonableness of the low price obtained through sealed bidding. Nevertheless, the HA [Housing Authority] should always compare its own independent cost estimate to the low competitive bid received. In the event they are significantly different, the HA will need to examine each to verify that either its own estimate



or the market price is valid. Otherwise, no further price or cost analysis is required under sealed bidding.

### **What is “Sealed Bidding”?**

HUD uses the Sealed Bidding method when price is the primary factor in determining contract award. This method does not allow any discussions or negotiations between HUD and the bidders concerning either the work requirement or the price.

When using the Sealed Bidding method we will issue an Invitation for Bids (IFB), stating our exact requirements. Once bids are received on a specified date, they are publicly opened and read. A contract is then awarded to the responsible bidder who submitted the lowest, responsive bid.

## **Handbook for CDBG Subrecipients on Administrative Systems**

### **Chapter 2.0: Financial Management**

#### **2.4. Allowable Costs**

5. *The cost must be allocable to the CDBG program.*

- In accordance with the guidance found in OMB [Office of Management and Budget] Circulars A-87 and A-122 the composition of direct and indirect costs must be clear. Direct costs must be identified specifically with a particular activity. Indirect costs are those incurred for common objectives that benefit more than one activity (e.g., salaries of executive officers, accounting and auditing, other costs of general administration).

#### **2.5. Source Documentation**

The source *documentation must explain the basis of the costs incurred* as well as show the actual dates and amount of expenditures. For example,

- For staff time charged to the CDBG program activity, time and attendance records should be available. If an employee’s time is split between CDBG and another funding source, there must be time distribution records supporting the allocation of charges among the sources.

## **Neighborhood Housing Services of Los Angeles County Neighborhood Stabilization Program 2 Policies and Procedures Manual, Revised July 2016**

### **Procurement Standards**

Under HUD regulations and LANHS’ own policies and procedures for procurement, “sealed bids” are used for construction contracts. The process involves but not limited to the following steps:

1. Developing invitation for bids.
2. Publicly soliciting bids.
3. Opening bids and announcing prices.
4. Reviewing bids in detail.
5. Awarding contract to winning bidder.

### **Procurement under Federal Award**

Procurement of goods and services whose costs are charged to federal awards received by Neighborhood Housing Services of Los Angeles County and Affiliates are subject to all of the specific Neighborhood Housing Services of Los Angeles County and Affiliates purchasing policies described earlier, under “Purchasing Policies and Procedures.” In addition, procurements associated with Federal awards are subject to the following supplemental policies:

1. Neighborhood Housing Services of Los Angeles County and Affiliates shall avoid purchasing items that are not necessary for the performance of the activities required by a Federal award.
2. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal government.
3. Documentation of the cost and price analysis associated with each procurement decision shall be retained in the procurement files pertaining to each Federal award.

For all procurements in excess of the threshold established by the Federal Awarding Agency (minimum \$500), procurement records and files shall be maintained the include all of the following:

- The basis for contractor selection. (Round Robin selection, please Amendment III in previous sections).
- Justification for lack of competition when competitive bids or offers are not obtained.
- The basis for award cost or price.

### **G. Quarterly Performance Reports (QPR)**

#### **DRGR (QPR)**

NHS is responsible to report to HUD on a quarterly basis using DRGR, HUD’s online Disaster Recovery Grants Reporting database system. HUD requires quarterly reporting in DRGR for every activity awarded Federal NSP2 funds. Accordingly, all consortium members will be required to submit performance information to NHS by established deadlines conducive for NHS to meet its reporting requirements.