



U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Regional Inspector General for Audit

MEMORANDUM NO:
2010-PH-1802

February 25, 2010

MEMORANDUM FOR: Frances Bush, Director, Office of Community Planning and Development, Washington, DC, Field Office, 3GD
//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: District of Columbia - HOME Funds Provided to Developer H.R. Crawford for Parkside Terrace Apartments

INTRODUCTION

We completed a review of the District of Columbia's (grantee) administration of HOME Investment Partnerships Program (HOME) funds that it provided to CEMI-Parkside Associates, LLP (Parkside Associates), a limited partnership managed by developer H.R. Crawford. The funds were provided for the rehabilitation/construction of a high rise property known as Parkside Terrace Apartments (Parkside Terrace). We previously reviewed the status of a U.S. Department of Housing and Urban Development (HUD) upfront grant that was provided to H.R. Crawford for the redevelopment of an apartment complex known as Ridgecrest Heights (Audit Memorandum 2009-PH-0801, dated June 19, 2009). During that review, the HUD Office of Affordable Housing indicated that the grantee was using HOME funds for activities involving H.R. Crawford and recommended that we review the grantee's HOME program. As a result, we initiated a review of the grantee's administration of its HOME program. This is the first of two reports to be issued in relation to the grantee's administration of its HOME program. The objective addressed in this memorandum was to determine whether the grantee properly accounted for HOME funds it provided for the rehabilitation/construction of Parkside Terrace.

METHODOLOGY AND SCOPE

We reviewed HUD's monitoring reports on the grantee and data on the grantee's HOME funds from HUD's Integrated Disbursement and Information System. We obtained and reviewed relevant information from the grantee's Web site, analyzed its financial transactions, and reviewed its files and other documentation pertaining to HOME fund drawdowns and other activity for Parkside Terrace. We also performed Internet searches on Parkside Terrace and H.R. Crawford and reviewed information gathered during our review of the upfront grant for Ridgecrest Heights Apartments. In addition, we reviewed HUD regulations at 24 CFR (Code of Federal Regulations) Part 92 and communicated by e-mail and/or interviews with responsible

grantee representatives as well as officials in HUD's Office of Affordable Housing. This was a limited scope review. Therefore, our work was not performed entirely in accordance with generally accepted government auditing standards.

We mainly conducted the review from May through October 2009 at the grantee's office located at 1800 Martin Luther King Jr. Avenue, SE., Washington, DC. In addition, visits were made to the grantee's Office of Finance and Treasury located at 1275 K Street, NW., Suite 600, Washington, DC, and its Shared Service Center located at 810 First Street, NE., 6th Floor, Washington, DC.

BACKGROUND

Parkside Associates is a limited partnership, consisting of Parkside Apartments Housing, Inc., a District of Columbia corporation, as general partner and H.R. Crawford and Eleanora B. Crawford as limited partners. Parkside Associates acquired Parkside Terrace in January 2003 with joint financing consisting of a \$650,000 loan from Independence Federal Bank and a \$1.25 million loan from the grantee, funded with Community Development Block Grant funds. In July 2003, the grantee loaned Parkside Associates approximately \$1 million in HOME funds to implement HUD-approved construction/repairs and improvements and to cover relocation costs for Parkside Terrace. In September 2003, Hurricane Isabel severely impacted Parkside Terrace and affected the rehabilitation planned for the property. On October 16, 2003, H.R. Crawford wrote a letter to the HUD Secretary regarding the effects of Hurricane Isabel on Parkside Terrace. The effects included irreparable damage to the roof and an elevator that was practically destroyed and rendered unusable. H.R. Crawford requested that Parkside Terrace be closed because the conditions and circumstances under which Parkside Associates agreed to complete repairs and improvements for Parkside Terrace no longer existed since conditions had been worsened by the hurricane. The grantee also held discussions with HUD concerning this situation. The grantee expressed concern that closing Parkside Terrace would mean that no units would be available to HOME income-eligible households, causing the project to violate the HOME regulations and, therefore, causing the amount of HOME assistance provided to be subject to recapture by HUD. HUD did not formally respond to H.R. Crawford or the grantee. However, the grantee decided that in the event of recapture, it would be at little risk because Parkside Associates could be made to repay the HOME funds provided.

HUD conducted a monitoring visit of the grantee during the weeks of June 13 and June 20, 2005. HUD selected and reviewed activity for Parkside Terrace during the monitoring visit and found that the project might not be occupied by eligible families for the affordability¹ period required under the HOME program. The project file did not contain documentation to support the eligibility of the project for HOME assistance or compliance with HOME affordability requirements. HUD regulations at 24 CFR 92.252 provide that HOME-assisted units in a rental housing project be occupied only by households that are eligible as low-income families and meet the affordability requirements. HUD also noted that the grantee did not have procedures for ensuring compliance with HOME requirements for rental housing. In its monitoring report,

¹ The HOME program imposes an affordability period on projects assisted with HOME funds to ensure that HOME investments yield affordable housing over the long term. For rental projects, the length of the affordability period is based on the amount of HOME funds invested in the property as well as the nature of the activity funded.

dated December 19, 2006, HUD asked the grantee to provide documentation to verify the eligibility of Parkside Terrace for HOME assistance and its compliance with HOME affordability requirements or repay the approximately \$1 million in HOME funds provided for the project. HUD also asked the grantee to develop written procedures to maintain records and manage and track the progress of projects to ensure that HOME funds were used in accordance with all program requirements.

The grantee concurred with HUD's findings. Between February 2007 and March 2009, it communicated with HUD regarding the documentation needed to show that Parkside Terrace was eligible for the HOME funds it received. In March 2009, HUD sent the grantee a letter indicating that the grantee had failed to provide appropriate documentation to support the use of HOME funds for Parkside Terrace. HUD stated that this was a serious deficiency in the grantee's HOME program and requested that the grantee repay the HOME funds expended on Parkside Terrace to the United States Treasury (Treasury) within 15 days of the date of the letter.

RESULTS OF REVIEW

The grantee properly accounted for ineligible HOME funds it provided for the rehabilitation/construction of Parkside Terrace. However, it needs to formalize its procedures for monitoring HOME-funded project activities to ensure that HOME funds are used in accordance with all program requirements.

The Grantee Repaid Improperly Used HOME Funds as Required

In accordance with HUD instructions, the grantee repaid approximately \$1 million in ineligible HOME funds it provided for Parkside Terrace. In a letter, dated March 13, 2009, HUD instructed the grantee to repay the ineligible HOME funds to the Treasury within 15 days. On March 27, 2009, the grantee wired the funds to HUD's accounting center in Fort Worth, TX. On April 16, 2009, HUD returned the funds to the grantee's bank account. Based on an e-mail from HUD program staff to the grantee, dated June 29, 2009, the funds were returned because only about half of the funds were to be returned to the Treasury through HUD's accounting center. The remaining funds were to remain in the grantee's local HOME account. HUD instructed the grantee to wire \$573,884 to the Treasury and keep the remaining \$521,115 in its HOME account. On August 14, 2009, the grantee wired the portion of the funds to be repaid to the Treasury to HUD's accounting center. Although the grantee initially attempted to repay the HOME assistance from its own funds, it recovered the funds from Parkside Terrace on April 29, 2009.

The Grantee Must Formalize Its Procedures for Monitoring HOME Projects

As stated above, in a monitoring report to the grantee, dated December 19, 2006, HUD asked the grantee to develop written procedures to maintain records and manage and track the progress of projects to ensure that HOME funds were used in accordance with all program requirements. In its response to HUD in February 2007, the grantee indicated that it had prepared draft procedures for monitoring HOME projects and that the procedures would be implemented once approved by management. The grantee included a copy of the draft procedures with its response to HUD. In a response to the grantee in June 2008, HUD requested that it provide the approval date of the

monitoring procedures and a final copy of the document during HUD's next monitoring review. HUD performed its next monitoring review of the grantee during the weeks of July 29 and August 4, 2008. The related monitoring report to the grantee, dated September 30, 2008, did not address the issue of the approval for the draft monitoring procedures; however, HUD noted concerns with the adequacy of the grantee's procedures to ensure compliance with HOME program requirements.

During the review we found that the grantee's monitoring procedures had been neither dated nor approved by management. Approvals from the grantee's director, chief of staff, and compliance officer for its Office of Program Monitoring and its Development Finance Division were missing. Grantee staff stated that the manager who developed the procedures was no longer with the agency and that arrangements would be made for the procedures to be routed for the appropriate approvals. The grantee's draft procedures must be reviewed for adequacy and approved by the appropriate responsible officials to establish a formalized process for monitoring HOME projects to ensure compliance with HOME program requirements.

Conclusion

The grantee appropriately repaid approximately \$1 million in ineligible HOME funds it provided for Parkside Terrace. However, it must implement formalized procedures for monitoring HOME projects as directed by HUD and in accordance with its response to HUD's instruction.

RECOMMENDATION

We recommend that the Director, Office of Community Planning and Development, Washington, DC, field office, require the grantee to

- 1A. Formalize and implement adequate procedures to ensure that its HOME funds are used in accordance with program requirements.

AUDITEE COMMENTS

We provided a discussion draft audit memorandum to the grantee on January 20, 2010, and discussed it with the grantee at an exit conference on February 1, 2010. The grantee provided written comments to the draft audit memorandum on February 2, 2010. The grantee agreed with the content of the audit memorandum. The complete text of the grantee's response can be found in appendix A of this report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

APPENDIXES

Appendix A

AUDITEE COMMENTS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Housing and Community Development



Office of the Director

FEB - 2 2010

Mr. John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

RE: District of Columbia-HOME Funds Provided to Developer H.R. Crawford for
Parkside Terrace Apartments

Dear Mr. Buck:

The Department of Housing and Community Development (DHCD) is in receipt of your Audit Memorandum dated January 20, 2010 regarding the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) review of the Parkside Terrace Apartments. The review was to determine DHCD's administration of the HOME Investment Partnership Program (HOME) funds that it provided to CEMI-Parkside Associates, LLP (Parkside Associates), a limited partnership managed by developer H.R. Crawford. The review resulted in one finding which is detailed below along with DHCD's corrective action.

Finding: DHCD did not have formal procedures for monitoring HOME-funded project activities to ensure that HOME funds were used in accordance with all program requirements.

Recommended Corrective Action: HUD OIG is requesting that DHCD formalize and implement adequate approved procedures to ensure that HOME funds are used in accordance with program requirements.

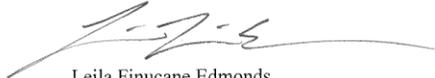
DHCD Response: DHCD concurs with this finding and is in the process of updating the Administrative Instruction (AI) relative to "HOME Funded Project Monitoring Activities". We will submit a copy of the updated procedures to HUD and HUD IG by February 12, 2010.

1800 Martin Luther King Jr. Ave SE, Washington, DC 20020
Phone: (202) 442-7200 Fax: (202) 645-6727

Ltr. to HUD IG
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If any additional information is needed, please contact Kenneth Taylor at (202) 442-7236.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Edmonds', with a long horizontal flourish extending to the right.

Leila Finucane Edmonds
Director

cc: Osiko Tekpetey
Richard Pontes
Frances Bush
Donna Clarke
Michelle Christopher
Kenneth Taylor
Christopher Earley