
OFFICE OF THE CITY AUDITOR

COMPLIANCE REVIEW OF THE NEIGHBORHOOD RENAISSANCE PROGRAM SECTION 108 LOAN PROGRAM

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**November 1, 2002
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Memorandum



CITY OF DALLAS

November 1, 2002

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a compliance review of the Neighborhood Renaissance Program Section 108 Loan Program, which is administered by the Housing Department.

In our opinion, for the areas reviewed, the City departments complied with all major federal requirements associated with the NRP Section 108 loan programs. However, we noted areas for possible improvement. Opportunities for improvement and related recommendations are presented in this report.

We appreciate the cooperation of City staff during our examination.

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c: Teodoro J. Benavides, City Manager

**COMPLIANCE REVIEW OF THE NEIGHBORHOOD RENAISSANCE PROGRAM
SECTION 108 LOAN PROGRAM**

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INTRODUCTION

Authorization

We have conducted a compliance review of the Neighborhood Renaissance Program (NRP) Section 108 Loan Program, which is administered by the Housing Department. This review was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with a special request from the City Manager's Office.

Scope and Methodology

Our examination was conducted in accordance with generally accepted government auditing standards and, accordingly, included tests of the accounting and related records and other audit procedures that we considered necessary in the circumstances. Our audit covered the period from the inception of the loan on December 8, 1993, to September 3, 2002.

The objectives of our audit were to determine:

- Program recipient eligibility.
- Program recipient activities eligibility.
- Program recipient costs eligibility.
- Program recipients' compliance with Davis – Bacon Act.
- Period of availability of federal funds.
- Suspension or debarment of contractor.
- Program administrator monitoring practice.
- Adequacy of internal controls.

To achieve our audit objectives, we:

- A. Reviewed the Housing Department files for the following NRP Section 108 programs:
 1. N001 / Home Improvement; Area A.
 2. N003 / Leveraged Loans; Area E.
 3. N034 / Housing REHAB; Area F.
- B. Reviewed the Economic Development Department files for the following NRP Section 108 programs:
 1. N0023 / Micro Loans; Area A.
 2. N004 / Macro Loans; Area E.
- C. Reviewed the Public Works and Transportation Department files for the following NRP Section 108 programs:

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1. NR54 / Intersection Improvements; Area A.
 2. NR59 / Public Improvements; Area A.
 3. N009 / Lisbon Flood – B; Area B.
- D. Judgmentally selected files from each program.
- E. Examined program participant records for:
1. Eligibility.
 2. Compliance with Davis – Bacon Act.
 3. Compliance with suspension and debarment of contractors.
- F. Reviewed records of expenditures for:
1. Allowable and unallowable activities.
 2. Allowable and unallowable cost.
- G. Tested records to ensure:
1. Funds were expended during the period of availability.
 2. Program administrator is providing an adequate collection effort of delinquent accounts.
- H. Discussed program objectives with program manager to get a clear understanding of each program reviewed.
- I. Reviewed policies and procedures to assess adequate controls in each department.

**Overall
Conclusion**

In our opinion, for the areas reviewed, the City departments complied with all major federal requirements associated with the NRP Section 108 loan programs. However, we noted areas for possible improvement. These areas are noted and discussed in the *Opportunities for Improvement* section of this report.

Background

The City of Dallas developed the NRP program to reverse signs of deterioration in neighborhoods such as abandoned buildings, substandard housing, overgrown weeds, trash, litter, and debris. Under the NRP program, the City identified six target neighborhoods to be the focus of the program.

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In November 1993, the Dallas City Council directed the City Manager to prepare a Section 108 Loan Guarantee application for obligations in the amount of \$25,000,000 to fund the revitalization of the six NRP areas. The City Manager submitted an application to the U.S. Department of Housing and Urban Development (HUD) in April 1994, and the City received conditional approval of its application in March 1995.

On February 7, 1996, the Dallas City Council adopted an allocation of funds based upon each area's proportion of the total target area population weighted by a needs-based score. The NRP Section 108 program utilized Citizen Planning Advisory Committees (CPACs) to identify and prioritize rehabilitation efforts in each of the six areas. The CPACs were formed by soliciting involvement from existing neighborhood associations and through a number of public hearings held throughout each area. The City Council approved the CPACs' recommendations for expending the \$25,000,000 loan proceeds in these general categories:

Economic development	\$7,431,500
Housing improvements	\$9,411,520
Infrastructure improvements	\$7,980,230
Loan reserve	<u>\$176,750</u>
	\$25,000,000

The NRP Section 108 loan funds were to be used to satisfy the following national objectives for CDBG-assisted activities:

- Activities will benefit an area composed primarily of low and moderate income persons. *24 CFR 570.208 (a) (1)*
- Activities will carry out the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by low and moderate income households. *24 CFR 570.208 (a) (3)*

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- Activities will promote the creation or retention of permanent jobs for low and moderate income individuals. *24 CFR 570.208 (a) (4)*

In addition, the City was obligated to meet all other federal regulations addressing the receipt and use of federal grant funds.

The City Council approved Resolution 94-1628 on April 27, 1994. That resolution authorized the City Manager to submit a finalized application to HUD for \$25,000,000 in Section 108 Loan Guarantee funds for the NRP program. HUD advanced the loan proceeds, and the City was required to spend these funds within five years. After HUD and City Council approval, that spending deadline was later extended to December 31, 2002. The City would repay these funds over ten years and pledged future CDBG entitlements as collateral for the loan.

The purpose of this review was to ensure that the loan proceeds were expended within the required allowable period and that the departments complied with all the major federal requirements for use of CDBG grant funds.

MANAGEMENT'S ACCOMPLISHMENTS

The management staff of the Housing Department was asked to provide comments on program accomplishments. Their unedited comments are included below.

Park Improvements

- \$989,699 in improvements to six neighborhood parks.

Economic Development

- \$675,000 in business loans for six small businesses.
- \$500,000 loan for gap financing for neighborhood skating rink (Southern Skates).
- \$1.6 million in gap financing for site acquisition and predevelopment expenses associated with the historic Texas Theatre.

Home Repair

- 250 units of affordable senior citizen housing.
- 525 home repairs.

Public Infrastructure

- \$1,246,889 in public infrastructure improvements to the Bishop Arts District.
- Approximately 17.74 lane miles of streets resurfaced and/or reconstructed.
- Approximately 110,850 square feet of repaired and/or replaced sidewalks.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, practices, and procedures that could be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. A grant subrecipient did not return program income.

South Dallas Development Corporation (SDDC) contracted with the City to provide business loans in three NRP target areas. That contract required SDDC to return program income payments associated with those loans to the City, so those payments could be applied to reducing the Section 108 debt. No program income payments have been received by the City from SDDC.

SDDC treated the NRP Section 108 funds as a revolving loan fund. This treatment is the same method used with other CDBG funds supplied to SDDC by the City. SDDC failed to treat the NRP Section 108 program income differently, and the EDD analyst responsible for administering those funds did not require SDDC to perform according to the contract terms.

We found no schedules of loan payments or regular reports of NRP Section 108 loan program income payments among EDD records. Such records are vital for any effort to supervise repayment of any loans or other financial instruments.

Contract 99-3438 between the City and SDDC contains the following contractor (SDDC) obligations:

- Contractor shall be required to submit monthly Program status reports to the City, which shall include...Program Income report listing, by Program loan, Program loan repayments received, amount remitted to the City, and outstanding balance of Program loans.
- If Contractor receives Program Income, Contractor shall remit such Program Income, at least monthly, to the City.

Because the program income funds were not paid to the City and, therefore, were not applied to repayments of the NRP Section 108 debt, CDBG entitlement funds that could have been applied to other CDBG programs must be used for debt payments instead.

We recommend that the Director of Housing:

- Identify and recover program income amounts associated with the business loans from SDDC.
- Establish and enforce procedures that identify NRP Section 108 funds as a separate program requiring regular periodic program income repayments. Department procedures should require frequent and timely reports of program income. In

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addition, each City department should ensure that any scheduled program income payments are received by a contractor and reported promptly. If any such payment is not received, the contractor should immediately follow up and determine the status of the payments.

Management's Response:

We agree with Finding #1 and with the steps required to correct the item noted. The City of Dallas has already allocated CDBG funds for the repayment of all Section 108 notes/loans. Although staff that was responsible for addressing this issue are no longer with the City, we do anticipate being able to address the Finding as noted within the next 90 days. Section 108 program income that is received from SDDC/EDD loans is to be deposited into the City's Section 108 Loan Repayment Account until such time that all Notes have been satisfied. Section 108 Loan Repayments will then be treated as program income to CDBG.

2. Some records or data sources used to document compliance are unclear, outdated, or incomplete.

- A. One of eight construction projects tested (Poinsettia project) had no documented wage interview form. Per the Davis-Bacon regulations, 29 CFR, Parts 1, 3, 5, 6, and 7, wage interviews are used to independently confirm the wages paid to construction workers. Without a wage interview, only the payrolls submitted by the contractor can be used to test and document compliance. The Grant Compliance Group (GCG) file for that project did not indicate any compliance exceptions with Davis-Bacon Act requirements. GCG had just started performing wage interviews for other City departments; however, the transfer of interview responsibility from PWT to GCG was not fully coordinated or documented. The first documented GCG wage interview for a PWT project was on March 14, 2000, after all work on the Poinsettia project was scheduled to be completed.
- B. The environmental review statutory checklist has not been updated since it was issued by the Office of Community Development in early 1998. In late 1998, the responsibility for performing environmental reviews was decentralized to the departments. Since that time, many of the environmental factors, such as noise levels and critical habitat for endangered species, have changed significantly. Each department included the 1998 checklist in its process for performing the reviews. However, we have seen no indications that the statutory checklist has been updated by either the Housing, Park and Recreation, or Public Works departments, which are the main sources of environmental reviews. The Procedures for Protection and Enhancement of Environmental Quality, *24 CFR Part 50*, require that environmental reviews be performed using timely and relevant data. The continued use of this outdated checklist may result in some projects being misclassified or excluded from further environmental assessment when such review is actually needed.

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- C. The Housing, Public Works and Transportation, and Park and Recreation departments perform environmental reviews of their projects that are funded with NRP Section 108 loan and CDBG funds. The environmental review process involves comparing a project to a variety of federal, state, or local environmental regulations and documenting the effect on the project. This comparison requires access to very specific spatial data about the different environmental criteria. This data is very difficult to acquire and changes frequently. Each department has been acquiring this information independently of the other departments. Gathering this data requires considerable time and expense; thus, once a department gets good local data, it is easier to keep using it (rather than searching for updates).

Much of the needed data has become available in Geographic Information Systems (GIS) format in the past few years. This format allows a user to overlay the spatial data on a base map of the proposed project. This new map provides a clear and authoritative statement of the spatial relation between a work project and an environmental feature. Such GIS databases already exist for floodplains, wetlands, and airport noise levels. Other environmental laws have data readily available in other forms (tables or static maps) that could be easily converted into a GIS database. There are some criteria, such as local zoning or development ordinances, which affect environmental reviews and should also be converted into a GIS format so that it can be overlaid with other similar environmental data. The City has recently developed an independent GIS office that has the ability to develop an integrated GIS application that could do all of the tasks listed above.

We recommend that:

- A. The GCG ensure that all contract files include copies of all required documents (plus statements of steps performed during reviews) to ensure compliance with the Davis-Bacon Act requirements.
- B. The Office of Community Development and the departments charged with performing environmental reviews update the abbreviated version of the statutory checklist.
- C. The departments that are required to perform environmental reviews meet with the GIS office to develop a central environmental database and a related application that would permit all of the departments to easily find and document the relationship of their proposed projects to the various environmental criteria.

Management's Response:

We agree with Finding #2 and with the steps required to correct the items noted. We anticipate being able to address the Finding as noted within the next 90 days.

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3. One program recipient was not located within one of the targeted NRP areas.

Council Resolution #934477 established the initial boundaries for targeted NRP areas. As later projects were proposed outside of those initial boundaries, the Council approved expansions of the targeted area boundaries to include those new projects. One EDD program participant was located just outside of a targeted program area. EDD management reported that they believed that the participant was included among the expansions of the program area.

There are two National Objective criteria that affected this project:

- Activities will benefit an area composed primarily of low and moderate-income persons. *24 CFR 570.208 (A) 1*
- Activities will promote the creation or retention of permanent jobs for low and moderate income individuals. *24 CFR 570.208 (A) 4*

The project failed to meet the criteria of Council Resolution #934477 because it was not located within any of the targeted program areas established by the City Council. However, it is possible that they may meet the second National Objective by creating jobs for low and moderate income individuals. However, the project file did not contain any documentation that would support how the National Objective would be met.

We recommend that the Director of Housing:

Establish the criteria to be used and confirm that program recipient meets requirements for NRP programs. Then Housing Department management should verify that other departments handling NRP funds have ensured that program recipients are meeting those requirements. Housing Department management should then take appropriate action if program recipients are not meeting NRP requirements.

Management's Response:

We agree with Finding #3 and with the steps recommended to prevent this issue from arising again. Since the finding is uncorrectable, no further action will be taken at this time.