



U.S. Department of Housing and Urban Development
Houston Field Office, Region VI
Office of Community Planning & Development
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MAY 15 2012

Mr. Neal Rackleff, Acting Director
Housing and Community Development Department
601 Sawyer Street, 4th Floor
Houston, TX 77007

REF: 27946
RECEIVED

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COH HCDD MAIL ROOM

Dear Mr. Rackleff:

SUBJECT: End-of-Year Review Letter
2010 Program Year (PY) – (July 1, 2010 to June 30, 2011)
Community Development Block Grant (CDBG), Home Investment Partnerships
Program (HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for
Persons with AIDS (HOPWA)

The provisions of the Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990, require the annual submission of performance reports by grant recipients receiving Federal assistance through programs covered under these Acts. Additionally, these Acts require that a determination be made by the Secretary, that the grant recipient is in compliance with the aforementioned statutes and has the continuing capacity to administer the programs for which assistance is received.

The U.S. Department of Housing and Urban Development (HUD) Office of Community Planning and Development (CPD) conducts an annual review of the City of Houston's Consolidated Plan-covered programs to assess the overall progress of the programs as required by the statutes and 24 CFR 91.525 of the regulations. Additionally, this letter incorporates the Houston Field Office of Community Planning and Development's (CPD's) review of the City's required 2010 Consolidated Annual Performance and Evaluation Report (CAPER) submission. The review consists of:

- analyzing the consolidated planning process;
- reviewing management of funds;
- determining the progress made in carrying out policies, procedures and programs;
- determining the compliance of funded activities with statutory and regulatory requirements;
- determining the accuracy of required performance reports; and
- evaluating accomplishments in meeting key Departmental objectives.

Based upon the review of the CAPER and overall evaluation of the information contained in the enclosed Summary of Grantee Performance and Summary of Consolidation/Action Plan, HUD determined that the City of Houston has the continuing capacity to administer the CPD programs funded. Additionally, the Consolidated Plan, as implemented, appears to comply with the requirements of the Housing and Community Development Act and other applicable laws and regulations.

HUD commends the City for the efforts undertaken to ensure its highest priority need for code enforcement and public safety goals were exceeded and by large margins. However, the City fell well short in its goals for homebuyer assistance, single family home repair, homeless case management and neighborhood facilities. These areas were classified as high priority but the City did not meet its goals and must improve its performance in these areas in coming years. The City exceeded its goals in the non- high priority area of multifamily development by 285% this year and it's anticipated that the goals will or would be exceeded by 1008% for the next program year. It appears as if the City may have changed its priorities for multifamily developments and without making proper revisions to the consolidated plan. Also of importance is the fact that such revisions must be in accordance to the City's adopted Citizen Participation Plan requirements. Please provide this office with the City's plan of actions on meeting goals and ensuring transparency.

There are some major issues identified below that require immediate attention regarding the City's program compliance and performance.

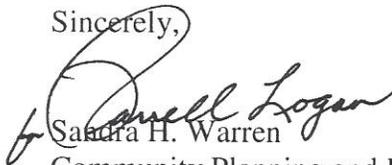
- I. HUD conducted an on-site monitoring review of the Community Development Block Grant (CDBG), Community Development Block Grant-Recovery (CDBG-R), Neighborhood Stabilization Program-1 (NSP-1), and Housing Opportunities for Persons with AIDS (HOPWA) on March 2, 2011 through March 10, 2011 noting eight (8) findings. As of the end of the program year, all eight remain open and are listed at the end of this section. Separate communications relative to these outstanding findings have been sent to the City. Please provide any supporting documentation sufficient to resolve all thirty (30) Open findings, including the eight (8) mentioned above (Open Findings as of End of 2011 program Year (June 30, 2011).
- II. The review of the CAPER by the Office of Fair Housing and Equal Opportunity (OFHEO) indicated concerns. The Analysis of Impediments (AI) for the City of Houston deficiencies has been addressed under separate correspondence. Specifically, HUD is concerned about the City's affirmatively furthering fair housing actions and Analysis of Impediments (AI).
 - a) The current AI identified 16 different impediments to fair housing choice but the City has not been able to document any funding of federal dollars to overcome these impediments.
 - b) Going forward, the City should commit to utilizing some of their funding towards reaching the goals that they have outlined in their AI. If not, the City will be challenged on the authenticity of their civil rights certification and their commitment to overcoming these impediments.
 - c) The City's efforts to overcome impediments should be more proactive. HUD commits to providing technical assistance to help identify and create more quantifiable solutions.
 - d) The City must commit to an increased effort to building multifamily affordable housing in areas outside of minority concentration.
- III. There continues to be a significant concern regarding the financial reporting. As stressed in the 2007, 2008 and 2009 assessment letters, the financial review of the past CAPERs is

proceeding slowly. The 2005 and 2006 CAPERs have been reviewed and reconciled, based upon the revisions provided by the City. The 2007 CAPER is pending the final determination of Finding M8003, which may impact the Public Services CAP calculation and cause the 2007 CAPER to be reevaluated. Also, the 2008 CAPER is pending the response to information associated with the City's loan portfolio. The review of the 2009 CAPER has not yet been initiated, as the prior year's CAPERs are not fully reconciled.

Please review our assessment of the City's performance and provide any comments to this review within 30 days of the date of this letter. Upon receipt, we will evaluate your comments and make any revisions that are deemed appropriate. Where no comments are received within the designated timeframe, our initial letter will serve as our final assessment of the City's performance for this program year. To facilitate and expedite citizen access to our performance letter, we request that the general public and interested citizens' organizations and non-profit entities be informed of its availability. We also encourage the sharing of this assessment report with: the media, those on your mailing list of interested persons, members of your advisory committee, and/or those who attended citizen participation hearings or meetings. If, for any reason, the City chooses not to do so, please be advised that our Office is obligated to make this letter available to the public. In addition, a copy of this letter should be made available to the Independent Public Accountant/Auditor.

If you have any questions please let me know or contact Mr. Benny Rodriguez, Senior Community Planning and Development Representative at 713-718-3116 or by email at Benito.C.Rodriguez@hud.gov.

Sincerely,


Sandra H. Warren

Community Planning and Development, Director

Enclosures: Summary of Grantee Performance
Summary of Consolidation/Action Plan
Open Findings as of End of 2011 Program Year (June 30, 2011)

cc: Andy Icken, Chief Development Officer

Open Findings as End of 2011 Program Year (June 30, 2011)

2004 Monitoring

Finding #1: Not Carrying out Responsibility of Managing the HOME Program

2008 Monitoring

Finding Number M8001: Failure to Monitor Subrecipient Activities

Finding Number M8002: Failure to Document Compliance with a National Objective

Finding Number M8003: Lack of Documentation for Eligibility Determinations

Finding Number M8004: Lack of Code Enforcement Linkage with Required Improvements

Finding Number M8010: HOME Funds Obligated Without Properly Fully Executed Agreements

Findings Number M8016: Minimal Assistance Needed for CHDO Projects is Not Provided Nor Were Subsidy Layering Reviews Conducted

Finding Number M8020: Failure to Meet Income Targeting Requirements

Finding Number M8022: The City is Not Providing the Minimal Investment Necessary to Provide Affordable Housing

Finding Number M8023: The City is Not in Compliance With the Uniform Relocation Assistance (URA) and Real Property Acquisition Policies Act of 1970, as Amended

Finding Number M8024: Rental Projects are Discriminatory Toward Handicapped Population Based on Accessibility. This is a repeat finding identified in Finding 19 of the November 2004 Monitoring Report

Finding Number M8025: The City is Not Providing Private and Public Partnerships

Finding Number M8026: Cost Eligibility, Cost Reasonableness and Managing the Construction Process for HOME Assisted Rental Housing Projects Not Performed This is repeat finding as described in Finding No. 3 in the Monitoring Report dated May 2001 and Finding 14 in the Monitoring Report dated November 2004

Finding Number M8027: Failure to Follow Uniform Administration Requirements

Finding Number M8032: Expenditures Not Properly Supported
This is a repeat finding as identified in the 2007 Monitoring Report as Finding Number M7003

Finding Number M8035: Financial System is Currently Not Properly Reconciled with IDIS

Finding Number M8038: The City is Paying the Salaries for Individuals Who Are Not Working in Direct Support of a HUD grant

2009 Monitoring

Finding Number M9004: The City is not following proper procurement of goods and services when awarding on a non competitive basis

Finding Number M9006: Required provisions concerning remedies, changed conditions, access and record retention, and suspension of work, were not included in non-competitive procurement awards

Finding Number M9007: The City is not carrying out its responsibility managing the HOME program by not having adequate management system for proper oversight of subrecipients

Finding Number M9008: The City has no internal system or method in place to ensure compliance with procurement by subrecipients

Finding Number M9009: Project files lacked documentation that programmatic findings and violations of property standards noted during monitoring activities were corrected

2011 Monitoring

Finding Number M11001: The City is not enforcing its policy on Conflict of Interest

Finding Number M11002: In determining national objective, the City is not ensuring 51% of the units in each structure are reserved for low and moderate income households in housing activities

Finding Number M11003: In determining national objective, the City is not ensuring that 51% of beneficiaries of CDBG funds are Low and Moderate income persons for Limited Clientele activities

Finding Number M11004: Justification of National Objective Spot or Blight activity is not established

Finding Number M11005: Failure to close finding related to habitability standard violations and compliance violation

Finding Number M11006: The expected resolution of findings are not clearly detailed in the City's policies and procedures or explained in writing to subrecipients

Finding Number M11007: The City does not ensure that subrecipients have procedures to adequately safeguard against loss, damage or theft of subrecipient-held property

Finding Number M11008: The Safe Housing Lead Rules are not being applied consistently in all program areas. This is a repeat 2009 monitoring