



**Niagara Falls Housing Authority
Niagara Falls, NY**

HOPE VI Revitalization Grant Program



Issue Date: July 10, 2014

Audit Report Number: 2014-NY-1007

TO: Dominique Blom,
Deputy Assistant Secretary of Public Housing Investments, PI

//SIGNED//

FROM: Edgar Moore,
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

SUBJECT: The Niagara Falls Housing Authority Did Not Always Administer Its HOPE VI Grant Program and Activities in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of a review of the Niagara Falls Housing Authority's HOPE VI grant program.

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

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

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



July 10, 2014

The Niagara Falls Housing Authority Did Not Always Administer Its HOPE VI Grant Program and Activities in Accordance With HUD Requirements

Highlights

Audit Report 2014-NY-1007

What We Audited and Why

We audited the Niagara Falls Housing Authority's HOPE VI grant program based on an Office of Inspector General risk analysis and the amount of funding the Authority received. The objectives of the audit were to determine whether the Authority administered its HOPE VI grant program and activities in accordance with U.S. Department of Housing and Urban Development (HUD) and HOPE VI grant program requirements.

What We Recommend

We recommend that HUD instruct Authority officials to (1) reimburse the U.S. Treasury for approximately \$1.5 million in HOPE VI funds drawn in excess of need to cover project expenditures, and (2) establish procedures to ensure that program funds are drawn in accordance with the grant agreement and regulations.

What We Found

The Authority did not always administer its HOPE VI grant program and activities in accordance with requirements. Specifically, contrary to Federal regulations and the HOPE VI grant agreement, Authority officials drew more HOPE VI funds from HUD's Line of Credit Control System than were needed to cover project expenditures. We attribute this deficiency to Authority officials incorrectly interpreting Federal regulations and the grant agreement requirements. As a result, more than \$1 million in phase I HOPE VI funds drawn was not applied to project expenditures. In addition, the Authority earned \$26,785 in accrued interest on these funds through February 2014, which should be returned to the U.S. Treasury. Further, Authority officials drew \$403,324 more in HOPE VI funds than was needed to meet its share of the development costs for phase II.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding: Authority Officials Withdrew HOPE VI Funds in Excess of Need	4
Scope and Methodology	7
Internal Controls	8
Appendixes	
A. Schedule of Questioned Costs	10
B. Auditee Comments and OIG's Evaluation	11

BACKGROUND AND OBJECTIVES

The Niagara Falls Housing Authority is a municipal housing authority created under the New York State Public Housing Law, section 415. The Authority's board consists of seven members who appoint an executive director who is responsible for the Authority's day-to-day operations. The Authority is a public corporation formed for the purpose of providing housing services in Niagara Falls, NY, in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD).

The HOPE VI program, originally known as the Urban Revitalization Demonstration program, was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a national action plan to eradicate severely distressed public housing. The final report of the National Commission on Severely Distressed Public Housing recommended revitalization in three general areas:

- Physical improvements,
- Management improvements, and
- Social and community services to address resident needs.

As a result, HOPE VI was created by the U.S. Department of Veterans Affairs, HUD, and the Independent Agencies Appropriations Act of 1993 (Pub.L. 102-389), approved on October 6, 1992.

In September 2006, the Authority was awarded a \$20 million HOPE VI grant to revitalize Center Court, a 134-unit public housing project on the north end of Niagara Falls, NY. The original revitalization plan included three phases of housing development, each with rental and homeownership for a total of 282 housing units. In December 2007, the construction for phase I began; however, delays plagued the project as a result of environmental contamination on the construction site and the default of the initial investor. As a result of these issues, construction was forced to stop in July 2008. Construction was restarted in June 2009 after a new soil remediation plan was approved and another private investor was secured. The Authority amended the revitalization plan, and the new plan included separate development phases for rental and homeownership totaling 246 housing units. The new phase I consisted of 115 rental units, phase II 100 rental units, and phase III 31 homeownership units. In July 2010, there was a second closing for phase I due to the changes; as such, in total, 215 rental units were completed. The phase III homeownership activity was never started.

The objectives of the audit were to determine whether the Authority administered its HOPE VI grant program and activities in accordance with HUD and HOPE VI grant program requirements.

RESULTS OF AUDIT

Finding: Authority Officials Withdrew HOPE VI Funds in Excess of Need

Contrary to Federal Regulations and the Hope VI grant agreement, Authority officials drew down more HOPE VI funds from HUD's Line of Credit Control System (LOCCS)¹ than necessary to cover project expenditures. We attribute this deficiency to Authority officials incorrectly interpreting Federal regulations and grant agreement requirements. As a result, more than \$1 million in phase I HOPE VI funds drawn was not applied to project expenditures. In addition, the Authority earned \$26,785 in accrued interest on these funds through February 2014, which needs to be returned to the U.S. Treasury. Further, Authority officials drew \$403,324 more in HOPE VI funds than was necessary to meet its share of the development costs for phase II.

The Authority Drew More HOPE VI Funds Than Necessary in Phase I

Authority officials drew down \$1,084,187 more than necessary to meet the HOPE VI expenses for phase I. HOPE VI funds were a portion of the total investment in this mixed-finance project executed between Authority officials and HUD. The other project investment sources included private investment and other public funds, such as City of Niagara Falls and State of New York funds. Authority officials had advanced HOPE VI funds to keep the project on schedule in phase I when the initial private investor defaulted and stopped meeting its funding obligation in December 2008. However, in July 2010 when other investors were found and phase I of the project reclosed, Authority officials were reimbursed all of the HOPE VI funds they had advanced. After the reclosing, all proceeds were deposited into the Authority's HOPE VI money market bank account. At this point Authority officials did not make withdrawals from LOCCS to pay for phase I project expenditures but, rather, made withdrawals from the HOPE VI money market bank account, reducing the closing proceeds amount. When the construction of phase I was completed, the HOPE VI portion of the phase I expenditures was around \$3.6 million. However, Authority officials had been previously reimbursed HOPE VI funds of around \$4.6 million. As a result, Authority officials had drawn down \$1,084,187 more than what was necessary to meet the HOPE VI expenses for phase I of the project. In addition, the Authority had earned \$26,785 in interest on these funds, and rather than using the remaining

¹ LOCCS is the system HUD uses to disburse and track the payment of grant funds to grant recipients.

balance of HOPE VI funds toward phase II expenditures, Authority officials left these funds in the bank account, and resumed drawing from LOCCS².

Authority officials indicated that the excess HOPE VI funds available at the end of phase I occurred because the budgeted HOPE VI funds in the original closing exceeded the budgeted HOPE VI funds in the reclosing budget. They stated that this excess also occurred because all of the original HOPE VI budgeted funds had already been drawn down from LOCCS at the time of the reclosing in July 2010. Also, newly added sources, such as Recovery and Reinvestment Act funds, took the place of some of the originally budgeted HOPE VI expenditures, resulting in excess funds being available for this phase.

The Authority Drew More HOPE VI Funds Than Necessary in Phase II

Authority officials withdrew \$403,324 more in HOPE VI funds than was necessary to cover its phase II expenditures. Authority officials decided that HOPE VI funds would be used first to pay for all of the project's hard costs due to concerns over meeting the HOPE VI expenditure deadline of September 30, 2012³. Authority officials entered into a loan agreement for the phase II construction in which HOPE VI funds allotted to hard costs needed to be expended before funds were drawn from other sources. As a result, they withdrew 100 percent of the budgeted HOPE VI funds allotted to this phase for hard costs without drawing from the other investment sources. However, the total development costs for phase II were less than budgeted. Thus, Authority officials withdrew \$403,324 more HOPE VI funds than were necessary. Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than were necessary to meet its share of the development costs⁴.

Conclusion

The Authority did not always administer its HOPE VI grant program and activities in accordance with requirements. Specifically, contrary to 24 CFR Part 941.612 and the HOPE VI grant agreement, Article II (E) (1), Authority officials drew more HOPE VI funds from LOCCS than were necessary to cover project expenditures. We attribute this deficiency to Authority officials incorrectly interpreting Federal regulations and grant agreement requirements. As a result,

² Regulations at 24 CFR 941.612 (b) (1) provide that a housing authority may only draw down public housing development funds in an approved ratio to other public and private funds, in accordance with a draw schedule prepared by the PHA and approved by HUD.

³ The HOPE VI grant agreement Article II (E) (1) states that all FY 2006 HOPE VI funds must be expended by September 30, 2012.

⁴ See footnote 2 above.

more than \$1 million in phase I HOPE VI funds drawn was not applied to project expenditures. In addition, the Authority earned \$26,785 in accrued interest on these funds through February 2014, which must be returned to the U.S. Treasury. Further, Authority officials drew \$403,324 more in HOPE VI funds than was needed to meet its share of the development costs for phase II.

Recommendations

We recommend that HUD instruct Authority officials to

- 1A. Reimburse the U.S. Treasury for the \$1,084,187 in phase I HOPE VI funds drawn in excess of need to cover project expenditures.
- 1B. Reimburse the U.S. Treasury for the \$26,785 in interest accrued on the excess HOPE VI funds drawn in phase I through February 2014.
- 1C. Reimburse the U.S. Treasury for the \$403,324 in phase II HOPE VI funds drawn in excess of need to cover project expenditures.
- 1D. Establish procedures to ensure that program funds are not drawn down in advance of needed, but in accordance with the grant agreement and regulations.

SCOPE AND METHODOLOGY

We performed onsite audit work at the Authority's administrative offices at 744 Tenth Street in Niagara Falls, NY, between September 2013 and March 2014. The audit scope covered the HOPE VI grant program expenditure period of July 1, 2007, through September 30, 2012, and was extended as necessary. To accomplish our objectives, we

- Reviewed relevant HUD regulations, guidebooks, and files.
- Interviewed HUD officials to obtain an understanding of and identify HUD's concerns with the Authority's operations.
- Reviewed HUD's correspondence with Authority officials pertaining to the HOPE VI grant program.
- Reviewed the Authority's policies, procedures, and practices.
- Interviewed key personnel responsible for the administration of the HOPE VI grant program.
- We reviewed more than \$12.8 million of the \$20 million in HOPE VI grant funds. For phase I we selected for review the first three and the largest general contractor draw requests and supporting documentation, as well as HOPE VI funds charged to the project from the advanced funds at the reclosing. We tested over \$5.7 million of the approximately \$9.8 million of phase I costs. For phase II, we tested more than \$7.1 million, which was 100 percent of total draw requests for this phase. We tested these costs for eligibility in terms of supporting documentation and compliance with program and financing document requirements. We did not test the remaining over \$3 million of the \$20 million LOCCS draws that were for soft costs associated with both phases.
- We relied in part on computer-processed data primarily for obtaining background information on the Authority's expenditure of HOPE VI grant funds. We performed a minimal level of testing and found the data to be adequate for our purposes.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

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

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:

- Authority officials did not have adequate controls over compliance with laws and regulations or safeguarding resources as they did not always comply with HUD regulations while applying HOPE VI funds drawn to project expenditures, and drew down more funds than necessary to cover its share of project expenditures (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>
1A	\$1,084,187
1B	\$26,785
1C	\$403,324
Total	<u>\$1,514,296</u>


1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Niagara Falls Housing Authority

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June 10, 2014

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of HUD Office of Audit
New York/New Jersey Region 2
26 Federal Plaza, Room 3430
New York, NY 10278

RE: NFHA RESPONSE TO OIG AUDIT

Dear Mr. Moore:

INTRODUCTION:

The Niagara Falls Housing Authority (NFHA) is in receipt of the Audit Review and Findings of HUD's Office of Inspector General (OIG) concerning the Center Court HOPE VI Grant and Redevelopment Project. What must be clearly communicated is that the NFHA worked closely and in compliance with HUD during the entire development project. Documentation supporting these actions was provided to the HUD Audit team during their recent audit review; yet, the report has listed conclusions that appear to have not been based upon a thorough review and understanding of the pertinent documents provided. Essentially, the NFHA always acted appropriately and within the guidelines of the program and in concert with the HUD Field Office, which closely supervised all activities.

It is important to note the complexities of the HOPE VI project in conducting a financial review. There were two major and unforeseen events that occurred almost simultaneously – the discovery of underground ash on the site, which had to be remediated at significant cost and the default of the original equity investor during the recession of 2008. These two major setbacks created a situation, which required the realignment of budgets in order to salvage the project. Those realignments were made with HUD's full knowledge, understanding and approval of the costs, expenditures and budgetary re-classifications. The project was not only salvaged, but it became and continues to be a success. The following bullet points serve to succinctly address the particular comments in the report:

WE EMPOWER • WE ENRICH • WE BUILD STRONG COMMUNITIES!

Harry S. Jordan Gardens • Anthony Spallino Towers • Henry E. Wrobel Towers • Packard Court • Beloved Community
Doris W. Jones Family Resource Building • Packard Court Community Center

Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 4

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Comment 10

Comment 11

NFHA RESPONSES TO OIG COMMENTS:

OIG Comment: "The Authority Drew More HOPE VI Funds Than Necessary in Phase I"

NFHA Response:

- NFHA drew down (on a monthly basis) only the amount of Phase I budgeted hard costs that were authorized in the original HUD approved HOPE VI closing budget and consistent with HUD's approval of a non-pari passu funding plan to maintain construction until re-closing with the replacement investor.
- The OIG comment fails to account for unique circumstances associated with Phase I including default of the original investor. At re-closing, NFHA was reimbursed the referenced \$4.6 million in "advanced HOPE VI funds", which was the amount needed to bring the project back to pari-passu funding (not "all of the funds they advanced"). Most of these funds were re-disbursed for approved project development costs in subsequent monthly draws.
- The HUD approved re-closing budget used less HOPE VI funds than the original closing budget. The difference (effectively a bridge) is evident in the HUD approved respective closing mixed finance budgets, and was discussed with HUD after re-closing and at the time of each subsequent HOPE VI budget revision request.
- HUD advised NFHA to set up the Phase II budget for draw down from LOCCS, rather than first using excess Phase I refunded proceeds.
- Establishing an endowment trust to sustain community and supportive services is a permitted activity under the grant (up to 15% of the grant total) and NFHA is setting up an endowment trust) with the bridged funds.

OIG Comment: "The Authority Drew More HOPE VI funds Than Necessary in Phase II"

NFHA Response: The OIG's comment is incorrect because:

- NFHA drew down only the amount of Phase II costs that were included in the HUD approved mixed finance budgets for the phase and the HUD approved NFHA loan documents.
- HUD approved non-pari passu funding for Phase II construction costs as the only way to meet NFHA's funding commitment within the grant expenditure deadline.
- As previously explained to the OIG, Exhibit G of the HUD approved Mixed Finance Amendment provides for a reconciliation of the ratio between public housing funds and non-public funds upon "full disbursement of all funds" which was not determined until final credit allocation and permanent loan closing. This standard practice recognizes that project cost savings cannot be predicted six months in advance of construction completion.
- As also previously explained to the OIG, the comment that "Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than necessary" is incorrect and reflects a

Ref to OIG Evaluation

Auditee Comments

Comment 12
Comment 13

misunderstanding of the Authority's responsibilities under approved mixed finance evidentiary documents.

- The exact project cost (and therefore cost savings) is not known until the final cost certification which occurs months after construction completion.
- As permitted under the grant, NFHA previously reprogrammed the only predictable portion of the project cost savings (from the relocation budget) to fund a shortfall in administration and program management costs. HUD approved the applicable budget revision, which was consistent with HUD cost control standards.

OIG Conclusion:

"The Authority did not always administer its HOPE VI grant program and activities in accordance with requirements:

NFHA Response:

NFHA strongly disagrees with the OIG conclusion and respectfully requests that it be removed from the report. NFHA followed all applicable rules, regulations and requirements throughout the grant implementation period. NFHA implemented the revitalization effort in close partnership with HUD and consistent with HUD requirements and approvals. HUD, NFHA and the developer collaborated extensively to address an unprecedented range of obstacles that could have derailed the project, but did not. The two completed rental phases are a testament to that cooperation. At no time did NFHA draw more grant funds than permitted by HUD approved closing budgets and subsequent revisions thereto. All public housing grant funds were drawn only as needed pursuant to a HUD approved funding plan ("not in advance of needed" as suggested); as such, no funds were drawn inappropriately and no change in procedures is needed.

Comment 14

SUMMARY:

The NFHA successfully administered the \$20 million HOPE VI grant plus an additional \$3.8 million in ARRA funding in support of the Center Court revitalization project. The audit found but failed to note that:

Comment 15

- There were no inappropriate expenditures of any of the \$23.8 million in public housing funds.
- All public housing funds were expended within obligation and expenditure deadlines.
- There was complete documentation to support the expenditure of all funds - both public housing and non- public housing.
- There was no deviation from HUD cost controls and safe harbor standards.
- NFHA fully complied with all HUD required reporting including quarterly reporting in the HUD grant management system, Davis Bacon, Section 3, M/WBE.
- NFHA fully complied with applicable procurement regulations.


Ref to OIG Evaluation

Auditee Comments

- The revitalization effort culminated in the successful completion of two rental phases totaling 215 apartments and all related infrastructure.

Very truly yours,

NIAGARA FALLS HOUSING AUTHORITY



STEPHANIE W. COWART
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1** Authority officials state that the NFHA always acted appropriately and within the guidelines of the program and in concert with the HUD Field Office. However, we determined, based on our review which was conducted in compliance with governmental auditing standards, that Authority officials drew more HOPE VI funds from LOCCS than were needed to cover project expenditures. Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than were necessary to meet its share of the development costs.
- Comment 2** Authority officials state that the project was not only salvaged, but it became and continues to be a success. However, rather than providing 282 rental and homeownership units as approved in the original HOPE VI revitalization plan, only 215 total units were completed. In addition, HUD's total investment in the project increased from \$20 million in HOPE VI funds to over \$30 million. The \$30 million includes the HOPE VI funds plus Recovery Act funds from the Capital Fund program-formula grant, competitive grant, and the Tax Credit Assistance Program (TCAP).
- Comment 3** Authority officials state that NFHA drew down (on a monthly basis) only the amount of phase I budgeted hard costs that were authorized in the original HUD approved HOPE VI closing budget and consistent with HUD's approval of a non-pari passu funding plan to maintain construction until re-closing with the replacement investor. Pari passu funding refers to making draws in accordance with ratios as established in executed financing documents. Although this was considered at the time we were conducting our review, the issue remains that HOPE VI funds were drawn in excess of need because when construction was completed \$1,084,187 in phase I funds remained, and were not included as part of the HUD funds used to complete the phase.
- Comment 4** Authority officials state that the OIG comment fails to account for unique circumstances associated with phase I including default of the original investor. However, the draft report addresses the unique events that occurred as this project progressed in the background and objectives section and also in the finding. Authority officials also state that most of the reimbursed funds received at the reclosing were re-disbursed for approved project development costs in subsequent monthly draws. However, \$1,084,187 in phase I funds remained unaccounted for through the completion of the project.
- Comment 5** Authority officials state that the HUD approved re-closing budget used less HOPE VI funds than the original closing budget and that the difference (effectively a bridge) is evident in the HUD approved respective closing mixed finance budgets, and was discussed with HUD after re-closing and at the time of each subsequent HOPE VI budget revision request. However, bridge loan documents were not executed. In addition, the excess HOPE VI funds were not

identified as program income, nor were they expended prior to any additional LOCCS draws and by the September 30, 2012 deadline date.

- Comment 6** Authority officials state that HUD advised them to set up the phase II budget for draw down from LOCCS, rather than first using excess phase I refunded proceeds. However, Authority officials could not provide documentation from HUD to support HUD's guidance to draw from LOCCS prior to using the refunded phase I proceeds.
- Comment 7** Authority officials state that establishing an endowment trust to sustain community and supportive services is a permitted activity under the grant (up to 15% of the grant total) and NFHA is setting up an endowment trust with the bridged funds. However, the questioned funds should have been expended by the September 30, 2012, expenditure deadline; and since they weren't, the funds should be returned to the Treasury. Also, the funds were not drawn down for the purpose of establishing an endowment trust, but were drawn for construction purposes and not used; therefore, the funds need to be returned to the Treasury.
- Comment 8** Authority officials state that NFHA drew down only the amount of phase II costs that were included in the HUD approved mixed finance budgets for the phase and the HUD approved NFHA loan documents. However, Authority officials drew more HOPE VI funds from LOCCS than were needed to cover project expenditures for phase II. For example, the first general contractor payment for phase II in October 2011 was for \$343,716. This HOPE VI fund draw was for 100 percent of the contractor payment, rather than a percentage in accordance with the ratio to other public and private funds.
- Comment 9** Authority officials state that HUD approved the non-pari passu funding for phase II construction costs as the only way to meet NFHA's funding commitment within the grant expenditure deadline. Pari passu funding refers to making draws in accordance with ratios as established in executed financing documents. However, Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than were necessary to meet the HOPE VI program's share of the development costs.
- Comment 10** Authority officials state that Exhibit G of the HUD approved Mixed Finance Amendment provides for a reconciliation of the ratio between public housing funds and non-public funds upon "full disbursement of all funds" which was not determined until final credit allocation and permanent loan closing. This standard practice recognizes that project cost savings cannot be predicted six months in advance of construction completion. However, the amount questioned in the report was based upon the total development cost and the residual HOPE VI funds on hand. Therefore, when NFHA officials realized at or prior to permanent closing that the excess HOPE VI funds were not going to be used, based on the financing documents executed at the phase I reclosing in July 2010, the funds should have been returned to the Treasury.

- Comment 11** Authority officials state that the OIG comment that "Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than necessary" is incorrect and reflects a misunderstanding of the Authority's responsibilities under the approved mixed finance evidentiary documents. However, we determined that had Authority officials established better controls pertaining to the project's overall budget and how much funding would be necessary to complete the project, HOPE VI funds in excess of need would not have been drawn from LOCCS.
- Comment 12** Authority officials state that the exact project cost (and therefore cost savings) is not known until the final cost certification, which occurs months after construction completion. However, it should be noted that the amount questioned in the report was based upon the total development cost incurred. Therefore, when it was realized at or prior to permanent closing that the excess HOPE VI funds were not going to be used, based on the financing documents executed at the phase I reclosing in July 2010, the funds should have been returned to the Treasury. In addition, since the HOPE VI funds were still not fully disbursed at the HOPE VI expenditure deadline of September 30, 2012, this further supports that these funds should have been returned to the Treasury.
- Comment 13** Authority officials state that NFHA previously reprogrammed the only predictable portion of the project cost savings (from the relocation budget) to fund a shortfall in administration and program management costs and that HUD approved the applicable budget revision, which was consistent with HUD cost control standards. However, Authority officials should have established controls to ensure that the Authority did not draw more public housing grant funds than were necessary to meet its share of the development costs.
- Comment 14** Authority officials state that HUD, NFHA and the developer collaborated extensively to address an unprecedented range of obstacles that could have derailed the project, but did not. Also, Authority officials state that the two completed rental phases are a testament to that cooperation. However, this resulted in the completion of a smaller scale project with no homeownership, market rate rental, or off-site rental units at an increased cost to HUD. Authority officials further state that all public housing grant funds were drawn only as needed pursuant to a HUD approved funding plan ("not in advance of needed" as suggested); as such, no funds were drawn inappropriately and no change in procedures is needed. However, when construction was completed \$1,084,187 in phase I funds and \$403,324 in phase II HOPE VI funds remained, and thus should be returned to the Treasury.
- Comment 15** Authority officials state that the NFHA successfully administered the \$20 million HOPE VI grant plus an additional \$3.8 million in ARRA funding in support of the Center Court revitalization project and that the audit failed to note that other positive outcomes of the project. However, we determined that funds were drawn

in excess of need and that \$1,084,187 in phase I funds and \$403,324 in phase II funds remained when construction was completed. In addition, rather than providing 282 rental and homeownership units as approved in the original HOPE VI revitalization plan, only 215 total units were completed. In addition, HUD's total investment in the project increased from \$20 million in HOPE VI funds to over \$30 million. The \$30 million includes the HOPE VI funds plus Recovery Act funds from the Capital Fund program-formula grant, competitive grant, and the Tax Credit Assistance Program (TCAP). Therefore, a smaller scale project was completed with no homeownership, market rate rental, or off-site rental units at an increased cost to HUD.