



**The City of Houston
Houston, Texas**

**The City of Houston Could Have Better Used Its
Community Development Block Grant Disaster
Recovery Downpayment Assistance Funds**



Issue Date: July 19, 2012

Audit Report Number: 2012-FW-1011

TO: Yolanda Chavez,
Deputy Assistant Secretary for Grant Programs, DG

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of Houston Could Have Better Used Its Community Development Block
Grant Disaster Recovery Downpayment Assistance Funds

Enclosed is the U. S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the City of Houston's Community Development Block Grant (CDBG) Disaster Recovery downpayment assistance program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (817) 978-9309.



July 19, 2012

The City of Houston Could Have Better Used Its Community Development Block Grant Disaster Recovery Downpayment Assistance Funds

Highlights

Audit Report 2012-FW-1011

What We Audited and Why

We audited the City of Houston's Community Development Block Grant (CDBG) Disaster Recovery downpayment assistance program. The program allowed the City to provide up to \$45,000 in downpayment assistance for homebuyers in low to moderate income areas within the City limits. We initiated the audit as part of the U. S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) annual audit plan to implement oversight of Disaster Recovery funds to prevent fraud, waste, and abuse. Our objective was to determine whether the City had adequate internal controls to ensure that it administered the program funds in accordance with applicable HUD requirements, laws and regulations, and State of Texas program requirements.

What We Recommend

We recommend that the Deputy Assistant Secretary for Grant Programs require the City to ensure that it submits for the State's approval an exception policy that specifically addresses all waivers granted by the City.

What We Found

The City could have better planned and implemented its program. Further, it did not always administer program funds in accordance with applicable rules and regulations. Specifically, the City did not limit downpayment assistance to persons and properties that most needed the assistance, was overly generous with its assistance, and violated its contract with the State and various Federal rules and regulations. The State detected many of the City's violations and did not reimburse the City for the associated expenses. However, the City did not award funds fairly because one of its officials granted unwarranted and unauthorized waivers of program requirements. These conditions occurred because City officials erroneously concluded that their plan for providing downpayment assistance with the program funds would be the best use of those funds. Further, City officials either did not know program rules or knew them but believed that the City had adequate internal controls to ensure that the funds would be used in accordance with its contract, Federal rules and regulations, and State requirements.

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BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program provides grants to the State of Texas and local governments to aid in the development of viable urban communities. Local governments are to use grant funds to provide decent housing and suitable living environments and expand economic opportunities, principally for persons of low and moderate income. To be eligible for funding, every CDBG-funded activity, except for program administration, must meet one of the program's following three national objectives:

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

In response to disasters, Congress enacted the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (Pub. Law 110-329), on September 30, 2008. The Act appropriated \$6.1 billion through the CDBG program for “necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure, housing, and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008 for which the President declared a major disaster.” In 2008, Texas’ gulf coast was severely impacted by three hurricanes and a tropical storm. Texas cited preliminary unreimbursed damages of \$29.4 billion for the 2008 hurricane season. In 2009, Texas received more than \$3 billion in CDBG Disaster Recovery funding authorized by the Act through two allocation rounds. Disaster Recovery grants often supplement disaster programs of various other Federal agencies.

The City of Houston received more than \$87 million in CDBG Disaster Recovery funding to address the effects of Hurricanes Dolly and Ike. The Texas Department of Rural Affairs was designated as the grantee or the entity responsible to the U. S. Department of Housing and Urban Development (HUD) for the grant administration. The Texas Department of Housing and Community Affairs partnered with the Texas Department of Rural Affairs and administered the Disaster Recovery funding associated with housing. The Texas Department of Housing and Community Affairs was the program administrator and signed a contract with the City on August 12, 2009.¹ The City set aside \$11 million of the \$87 million and named the program the DownPayment Assistance Program for Hurricanes Dolly and Ike. The City used this downpayment assistance program to help beneficiaries pay downpayments, closing costs, and principal reductions.² By September 2011, the City had provided \$10.8 million³ in such downpayment assistance to 292 home buyers. The State reimbursed the City only around \$10.1

¹ Effective July 1, 2011, the governor of Texas changed the State agency responsible for the administration of the Disaster Recovery funds to the Texas General Land Office.

² The City’s use of the term downpayment assistance for this program includes downpayments, closing costs, and principal reductions. Therefore, the term downpayment assistance in this report also includes downpayments, closing costs, and principal reductions unless otherwise specified.

³ The State did not reimburse the City for 9 of the 292 applicants. The City received only around \$10.1 million in reimbursement from the State.

million for 283 home buyers. The City transferred the remaining unobligated \$891,500 for use in repairing single family homes.

Our objective was to determine whether the City had adequate internal controls to ensure that it administered the program funds in accordance with applicable HUD requirements, laws and regulations, and State program requirements.

RESULTS OF AUDIT

Finding: The City Could Have Better Used Its CDBG Disaster Recovery Downpayment Assistance Program Funds

The City did not limit downpayment assistance to persons and properties that most needed disaster assistance, was overly generous with its assistance to some recipients, violated its contract with the State and various Federal rules and regulations, and allowed a City official to grant unauthorized and unwarranted waivers of program requirements. The State detected many of the City's violations and did not reimburse the City for the associated expenses. The program inefficiency and ineffectiveness occurred because City officials erroneously concluded that their plan for providing downpayment assistance with the program funds would be the best use of those funds. The regulatory violations and unauthorized waivers occurred because City officials either did not know program rules or knew them but believed that the City had adequate internal controls to ensure that the funds would be used in accordance with its contract, Federal rules and regulations, and State requirements. Because the City did not limit its CDBG Disaster Recovery downpayment assistance program to persons and properties that most needed the assistance, the program was not as effective as it could have been. Further, because the City was overly generous with its assistance, it did not assist as many families as it could have assisted. Finally, because the City official granted unauthorized and unwarranted waivers of program requirements, the program was unequally enforced.

The City Did Not Limit Assistance to Persons and Properties Directly Impacted

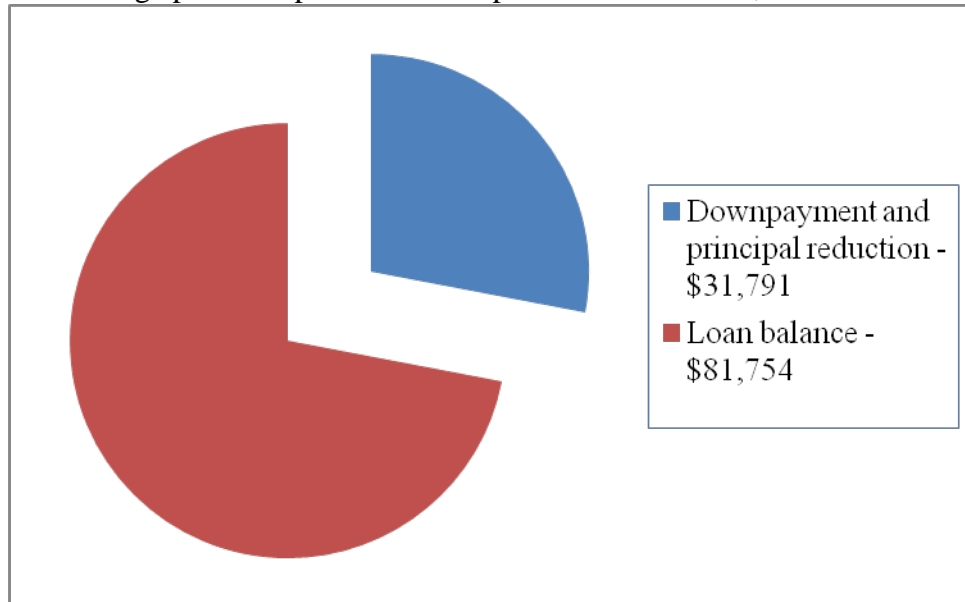
Although the Disaster Recovery funds were to be used to help the State recover from the effects of Hurricane Ike, HUD and the State did not require the City to limit assistance to persons or properties directly impacted by the hurricane. The City adopted a broad view of disaster recovery needs and used the funds to help low-to-moderate-income persons purchase new and existing homes in areas the City designated as having the greatest need of restoration. These areas included areas targeted for revitalization and surrounding communities affected by the hurricane. Assisting any low-to-moderate-income first-time home buyer in purchasing a property not directly affected by the hurricane, although allowed by HUD and the State, was not the most efficient use of Disaster Recovery funds.

The City Was Overly Generous With Disaster Recovery Assistance

According to the City's August 2011 monthly report, there were 528 applicants for downpayment assistance. The City provided up to \$45,000 in downpayment assistance to 292⁴ low-to-moderate-income applicants who purchased homes within Houston's city limits. The limit for buyers purchasing properties within low-to-moderate-income census tracts was \$45,000, while the limit for all other areas within the city limits was \$19,500. The State would have allowed the City to provide up to \$50,000 in assistance. However, according to the City's Department of Housing and Community Development staff, the City limited assistance to \$45,000 because city council approval would have been needed for each \$50,000 grant and the City wanted to avoid having to obtain separate approval for each request.

The City's average downpayment assistance provided for 55 sample properties was \$37,609. This average included \$5,819 for closing costs and \$31,791 for downpayment costs and principal reductions. The average purchase price of the 55 sample homes was \$113,545. The assistance significantly reduced the average mortgage loan amounts for the buyers. The chart below shows the relationship between the average assistance provided and the average loan.

The average purchase price of 55 sample homes was \$113,545.



The City had three additional assistance programs with lower assistance limits than the Disaster Recovery downpayment assistance program. The limits for two

⁴ The State reimbursed the City for only 283 of the 292 awards.

of these programs were \$30,000. The limit for the third program was \$19,500. Further, the three programs used all of their funding each year, which demonstrated a high demand for such assistance. Therefore, if the City had limited its Disaster Recovery downpayment assistance to \$30,000 instead of \$45,000, it could have assisted more families. The City’s three downpayment assistance programs, their assistance limits, and funding sources included

- The Houston HOPE Downpayment Assistance Program, which limited its awards to \$30,000 and was funded by two Federal programs – the HOME Investment Partnerships program and the American Dream Downpayment Initiative;
- The Workforce Housing Downpayment Assistance Program, which limited its awards to \$30,000 and was locally funded by the Tax Increment Reinvestment Zone; and
- The Houston Homebuyer Assistance Program, which limited its awards to \$19,500 and was funded by two Federal programs and a local program – the HOME Investment Partnerships program, the American Dream Downpayment Initiative, and the local Tax Increment Reinvestment Zone.

The City Violated Its Contract With the State and Its Own Policies in 9 of 55 Files Reviewed

We reviewed 55 case files and found that the City violated its contract with the State and its own policies in 8 cases and required the purchaser in a 9th case to have a longer affordability period than other purchasers using the same program. Table 1 shows the types of errors in the sample cases:

Table 1

| Type of error | Occurrences | City awarded | State reimbursed |
|---|-------------|------------------|------------------|
| Buyer exceeded income limit | 4 | \$180,000 | \$0 |
| File lacked supporting documentation | 3 | \$109,500 | \$0 |
| Loan exceeded debt-to-income ratio limit | 1 | \$45,000 | \$0 |
| Affordability period exceeded requirement | 1 | \$45,000 | \$0 |
| Totals | 9 | \$379,500 | \$0 |

In four cases, the City approved funding for ineligible participants whose income exceeded the limits for low-to-moderate-income families. According to the City’s guidelines, families whose projected annual income exceeded 120 percent of the area’s median income were ineligible to receive assistance through its Disaster

Recovery program. The City approved \$180,000⁵ in downpayment assistance funding to the four ineligible participants. The State identified the errors and did not reimburse the City.

In three cases, files did not contain all the necessary supporting documentation. Files were missing documentation showing child support, income tax returns, and flood insurance. The City approved \$109,500⁶ in downpayment assistance for the three participants. The State deemed the assistance to be ineligible based upon the program guidelines and did not reimburse the City.

For example, in one case, the borrower's debt-to-income ratio was too high. According to the City's guidelines, an applicant's debt-to-income ratio for the principal loan must not exceed 46 percent, but this borrower's ratio was nearly 49 percent. The City approved the participant for \$45,000 in downpayment assistance, but the State caught the error and did not reimburse the City.

In a second case, the City did not follow the Federal Disaster Recovery guidelines regarding the affordability period. The City awarded one participant \$45,000 and required an affordability period of 10 years, when the City's guidelines specified only a 5-year affordability period. According to the City's downpayment assistance guidelines,⁷ "The terms of assistance are a 0% interest, five (5) years, deferred payment/forgivable loan with a deed restriction imposed on the property that provides that the property be occupied for a period of at least five (5) years ("Affordability Period") by that applicant as his/her principal residence." The State did not reimburse the City for this participant.

According to the City's staff, the City used its local Tax Increment Reinvestment Zone funds to pay for the downpayment assistance when the State did not reimburse it from Federal Disaster Recovery funds.

**Unwarranted and Unauthorized
Exceptions Were Granted by a
City Official**

The City granted unwarranted exceptions to its guidelines in 14 of the 55 cases reviewed. A City official approved some buyers for \$45,000 in downpayment assistance with Disaster Recovery funds, although their homes were located outside designated areas; thus, assistance was limited to \$19,500.

⁵ \$45,000 x 4 = \$180,000

⁶ \$45,000 + \$45,000 + \$19,500 = \$109,500

⁷ Page 6 of the City's Downpayment Assistance Program for Hurricanes Dolly and Ike Disaster Relief

Table 2 is a list of the 14 properties, the City award amounts, and the amounts reimbursed by the State.

Table 2: Cases with unwarranted and unauthorized waivers

| Count | State ID# | City award | State reimbursed |
|-------|-------------------|------------------|------------------|
| 1 | 1001000027 | \$45,000 | 19,500 |
| 2 | 1001000170 | 45,000 | 19,500 |
| 3 | 1001000033 | 45,000 | 19,500 |
| 4 | 1001000200 | 45,000 | 19,500 |
| 5 | 1001000119 | 45,000 | 19,500 |
| 6 | 1001000194 | 45,000 | 19,500 |
| 7 | 1001000067 | 45,000 | 19,500 |
| 8 | 1001000134 | 45,000 | 19,500 |
| 9 | 1001000043 | 45,000 | 19,500 |
| 10 | 1001000184 | 45,000 | 19,500 |
| 11 | 1001000182 | 45,000 | 19,500 |
| 12 | 1001000225 | 45,000 | 19,500 |
| 13 | 1001000022 | 45,000 | 19,500 |
| 14 | None ⁸ | 45,000 | \$0 |
| | Totals | \$630,000 | \$253,500 |

Documents in the case files showed that certain lenders, realtors, and builders pressured the City official to increase awards from \$19,500 to \$45,000 for their applicants. State records showed that the State detected the errors and did not reimburse the City for more than \$19,500 for these applicants. According to City staff, the City used its local Tax Increment Reinvestment Zone funds to pay the difference.

For example, in one email to the City official, a realtor wanted to know why the City could not approve an award of \$45,000. In response to the email, the City official wrote, “OK... Approved for \$45,000...”⁹ The State determined that the property was not located in a designated area and reimbursed the City only \$19,500 for the award.

In a second example, a realtor questioned the City’s decision regarding the location of a property and the award amount. The City’s planner, the person responsible for performing the demographic analysis, determined that the property was located outside the designated area, which entitled the applicant to only a \$19,500 award. However, the realtor in an email wrote, “I verified through the

⁸ No number was assigned because the State cancelled the transaction.

⁹ Integrated Disbursement and Information System number 1001000027

GIMS website¹⁰ that this address is in the revitalization zone and should be approved for the \$45k.” Within 2 hours, the City official responded, “Approved!!! Based on my map review this property falls well within the Revitalization Area.” According to the city planner, the property did not fall within the designated area. Further, the buyer was determined to be ineligible because his income exceeded the income limits. The State did not reimburse the City for this award.

The City official had no clear justification or authority for granting the exceptions. The City had no written and approved policy outlining the criteria for granting exceptions. Further, the State had no approved exception criteria in its guidelines. In its cover letter approving the City’s downpayment assistance with Disaster Recovery fund guidelines, the State said, “The City must administer its housing program according to the approved Guidelines. If additional changes become necessary during the administration of the program, the City must submit a revised version of the Guidelines to TDHCA [Texas Department of Housing and Community Affairs] for review and approval.”

The City did not fairly award the grant funds because there was no clear justification or authority for granting the waivers. However, State records showed that it reimbursed the City according to the approved guidelines and not based upon the exceptions granted by the City.

The City’s Controls Were Not Sufficient to Prevent Errors and Abuse

The errors and abuses discussed above occurred because the City either did not know program rules or knew them but thought that its existing internal controls were sufficient to ensure compliance. In either case, its internal controls were not sufficient to prevent it from awarding grants to ineligible persons or for ineligible properties or to prevent City officials from granting unwarranted and unauthorized exceptions to program requirements.

Conclusion

The City did not limit downpayment assistance with Disaster Recovery funds to those families and properties most affected by the hurricane. Further, it was overly generous with the \$45,000 awards and did not assist as many families as it could have. It violated its contract with the State and its own policies and did not award funds fairly because one of its officials granted unwarranted and unauthorized waivers to program requirements. These conditions occurred

¹⁰ Geographic Information Management System at <http://www.houstongims.org/html/home.html> is a City of Houston public works department geographic information system with analytic and reporting capabilities as well as standard and custom mapping applications.

because City officials erroneously concluded that their plan for providing downpayment assistance with the program funds would be the best use of those funds. Further, City officials either did not know program rules or knew them but believed that the City had adequate internal controls to ensure that the funds would be used in accordance with its contract, Federal rules and regulations, and State requirements.

Recommendation

We recommend that the State require the City to

- 1A. Ensure that the City submits for the State's approval an exception policy that addresses which City officials may grant waivers and under what circumstances.

SCOPE AND METHODOLOGY

We performed our onsite work at the City's Housing and Community Development Department located at 601 Sawyer Street, Houston, TX, between December 2011 and March 2012. The audit scope covered the period January 1, 2009, through September 30, 2011, and was extended as necessary.

To accomplish our audit objective, we

- Reviewed relevant HUD CDBG Disaster Recovery regulations, guidebooks, and policies.
- Reviewed the City's policies, procedures, guidelines, and performance reports pertaining to its CDBG Disaster Recovery downpayment assistance program.
- Reviewed the State's policies, guidelines, and performance reports pertaining to the CDBG Disaster Recovery programs.
- Analyzed and reviewed the CDBG Disaster Recovery grant agreement between the State and the City.
- Reviewed the City's audited financial statements for June 2009 and June 2010.
- Obtained and reviewed payment and case data from HUD's Line Of Credit Control System and Integrated Disbursement and Information System.
- Analyzed and reviewed a nonstatistical sample of 55 client files.
- Obtained and reviewed State and City CDBG Disaster Recovery disbursements.
- Interviewed key personnel from the City and Texas General Land Office.
- Researched business and property records using the Internet and lexis.com.

Initially, we selected a nonstatistical sample of 26 Disaster Recovery program cases totaling more than \$1 million from a universe of 292 cases. We selected an additional 29 files totaling more than \$1.1 million based upon the following criteria: (1) properties located outside the Houston city limits, (2) cases in which the State did not fully reimburse the City, and (3) cases originated by certain lenders. The results of the testing apply only to the 55 cases reviewed and cannot be projected to the total population of 292 cases. Our use of computer processed data was limited to a spreadsheet from the City containing the 292 cases, and a table from the State showing 300 payments that had been submitted, 8 had been canceled, and only 292 were approved and active or closed. We did not evaluate the computer-processed data because we only used it for background and sample selection 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

| | | |
|--|--|---|
|  | CITY OF HOUSTON Housing and Community Development Department | Annise D. Parker Mayor Neal Rackleff Director 601 Sawyer Street, Suite 400 Houston, Texas 77007 T. (713) 868-8300 F. (713) 868-8414 www.houstonhousing.org |
| July 10, 2012 | | |
| Gerald R. Kirkland Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General, Region VI 819 Taylor Street, Suite 13A09 Fort Worth, TX 76102 | | |
| Dear Mr. Kirkland: | | |
| Enclosed is the City of Houston's (City) Housing and Community Development Department's response regarding the draft report you sent to us under your cover letter dated June 22, 2012. We are also emailing this and the enclosures to Ms. Carroll and Ms. Warren so they will have it sooner than the paper copy may reach them. | | |
| We appreciate your staff returning to Houston for the exit conference on Tuesday, July 3 rd . Documents provided to your staff at that meeting are also attached to this response. | | |
| If you have any questions regarding our comments, please contact Veronica Chapa-Jones, Deputy Director for Planning, Monitoring, and Compliance, at (713) 868-8335 or Chris Butler, the Single Family Deputy Assistant Director, at (713) 865-4196. | | |
| Sincerely,  Neal Rackleff Director | | |
| cc: Jacob Williams, Assistant Regional Inspector General U.S. Department of Housing and Urban Development Office of Inspector General, Region VI 819 Taylor Street, Suite 13A09 Fort Worth, TX 76102 Sandra H. Warren, Director Community Planning and Development Division U.S. Department of Housing and Urban Development Houston Field Office, Region IV 1301 Fannin, Suite 2200 Houston, TX 77002 | | |
| Enclosures: Auditee's Response County Assessment District property listings Map showing City of Houston city limits and locations of properties | | |
| Council Members: Helena Brown Jerry Davis Ellen R. Cohen Wanda Adams Mike Sullivan Al Hoang Oliver Pennington Edward Gonzalez James G. Rodriguez Mike Laster Larry V. Green Stephen C. Costello Andrew C. Burks, Jr. Melissa Noriega C.O. "Brad" Bradford Jack Christie Controller: Ronald C. Green | | |

AUDITEE COMMENTS

The City of Houston's (City) Housing and Community Development Department (HCDD) would like to thank the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) for their commitment to making the Community Development Block Grant (CDBG) – Disaster Recovery (DR) program stronger and better planned. HCDD would like to provide the following commentary to the Audit Report.

Comment 1

HUD OIG Statement:
The City Did Not Limit Assistance to Persons and Properties Impacted

City Response:
The City declared all of Houston to be impacted by Hurricane Ike, thus making all properties within the city limits impacted properties.

Comment 2

HUD OIG Statement:
The City Was Overly Generous With Disaster Recovery Assistance

City Response:
HUD and the State (via Texas Department of Housing and Community Affairs (TDHCA)) approved awarding up to \$45,000 in Down Payment Assistance (DPA) for low-to-moderate income households in census tracts with 51% or more of the population earning less than the Area Median Family Income and \$19,500 in other census tracts. HCDD followed those strictures in the beginning of its CDBG-DR Down Payment Assistance (DPA) program. After the summer of 2010, HCDD decided to make the award no more than \$30,000 in census tracts with 51% or more of the population earning less than the Area Median Family Income.

Comment 3

HUD OIG Statement:
The City Violated Its Contract With the State and Its Own Policies in 15 of 55 Files Reviewed

City Response:
The OIG's finding indicates that the six noted properties did not fall within the Houston city limits. HCDD staff have reviewed these six cities and found that all six properties are under the City's taxing jurisdiction. Accordingly, HCDD is providing tax statements from the appropriate county appraisal districts and an accompanying map that shows that each property is within the Houston City limits. The City's population resides in various Texas counties, including Fort Bend, Harris, and Montgomery Counties. The separate county appraisal districts list taxes for all taxing entities, which include their taxed properties. Based on this documentation, the City believes each noted property falls within the Houston city-limits; therefore providing resolution to this finding.

Comment 4

HCDD, working first with TDHCA and now with the Texas General Land Office (GLO), administers the Hurricane Ike CDBG-DR funds for Texas in the Houston area. After HCDD determined that at least nine DPA project files included errors, the City proactively requested TDHCA to cancel those questionable nine project files, which TDHCA had already approved. Other project files lacking proper documentation or compliance with guidelines were found and dealt with at the local level. Additionally, any file that does not have a TDHCA activity number assigned by the TDHCA Housing Contract System was not submitted by the HCDD to TDHCA for final review. HCDD proactively reviewed all files to ensure that proper documentation and information was collected and that each project complied with the approved Federal, State, and City guidelines.

AUDITEE COMMENTS

HUD OIG Statement:

Unwarranted and Unauthorized Exceptions Were Granted by a City Official

Comment 5

City Response:

The City's Hurricane Ike application and implementation for the DPA program, with concurrence by TDHCA, started prior to the guidelines being officially approved. This was due to the sense of urgency to provide some relief to the City's residents affected by Hurricane Ike. One City official did grant waivers that proved to be unwarranted. That official no longer works for the City's HCDD. No further waivers were granted. HCDD negotiated with TDHCA that TDHCA would reimburse the City for the DPA funding amount that the property should have received, rather than the funding amount granted via the waivers approved by the one City official. HCDD utilized local sources to fund the difference.

HUD OIG Statement:

The City's Controls Were Not Sufficient to Prevent Errors and Abuses

Comment 6

City Response:

HCDD is developing a waiver policy and will provide an approved policy to HUD OIG no later than August 10, 2012. This will ensure that proper procedures will be followed in the future, no matter who is administering CDBG-DR housing funds for the City. In addition, the HCDD has taken many steps to ensure that proper planning, analysis, and monitoring take place in the operation of its programs. These steps will also inform future disaster recovery planning, should such a disaster arise again.

OIG Evaluation of Auditee Comments

- Comment 1** The City misstated the OIG's position regarding properties affected by Hurricane Ike. The City said it declared all of Houston to be affected by Hurricane Ike, making all properties within the city limits eligible for downpayment assistance with federal disaster recovery funding. The OIG's position is that not all properties were damaged by the hurricane; thus, blanket eligibility for the entire City, while not a strict violation of program rules, was not a prudent use of disaster recovery funding. We did not change the report based on the comment.
- Comment 2** The City stated that it reduced the award amounts from a maximum of \$45,000 to a maximum of \$30,000 after the summer of 2010. The City may have reduced the award amounts late in the program; however, the average assistance for the 55 sample properties that OIG tested was \$37,609. We did not change the report based on the City's comment.
- Comment 3** The City provided a map of the City limits and tax rolls as evidence that six of the properties were located within the City limits and subject to City taxes. After reviewing this evidence, we agreed that the properties were eligible for assistance and we made appropriate changes to the report.
- Comment 4** The City stated that it had detected and cancelled nine project files with errors. Further, the City maintained that it proactively reviewed all files to ensure it collected proper documentation and information, and that each project complied with Federal, State, and City regulations. The City did not provide evidence to support these assertions, and we did not change the report based on the comment.
- Comment 5** The City agreed that one of its officials granted unwarranted waivers but stated that the official no longer works for the department overseeing the program. Further, the City stated that it used local sources for any funding in excess of program limits. We did not change the report based on the comment.
- Comment 6** The City stated that it is developing a waiver policy which it will provide to HUD OIG by August 10, 2012. Further, it stated that it has taken many steps to ensure proper planning, analysis, and monitoring in its program operations.

The City should provide its approved policy to Deputy Assistant Secretary for Grant Programs rather than to OIG. We did not change the report based on the comment.

Appendix B

CASE DEFICIENCIES

| Sample number | TDHCA* | Unwarranted and unauthorized waivers | Income error | Document error | Other error | City award | State reimbursed |
|---------------|------------|--------------------------------------|--------------|----------------|-------------|------------------|------------------|
| 1 | 1001000027 | X | | | | \$ 45,000 | \$ 19,500 |
| 2 | None | | X | | | 45,000 | 0 |
| 3 | None | X | X | | | 45,000 | 0 |
| 4 | None | | X | | | 45,000 | 0 |
| 5 | None | | | X | | 19,500 | 0 |
| 6 | None | | | X | | 45,000 | 0 |
| 7 | 1001000051 | | | X | | 45,000 | 0 |
| 8 | 1001000114 | | X | | | 45,000 | 0 |
| 9 | 1001000148 | | | | X | 45,000 | 0 |
| 10 | 1001000001 | | | | X | 45,000 | 0 |
| 11 | 1001000170 | X | | | | 45,000 | 19,500 |
| 12 | 1001000033 | X | | | | 45,000 | 19,500 |
| 13 | 1001000022 | X | | | | 45,000 | 19,500 |
| 14 | 1001000200 | X | | | | 45,000 | 19,500 |
| 15 | 1001000119 | X | | | | 45,000 | 19,500 |
| 16 | 1001000194 | X | | | | 45,000 | 19,500 |
| 17 | 1001000067 | X | | | | 45,000 | 19,500 |
| 18 | 1001000134 | X | | | | 45,000 | 19,500 |
| 19 | 1001000043 | X | | | | 45,000 | 19,500 |
| 20 | 1001000184 | X | | | | 45,000 | 19,500 |
| 21 | 1001000182 | X | | | | 45,000 | 19,500 |
| 22 | 1001000225 | X | | | | 45,000 | 19,500 |
| Totals | | | | | | \$964,500 | \$253,500 |

* Texas Department of Housing and Community Affairs