



AFFORDABLE HOUSING OVERSIGHT AUDIT



June 5, 2025

Honorable Karen Bass, Mayor
Honorable Hydee Feldstein Soto, City Attorney
Honorable Members of the Los Angeles City Council

Re: Affordable Housing Oversight Audit

Over 41% of the 1.38 million households in the City are lower-income renters. Against the backdrop of skyrocketing housing costs and with a substantial affordable housing shortage, our City only has 47,000 affordable housing units to meet the needs of our over 568,000 lower-income residents. It is incumbent upon the City to ensure that the few affordable housing units we have are well-maintained, effectively managed, and afford our residents the quality of life every Angeleno deserves.

The City of Los Angeles is responsible for funding and partnering with developers and social services agencies to build, preserve, and maintain quality affordable housing for eligible residents. In exchange for the City providing developers with land use concessions (such as additional residential density) or assistance with project financing (such as long-term loans with favorable terms), the City requires property owners to set aside income and rent restricted affordable units. This exchange of benefits between the City and property owners is governed by decades-long regulatory agreements.

The Los Angeles Housing Department (LAHD) is responsible for ensuring that the more than 1,600 different properties that provide the City's restricted affordable housing units comply with affordability requirements (including income and rent limits), are maintained in a habitable condition, and remain financially viable throughout their period of affordability. LAHD is also responsible for ensuring that the City is in complete compliance with federal and local regulations governing affordable housing.

Our Office conducted this performance audit to evaluate LAHD's oversight of three distinct categories: affordability, habitability, and financial viability of the City's affordable rental housing for the period between 2020 through 2023. We identified significant gaps in each of the three lines of LAHD's oversight that undermine the City's goals of ensuring that affordable housing serves eligible lower-income households as intended. These gaps include:

- (1) LAHD's weak enforcement of affordability requirements, which has resulted in widespread and unaddressed noncompliance by properties with restricted affordable units;
- (2) LAHD's inspection system has fallen short in addressing housing code violations, which threatens the health and safety of tenants contending with mold and infestations;
- (3) LAHD's inadequate financial oversight, including its failure to properly assess and monitor the financial health of the City's inventory and loan portfolio, places the City's affordable housing inventory at risk; and
- (4) LAHD's siloed and reactive oversight strategy has hampered any efforts toward effective and efficient monitoring and tracking of affordable housing units.

One example of the financial oversight gap includes a number of affordable housing projects in financial distress identified by our auditors that were not on LAHD's list of at-risk projects. One of these financially distressed projects has not been profitable for 9 years—since it began operating as an affordable housing project in 2016. Based on our auditors' review and the absence of a proactive monitoring process by LAHD, **it is highly likely that there are many other financially-troubled affordable housing projects in LAHD's loan portfolio that LAHD is not cognizant of.**

Key Findings

- LAHD is **not doing enough to protect vulnerable tenants** in affordable housing.
- LAHD is **not fully complying with federal regulations** for **habitability oversight** and **financial oversight**
- LAHD has **significant lapses** in its affordable housing oversight. Lapses include:
 - Lack of meaningful **enforcement** of **rent-limit** requirements
 - Failure to cite **mold and infestation** issues.
 - Lack of oversight of the **financial health** of affordable housing projects.
- **33%** of properties with affordable units **did not comply with LAHD's own affordable housing requirements** in 2023 (13% were noncompliant with requirements like **income limits/rent limits**; 20% were noncompliant with **submitting sufficient information**).
- **LAHD does not have a process to annually assess and monitor the financial health** of affordable housing projects that have an outstanding loan with the City.
- **LAHD was initially unaware that the City is required** to annually monitor the financial health of federally-funded rental projects.
- LAHD **does not sufficiently monitor or enforce important loan requirements** that affect its ability to conduct financial oversight.

Key Recommendations

The Controller's Office recommends that LAHD strengthen its oversight and ensure compliance with federal regulations. Our recommendations include the following:

- Develop and implement an **enforcement procedure** to address cases of noncompliance.
- **Extend its financial oversight and risk-based monitoring system to all affordable housing projects**, and incorporate information about risks it identifies
- Develop policies to better **monitor and enforce the City's loan agreement requirements** that impact its ability to conduct financial monitoring.
- Develop and propose, for the City Council's consideration, **a program to strategically preserve distressed affordable housing projects at risk of failing.**
- Develop policies to ensure that **onsite audits for federally-funded rental projects are conducted at least once every three years.**
- **Review at least annually the performance and compliance of each contractor** it uses to carry out responsibilities under federally-funded affordable housing.

- **Develop property standards and inspection procedures** for federally-funded rental projects that include how it will address mold and infestation issues.
- **Examine at least annually the financial condition of federally-funded rental projects** and take actions to correct problems where feasible.
- Develop a risk-based monitoring system to **identify, assess, and respond to high-risk issues** at federally-funded rental projects.
- **Reconcile project data in the Affordable Housing Inventory** so that it can be relied on for oversight purposes.

The City of Los Angeles is responsible for providing affordable housing oversight and addressing areas of concern identified in this audit. We hope that the City will take advantage of the important opportunities to improve LAHD's monitoring and enforcement of requirements affecting the affordability, habitability, and financial viability of the City's Affordable Housing Inventory we have identified.

Given the limited amount of affordable housing units currently available to the residents of the City, and in the wake of the Skid Row Housing Trust's collapse, it is imperative that the City adopts our recommendations to ensure a healthy, viable, and stable affordable housing program.

Our office remains committed to evaluating the City's efforts toward improving living conditions for our lower-income residents and strengthening its oversight and compliance of affordable housing units.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth Mejia".

Kenneth Mejia, CPA

City Controller



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EXECUTIVE SUMMARY

The City facilitates the production of affordable housing by private-sector developers to help vulnerable Angelenos who struggle with high housing costs. In exchange for land use concessions (such as additional residential density) or assistance with project financing (such as long-term loans with favorable terms), property owners are required to set aside income- and rent-restricted affordable units. Governing this exchange of benefits between the City and property owners are affordable housing regulatory agreements that can generally last up to 55 years.

The Los Angeles Housing Department (LAHD) is responsible for ensuring that properties in the City with restricted affordable units:

- **comply with affordability requirements**, including income- and rent-limits;
- are **maintained in a habitable condition**; and
- remain **financially viable** throughout their period of affordability.

With over 47,000 units spread across more than 1,600 different properties, overseeing the City's Affordable Housing Inventory is a daunting and complex task. The challenges of overseeing affordable housing and the importance of responding to early warning signals were highlighted when the Skid Row Housing Trust (Trust) collapsed in early 2023.

The City intervened by pushing for a court receivership to stabilize the Trust's 29 properties. After losing confidence in the first receiver's management abilities, investing over \$36 million to secure and repair the Trust's properties, and going through the difficult process of finding new property owners, the City was able to wind down the receivership for the Skid Row Housing Trust in late 2024. **However, the City still faces the very real possibility that its Affordable Housing Inventory includes other distressed properties that need stabilizing.**

This performance audit evaluates LAHD's oversight, generally between 2020 through 2023, and identifies important opportunities to improve the department's monitoring and enforcement of requirements affecting the affordability, habitability, and financial viability of the City's Affordable Housing Inventory. In addition, this report also provides findings and recommendations to improve coordination and collaboration between LAHD's different affordable housing oversight functions.

What We Found

Significant gaps in LAHD's oversight undermine the City's goals to ensure that affordable housing serves eligible lower-income households as intended. In each of LAHD's three lines of oversight (i.e., affordability, habitability, financial viability), we found that the department is not doing enough to protect vulnerable tenants in affordable housing. These lapses include:

- a lack of meaningful enforcement to ensure that the City's affordability requirements, such as for income- and rent-limits, are followed by properties with restricted units;
- inspections of rental units that do not directly address mold and infestation, both serious health and safety issues; and
- the absence of a proactive monitoring process to oversee the financial viability of affordable housing projects that have an outstanding loan with the City.

LAHD is also not fully complying with important federal regulations governing how it must oversee federally funded affordable rental housing.¹ Specifically, the City receives millions in annual funding from the HOME investment Partnership program (HOME), the largest federal block grant to state and local governments designed exclusively to create affordable housing. As the administrator for the City's HOME program, LAHD's regulatory compliance issues threaten the City's access to this critical source of federal funding for affordable housing. Better adherence with the regulations highlighted in this audit will improve LAHD's overall management of the City's Affordable Housing Inventory.

Affordability Oversight Needs Significant Improvement

To qualify for an affordable restricted unit, households must meet income eligibility requirements. For example, in 2024, a four-person family would have qualified to rent a two-bedroom, low-income HOME-funded unit if they could demonstrate that they had a household income below \$69,350. In this example, the monthly rent in 2024 for this two-bedroom unit should not have exceeded \$1,560.

LAHD's Occupancy Monitoring Unit is responsible for overseeing affordable housing to ensure compliance with the City's affordability requirements. However, we found that the Occupancy Monitoring Unit delegates many of its monitoring functions to its contractor, Urban Futures,

¹ The City Attorney's Office declined to meet with us to discuss LAHD's compliance with federal regulations for the HOME program. This lack of cooperation limited our ability to fully assess the City's risk for regulatory violations. However, we found sufficient and appropriate evidence to support our conclusion that LAHD is not fully complying with the federal requirements discussed in this report. We also discuss the access issues as an audit scope limitation in the Objectives, Scope, and Methodology section of this report.

and does little to address the issues that are discovered through the annual monitoring process it administers.

- Noncompliance has become a significant issue. Urban Futures found that 33% of properties with restricted affordable units were noncompliant in 2023, including 13% that were noncompliant with issues like income or rent limits, and 20% that did not submit enough information for annual monitoring purposes.
- The Occupancy Monitoring Unit generally does not assign any staff to follow up with noncompliant properties.
- Occupancy Monitoring's process for following up with properties that did not submit documentation is incomplete and ineffective at gaining compliance.
- While legal actions are the City's primary enforcement tool for breaches of regulatory agreements, the Occupancy Monitoring Unit does not have a formal protocol for making legal referrals, and seldom refers cases to the City Attorney's Office for further enforcement.
- Without referrals to the City Attorney's Office for legal actions, the Occupancy Monitoring Unit has few enforcement options, and cannot easily access its contractor's monitoring data to assess and prioritize compliance issues for enforcement.

LAHD is also not fully compliant with federal regulations that require it to conduct onsite audits of HOME-funded rental projects at least once every three years. These onsite audits are intended to provide additional assurance by verifying the income eligibility and rent information submitted by property owners, and validate compliance with other requirements, such as the use of waiting lists.

The Occupancy Monitoring Unit paused onsite audits, in line with the federal government's temporary suspension for COVID-19, but did not restart site visits until December 2024, during the course of our audit. **The lack of onsite audits was a likely cause for the lax use of waiting lists for tenant selection that we found at two HOME-funded rental projects we visited.** Prior to the COVID-19 temporary suspension, data from LAHD's monitoring contractor also showed that it did not conduct sufficient onsite audits during the three-year period from 2017 to 2019.

Inspection Standards and Frequency Can Improve

LAHD's Code Enforcement Division is responsible for periodically inspecting every rental unit in the City, including affordable restricted units, under the Systematic Code Enforcement Program (SCEP) to enforce the City's Housing Code. During an inspection, LAHD inspectors will look for plumbing, electrical, and other issues that can affect the habitability and safety of

rental units. However, the Code Enforcement Division does not inspect or cite for mold and infestation problems, because these issues are the jurisdiction of the Los Angeles County Department of Public Health.

Regardless of local jurisdictional issues, federal regulations for the HOME Program require the City to establish an ongoing property standard and have and follow inspection procedures that address health and safety issues like mold and infestation. **During site visits for this audit, we found evidence of roach infestations at affordable housing units that we believe LAHD should be able to enforce.** To further the goals of the City's Housing Code, LAHD should consider working with relevant departments in the City and the County to obtain the authority to cite mold and infestation violations they already encounter.

LAHD has taken steps to better ensure that HOME-funded rental projects receive habitability inspections at least once every three years in accordance with federal regulations. However, the department has been unable to inspect other properties with affordable restricted units in a timely manner.

With more than 800,000 known rental units in the City, LAHD's goal of inspecting every rental unit (including the affordable restricted units that make up about 6% of the SCEP inventory) every four years has always been challenged by the sheer scale of the task. As of April 2024, over 27,000 of 107,000 rental properties were still waiting for an inspection case to be opened for the SCEP cycle that began in 2019. To address this issue, LAHD requested and was approved to hire an additional 15 Housing Inspectors for the FY 2024-25 budget.

Financial Oversight of Affordable Housing is LAHD's Biggest Weakness

The financial viability of affordable housing is more precarious when compared to market-rate properties because of the rent limitations that make them affordable. **Despite this systemic issue, LAHD's Loan Portfolio Unit does not have a process to annually assess and monitor the financial health of affordable housing projects that have an outstanding loan with the City.** LAHD should periodically review project financial statements to compare operating revenues to expenses, evaluate a project's ability to keep up with debt obligations, and assess other indicators of financial performance.

Instead, LAHD only reviews the financial statements submitted by its borrowers to determine if a loan payment is due to the City. The lack of financial oversight is also a potential violation of federal regulations that require annual financial monitoring for HOME-funded rental projects. Without a proactive and comprehensive process to oversee the finances of affordable

housing, the City risks being unprepared to effectively respond to future costs and destabilizing effects from distressed affordable housing properties in its inventory.

In addition, the Loan Portfolio Unit does not sufficiently monitor or enforce important loan requirements that affect its ability to conduct financial oversight. For example, LAHD's borrowers are required to submit annual financial statements to the department. However, the Loan Portfolio Unit does not have a proactive process to collect on project financial statements that are overdue.

As of May 2024, LAHD is still waiting to receive about 170 out of 700 (approximately 25%) project financial statements that were due in 2023. Not only does LAHD rely on the information in project financial statements to determine if a loan payment is due, the department would need to review the statements to identify any red flags about a project's financial health.

LAHD's Siloed and Reactive Oversight Processes Need to be Revamped

Deficiencies or noncompliance in one of LAHD's oversight areas may provide an early warning sign that a property is on the verge of being distressed. We found that a lack of effective communication and coordination between the Occupancy Monitoring Unit, Loan Portfolio Unit, and Code Enforcement Division make it more difficult for LAHD to effectively respond to the challenges of overseeing the Affordable Housing Inventory.

LAHD's fragmented oversight was evident when we obtained differing lists of affordable housing projects from different units in the department. Using data from LAHD's Housing Information Management System (HIMS), the Code Enforcement Division provided an inventory of 518 HOME-funded rental projects. By comparison, the Occupancy Monitoring Unit's contractor provided a list of 353 HOME projects. We also found additional projects missing from the contractor's database by comparing it with other lists from HIMS.

To create a more effective bridge between the department's different oversight functions, LAHD should take a risk-based approach to enhance its monitoring. Federal regulations require LAHD to have a risk-based monitoring system to manage its HOME program, which we believe should be extended to the entire Affordable Housing Inventory. Using data that LAHD already has readily available, we identified several high-risk affordable housing projects (see Table 7) that were not on LAHD's watchlist of at-risk properties.

What We Recommend

LAHD should strengthen its oversight of the Affordable Housing Inventory, and prioritize improvements that are required by federal regulations. To ensure compliance with HOME regulations, LAHD should:

- develop and implement policies and procedures to ensure that onsite audits for HOME-funded rental projects are conducted at least once every three years;
- review, at least annually, the performance and compliance of each contractor it uses (including Urban Futures) to carry out the City's responsibilities as a participating jurisdiction in the HOME program;
- develop and implement property standards and inspection procedures for HOME-funded rental projects that include how it will address mold and infestation issues;
- examine, at least annually, the financial condition of HOME-funded rental projects to determine their continued financial viability, and take actions to correct problems where feasible;
- develop and implement a risk-based monitoring system to identify, assess, and respond to high-risk issues at HOME-funded rental projects; and
- reconcile project data in the Affordable Housing Inventory so that it can be relied on for oversight purposes.

To improve its oversight of the entire Affordable Housing Inventory, LAHD should:

- develop and implement an enforcement procedure to address cases of noncompliance identified by its monitoring of affordable housing;
- extend its financial oversight and risk-based monitoring system to all affordable housing projects, and incorporate information about affordability, habitability, and financial risks it identifies;
- develop and implement policies and procedures to better monitor and enforce the City's loan agreement requirements that impact its ability to conduct financial monitoring, such as the collection of delinquent project financial statements; and
- develop and propose, for the City Council's consideration, a program to strategically preserve distressed affordable housing projects at risk of failing.

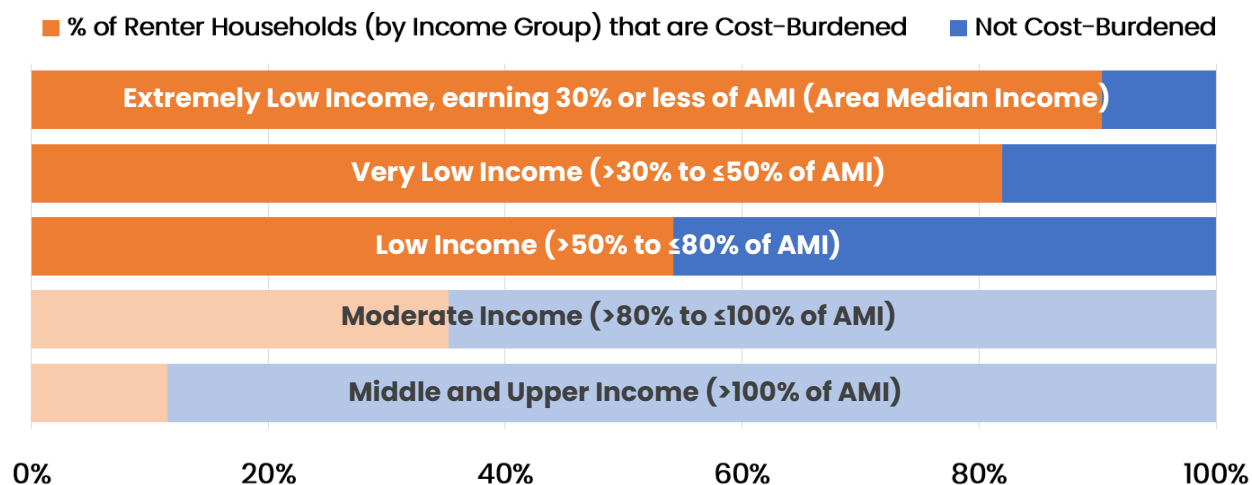
With periods of affordability lasting up to 55 years, LAHD's long-term oversight of affordable housing must match the scale and complexity of the City's Affordable Housing Inventory. Implementing the recommendations in this report will allow LAHD to take appropriate actions to ensure income-qualified households pay affordable restricted rents, improve living conditions in rental units, and better ensure the financial sustainability of affordable housing.

BACKGROUND

Angelenos have long struggled with the cost of housing in the City. Recent estimates of Area Median Income by the US Department of Housing and Urban Development (HUD) show that over 568,000 (or 41%) of the 1.38 million households in Los Angeles are lower-income renters.² Meanwhile, HUD estimates that the Fair Market Rent for a two-bedroom apartment in the Los Angeles metropolitan area is approximately \$2,500 per month.³

The high cost of housing in Los Angeles puts a strain on many household budgets. **HUD estimates show that 78% of lower-income renters are cost-burdened and spend 30% or more of their income on housing costs.** The experience for households earning 50% or less of the Area Median Income is even more acute, with 87% of very, or extremely, low-income renters struggling with housing affordability in Los Angeles. **Based on these estimates, Los Angeles would need to add more than 400,000 affordable rentals to the City's housing stock to address this shortage.**

Figure 1. Lower-Income Angelenos are More Likely to be Burdened by the Cost of Housing



Source: HUD's Comprehensive Housing Affordability Strategy data, using five-year (2017-2021) Census estimates.

Note: A widely used and accepted measure of housing affordability is the ratio of housing costs to income.

Households that spend 30% or more of their income on housing are considered cost-burdened. We also categorized extremely low-income renters with zero/negative income as cost-burdened.

² "Lower income households" make 80% or less of HUD's estimated Area Median Income. In FY 2023, the Area Median Income for a four-person household in the Los Angeles metropolitan area was \$98,200.

³ Rent varies significantly, based on factors like location, size, and housing quality. To determine standard rental amounts for various assistance programs, HUD annually estimates Fair Market Rents, using 40th percentile gross rents within a metropolitan area or nonmetropolitan county for recent movers into standard quality units.

One way that the City seeks to help rent-burdened households is by facilitating the production of affordable housing within privately-owned residential buildings. The City provides property owners with loans, land use concessions, and other benefits in exchange for regulatory agreements that require rent- and income-restricted rental units.

Table 1. The City Facilitates the Production of Affordable Housing in a Number of Ways

Program	Description
City-funded	LAHD facilitates the development of affordable and permanent housing by making long-term loans for new construction and rehabilitation projects, using federal funds, City general funds, and other sources.
The Former Community Redevelopment Agency of Los Angeles	State law authorized cities and counties to establish a local community redevelopment agency (CRA) to promote the redevelopment of blighted areas. After the State dissolved all CRAs in 2011, the City chose to inherit the local CRA's assets and liabilities and take on its responsibilities, which include managing loans made to affordable housing projects.
Issuing Bonds	The City acts as a conduit issuer of tax-exempt and taxable multi-family housing bonds to help developers raise capital for qualified affordable housing projects. The developer is ultimately responsible for paying back borrowed funds.
Land Use	When an owner receives a land use concession (such as added residential density or reduced parking requirements), or is subject to a City ordinance that requires affordable housing (such as legalizing unpermitted dwellings), the City requires the owner to set aside affordable restricted units.

The City's regulatory agreement with a property owner specifies the number and type of affordable restricted units that must be set aside and the length of time for which the units must remain affordable. For example, a property owner that obtained a land use concession is required by its regulatory agreement to set aside one of 39 units in their apartment building as an affordable restricted unit for 30 years. Meanwhile, a different affordable housing project that received two loans from the City, raised capital through a City-issued bond, and received a land use concession, will have four regulatory agreements that, in total, requires all 98 residential units in the building to be income- and rent-restricted for over 50 years.

Affordable restricted units come in many forms and settings. For example, some buildings in Downtown Los Angeles have been converted into single-room occupancy residential hotels, where all the units in the building have affordability restrictions. Affordable restricted units can also be found in luxury apartment buildings, such as a property we visited that is required to set aside 12 out of 214 units as affordable for a land use regulatory agreement, while its market-rate one-bedroom unit rents at over \$3,600 per month.

Figure 2. Affordable Restricted Housing Can Be Found in a Variety of Different Settings

Single-Room Occupancy Residential Hotel



Affordable Apartments for Families



Luxury Apartment with Some Affordable Units



Affordable Apartments Serving Seniors



These assorted affordable units, restricted through many disparate regulatory agreements with private property owners, largely make up the City's inventory of affordable housing. **As of 2022, the City's Affordable Housing Inventory is comprised of more than 47,000 affordable restricted rental units, spread out across more than 1,600 properties that have a regulatory agreement from one or more of the City's affordable housing programs.**⁴

⁴ Later in this report, we describe data reliability issues that limit LAHD's ability to accurately report on the number of projects and units in the Affordable Housing Inventory.

Hundreds of thousands of households are affected by the shortage of affordable housing in Los Angeles. It is therefore critical for the City to effectively monitor its Affordable Housing Inventory and enforce its affordability requirements to ensure that every single unit serves its intended purpose of assisting low-income households. **Because affordable units can be income- and rent-restricted for 20 to 55 years, the City also needs to take a long-term perspective in how it monitors and enforces its regulatory agreements.**

This performance audit focuses on the Los Angeles Housing Department's (LAHD) responsibilities to oversee restricted rental units during their period of affordability. We evaluated how well LAHD monitors and enforces the City's affordability requirements, inspects affordable units for code compliance, and oversees the financial viability of affordable housing, from 2020 to 2023.

LAHD's Oversight of Affordable Housing

LAHD's monitoring of the Affordable Housing Inventory covers three important aspects: (1) affordability, (2) habitability, and (3) financial viability. The extent to which LAHD monitors a property or a set of affordable units depends on how the City's requirements are defined in its regulatory agreements and loan agreements with property owners, and applicable federal affordable housing regulations.

Administrator for the City's HOME Program

As a participating jurisdiction, the City receives millions in annual funding from HUD's HOME Investment Partnership program (HOME), the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. The City mainly uses HOME funding to make loans that help finance the development of affordable housing. As of 2024, the City's Affordable Housing Inventory contained over 300 HOME-funded projects and 12,000 HOME-restricted affordable units.⁵

LAHD is the City's administrator for the HOME program, and is responsible for following federal regulations that govern how HOME funds can be used. LAHD is also responsible for complying with federal regulations that outline how participating jurisdictions, like the City, should manage their HOME program. **These federal regulations include a number of important**

⁵ Later in this report, we describe data reliability issues that limit LAHD's ability to provide accurately report on the number of HOME-funded projects and units in the City's Affordable Housing Inventory.

requirements that define how the City should oversee the affordability, habitability, and financial viability of HOME-funded affordable housing projects.

Monitoring Compliance with Affordability Requirements

The Occupancy Monitoring Unit, part of LAHD's Asset Management Division, oversees the Affordable Housing Inventory to ensure compliance with affordability requirements. **The Occupancy Monitoring Unit's goals include performing legally mandated tenant occupancy monitoring, ensuring that only income-qualified individuals and families live in restricted units, and protecting low-income tenants from illegal rent increases.**

As shown in **Figure 3**, different affordable housing programs have different allowable income and rent limits. Each regulatory agreement specifies the initial schedule of income and rent limits applicable to the property's affordable restricted units. The Occupancy Monitoring Unit publishes annual updates to income and rent limit schedules for the different affordable housing programs, based on changes to a number of factors such as updates to HUD's estimated Area Median Income and Fair Market Rent.

Figure 3. LAHD's Different Affordable Housing Programs Have Different Rent/Income Limits

2022 Area Median Income (AMI) \$91,100
 2023 Area Median Income (AMI) \$98,200 Change in AMI from 2022 = 7.79%

2023 Rent Limit Schedule - HOME

Affordability Level	Bedroom Size							
	SRO	Efficiency	One	Two	Three	Four	Five	Six
Low HOME 50%	\$827	\$1,103	\$1,182	\$1,418	\$1,639	\$1,828	\$2,018	\$2,206
High HOME 65%	\$1,061	\$1,415	\$1,518	\$1,823	\$2,097	\$2,320	\$2,541	\$2,762
Fair Market Rents	-----	\$1,534	\$1,747	\$2,222	\$2,888	\$3,170	\$3,646	\$4,121

2023 Rent Limit Schedule - Land Use Schedule III

Affordability Level	Bedroom Size				
	Single	1 Bed	2 Bed	3 Bed	4 Bed
Very Low (50%)	\$1,102	\$1,260	\$1,417	\$1,701	\$1,953
Low (60%)	\$1,292	\$1,476	\$1,660	\$1,992	\$2,288
Moderate (120%)	\$2,293	\$2,621	\$2,948	\$3,538	\$4,063

Source: LAHD's Rent and Income Schedules, effective 8/1/2023

To support LAHD's ability to monitor affordability, the City's regulatory agreements include certain reporting requirements that property owners must comply with. At a minimum, properties with affordable restricted units must annually report to LAHD and provide information about:

- present occupants of restricted units;

- tenant household income eligibility;
- rents charged to the tenants occupying a restricted unit; and
- other information, such as self-certifications or income documentation, as required by a unit's affordability program.

Since 2003, the Occupancy Monitoring Unit has contracted with Urban Futures Bond Administration (Urban Futures) to monitor the Affordable Housing Inventory, including documentation collection, desk reviews, and onsite audits.⁶

Each year, Urban Futures attempts to collect the information described above from property owners with affordable units. Urban Futures is then responsible for performing a desk review of the information it received to determine a project's compliance with income eligibility, rent limitations, and other requirements. After giving owners an opportunity to correct any identified issues, Urban Futures then designates each property with an annual compliance status for each of its applicable affordable housing programs.

Beyond desk reviews, LAHD is responsible for conducting onsite audits of HOME-funded rental housing. **To verify the reported income and rent information, federal regulations require the City to conduct onsite audits of HOME-funded rental projects at least once every three years.** The Occupancy Monitoring Unit has also delegated this task to Urban Futures.

Inspecting Affordable Housing for Habitability

LAHD is responsible for ensuring that affordable restricted units are habitable. In general, LAHD's regulatory agreements require the property owner to maintain each affordable restricted unit as "decent, safe, sanitary" and in compliance with applicable code requirements. LAHD's Code Enforcement Division is responsible for inspecting over 800,000 multifamily rental units, including affordable restricted units, throughout the City and enforcing the City's Housing Code.

Like other rental units in the City, most affordable restricted units are periodically inspected under LAHD's Systematic Code Enforcement Program (SCEP). LAHD's goal for SCEP is to inspect every rental unit in the City once every four years. **During a SCEP inspection, LAHD inspection staff attempt to access every unit in a building, look for building, plumbing, electrical, and other code violations, and issue a Notice to Comply with cited violations to the property owner.** Inspection staff will also schedule re-inspections to ensure that cited violations have been corrected and determine if there are any new violations.

⁶ LAHD's 2020 contract with Urban Futures had a budget between \$1.37 million to \$1.68 million per year.

The Code Enforcement Division also staffs a HOME Inspection Group to meet federal requirements for HOME-funded affordable housing projects. Federal regulations require participating jurisdictions to:

- establish ongoing property standards and inspection procedures for their HOME program that, at a minimum, meets HUD property standards and addresses health and safety issues; and
- conduct periodic inspections **at least once every three years** to ensure that HOME-funded rental projects are maintained as decent, safe, sanitary, and in good repair.

LAHD's HOME Inspection Group works to conduct inspections of HOME-funded rental projects it has identified in order to comply with the required three-year inspection cycle.

In addition, LAHD's Code Enforcement Division responds to code complaints. Tenants of multi-family buildings can submit a complaint to LAHD, alleging code violations affecting the habitability of their unit or the building they live in. The Code Enforcement Division's process is to triage these complaints and send inspection staff to determine if there is a violation, and conduct re-inspections to ensure that cited violations have been corrected.

Overseeing the City's Portfolio of Affordable Housing Loans

The Loan Portfolio Unit of LAHD's Asset Management Division is responsible for servicing and managing the City's loan portfolio. As of August 2024, the City's loan portfolio consisted of almost 1,100 loans to multi-family properties, with a total principal balance worth over \$2.9 billion. The portfolio includes loans made by LAHD to facilitate the development of affordable and supportive housing, and assets inherited from the dissolved Community Redevelopment Agency of Los Angeles.

One of the Loan Portfolio Unit's loan servicing functions is to review borrower disputes of the department's loan payment calculations. LAHD's loan agreements and policies may allow for, or limit, certain project expenses that can affect the amount of the loan payment that is due. For example, if the borrower believes that LAHD's loan payment calculation mistakenly limited an allowable expense, they can file a dispute for the Loan Portfolio Unit to review and resolve.

The Loan Portfolio Unit also reviews borrower requests to use project financial reserves. LAHD's loan agreements often require its borrowers to fund and maintain:

- an **operating reserve** to pay for expenses when project revenues are inadequate; and
- a **replacement reserve** for large, infrequent capital expenditures, such as roof replacement, elevator repair, or to restore other worn-out building assets.

Borrowers must submit a written request to withdraw funds from their project reserve account, and other documentation justifying the need, which is reviewed by the Loan Portfolio Unit for appropriateness.

LAHD is also responsible for examining, at least annually, the financial condition of HOME-funded rental projects. The purpose of reviewing the financial condition of affordable housing projects is to determine if their operations are financially sustainable, and to take corrective actions to address any red flags that can threaten their long-term viability.

Managing Affordable Housing and Its Risks

At the heart of the private development of affordable housing is a contractual exchange of benefits. Property owners receive land use concessions from the City, or assistance with project financing, in exchange for setting aside affordable restricted units for lower-income households for a period of affordability that can last up to 55 years. **LAHD's oversight needs to acknowledge and address the problems that can arise with the City's affordable housing program model.**

- **Decentralized affordability processes:** LAHD relies on owners and their property management staff to correctly select tenants, verify income eligibility, limit their rents, and follow other affordability requirements.
- **Long-term capital planning:** repairing and replacing worn down assets to maintain the habitability of rental housing is made more difficult by affordable housing's limited rental revenue and the long periods of affordability required by the City.
- **Financial sustainability:** affordable housing's financial health is inherently more precarious when compared to market-rate rental properties. With restrictions on how much rent they can charge, affordable housing can experience more difficulties when operating expenses go up, large property expenses come due, or rents go unpaid.

Several of these challenges culminated when the Skid Row Housing Trust collapsed in early 2023. As the owner and operator of 29 properties, the Trust's undoing put in jeopardy over 2,000 affordable restricted units. After the City pushed the Trust's properties into a court receivership, LAHD inspectors identified over 600 code violations, including many that

threatened the health and safety of the remaining residents.⁷ Meanwhile, during the City's housing and homelessness crisis, many of the Trust's units that could have otherwise been used as housing remained vacant.

Although its downfall appeared to be sudden to many observers, the Skid Row Housing Trust's financial issues were long in the making. After the receivership process began, LAHD reported that several factors contributed to the Trust's demise, including:

- its historic reliance on developer fees for income (like most nonprofit housing owners);
- operating budgets for the Trust's properties were always tight by design; and
- turnover among leadership and staff that began in 2018.

However, all of these issues point to systemic problems that LAHD could have better monitored and responded to long before they reached a boiling point.

With more than 47,000 restricted units across more than 1,600 properties, the City needs to confront the possibility that housing developments in its Affordable Housing Inventory are still susceptible to the same issues that led to the Skid Row Housing Trust's collapse. This performance audit reviews LAHD's oversight of affordable housing, and makes recommendations to improve the department's long-term oversight processes to match the scale and complexity of the City's Affordable Housing Inventory.

I. WEAK ENFORCEMENT OF AFFORDABILITY REQUIREMENTS

Monitoring should be used as a means to identify issues that need to be corrected. But LAHD's Occupancy Monitoring Unit treats monitoring as its goal, reporting in 2022 that it monitored over 47,000 restricted units for compliance. **However, the Occupancy Monitoring Unit does little to follow up with owners and property managers to correct the noncompliance with affordability requirements that are discovered through its annual monitoring.**

We found that the Occupancy Monitoring Unit does not have many methods it can use to gain compliance, and the tools it does have are not very effective. In addition, gaps in the

⁷In a health and safety receivership, the court temporarily takes full control of a property that has been deemed dangerous to the public or its occupants. The court appoints a receiver to oversee the property's management and rehabilitation until the health and safety violations have been remedied. This process may also result in the need to search for new owners so that the property can exit the court's receivership.

Occupancy Monitoring Unit's oversight further add to the risk that projects are not compliant with affordability requirements.

Noncompliance Is a Significant Issue that LAHD Does Little to Correct

Project compliance data from Urban Futures shows that more than 27% of affordable housing projects were noncompliant for the 2021 annual reporting period. Noncompliance increased in 2022, and again in 2023 up to 33%, including 20% of projects designated as "Non-Compliant – Non-Submission" because they did not submit enough information for Urban Futures to conduct its annual review to determine if they are following LAHD's income or rent restrictions.

Table 2. Many Properties Are Noncompliant with Affordability Requirements

Compliance Status	Annual Reporting Period					
	2021		2022		2023	
	Projects	%	Projects	%	Projects	%
Compliant*	1,318	73%	1,369	69%	1,346	67%
Non-Compliant	227	12%	281	14%	264	13%
Non-Compliant – Non-Submission	275	15%	327	17%	402	20%

Source: Urban Futures' Annual Compliance Rates Report for 2021 and 2022

*Note: we combined three different status designations that LAHD considers to be compliant

Because the Occupancy Monitoring Unit has not compiled annual compliance statuses for reporting periods before 2021, it does know what historical compliance levels were. However, LAHD staff believe that a noncompliance rate of about 30% is average in their experience. Noncompliance at this high of a rate reflects significant issues with LAHD's oversight of affordable housing.

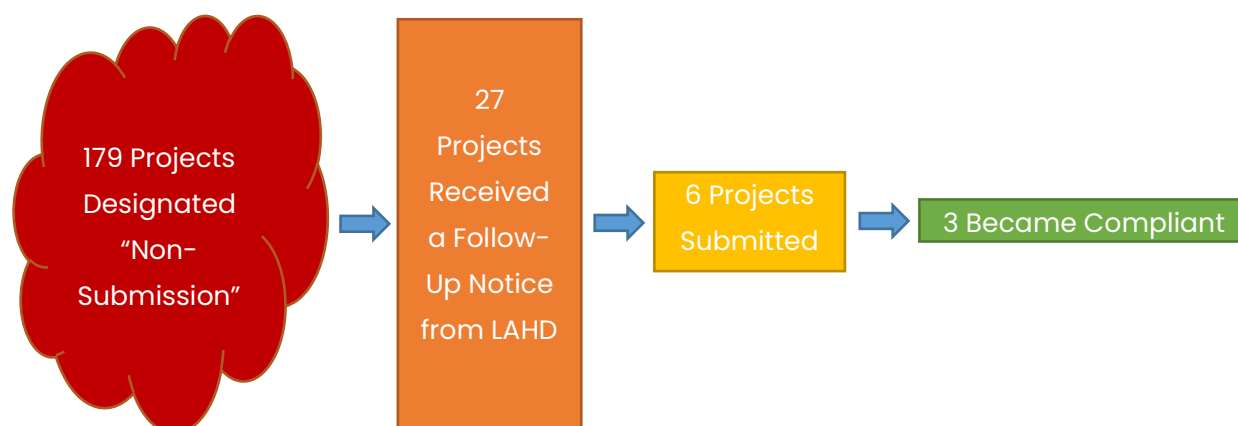
The Occupancy Monitoring Unit explained that it generally does not assign any staff to follow up with "Non-Compliant" properties. This is despite the fact that Urban Futures' annual monitoring found issues with:

- over-charged rents;
- over-income tenants;
- insufficient affordable units set aside;
- incomplete or unsigned self-certifications by the owner or tenants; and
- other important affordability requirements.

While the Occupancy Monitoring Unit typically does not assign staff to follow up with “Non-Compliant” properties, the Unit does take some action on its “Non-Submission” properties by sometimes issuing follow-up notices. After Urban Futures has attempted to request annual monitoring documentation, and the property owner or management has failed to respond in time, the Occupancy Monitoring Unit may follow up and send additional notices of noncompliance to “Non-Submission” properties.

Our review found the Occupancy Monitoring Unit’s follow-up process with “Non-Submission” properties to be incomplete and ineffective at gaining compliance. Based on invoices we reviewed between June 2023 and May 2024, Urban Futures designated 179 affordable housing projects as “Noncompliant – Non-Submission”. **The Occupancy Monitoring Unit only sent its follow-up notices to 27 (15%) of the 179 Non-Submission properties.** And only three of the 27 properties that received a follow-up notice from the Occupancy Monitoring Unit were subsequently designated by Urban Futures with a compliant status. See **Figure 4**.

Figure 4. The Occupancy Monitoring Unit’s Incomplete Follow-Up Process is Ineffective



Source: Auditor’s analysis of monitoring information provided by Urban Futures and LAHD.

The net result of the Occupancy Monitoring Unit’s follow-up process is that less than 2% of “Non-Submission” properties became compliant in FY 2024. LAHD needs to do much more to gain compliance among affordable housing projects, or it risks allowing the City’s affordability requirements to turn into voluntary contract provisions.

Compliance Issues Are Rarely Referred to the City Attorney’s Office

Legal actions remain the primary tool outlined in the City’s regulatory agreements to enforce its affordability requirements. However, the Occupancy Monitoring Unit does not have a formal protocol for deciding which noncompliance issues to forward to the City Attorney’s Office, and seldom refers cases for further enforcement. In 2022, the Occupancy Monitoring

Unit only referred or consulted with the City Attorney's Office on 11 cases. **The Occupancy Monitoring Unit made no referrals to the City Attorney's Office in 2023 because it felt that there were no cases that required forwarding that year.**

With hundreds of noncompliant properties, there are likely more than several cases that rise to the level of a referral to the City Attorney's Office.⁸ For example, we found one property that disagrees with LAHD's rent limits for community redevelopment agency (CRA) properties, and insists on charging higher rents that its own legal counsel deems allowable. **Based on Urban Futures' annual monitoring reports, this property has been charging higher rents since at least 2019. For some units, this property's higher monthly rents are more than 30% above LAHD's rent limits.** This same property also reported several units in 2023 that were occupied by over-income tenants, including one whose income exceeded the limit by over 60%.

Noncompliance, especially of this type and magnitude, should have consequences. If the Occupancy Monitoring Unit determines its rent schedule calculations are correct, then it needs to enforce its rent limits for affordable housing. The low-income tenants that were made to pay more than LAHD's rent limit, such as the one shown in **Figure 5**, should be refunded the difference and pay a reduced rent going forward. However, the Occupancy Monitoring Unit could not provide evidence of what it has done in this case to enforce its rent and income limits, either by itself or with the assistance of the City Attorney's Office.

Figure 5. Rent for this Affordable Restricted Unit Exceeded LAHD's Limits for Many Years

Non-Compliant Issues: Tenant Rent (\$978) EXCEEDS LIMIT (\$728) - REDUCE RENT AS OF REPORTING PERIOD (7/2018 - 6/2019), SUBMIT PROOF OF CREDIT (ledger for full period) or REFUND LIMIT - Limit \$728.00
Non-Compliant Issues: Resident Rent (\$1093) exceeds limit (\$768) - REDUCE RENT AS OF REPORTING PERIOD (7/2019 - 6/2020), Submit proof of credit (ledger for full period) or refund \$768.00
Non-Compliant Issues: TENANT RENT (\$1082) EXCEEDS LIMIT (\$812)- REDUCE RENT AS OF REPORTING PERIOD 6/2021, SUBMIT PROOF OF REFUND or CREDIT (ledger covering 7/2020 - 6/2021) - Limit \$812.00
Non-Compliant Issues: RENT EXCEEDS LIMIT – Reduce rent as of 6/2022 reporting period (7/2021 - 6/2022); Submit proof of credit (copy of check) or refund ; RENT OVER LIMIT - Limit \$840.00
Non-Compliant Issues: 12-month reporting period 7/2022 - 6/2023 <ul style="list-style-type: none"> • Rent Over • Rent (\$1248) exceeds limit (\$957) - Reduce rent to limit as of reporting period; Submit proof of credit (copy of check) or refund

Source: Quoted for one unit from Urban Futures' Annual Monitoring Reports for this property, from 2019 to 2023.

⁸ The City Attorney's Office declined to meet with us to discuss enforcement of the City's affordability requirements. Although this lack of cooperation limits the audit's ability to assess legal enforcement measures, we later recommend LAHD to develop an enforcement plan that includes a protocol for escalating noncompliance issues to the City Attorney's Office. We also discuss the access issues as an audit scope limitation in the Objectives, Scope, and Methodology section of this report.

When noncompliance of this type and magnitude go uncorrected, the oversight system administered by the Occupancy Monitoring Unit no longer serves its core purpose of ensuring that only income-qualified individuals and families live in restricted units and protecting low-income tenants from unallowable rent increases.

The Occupancy Monitoring Unit Does Not Have or Use Other Enforcement Tools

During the course of our audit, we identified the limited enforcement tools available to the Occupancy Monitoring Unit, including:

- (1) the “New Business” policy;
- (2) Onsite audits; and
- (3) Noncompliance fees

LAHD’s “New Business” policy only partially addresses the problem of noncompliant properties, given that it only applies to a subset of projects. Developers applying with LAHD to finance a new affordable housing project, or property owners seeking LAHD’s discretionary approval, such as for refinancing or loan subordination purposes, must bring their existing projects into compliance with Urban Futures and other departmental requirements. However, this policy is only effective on developers seeking approval from LAHD, and does not require the Occupancy Monitoring Unit to take any proactive steps to enforce the City’s regulatory agreements.

Another enforcement tool is onsite audits, which LAHD’s contract previously required Urban Futures to conduct on noncompliant City-funded affordable housing projects. These noncompliance onsite audits were in addition to the periodic audits required by HOME regulations, and were intended to give Urban Futures the opportunity to collect the information it needed to determine compliance with affordability requirements. **However, LAHD stopped requiring onsite audits of noncompliant City-funded projects sometime in 2018 or 2019.** Occupancy Monitoring staff could not recall why the department stopped requiring this form of oversight.

Compliance staff at the Sacramento Housing and Redevelopment Agency emphasized the importance of onsite audits. **In their experience, onsite audits helped their agencies maintain a presence at the affordable housing projects they oversee and build professional relationships with property management staff. This allowed them to more easily identify and follow up on issues and increase overall compliance.**

One more enforcement tool that LAHD has considered are noncompliance fees. In 2013, when LAHD first proposed a fee to fund its monitoring of affordable units set aside for land use

regulatory agreements, it also proposed a \$2,000 noncompliance fee to cover the anticipated costs of enforcement. **However, the noncompliance fee did not appear in the following iteration of the fee proposal to the City Council and was never enacted into ordinance.**

Noncompliance fees for affordable housing are uncommon, based on our comparison with other jurisdictions. However, noncompliance fees can be used to account for the additional cost of enforcement, and can encourage regulated entities to comply. For example, management at the Sacramento Housing and Redevelopment Agency stated that they rarely have to use noncompliance fees, but appreciated the ability to issue monetary penalties because it gave the owners of affordable housing more reasons to be responsive to the agency's staff when following up on compliance issues.

LAHD Would Not Be Able to Easily Prioritize Compliance Issues for Enforcement

If LAHD were to start doing more to address noncompliance with affordability requirements, it should focus its response on the most problematic issues, such as rent charges that significantly exceed LAHD's limits. However, the Occupancy Monitoring Unit would not be able to easily sort through the voluminous noncompliance issues flagged by Urban Futures to identify the properties with the most egregious problems.

Urban Futures' project compliance designations are not precise enough to discern between different types or magnitudes of noncompliance. The Occupancy Monitoring Unit would have to review a property's annual monitoring report to determine specific reasons for noncompliance. Annual monitoring reports we reviewed showed noncompliance for a range of issues. For example, we identified properties that:

- had documentation issues, such as outdated self-certifications for several units;
- charged excessive rent for one unit out of 119 restricted affordable units; or
- exceeded LAHD's rent limit by \$291 per month for more than two dozen units.

Being able to easily identify specific unit compliance issues would give LAHD the ability to strategically prioritize which forms of noncompliance to address. If it could access and analyze compliance issues at the unit level, the Occupancy Monitoring Unit could, for example, choose to focus its limited resources on addressing significant over-rent problems in the Affordable Housing Inventory. However, the Occupancy Monitoring Unit does not have the data it needs from Urban Futures to make these assessments.

LAHD's contract requires Urban Futures to track data on the affordable units it monitors. Beginning with LAHD's 2014 contract, the data that Urban Futures maintains must include:

- the unit's affordability program and affordability level, which is used to determine the applicable income and rent limit;
- number of bedrooms;
- number of household members;
- the household's income;
- total unit rent, and tenant rent (applicable if part of their rent is subsidized); and
- status code.

Regrettably, LAHD's contracts do not require Urban Futures to track or provide data on unit-level compliance issues. From 2014 through 2024, LAHD's contracts specified that data for the unit's status code should reflect the entire project's designated compliance status, rather than specific noncompliance problems that Urban Futures found for the individual unit. For example, in a 99-unit affordable apartment, Urban Futures' unit-level data report would show that the project was "Non-Compliant" for every one of the 99 units, instead of reporting on the individual compliance status for each unit.

LAHD's latest contract, executed in October 2024, maintains this same problem by specifying that Urban Futures must collect and maintain unit-level compliance data that only describes the unit as compliant, noncompliant, pending, or unreviewed. Nowhere in LAHD's latest contract does it require Urban Futures to track and provide data on the type or degree of noncompliance that was found.

Without access to data that categorizes compliance issues at the unit level, the Occupancy Monitoring would have to review and sort through hundreds of annual monitoring reports for "Non-Compliant" properties to identify the most concerning problems to act on. In order to strategically prioritize its enforcement response on the areas of greatest risk, LAHD should better define the unit compliance data it needs from Urban Futures.

LAHD Has Several Opportunities to Increase Resources for Affordability Monitoring

Staff in the Occupancy Monitoring Unit explained that they do not have sufficient resources to address noncompliance issues. However, LAHD has more control over the Occupancy Monitoring Unit's costs and revenues because the function is largely funded by special funds, and has less of a need to compete with other activities funded by the City's General Fund.

As a regulatory activity, LAHD can determine what the reasonable cost of its oversight should be, and charge a fee to recover its costs. For example, LAHD's land use affordable housing monitoring fee is currently set by ordinance at \$173 per restricted unit per year, and is based on a fee study conducted in 2016. **If the Occupancy Monitoring Unit determines that it needs**

more resources for enforcement, LAHD should take advantage of several opportunities to justify the funding it needs to properly enforce the City’s affordability requirements.

LAHD could start by raising the monitoring fee it charges, where the City’s land use agreements allow for increases. To the department’s detriment, some agreements contain provisions that strictly limit how much LAHD can charge for its monitoring, with some agreements only allowing \$25 or \$50 per unit per year. However, some agreements contain provisions that would allow LAHD to charge higher fees. For example, we found some land use agreements that require the property owner to “reimburse the Department a **minimum** of \$135.00 annually per Restricted Unit” to cover monitoring costs.

In a 2020 fee study, LAHD reported that it charged \$135 in annual monitoring fees to 7,730 units. If the agreements governing all of those 7,730 units contain similar provisions that allow for a higher monitoring fee, LAHD could raise its fee on those properties to the \$173 per unit amount set by ordinance. As shown in Table 3, doing so could increase LAHD’s potential revenue from its land use agreement monitoring fee by over \$290,000 per year, or about 22% of the annual revenue LAHD projected in its 2020 fee study.

Table 3. LAHD Could Increase Its Land Use Monitoring Fees for Some Properties

Fee Amount per Unit	Number of Units	Percentage of Units	Projected Annual Revenue	Auditor’s Analysis of Potential Revenue Increase
\$25	66	1%	\$1,650	No Change
\$50	4,712	37%	\$235,600	No Change
\$75	164	1%	\$12,300	No Change
\$100	10	0%	\$1,000	No Change
\$135*	7,730	60%	\$1,043,550	Increasing the fee to \$173 results in \$293,740 in more revenue
\$173	158	1%	\$27,334	No Change
No Info	43	0%	\$0	No Change
Totals	12,883	100%	\$1,321,434	\$1,615,174 (22% increase)

Source: Analysis of land use agreement monitoring fees presented in LAHD’s 2020 Fee Study.

*Note: we assumed that all properties charged \$135 per unit by LAHD have agreements that allow for increased fees.

LAHD can also begin to charge property owners a fee for its monitoring of units that are restricted by other affordable housing programs. LAHD currently only charges a monitoring

fee on about 12,800 affordable units restricted by a land use agreement. The Occupancy Monitoring Unit's activities for the other approximately 34,000 units restricted by other affordable housing programs are currently funded by budget allocations from the:

- HOME Investment Partnerships Program Fund;
- Low and Moderate Income Housing Fund;
- Municipal Housing Finance Fund; and
- General Fund.

LAHD could supplement the Occupancy Monitoring Unit's budget by charging monitoring fees where allowable. For example, HUD revised its regulations for the HOME program in 2013 to give participating jurisdictions the option of charging owners of HOME-funded rental projects "reasonable annual fees for compliance monitoring during the period of affordability." More than ten years later, LAHD still has not taken the necessary steps to consider or establish a monitoring fee for its HOME program.

LAHD also could reverse its decision and recommend charging monitoring fees for new bond-restricted units going forward. In its own 2020 fee study, LAHD argued against implementing a monitoring fee on new bond-restricted units for a number of reasons. While evaluating the merits of LAHD's reasoning are outside the scope of this audit, we urge the department to reconsider its decision in light of our findings on the lack of enforcement.

Finally, LAHD could re-evaluate its monitoring fee to better account for the cost of compliance and enforcement activities. LAHD's land use monitoring fee is based on a 2016 study that only vaguely accounts for compliance activities as part of its cost recovery exercise. Based on its 2016 study, **LAHD's \$173 land use agreement monitoring fee consists of:**

- \$46.40 (or 27%) for data entry of the contractor's annual report,
- \$111.29 (or 64%) for research, information requests, compliance, and administration,
- \$15.28 (or 9%) for accounting and finance services, with
- **No additional consideration for the costs of enforcement.**

In fact, LAHD's 2016 monitoring fee study was closely modeled after its own 2013 study, which separately accounted for the costs of a noncompliance site visit. If LAHD wants to increase compliance, it should re-evaluate the Occupancy Monitoring Unit's activities to account for the corrective actions it deems necessary to better enforce the City's regulatory agreements.

Gaps in Onsite Audits Increase the Risk that Waiting Lists Are Not Being Used

Owners of HOME-funded rental projects are generally required to select tenants from written waiting lists in the chronological order of their application. According to HUD, maintaining up-

to-date and well-managed waiting lists promote the fair and consistent treatment of tenant applicants. However, we identified several HOME-funded rental projects that were not using waiting lists to identify new tenants.

Property management staff for the HOME-funded properties we visited for this audit openly discussed how they chose to fill their vacancies instead. **Both situations undermine the fairness that written waiting lists were intended to provide.**

- Staff at one property provided us an outdated waiting list from 2016, and explained that they preferred to fill vacant units with the friends and family of existing tenants that they trusted or had a good relationship with.
- Staff at another HOME-funded property explained that they did not inherit a waiting list from the prior owners of the apartment, and attempted to create a new waiting list on their own. However, staff at this property found the process of using the waiting list to be too cumbersome, and began working with several organizations to receive referrals instead.

One likely reason for the lax use of waiting lists is the lack of oversight and enforcement.

LAHD's agreement with Urban Futures requires the contractor to conduct onsite audits of HOME-funded properties, which includes a review to ensure that the project is maintaining and using a waiting list to select tenants. **However, Urban Futures stopped performing the required onsite audits in 2020.**

Urban Futures stopped conducting onsite audits of the City's HOME-funded rental projects at the onset of the COVID-19 pandemic. To protect staff and limit the spread of COVID-19, HUD waived its requirement for onsite audits from April 2020 through December 2021. Since then, HUD has required participating jurisdictions to resume conducting onsite audits.

However, Urban Futures did not restart their onsite reviews of HOME-funded rental housing until December 2024, during the course of our audit. After our exit conference with LAHD, the department explained that Urban Futures had completed onsite audits of four projects as of the end February 2025. Although this development is encouraging, LAHD still needs to ensure that onsite audits of HOME-funded rental projects keep pace with the triennial federal requirement.

Prior to the pandemic, Urban Futures also did not conduct onsite audits as frequently as required. **Urban Futures' project data shows that it did not conduct an audit for 101 of the 321 (31%) HOME-funded properties in the City's Affordable Housing Inventory during the three-year period from 2017–2019.**

These gaps in the frequency of onsite audits can be explained, in part, by a lack of effective contract monitoring by LAHD's Occupancy Monitoring Unit. Federal regulations for the HOME program require participating jurisdictions to have and follow policies and procedures to review the performance and compliance of each contractor at least annually. We found that the Occupancy Monitoring Unit does not have the required policies and procedures to review Urban Futures' contract performance.

Although the Occupancy Monitoring Unit periodically fills out a contractor evaluation form regarding Urban Futures services, it could not provide evidence that it had completed a form for the period covering January 2019 through December 2019, and July 2021 through June 2022. Further, the completed contractor evaluation forms we reviewed (covering January 2020 through June 2021, and July 2022 through June 2023) did not provide details on whether or how the Occupancy Monitoring Unit evaluated Urban Futures' performance related to its requirement for annual monitoring and triennial onsite audits.

Recommendations

To comply with federal regulations for HOME-funded rental projects, LAHD should:

1. Develop and implement policies and procedures, including scheduling and monitoring steps, that are necessary to ensure that onsite audits for HOME-funded rental projects are conducted at least once every three years.
2. Develop and follow written policies and procedures to review, at least annually, the performance and compliance of each contractor it uses to carry out the City's responsibilities as a participating jurisdiction. LAHD's policies and procedures should describe how it will review Urban Futures' performance to ensure that it is conducting onsite audits of HOME-funded rental projects at least once every three years.

To improve its oversight of properties for compliance with the City's affordability requirements, LAHD should:

3. Develop and implement a comprehensive enforcement plan to complement its monitoring of affordable housing. The enforcement plan should include the progressive enforcement activities it will take to gain compliance, its protocol for referring cases to the City Attorney's Office for further enforcement, the information it will collect and analyze to prioritize its enforcement efforts.
4. Develop and propose a funding plan for the City Council's consideration, including the additional staffing and funding it will need to carry out its enforcement plan, and new fees and fee updates.

5. Work with the City Attorney's Office to ensure that new regulatory agreements going forward do not strictly limit the dollar amount of its monitoring fee.

II. INSPECTIONS OF AFFORDABLE UNITS FALL SHORT

Affordable housing, like all housing, should be maintained as decent, safe, sanitary, and in good repair. The City's own habitability policy aligns with this principle. Adopted in 1998, the City's Housing Code is intended to address substandard and unsanitary living conditions throughout Los Angeles that jeopardize the health, safety, and welfare of all residents.

Although LAHD enforces the Housing Code to ensure compliance with building, electrical, plumbing and other codes in residential rental properties, **our review found that the department's inspections do not directly address an important health and safety issue: mold and infestation.**

We also found that LAHD has struggled with meeting the pace of inspections needed to comply with federal regulations for the HOME program and its own goals for the Systematic Code Enforcement Program (SCEP), though improvements are underway.

Mold and Infestation Violations Are Not Cited by LAHD Inspectors

LAHD's Housing Inspectors can currently choose from over 130 violations to cite as part of their code enforcement responsibilities. These violations cover a variety of conditions and issues affecting the habitability and safety of rental units, including:

- **Electrical:** such as defective wiring and electrical outlets,
- **Fire Safety:** such as smoke and carbon monoxide detectors, and fire doors
- **Plumbing:** such as leaks, clogged drain lines, and defective faucets or other fixtures,
- **General Maintenance:** such as defective or missing handrails, or roof leaks.

However, LAHD generally does not enforce mold and infestation issues when inspecting rental properties. According to Code Enforcement staff, only the County's Public Health Department, as the City's designated health officer, has the authority to issue legally enforceable citations for mold and infestation problems. **Instead, LAHD's inspectors are instructed to refer these issues to the Los Angeles County Department of Public Health when they can.**

In many cases, LAHD inspection staff cannot even make a direct referral to the County for mold or infestation issues. The County requires tenant contact information to accept a referral, and tenants are often not in their unit during LAHD inspections that happen during normal business hours. In these situations, LAHD inspection staff can only leave information for the tenant on how to contact the County to report mold or infestation problems.

Code Enforcement staff also explained that, if mold or infestation are present, inspectors will try to identify and cite any underlying defects, such as ventilation or sanitation issues, that they believe are causing mold or infestations to appear. Although we agree with the need to address underlying causes, the inability to cite for mold or infestation violations leaves a significant health and safety issue unaddressed.

The Code Enforcement Division's Inspections Do Not Comply with HOME Requirements

Because it does not directly address mold and infestation problems, LAHD's inspection process is also out of compliance for HOME-funded rental projects. Federal regulations require participating jurisdictions like the City to have:

- **ongoing property standards** that require HOME-funded rental projects, at a minimum, to be free of HUD-defined deficiencies, which include health and safety issues like mold and infestation, and
- **written inspection procedures** that describe how the City will carry out inspections of HOME-funded rental projects, and include how it will address health and safety issues.

LAHD has neither the ongoing property standards nor written inspection procedures required for the City's HOME program. LAHD stated that they enforce the existing building code, which they explained can be more restrictive in some ways than HUD's property standards. However, LAHD's enforcement of the building code is also limited by the lack of authority to issue citations for mold and infestation issues. Going forward, LAHD should develop and adopt the ongoing property standards and written inspection procedures required by federal regulations. To address mold and infestation issues in HOME-funded projects, the department has several options. For example, LAHD could:

- Use its authority as the City's HOME administrator to issue citations for mold and infestation violations that would be enforceable under the HOME program;
- Work with the County's Public Health Department to arrange for health inspections so that it could ensure that mold and infestation issues are addressed; or
- Work with the City and the County to obtain the authority to enforce mold, infestation, and other health-related code violations that affect the habitability of rental units.

As the City's HOME administrator, LAHD already has the authority to regulate HOME-funded projects in ways that go beyond the Housing Code. For example, even though the City's Housing Code does not require rental units in Los Angeles to have a cooking appliance (such as a stove or microwave) or refrigerator, HOME-funded housing is required to have these amenities. To comply with federal regulations, the Code Enforcement Division inspects and

cites for missing or defective cooking appliances or refrigerators in HOME-funded dwelling units. The Code Enforcement Division's citations even refer to federal regulations when issuing a Notice and Order to Comply for cooking appliances and refrigerators.

As the City's HOME administrator, LAHD could choose to include mold and infestation in its inspections of HOME-funded rental projects. Mold and infestation issues, just like missing or defective refrigerators and cooking appliances, are part of HUD's minimum property standards for HOME-funded housing. **Under the authority of the same federal regulations, LAHD could issue citations for mold and infestation they find during HOME inspections.**

LAHD Should Do More to Directly Address Mold and Infestations in All Rental Housing

Even if LAHD can come into compliance with inspection requirements for HOME-funded properties, it still leaves many affordable housing units vulnerable to mold and infestation issues. **However, no one should have to live with substandard housing conditions.** This intent of the City's Housing Code extends to all housing, including properties with restricted affordable units. In 2023, the City Council reaffirmed its intent to maintain and improve quality of life for residents by instructing LAHD to include mold and lead testing as part of SCEP inspections. Still we observed evidence of roach infestations (**Figure 6**) during several site visits of high-risk affordable housing projects selected for this audit.

Figure 6. Roach Infestations Were Evident at Several Affordable Housing Projects Visited

Dead Roaches at a CRA Housing Project for Seniors



Roach Droppings at a HOME-Funded Project



More Roaches at a HOME-Funded Affordable Housing Project



Even unincorporated areas of Los Angeles County will have rental units proactively inspected for code violations, including for mold and infestation. The County Public Health Department began proactively inspecting rental units for habitability issues under the new Rental Housing Habitability Program that went into effect October 2024. Similar to SCEP for the City, the County Public Health Department's goal is to conduct routine inspections once every four years. **Unlike SCEP, the County's routine housing inspections include mold and infestation as citable conditions, and are only applicable to rental units in unincorporated Los Angeles County.** Incorporated areas of Los Angeles County, like the City of Los Angeles, will not benefit from the County's routine housing inspections.

To further the goals of the City's Housing Code, LAHD should consider working with relevant departments in the City and the County to obtain the authority to cite mold and infestation violations they already encounter. LAHD's goal to periodically inspect all rental units under SCEP has a wider coverage than the County Public Health Department's complaint-based approach for rental properties in the City. If LAHD Housing Inspectors are already at a rental unit for a SCEP or complaint inspection, they should be able to cite for visible mold, or evidence of infestation by insects, rodents, and other pests that are apparent.

Progress is Underway for the Pace of LAHD's Habitability Inspections

The City's multi-family code enforcement program is unique in that it goes beyond reacting to complaints to a proactive inspection regime that strives to inspect every rental unit. LAHD charges rental property owners (including those with affordable restricted units) an annual fee to cover the cost of SCEP, HOME inspections, and complaints. Property owners are also allowed to pass on half of the costs onto their tenants. As a fee-based regulatory activity, LAHD is obliged to provide the inspection services that property owners and tenants pay for, and make every effort to meet the inspection cycles that its fees are meant to fund.

The Pace of Inspections for HOME-Funded Housing Currently Appears Sufficient

As part of an annual report on the City's compliance with major federal programs, auditors found that LAHD was not compliant in FY 2019 with federal requirements to conduct inspections of HOME-funded affordable housing every three years. This same finding was confirmed again for FY 2020 and FY 2021. LAHD's reasons for not performing these required inspections was due to extended inspector absences and vacancies.

In response, LAHD identified and trained additional inspectors, and assigned them to the HOME Inspection Group to catch up with inspections that were delayed due to absences and

the COVID-19 pandemic. These additional inspectors also serve as backups when the main HOME inspectors are absent. As a result, the City was cleared of this finding in FY 2022.

For this audit, our review found that the recent pace of opened inspection cases appears to be sufficient to keep up with the three-year cycle required for HOME-funded rental projects.

The HOME Inspection Group's inventory currently consists of 518 HOME-funded rental projects.⁹ Our review of LAHD's inspection data show that, between February and May 2024, the HOME Inspection Group opened between 17 and 42 cases per month. This pace exceeds the monthly average of 14.4 inspections needed to keep up with a three-year inspection cycle.

The Frequency of SCEP Inspections Still Falls Short of What Is Required for a Four-Year Cycle

With more than 800,000 known rental units in the City, LAHD's goal of periodically inspecting every rental unit (including affordable restricted units) has always been challenged by the sheer scale of the task. In December 2018, the City moved away from its original goal for three-year inspection cycle for SCEP, and adopted a four-year cycle going forward for most rental properties. Although LAHD began a new SCEP inspection cycle in earnest in 2019, the department still has not completed that cycle more than five years later.

Our review found that the pace of SCEP inspections beginning in 2024 was far below what is needed to keep up with a four-year cycle. With about 107,000 properties in LAHD's inventory of rental properties subject to SCEP, the department would have to complete about 2,240 inspections per month to keep up with a four-year cycle. However, LAHD only opened about 1,700 SCEP inspection cases per month during the first three months of 2024.

Code Enforcement Division staff acknowledged this problem, and attributed their inability to keep up with the pace of SCEP inspections with a lack of staff resources. They explained that during the COVID-19 pandemic, the Code Enforcement Division lost many staff positions under the City's Separation Incentive Program.

To address this issue, LAHD determined that they needed an additional 15 Housing Inspectors to make up the difference and begin to stay on track for a four-year SCEP inspection cycle. For the FY 2024-25 budget, LAHD requested and was approved for these additional 15 inspectors. **Code Enforcement Division staff explained that they plan to hire and train these**

⁹ In this report, we also found data reliability issues that hamper LAHD's ability to track properties and programs that are part of the Affordable Housing Inventory. For the purposes of calculating the number of inspections needed to keep pace with a three-year cycle, we assumed that the HOME Inspection Group's inventory of 518 HOME-funded projects was correct.

new inspectors by the beginning of 2025 so that they can increase the pace of SCEP inspections and complete the current cycle that began in 2019.

With these new staff resources, we encourage LAHD to continue monitoring the pace at which inspections are being scheduled. LAHD should be prepared to make adjustments and request additional resources as needed to keep up with the three-year inspection cycle for HOME-funded rental projects and the four-year inspection cycle for SCEP.

Recommendations

To comply with federal regulations related to the department's inspections of HOME-funded rental projects, and address mold and infestation issues, LAHD should:

6. Develop and implement ongoing property standards that, at a minimum, requires HOME-funded rental projects to be free of mold, infestation, and other deficiencies established by HUD.
7. Develop and implement written inspection procedures for HOME-funded rental projects. At a minimum, LAHD's written inspection procedures should include detailed inspection checklists, a description of how and by whom inspections will be carried out (whether it is LAHD's Housing Inspectors or the County Public Health Department's inspectors), and procedures for training and certifying qualified inspectors. The procedures must also describe how frequently HOME-funded rental projects will be inspected, and include a more frequent inspection schedule for properties that have been found to have health and safety deficiencies, like mold and infestation.

To further the goals of the City's Housing Code by directly addressing mold and infestation issues, LAHD should:

8. Consider working with relevant departments in the City and the County to obtain the authority to enforce mold and infestation violations as part of its inspections of rental units subject to SCEP, or develop a direct referral mechanism to the County's Public Health Department.

III. FINANCIAL OVERSIGHT IS LAHD'S BIGGEST WEAKNESS

LAHD has a vested interest in the long-term viability of affordable housing projects that it helps to finance. However, LAHD does little to proactively monitor the financial condition of affordable housing projects that have an outstanding loan with the City. LAHD's process for reviewing project financial statements focuses primarily on calculating loan payments due to the City. **LAHD does not have a process to annually review affordable housing projects to determine if their operations are financially sustainable.**

We also found that LAHD does not systematically monitor and enforce requirements for its borrowers to submit annual financial statements and maintain financial reserves for their affordable housing project. This lack of monitoring and enforcement further inhibits the department's ability to help protect the financial stability of properties in the City's Affordable Housing Inventory.

LAHD Does Not Assess and Monitor the Financial Health of Affordable Housing

The potentially devastating loss of rent-restricted units, especially to the low-income tenants that live in them, is itself a sufficient reason to oversee the financial health of affordable housing projects. However, as the manager of loan assets worth over \$2.9 billion, LAHD's Loan Portfolio Unit has other compelling programmatic reasons to monitor affordable housing projects that have loans with the City. Regardless of whether the loan originated from the department itself, or was inherited from the Community Redevelopment Agency (CRA) of Los Angeles, LAHD's success as an asset manager depends on how well its borrowers handle the unique challenges of operating affordable housing.

Unlike public housing, which is owned and operated by government entities such as a housing authority, properties with affordable restricted units are largely privately owned. Affordable housing projects (like other privately-owned rental properties) still operate as a business and are expected to generate some income. At the very least, affordable housing projects need to generate enough revenue to:

- pay for operations, including management, utilities, security, insurances, and taxes;
- repair and maintain the property in a safe and habitable condition;
- save enough funds to cover unexpected expenses and future expenditures;

- pay other necessary expenses, such as deferred developer fees; and
- cover required debt payments.

Because of restrictions on how much rent they can charge, properties with many affordable units may find it more difficult to generate enough revenue to meet their obligations.

Further, LAHD relies on loan payments from profitable projects as a source of funding. As shown in Table 4, the vast majority of LAHD’s loans made to affordable housing projects are based on residual receipts, which only require the borrower to make a loan payment if the project generates surplus cash. LAHD treats the loan payments it collects as program income, and collected over \$29 million in program income in FY 2022–23 from residual receipts.

Table 4. Most of LAHD’s Loans for Affordable Housing are Residual Receipts

Loan Type	Number of Loans	Principal Balance
Residual Receipts	869	\$2.8 billion
Other	230	\$0.1 billion
Total	1,099	\$2.9 billion

Source: Data provided by LAHD, as of 8/1/24.

More importantly, some of the loan payments that LAHD collects are reinvested to support the development or preservation of new and existing affordable housing. For example, in FY 2022–23, LAHD expended \$5.9 million in HOME program income for multi-family affordable housing projects. With periods of affordability lasting between 20 and 55 years, **LAHD is inherently invested in the long-term viability of City-funded affordable housing projects.**

Despite these reasons to closely monitor City-funded affordable housing, LAHD currently has no process in place to periodically and continuously assess their financial health. While the department receives financial statements from City-funded affordable housing projects, LAHD does not review that information to assess the financial viability of the project, and its ability to continue providing affordable, livable units to its clients. Instead, LAHD mainly reviews the project financial information it receives for loan administration purposes.

LAHD Mainly Reviews Project Financial Statements to Determine If a Loan Payment is Due

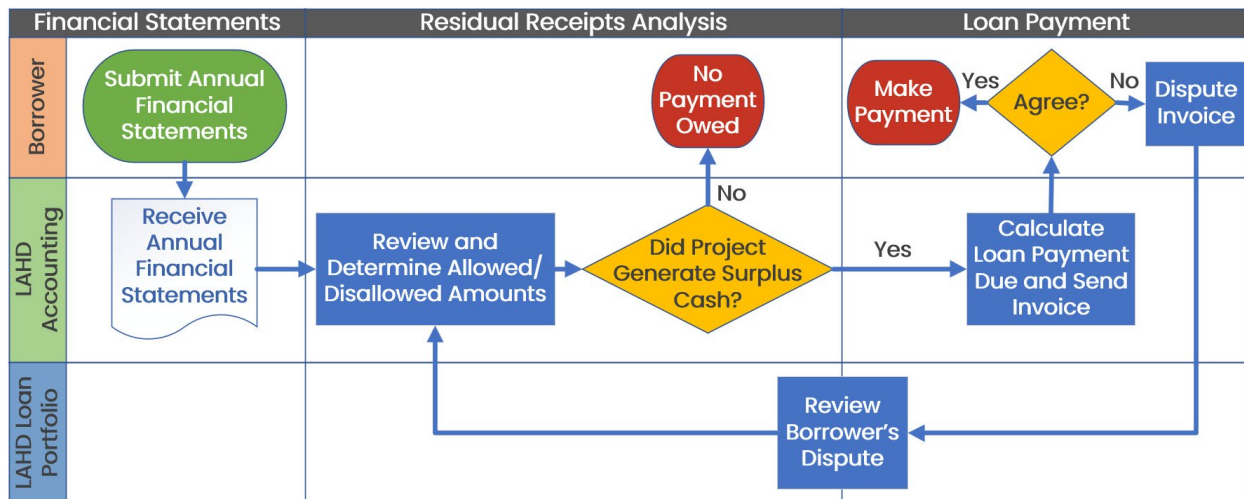
The department’s residual receipt loan agreements require its borrowers to submit annual financial statements. As shown in the simplified example in **Table 5**, LAHD uses the information reported in these financial statements to determine if the borrower’s affordable housing project generated enough surplus cash to require a loan payment.

Table 5. Loan Payment Calculations Rely on Data from Project Financial Statements

Financial Information	Description	Amount
Operating Revenue	Rents collected, rental subsidies, other revenues	\$ 499,870
Operating Expenses	Property management, utilities, maintenance, etc.	<u>(331,891)</u>
Net Operating Profit	Difference between operating revenues and expenses	\$ 167,979
Other Expenses	Interest, depreciation, fees, etc.	(944,923)
Other Adjustments	Cash flow adjustments from different activities	<u>779,567</u>
Residual Receipts	Surplus cash available for a loan payment to the City	\$ 2,623
City's Share	Percentage of residual receipt, specified in the loan	<u>x</u> 50%
Loan Payment Due	Based on the City's share of the residual receipt	\$ 1,312

The Loan Portfolio Unit could use the same information gathered for loan payment calculations to evaluate an affordable housing project's financial condition. However, as shown in **Figure 7**, the Loan Portfolio Unit is generally not involved with the process of reviewing project financial statements to calculate loan payments.

Figure 7. The Loan Portfolio Unit's Role in Reviewing Project Financial Statements is Limited



Instead, LAHD's Accounting Division reviews project financial statements to assist the Loan Portfolio Unit and determine if any loan payments are due, and is not tasked with assessing the financial viability of affordable housing projects. **Because of its limited role in the loan review process, the Loan Portfolio Unit remains largely unaware when an affordable housing project reports troubling information about its financial condition.**

The Loan Portfolio Unit's lack of attention to the financial health of affordable housing projects severely limits its ability to provide meaningful oversight. For example, we reviewed the annual financial statements for fiscal year 2019 through 2022 for a large affordable housing provider and found that at least 23 of its 30 active properties were unprofitable each year.

Yet, LAHD had only recently analyzed the financial health of the provider's portfolio of affordable housing projects in April 2024, after the provider began seeking the department's assistance to find solutions for its financial problems.

We also identified a number of distressed affordable housing projects that LAHD was not aware of.¹⁰ One of the projects we reviewed has not been profitable since it began operating as an affordable housing project in 2016. This project's staff explained that they have only been able to continue operations by partnering with a local homeless services provider to subsidize their operating costs. **Based on our review, and the absence of a proactive monitoring process by the department, it is highly likely that there are many other financially-troubled affordable housing projects in its loan portfolio that LAHD is not aware of.**

Federal Requirements for Financial Monitoring Were Meant to Improve LAHD's Oversight

Through proactive financial monitoring, LAHD could potentially avert disasters like the Skid Row Housing Trust's collapse by better managing financially difficult situations like the ones described above. Federal regulators envisioned exactly these types of scenarios when it began requiring financial oversight for participating jurisdictions in the HOME program.

In its December 2011 rule proposal, HUD explained that it wanted to require the financial oversight of HOME-funded rental projects in order to "increase the likelihood that participating jurisdictions become aware to financial problems early enough to attempt to successfully correct problems or conduct a financial workout to sustain the viability of the project."

In its final rule in July 2013, HUD reiterated the importance of financial oversight, stating that "the purpose of this requirement is to enable participating jurisdictions to identify HOME-assisted projects that may become financially troubled before problems become severe."

To conduct financial oversight, HUD requires participating jurisdictions, like the City, to:

¹⁰ We considered an affordable housing project to be distressed if its annual financial statements showed that it had an operating deficit, high economic vacancy rate (>10%), low debt service coverage ratio (<1.2), or financial reserves that were lower than required by their loan agreement with LAHD.

- examine, at least annually, the financial condition of HOME-funded rental projects with ten or more units during its period of affordability;
- determine the continued financial viability of the housing; and
- take actions to correct problems that are identified through monitoring.

However, LAHD's Asset Management Division was initially not even aware that the City is required to annually monitor the financial health of HOME-funded rental projects. Despite our repeated requests, LAHD could not provide any evidence to demonstrate its compliance with the requirement to conduct financial oversight. During our audit, LAHD even disagreed that the City would be responsible, under federal regulations, to monitor the financial health of HOME-funded rental projects.

Although federal regulations do not specify how to do it, what is clear is that the City must oversee the financial health of HOME-funded rental projects. What is also clear is that, as the City's HOME program administrator, **LAHD must have and follow its own written policies and procedures to conduct financial oversight.** The main exception to this rule is that financial oversight is only required for projects that had HOME funds committed on or after the regulation's effective date: July 24, 2014.¹¹

Further, HUD recommends participating jurisdictions to monitor the finances of *all* HOME-funded projects in their portfolio. We strongly agree with HUD's recommendation, because the failure of a HOME-funded rental project could result in both the loss of affordable housing units and the City's payback of HOME funds to HUD. **Because of the significant value of outstanding loans and their ongoing risks, we believe LAHD should extend this further and actively monitor the finances of every affordable housing project in its entire loan portfolio.**

Other Jurisdictions Review Project Financial Statements to Assess Performance

Although COVID-19 exacerbated issues that made it difficult for both tenants and property owners, concerns like inflation and rent are inherently more problematic for affordable housing. **Systemic issues, like the financial risks of operating affordable housing projects, need a systemic response, like continuous monitoring by the City.** Further, according to HUD, the earliest signs of problems in affordable housing projects often appear in financial

¹¹ [Title 24 section 92.251\(f\)\(3\)\(iv\)](#) of the Code of Federal Regulations requires participating jurisdictions, like the City, to conduct financial oversight of HOME-funded rental projects. During our audit, LAHD disagreed with us, and suggested that we reach out to HUD to resolve this issue. Although HUD officials, as well as the City Attorney's Office, declined to meet with us to discuss, we found enough relevant technical assistance materials from HUD to support our conclusion that LAHD is not fully complying with this requirement. We also discuss the access issues as an audit scope limitation in the Objectives, Scope, and Methodology section of this report.

statements. **It is therefore imperative that LAHD use the financial information it already receives from affordable housing projects to start monitoring the risks in its loan portfolio.**

Several other jurisdictions we spoke to already conduct some form of financial monitoring for affordable housing. For example, staff in the San Francisco Mayor's Office of Housing and Community Development (MOHCD) stated that they review a project's financial trends as part of its annual review to calculate loan payments. If they identify potential issues, MOHCD staff will work with the owner or property manager to improve the project's financial viability.

The Los Angeles County Development Authority's (LACDA) is another example of financial oversight that LAHD could borrow from. LACDA assigns financial analyst staff to be individually responsible for loan payment calculations and financial monitoring. LACDA's policies and procedures for residual receipt loan monitoring require its financial analysts to:

- follow up with the borrower if they fail to provide project financial information on time;
- review the submitted financial information to determine if a loan payment is due; and
- analyze and document their assessment of the project's financial stability.

LACDA's policies and procedures also require its financial analysts to evaluate the stability of an affordable housing project. LACDA's procedures for evaluating a project's financial health include looking at a variety of measures, such as the reasonableness of average operating expenses per rental unit, the adequacy of financial reserves, and significant fluctuations in financial accounts across multiple years.

Among other jurisdictions we spoke to, the San Diego Housing Commission (SDHC) had the most advanced form of financial monitoring for affordable housing. SDHC asset management staff use information from financial statements to annually analyze different indicators and rate each project's financial health. Some of these factors include:

- loan payment history;
- the ability to pay debt obligations;
- revenue losses due to vacant rental units; and
- the level of replacement reserves, which are used to pay for large capital expenses.

As described above and shown in the examples in **Table 6**, LAHD has many ways it can use the information it already receives to evaluate the financial health of affordable housing projects in its loan portfolio.

Table 6. LAHD Can Assess the Financial Health of Affordable Housing in Many Ways

Financial Indicator	Possible Measures	Description
Submitted Financial Statement?	Yes: statement submitted No: statement missing	Missing financial statements can indicate issues with the project's financial health.
Operating Profit	$\frac{\text{Operating Revenue}}{\text{Operating Expenses}}$	Measures the rental property's profitability. Federal regulations also define a project as no longer financially viable if its operating costs significantly exceed its revenues.
Operating Profit Margin	$\frac{\text{Operating Profit}}{\text{Operating Revenue}}$	Also measures rental profitability, but allows projects of different sizes to be compared to each other and over time.
Vacancies	$\frac{\text{Losses Due to Vacancies}}{\text{Gross Potential Revenue}}$	Measures the percentage of potential rental revenue not collected due to vacancies. For example, SDHC considers a vacancy rate of less than 3% to be appropriate.
Rent Collection	$\frac{\text{Rents and Subsidies Collected}}{\text{Gross Potential Revenue}}$	Measures the property's ability to collect rents. Low collection rates can indicate that renters are struggling to pay rent.
Debt Service Coverage	$\frac{\text{Operating Profit}}{\text{Annual Mortgage Payment}}$	Measures whether the project is generating enough income to cover primary debt obligations. For example, SDHC considers a debt service coverage ratio of more than 1.2 to be safe level.
Financial Reserve Levels	$\frac{\text{Available Financial Reserves}}{\text{Number of Rental Units}}$	Measures the level of financial reserves for comparison purposes. For example, SDHC considers a replacement reserve of \$5,000 or more per unit to be appropriate.

To gain a clearer picture of the financial risks lurking in its loan portfolio, LAHD should implement a monitoring process to periodically review and assess the financial condition of affordable housing projects.

LAHD Needs to Act When It Identifies Financial Problems with Affordable Housing

While necessary, financial monitoring alone is not enough. LAHD should use the insights it gains from monitoring to inform the actions they take. Ideally, LAHD would learn about issues early enough so that the department can intervene and address financial problems before they become a major threat to the project's viability.

Once it begins monitoring and identifying issues, LAHD can draw from a number of sources to identify different solutions to address the problems it encounters. For example, in its 2009 publication titled *"Compliance in HOME Rental Projects: A Guide for PJs,"* HUD describes a number of interventions that participating jurisdictions can take, depending on the type and stage of the problem. These interventions can be applied to affordable housing projects beyond those funded by just HOME funds.

If a property is facing emerging signs of possible financial trouble, HUD recommends participating jurisdictions work with the project owner to identify ways to improve management, increase revenues, and cut costs. Here are some **early intervention** options that participating jurisdictions should explore.

- Providing technical assistance on property management practices, such as collecting rents, effectively marketing the property, reducing vacancies, and conducting routine maintenance and capital improvements.
- Requiring the owner to secure new property management, if current staff are failing to implement proper practices. When we spoke with staff from the Sacramento Housing and Redevelopment Agency, they explained that their most effective tool for managing affordable housing projects (beyond monitoring and following up on issues) was having the authority to require a change in property management.
- Analyzing cost data and helping the owner identify ways to lower costs.
- Helping the owner identify new sources of revenue. When we spoke with staff from the San Francisco Mayor's Office of Housing and Community Development, they specifically mentioned recommending ways to maximize revenues, such as by increasing tenant rents and housing assistance subsidies up to the allowable limit.
- Encouraging the owner to borrow from reserve accounts to meet short-term expenses, in limited circumstances.

If a property is facing significant financial problems, coupled with physical deterioration, it will need a more comprehensive set of solutions. According to HUD, a property's decline at this stage in the distress cycle will not be reversed by increasing revenues or decreasing costs alone. Below are some options for **intermediate interventions** suggested by HUD.

- Refinancing existing private debt at lower interest rates.
- Reviewing the property's rent structure and approving higher rents. HUD assumes that normal increases to HOME rent limits that result from annual changes in fair market rents and median incomes over time should be sufficient to maintain the financial viability of a project. However, in rare circumstances, HUD can allow for increased HOME rent limits for a specific project if it finds that the adjustment is necessary to support the project's continued financial viability.
- Invest additional funds to rehabilitate affordable restricted units, recapitalize project financial reserves, or refinance other debts. With HUD's approval, participating jurisdictions can even invest additional HOME funds into a troubled HOME-funded project that are no longer financially viable.
- Re-designate affordable restricted units as market rate and increase rents accordingly. HUD Headquarters may permit participating jurisdictions to reduce the number of HOME-funded units, if the project contains more than the minimum number of units required under federal regulations.

According to HUD, projects in serious financial trouble and in need of a major course correction may require the participating jurisdiction to take more drastic steps to intervene when all other options have failed. These more [advanced interventions](#) require workout plans, which we discuss in more detail later in this report.

Going forward, and with more proactive oversight, LAHD can better identify looming threats before they become more serious, and give themselves more time to address an affordable housing project's financial challenges.

Inadequate Loan Enforcement Also Inhibits LAHD's Financial Oversight

As part of its efforts to improve financial oversight, LAHD should also do more to gain borrower compliance with loan agreement requirements. More specifically, LAHD needs to better monitor and enforce the following loan agreement requirements:

- submitting annual financial statements;
- conform with LAHD's standardized reporting framework for financial statements;
- contributing to operating reserves and replacement reserves; and
- requesting LAHD's permission to use operating reserves and replacement reserves

Our review found that LAHD does not currently have sufficient processes in place to enforce these requirements. Because of their impact on project finances and the department's

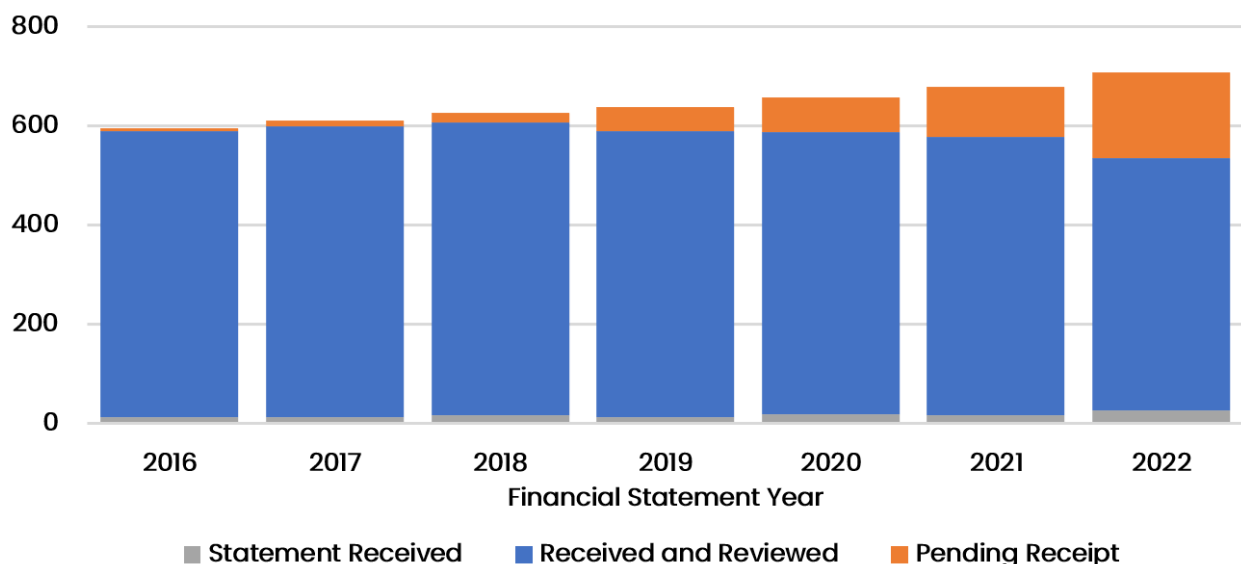
ability to monitor financial health, these requirements should be part of LAHD's plan to improve its financial oversight of affordable housing projects in its loan portfolio.

LAHD Expends Little Effort to Collect Missing Project Financial Statements

LAHD has an undated draft policy that outlines an escalation procedure to follow up with borrowers on overdue project financial statements. **However, the Loan Portfolio Unit does not follow this process to collect delinquent financial statements.** Instead, LAHD's Accounting Division sends email reminders once a month, for up to 90 days after the due date, to borrowers that are delinquent on submitting their project financial statements.

Because of the lack of enforcement, LAHD is missing a significant percentage of project financial statements. **Based on data provided in May 2024, LAHD is still waiting to receive approximately 170 out of 700 (or almost 25%) project financial statements for 2022** (see **Figure 8**). Although the difficulties associated with the COVID-19 pandemic is one explanation for missing project financial statements, LAHD is still missing some statements that were due before 2020 because it does not do enough to enforce its loan agreements.

Figure 8. LAHD is Missing a Significant Percentage of Project Financial Statements



Source: Financial Statement Delinquency Report, LAHD's Housing Information Management System, as of 5/16/24

In some cases, sending follow-up email reminders does little to ensure properties submit delinquent financial statements. For example, LAHD was missing financial statements for 2019, 2020, and 2021 for one of the affordable housing projects we visited for this audit. By working with the property's compliance manager, we were able to obtain the statements for 2020 and 2021. The compliance manager also provided a reasonable explanation for the missing 2019

statement, stating that the current owners bought the property in late 2019, and therefore did not have the statement for that year.

Financial Statements Often Do Not Conform with LAHD's Standardized Reporting Format

Although LAHD adopted a policy in July 2009 to standardize borrower reporting requirements for residual receipts loans, it does not enforce this requirement. LAHD adopted this policy so that it could receive financial statements in a standardized format to simplify the loan payment calculation process. At the time, LAHD stated that borrowers submitted financial statements that were done with a wide variety of formats, making the process of analyzing financial statements to calculate loan payments a "difficult, highly technical, time-consuming, and detailed process."

LAHD's oversight is also less effective because project financial statements may be missing important information if they do not conform with the department's reporting format. For example, LAHD's reporting policy requires borrowers to report their project's gross potential rent revenue (at 100% occupancy) and losses of potential revenue due to vacancies. LAHD needs both gross potential revenue and vacancy losses to determine if a project's vacancy rate is within expectations, or above normal levels and therefore a cause for concern.

For this audit, we visited an affordable housing project that reported vacancy losses in its 2019 financial statements, but stopped reporting it in its 2020 and 2021 statements. In 2019, vacancy losses at this project amounted to a low 2.4% of total rent revenue.¹² When we spoke with this project's Chief Operating Officer, they stated that the property began experiencing high vacancy rates during the pandemic. To better ensure that it receives the information it requires for oversight, LAHD needs to begin enforcing its financial reporting requirements.

LAHD Lacks a Policy to Ensure that Contributions to Project Financial Reserves are Made

LAHD's residual receipts loans usually contain language requiring borrowers to set aside funds for operating reserves and replacement reserves. These project financial reserves are meant to pay for operating costs when revenues fall short, and for large capital expenditures (such as roof replacements) that are not covered by routine maintenance costs.

Although the specific language about how much and when to contribute may differ from one loan agreement to the next, LAHD should work with its borrowers to ensure that they make the

¹² For comparison, the Census Bureau estimates that 4% of rental housing units in Los Angeles County were vacant in 2019.

required project contributions. However, the Loan Portfolio Unit does not have a policy or procedure for identifying when its borrowers are required to make contributions to their financial reserves, and engaging with them when they have not done so.

LAHD's oversight of affordable housing should also take into account a project's ability to save for the future as an indicator of financial health. **Many of the affordable housing projects we reviewed for this audit did not properly fund their financial reserves according to the requirements in their loan agreements, leaving them with fewer resources to draw upon during the pandemic.** When rental revenues fall below expectations, and as buildings inevitably age and require more investments, **LAHD needs to know which projects will have the financial reserves available to continue operating and maintaining their buildings, and which ones pose greater risks.**

LAHD Does Not Adequately Address Unauthorized Withdrawals of Project Financial Reserves

Projects that are required to maintain financial reserves must also obtain LAHD's written approval before withdrawing funds. The Loan Portfolio Unit reviews withdrawal requests from operating reserves to identify instability with the project, and reviews withdrawal requests from replacement reserves to determine the adequacy of reserves for future needs. However, the Loan Portfolio Unit does not have a process to identify when projects make reserve withdrawals without its permission.

Staff from the Loan Portfolio Unit explained that LAHD's Accounting Division will try to determine if a project made unauthorized reserve withdrawals and increase the loan payment that is due accordingly. The Loan Portfolio Unit would then learn about unauthorized reserve withdrawals if the borrower disputes the Accounting Division's loan payment calculation. **However, LAHD's reactive approach to learning about unauthorized financial reserve withdrawals is inadequate for oversight purposes.**

Loan Portfolio Unit staff acknowledged that, under this process, it would not learn about unauthorized reserve withdrawals if there was no loan payment due, or if the borrower does not dispute the loan payment that was calculated. To better enforce its loan agreements requirements, and identify affordable housing projects that may be financially unstable, LAHD should do more to proactively identify unauthorized withdrawals from project financial reserves.

Recommendations

To comply with federal regulations related to the department's financial oversight of HOME-funded rental projects, LAHD should:

9. Develop and implement written policies and procedures to monitor the financial condition of HOME-funded rental projects. At a minimum, LAHD's policies and procedures should address what financial information it will examine, how often it will review a project's financial condition (at least annually), how it will determine the project's continued financial viability, what corrective actions it can and will take to address the financial problems identified, and how it will document its financial oversight results and decisions.

To improve its overall financial oversight of affordable housing projects, LAHD should:

10. Extend its policies and procedures developed for HOME financial monitoring to apply to all affordable housing projects that have a loan with the department.
11. Develop and implement its policies and procedures to:
 - a. collect missing project financial statements;
 - b. standardize financial reporting requirements for its borrowers;
 - c. monitor and enforce borrower contributions to project financial reserves; and
 - d. monitor and enforce authorization requirements for withdrawals from project financial reserves.

IV. SILOED AND REACTIVE OVERSIGHT NEEDS TO CHANGE

Assigning responsibilities to discrete units is a necessary management exercise. But these organizational structures become silos when units within the same department do not effectively communicate or work well together to achieve intended outcomes. Operational silos in LAHD were evident when we requested and received differing lists of affordable housing projects from different units in the department. The fragmented way in which LAHD monitors affordability, habitability, and financial viability has also negatively affected the department's overall ability to prioritize issues with affordable housing.

LAHD should reevaluate the coordination between its different oversight functions so that they can effectively share information between each other, and help the department more effectively respond to the challenges of managing the City's Affordable Housing Inventory.

Issues with Tracking Affordable Housing Have Long Hampered Monitoring

LAHD, like other organizations, relies on quality information to achieve its objectives. The department must be able to reliably keep track of the properties that make up the City's Affordable Housing Inventory to ensure that LAHD's different monitoring activities can oversee them appropriately. However, LAHD's ineffective processes for tracking the Affordable Housing Inventory continues to impede its oversight.

In a 2008 audit of LAHD, the HUD Inspector General found large discrepancies between different units of the department in the number of HOME-funded rental projects. The HUD Inspector General compared the number of HOME-funded rental projects across four different information systems used by LAHD at the time, and found that the total number of projects differed for each system. For example, LAHD's affordability monitoring contractor had 254 projects in its database at the time, while LAHD's Code Enforcement Division had 530 projects during the HUD Inspector General's audit.

For this audit, we encountered similar discrepancies when requesting LAHD's list of affordable housing projects. **Because different units in LAHD largely work in isolation from each other, the department lacks a definitive source that it can rely on to describe the Affordable Housing Inventory.** Until the department can create a more complete and unified picture of the Affordable Housing Inventory, LAHD cannot ensure that it is properly monitoring all the properties that it is required to.

Data Reliability Issues in the Housing Information Management System Limit Its Usefulness

In response to the 2008 HUD Inspector General's findings, LAHD stated that it would need to reconcile its project data after developing and transitioning to its new Housing Information Management System (HIMS). **We found that LAHD still does not have a process to regularly review and reconcile information in HIMS to properly track affordable housing projects.**

When we asked LAHD's Occupancy Monitoring Unit for a list of affordable housing projects from HIMS for this audit, we received a spreadsheet containing many reliability issues. LAHD's data download of projects from HIMS contained over 25,000 project records, including many that have little to do with affordable housing. LAHD staff were also unable to help us narrow down the data from HIMS they provided to projects that were part of the Affordable Housing Inventory. In addition, we identified data issues in HIMS related to the affordable housing program, restricted units, and funding sources for a sample of projects, which LAHD staff acknowledged as data inaccuracies.

Occupancy Monitoring staff could not recall any recent efforts by LAHD to clean up the data in HIMS. Instead of using the department's own database, Occupancy Monitoring staff stated that they were more likely to rely on Urban Futures' database to report on the City's Affordable Housing Inventory. However, this creates a problem for LAHD's Code Enforcement Division because they rely on accurate data from HIMS to identify the HOME-funded rental projects it needs to inspect every three years to meet minimum federal requirements.

The Code Enforcement Division's reliance on HIMS stems from a 2009 memorandum of understanding it entered into with the Occupancy Monitoring Unit. The memorandum, which was created in response to the 2008 HUD Inspector General's audit findings, states that the Occupancy Monitoring Unit would be responsible for monitoring and keeping accurate records of affordable housing projects, and that the Code Enforcement Division would use information in HIMS to identify HOME-funded rental projects.

But instead of working together to share information, the Occupancy Monitoring Unit and Code Enforcement Division continue to diverge and use different lists of HOME-funded rental projects for their respective oversight functions. Using data from HIMS, the Code Enforcement Division had an inventory of 518 HOME-funded rental projects. By comparison, LAHD's affordability monitoring contractor, Urban Futures, had 353 HOME projects in its database.

Even though the Code Enforcement Division identified more projects than were in Urban Futures' database, its inventory was still missing some HOME-funded projects that were being monitored by Urban Futures. We identified a number of HOME-funded projects that have yet to be inspected according to HOME requirements, or were previously inspected as a HOME project but were not currently flagged as such by the Code Enforcement Division.

As a partial explanation for why the Code Enforcement Division identified more HOME-funded projects, Occupancy Monitoring staff explained that some projects no longer have to be monitored to HOME requirements. According to Occupancy Monitoring staff, Earthquake Major Projects that were either rehabilitated or developed in response to the 1994 Northridge earthquake are now beyond the minimum period of affordability required by HOME regulations and therefore do not have to be monitored as HOME projects. However, we did not find this argument convincing because we found other HOME-funded projects that were operating beyond the regulatory minimum period of affordability that Urban Futures was currently monitoring according to HOME requirements.

More importantly, this discrepancy in the number of HOME projects points to a continued lack of coordination and collaboration within LAHD. Whether or not the Occupancy

Monitoring Unit is correct in its assessment of the Earthquake Major Projects, it should have shared this information with the Code Enforcement Division and worked together to create a shared inventory of HOME-funded rental projects for oversight purposes.

Urban Futures' Database of Affordable Housing Projects is Also Incomplete

Although the Occupancy Monitoring Unit believes Urban Futures' database is a more accurate representation of the Affordable Housing Inventory, we still found significant issues with its completeness. For example, Urban Futures' database is missing many HIMS Project Numbers, which serves as LAHD's project identifier. Although the missing project numbers prevented us from fully reconciling it with HIMS, we still found several City-funded and CRA projects with active LAHD loans that were missing from Urban Futures' database.

Missing land use projects have also plagued LAHD's oversight of affordable housing. Our 2017 audit on the Density Bonus program found that LAHD's manual process for tracking land use projects caused it to miss some projects that should have been forwarded to Urban Futures for annual monitoring purposes. During this audit, we found that LAHD was still using the same manual process to identify when a Certificate of Occupancy had been issued by the Los Angeles Department of Building and Safety (LADBS), indicating that the property was finished with construction and was ready for monitoring.

LAHD's own reconciliation identified many missing land use projects in Urban Futures' database. In 2023, the Occupancy Monitoring Unit and Urban Futures compared LAHD's list of recorded land use agreements with Urban Futures' database and identified over 70 land use projects that were not being monitored. Several of these unmonitored land use projects were issued Certificates of Occupancy by LADBS as far back as 2015.

Our review for this audit identified several more land use projects that were not in Urban Futures' database for annual monitoring. **For some of these projects, we also found that LAHD had invoiced the property owner for its monitoring fees, even though the project was not in Urban Futures' database for annual monitoring purposes.**

To improve its oversight, LAHD should develop and implement a process to ensure that its data on the Affordable Housing Inventory is reliable enough to be used for oversight purposes across all its units.

A Risk-Based Approach Would Enhance LAHD's Oversight

LAHD also needs a more effective way to connect different issues that it encounters through its different oversight functions for affordable housing. Although the Occupancy Monitoring

Unit, Code Enforcement Division, and Loan Portfolio Unit should continue to **focus on their respective oversight responsibilities for affordability, habitability and financial viability, viewing these problems in isolation may ignore deeper issues that warrant more attention.**

For example, LAHD's various monitoring functions had already flagged many of the properties that were part of the Skid Row Housing Trust for different problems. Prior to the Trust's collapse, many of its properties were already designated as noncompliant by LAHD's affordability monitor, cited for code violations, or were missing several years of financial statements. These mounting issues culminated when the Trust announced that it could no longer continue operating and the City pushed it into receivership.

To create a bridge between its different oversight functions, and better identify the worst-performing affordable housing projects, the department should take a risk-based approach to enhance its monitoring. LAHD can collectively view affordability compliance, habitability, or financial issues as **red flags** for an affordable housing project's overall performance. By treating compliance and performance issues as **early warning signs**, LAHD can then prioritize and focus on projects that need the most attention and resources.

Federal Regulations Require LAHD to Have a Risk-Based System to Monitor HOME Properties

Better adherence with HOME regulations would have put LAHD in a better position to oversee the entire Affordable Housing Inventory. However, just as with financial oversight for its HOME program, LAHD is not fully compliant with HUD's requirement for risk-based monitoring. LAHD's Asset Management Division was not aware of the requirement for a risk-based monitoring system when we first asked them about it, and even denied that federal regulations required the City to have one.¹³

However, federal regulations clearly make participating jurisdictions in the HOME Program responsible for risk-based monitoring. More specifically, since 2013, federal regulations for the HOME program state that a "participating jurisdiction must have and follow written policies, procedures, and systems, including a system for assessing risk of activities and projects, and a system for monitoring entities."

¹³ [Title 24 section 92.504\(a\)](#) of the Code of Federal Regulations requires participating jurisdictions to have a risk-based monitoring system. As with the financial oversight requirement, LAHD disagreed with us. HUD officials and the City Attorney's Office also declined to meet with us to discuss. We still found enough relevant technical assistance materials from HUD to support our conclusion that LAHD is not fully complying with this requirement. We also discuss the access issues as an audit scope limitation in the Objectives, Scope, and Methodology section of this report.

In fact, HUD felt so strongly about risk-based monitoring that it made this new program requirement applicable to a participating jurisdiction's **entire** HOME program and portfolio of HOME projects, **regardless** of when HOME funds were committed.

Although HOME regulations do not prescribe how participating jurisdictions should conduct risk-based monitoring, HUD has developed numerous technical assistance materials related to this topic that LAHD can use as a resource. For example, in a 2010 guidebook to assist participating jurisdictions in monitoring, HUD provides more detailed guidance on how to develop a risk assessment and monitoring plan. To conduct a formal risk analysis, HUD recommends participating jurisdictions to:

- establish their own standardized protocol against which all funded entities will be evaluated, and identify various risk factors and criteria affecting performance;
- assign weights and points to each criterion, based on the participating jurisdiction's judgment of their relative importance to their HOME program; and
- apply the risk assessment protocol consistently and rate each funded entity against risk criteria, and calculate their score. Entities scoring higher face a higher risk.

HUD believed that participating jurisdictions could use the results of their risk assessment to make strategic decisions about which entities present the greatest performance risk, what types of issues are a cause for concern, and how best to focus their limited resources.

Our Risk Assessment Identified Distressed Projects That Are Not on LAHD's Watchlist

To demonstrate how LAHD could put HUD's guidance into action and establish its own protocol, we developed a risk assessment system to facilitate our selection of affordable housing projects for this audit. We judgmentally chose the following project-level factors for our risk assessment protocol, and selected risk criteria based on information that LAHD already had available:

- **Affordability Compliance:** based on a project's annual compliance status designated by Urban Futures. Projects with worse annual compliance statuses, and repeat noncompliance, were systematically assigned higher risk scores.
- **Habitability Issues:** based on a project's code complaints and case inspection data from LAHD's Code, Compliance, and Rent Information System. Projects with more complaints, cases where LAHD issued a Notice to Comply, and serious cases issued an urgent repair order or substandard designation, were assigned higher risk scores.

- **Financial Risk:** based on a project’s annual financial statement submissions status, from LAHD’s Housing Information Management System. Projects that were still pending submission, and had repeat non-submission, were assigned higher risk scores.

To complete our risk assessment, we scored and ranked each project’s risk accordingly.¹⁴ We then judgmentally selected the affordable housing projects shown in **Table 7**, based on their risk score, and ensured that we selected projects from a mix of affordable housing programs and locations throughout the City. We also refrained from selecting too many projects that were already on LAHD’s watchlist, an internal list of at-risk projects kept by the department. For the selected projects, we analyzed available annual financial statements, and conducted some site visits to meet with property management to learn about issues they were facing.

Table 7. LAHD Could Use Existing Data to Identify High Risk Affordable Housing

Selected Project	Affordable Housing Program	Risk Factors			Total Risk Score
		Affordability Compliance	Habitability Issues	Financial Statement Submission	
Project One	CRA	7	80	0	87
Project Two	CRA	18	23	24	65
Project Three	CRA, City-Funded	18	39	0	57
Project Four	City-Funded	13	37	6	56
Project Five	City-Funded	6	38	6	50
Project Six	City-Funded	3	17	6	44
Project Seven	CRA	9	21	24	36
Project Eight	CRA	2	33	0	35
Project Nine	City-Funded	1	8	24	33
Project Ten	CRA	9	5	18	32
Project Eleven	Land Use	7	0	N/A	7

Source: Auditor’s risk analysis for selected affordable housing projects.

¹⁴ See **Appendix A** for a more detailed example of our protocol for assessing the risk of affordable housing projects.

The results of our risk assessment suggest that there are likely many other high-risk affordable housing projects that are not on LAHD's watchlist. For example, Project Two shown in Table 7 is an affordable housing project serving seniors that ranked highly in our risk assessment. Project Two is not on LAHD's watchlist even though it:

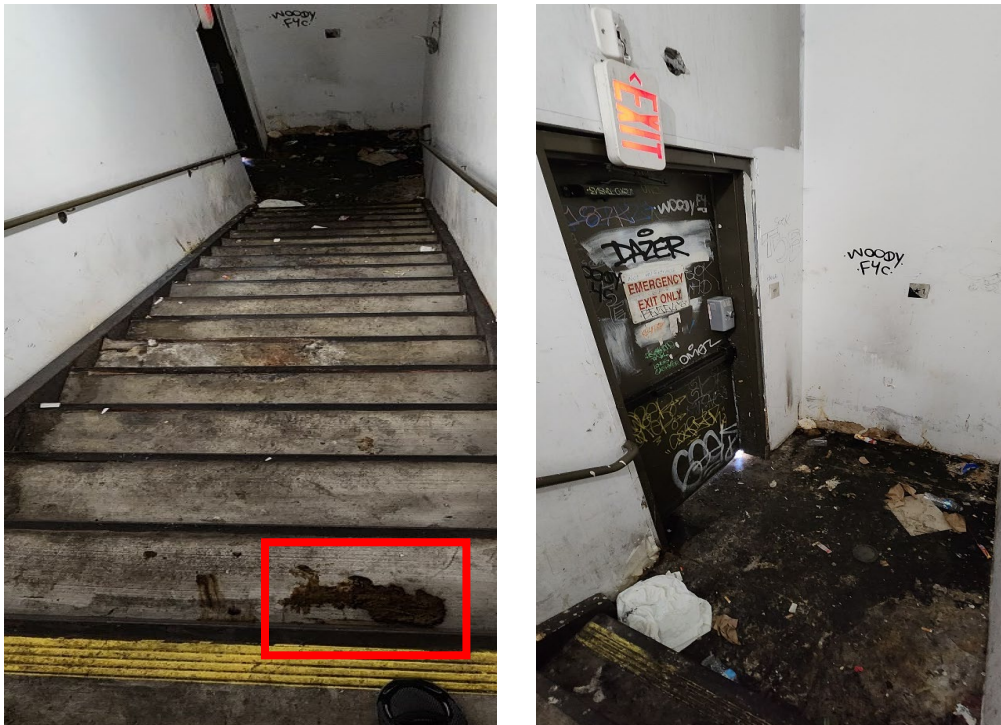
- has failed to submit information to Urban Futures since 2019 for annual affordability monitoring purposes;
- was the subject of 21 code complaints between 2019 and 2023, including three Notices to Comply and two referrals to the Urgent Repair program by LAHD; and
- has not submitted its annual financial statements to LAHD since at least 2016.

By all accounts, this affordable housing project is high risk and should have been on LAHD's watchlist. Representatives for the new owner of this property attributed the failure to submit information to Urban Futures to incomplete or missing tenant case files, which they were in the process of rebuilding. These representatives also explained that the property was not cash flowing because it could not collect full rents from many of its units, due to health and safety and other habitability issues identified by LAHD's or other inspectors.

Another project's poor financial health proved to be a red flag for the property's habitability issues. Project Three's financial statements showed that it was operating at a deficit since 2021, and that its operating expenses (even before accounting for debt service payments and other expenditures) exceeded revenues by 48% in 2023. The project was also the subject of nearly three dozen code complaints. Despite this, the project was not on LAHD's watchlist.

During our initial site visit at this property, we encountered a stairwell in the building that was strewn with trash, leading to an unsecured emergency exit that had likely been used to gain unpermitted access to the building. **During a follow-up visit two weeks later, we found that most of the trash at the bottom of the stairwell had been removed. But there were feces on the stair steps, while the emergency exit was still unsecured** (see **Figure 9**). Property management staff even had to leave in the middle of our meeting with them to address an unallowed entry incident at the same unsecured emergency exit.

Figure 9. Health and Safety Issues at This Project Were Not Addressed in a Timely Manner



LAHD's watchlist is currently not an effective tool because it reflects the same reactive and siloed approach to oversight that the department has taken so far. The watchlist we reviewed, as of May 2024, contained 72 affordable housing projects that include the properties that were formerly part of the Skid Row Housing Trust. Many other affordable housing projects are only on the watchlist because the owner made the Loan Portfolio Unit aware of financial issues.

LAHD's current draft policy for its watchlist is also unlikely to be effective at identifying high-risk affordable housing projects. LAHD established a draft policy for its watchlist in June 2022 to help it proactively identify unstable projects. However, until LAHD establishes its process for monitoring the finances of affordable housing projects, there is very little it can do to assess financial risks. In addition, the watchlist policy for identifying at-risk projects does not proactively incorporate compliance issues that LAHD's Occupancy Monitoring Unit or Code Enforcement Division are already uncovering.

To better identify high-risk projects early on, LAHD should develop and implement a risk-based monitoring system for the Affordable Housing Inventory that incorporates risks from all three of its oversight functions: affordability, habitability, and financial.

LAHD's New Troubled Assets Unit is a Move in the Right Direction, But More Work is Needed

LAHD recently created the Troubled Assets Unit in its Asset Management Division to identify distressed affordable housing projects and develop workout plans to stabilize them. The department was funded one financial development officer for the Troubled Asset Unit in its FY 2022–23 budget, but did not fill that position until January 2023. According to LAHD staff, its plans for the Unit were derailed because it then began devoting most of its time to managing and winding down the Skid Row Housing Trust's collapse through the court's receivership.

Now that the Skid Row Housing Trust's properties have been sold off, the Troubled Assets Unit can begin to devote more time to identifying other at-risk properties to stabilize. The City has even funded two additional positions in the FY 2024–25 budget to expand the Troubled Assets Unit. **However, LAHD's management of the City's Affordable Housing Inventory will likely face a difficult road ahead for a number of reasons.**

First, there are likely many other distressed properties that need some form of intervention. LAHD also acknowledged this possibility. In its budget request to expand the Troubled Assets Unit, **LAHD stated that it had identified more than 100 multifamily troubled assets, as well as approximately 200 additional projects experiencing negative cash flow at the end of FY 2023–24.** Although LAHD could not provide us documentation to describe how it developed its list of troubled assets, it is clear that there are more properties at risk of becoming insolvent.

Second, the interventions needed to stabilize at least some of these properties will be no easy task. **Given the City's aging portfolio of affordable housing projects, and the lack of proactive financial oversight so far, LAHD will likely be stepping in at a later stage of a property's decline as it starts to identify more at-risk properties.**

By then, the kinds of early and intermediate interventions previously described in this report may not be enough to stabilize a property. Instead, the workout plans required for [advanced interventions](#), such as ownership transfers, receiverships, and foreclosures, may be needed instead. **At this point, LAHD would need to decide, on a case-by-case basis, if intervening in a troubled property's decline is feasible or worth the cost.** LAHD would also have to negotiate with stakeholders—including the owners, managers, and other lenders and funders—to come up with a sustainable workout plan, and closely monitor the property to ensure that the intervention strategy is being implemented.

Advanced interventions are also more likely to come up short because the factors needed for success are more difficult to come by. LAHD's experience with the receivership for the Skid Row Housing Trust's properties shows that the department's desired outcomes for a workout plan are not guaranteed, as demonstrated by the:

- City's loss of confidence in the first receiver's management abilities;
- receivership's costs that increased from \$10 million to over \$36 million; and
- difficult process of finding new ownership for the worst-off properties.

In fact, **HUD advises workout plans to be “over-engineered” because “the problems for the project are usually worse than they appear and they will continue to grow as the workout evolves, so the property’s needs are likely to be greater than currently represented by the time the workout is consummated.”**

If the department believes that the City will have to do more to sustainably stabilize at-risk affordable housing projects, then LAHD should increase its capacity to conduct these types of interventions. **LAHD should develop and propose a troubled properties preservation program for the City Council’s consideration.** LAHD’s program proposal should include the goals, processes, and criteria it will use to identify and select potential projects for preservation, and the proposed funding sources and amounts it needs to finance the department’s interventions.

Recommendations

To comply with federal regulations related to the department’s financial oversight of HOME-funded rental projects, LAHD should:

12. Develop and implement a process to regularly review, reconcile, and process the information it has about the Affordable Housing Inventory so that it can be relied on for oversight purposes.
13. Develop and implement written policies and procedures for a risk-based monitoring system. At a minimum, LAHD’s policies and procedures should address how it will identify, assess, monitor, and respond to risks in its HOME program.
14. Work with HUD officials to determine if the department needs to continue monitoring HOME-funded projects that continue to operate beyond the minimum period of affordability.

To improve its overall oversight of affordable housing, LAHD should:

15. Extend the risk-based monitoring system it develops for HOME-funded rental projects to apply to all properties that are part of the City’s Affordable Housing Inventory, and incorporate information about affordability, habitability, and financial risks it identifies.
16. Develop and propose for the City Council’s consideration a program to strategically preserve distressed affordable housing projects at risk of failing during their period of affordability. LAHD’s program proposal should include the goals, processes, and

criteria it will use to identify and select potential projects for preservation, a mechanism to periodically report on distressed projects to policymakers, and the proposed funding sources to finance the department's interventions.

CONCLUSION

With more than 47,000 affordable restricted units, and periods of affordability lasting up to 55 years, LAHD's long-term oversight of affordable housing must match the scale and complexity of the City's Affordable Housing Inventory. Implementing the recommendations in this report will allow LAHD to take appropriate actions to enforce its affordability requirements, improve living conditions in rental units, and better ensure the financial sustainability of affordable housing. Using a risk-based approach to monitoring will also allow LAHD to better anticipate performance issues and reverse the decline of some affordable housing projects.

RECOMMENDATION TABLE

Number	Recommendation
<i>Responsible Entity: Los Angeles Housing Department (LAHD)</i>	
1	Develop and implement policies and procedures, including scheduling and monitoring steps, that are necessary to ensure that onsite audits for HOME-funded rental projects are conducted at least once every three years.
2	Develop and follow written policies and procedures to review, at least annually, the performance and compliance of each contractor it uses to carry out the City's responsibilities as a participating jurisdiction in the HOME program. For example, LAHD's policies and procedures should describe how it will review Urban Futures' performance to ensure that it is conducting onsite audits of HOME-funded rental projects at least once every three years.
3	Develop and implement a comprehensive enforcement plan to complement its monitoring of affordable housing. The enforcement plan should include the progressive enforcement activities it will take to gain compliance, its protocol for referring cases to the City Attorney's Office for further enforcement, the information it will collect and analyze to prioritize its enforcement efforts.
4	Develop and propose a funding plan for the City Council's consideration, including the additional staffing and funding it will need to carry out its enforcement plan, and new fees and fee updates.
5	Work with the City Attorney's Office to ensure that new regulatory agreements going forward do not strictly limit the dollar amount of its monitoring fee.
6	Develop and implement ongoing property standards that, at a minimum, requires HOME-funded rental projects to be free of mold, infestation, and other deficiencies established by HUD.
7	Develop and implement written inspection procedures for HOME-funded rental projects. At a minimum, LAHD's written inspection procedures should include detailed inspection checklists, a description of how and by whom inspections will be carried out (whether it is LAHD's Housing Inspectors or the County Public Health Department's inspectors), and procedures for training and certifying qualified inspectors. The procedures must also describe how frequently HOME-funded rental projects will be inspected, and include a more frequent inspection schedule for properties that have been found to have health and safety deficiencies, like mold and infestation.

Number	Recommendation
8	Consider working with relevant departments in the City and the County to obtain the authority to enforce mold and infestation violations as part of its inspections of rental units subject to SCEP, or develop a direct referral mechanism to the County's Public Health Department.
9	Develop and implement written policies and procedures to monitor the financial condition of HOME-funded rental projects. At a minimum, LAHD's policies and procedures should address what financial information it will examine, how often it will review a project's financial condition (at least annually), how it will determine the project's continued financial viability, what corrective actions it can and will take to address the financial problems identified, and how it will document its financial oversight results and decisions.
10	Extend its policies and procedures developed for HOME financial monitoring to apply to all affordable housing projects that have a loan with the department.
11	Develop and implement its policies and procedures to: <ul style="list-style-type: none"> a. collect missing project financial statements, b. standardize financial reporting requirements for its borrowers, c. monitor and enforce borrower contributions to project financial reserves, and d. monitor and enforce authorization requirements for withdrawals from project financial reserves.
12	Develop and implement a process to regularly review, reconcile, and process the information it has about the Affordable Housing Inventory so that it can be relied on for oversight purposes.
13	Develop and implement written policies and procedures for a risk-based monitoring system. At a minimum, LAHD's policies and procedures should address how it will identify, assess, monitor, and respond to risks in its HOME program.
14	Work with HUD officials to determine if the department needs to continue monitoring HOME-funded projects that continue to operate beyond the minimum period of affordability.
15	Extend the risk-based monitoring system it develops for HOME-funded rental projects to apply to all properties that are part of the City's Affordable Housing Inventory, and incorporate information about affordability, habitability, and financial risks it identifies.

Number	Recommendation
16	Develop and propose for the City Council's consideration a program to strategically preserve distressed affordable housing projects at risk of failing during their period of affordability. LAHD's program proposal should include the goals, processes, and criteria it will use to identify and select potential projects for preservation, a mechanism to periodically report on distressed projects to policymakers, and the proposed funding sources to finance the department's interventions.

LAHD'S RESPONSE TO THE AUDIT

City of Los Angeles

Tiena Johnson Hall, General Manager
Tricia Keane, Executive Officer

Anna E. Ortega, Assistant General Manager
Luz C. Santiago, Assistant General Manager
Craig Arceneaux, Acting Assistant General Manager



Karen Bass, Mayor

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April 16, 2025

Mr. Kenneth Mejia
Los Angeles City Controller
200 N. Main Street, Suite 300
Los Angeles, CA 90012
Kenneth.mejia@lacity.org

Dear Controller Mejia,

The purpose of this letter is to respond to the April 1, 2025, Controller Audit Final Report on the Implementation of the LAHD Occupancy Monitoring Program received from your office.

The HOME Investments Partnership program under the U.S. Department of Housing and Urban Development (HUD) provides federal grants to local governments to be used to provide/rehabilitate affordable housing. The HOME Inspection Group (HIG) under LAHD Code Enforcement is responsible for conducting required inspections of all HOME-funded projects during their periods of affordability (typically 15-60 years) and maintaining compliance with the Code of Federal Regulations (CFR), as agreed to by Code Enforcement with the 2009 HOME Memorandum of Understanding (MOU). As of the 2013 HOME Rule, all qualifying projects shall be inspected at least once within the first year of project completion and every three years thereafter. The HOME-funded inventory currently contains about 410 projects across 510 APNs. In previous years, annual HOME audits found HIG was behind on required inspections. Since then, the HIG team has made efforts to recover and has conducted required inspections timely since 2023.

As the audit illustrates, LAHD's Code Enforcement Division inspection staff are tasked with the routine inspection of HOME funded properties to protect and promote the existence of safe, sanitary, and decent residential rental properties and dwelling units. However, this audit fails to fairly illustrate the success of the HOME inspections and focuses on a few problematic or distressed properties and is not representative of the overall good condition of the HOME inventory. Therefore, LAHD's Code Enforcement Division strongly disagrees with the report's implication that HOME properties are unsafe, unsanitary, and indecent. Additionally, LAHD believes this audit overlooks the impact of the COVID pandemic Emergency Orders on the schedule and frequency of LAHD's Systematic Code Enforcement Program (SCEP) inspections, resulting in unavoidable delays in the SCEP inspection cycle.

Code Enforcement Implementation target dates are noted in attachment 1.

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While LAHD's Asset Management Division agrees that the Department should always welcome opportunities and areas for improvements related to monitoring and financial oversight, LAHD's Asset Management Division strongly disagrees with the report's determination that LAHD is not complying with the important federal regulations governing how it must oversee federally funded affordable rental housing. Additionally, LAHD's Asset Management Division believes that the audit overlooks the impact of the COVID pandemic as it relates to the Division staffing, field monitoring, and enforcement.

We appreciate the opportunity to provide comments on the audit, as well as the professionalism exhibited by your team throughout the process. Our responses to the audit recommendations are indicated below.

Recommendation #1:

Develop and implement policies and procedures, including scheduling and monitoring steps, that are necessary to ensure that onsite audits for HOME-funded rental projects are conducted at least once every three years.

Asset Management Response: Onsite audits were paused due to COVID restrictions and were restarted in 2024. While policies and procedures were previously developed, LAHD agrees that enhanced policies and procedures would be beneficial and will be drafted.

Recommendation #2:

Develop and follow written policies and procedures to review, at least annually, the performance and compliance of each contractor it uses to carry out the City's responsibilities as a participating jurisdiction in the HOME program. For example, LAHD's policies and procedures should describe how it will review Urban Futures' performance to ensure that it is conducting onsite audits of HOME-funded rental projects at least once every three years.

Asset Management Response: LAHD already conducts written annual evaluations for all contractors. LAHD shared the evaluations with Controller staff. Additionally, LAHD reviews contractor's work when invoices are submitted. Onsite audits were paused due to COVID restrictions and were restarted in 2024.

Recommendation #3:

Develop and implement a comprehensive enforcement plan to complement its monitoring of affordable housing. The enforcement plan should include the progressive enforcement activities it will take to gain compliance, its protocol for referring cases to the City Attorney's Office for further enforcement, the information it will collect and analyze to prioritize its enforcement efforts.

Asset Management Response: In consultation with the City Attorney, LAHD will draft this plan.

Recommendation #4:

Develop a funding proposal for the City Council's consideration, including the additional staffing and funding it will need to carry out its enforcement plan, and the proposed funding sources it will need, and new fees and fee updates.

Asset Management Response: LAHD will submit a budget request for the FY2026-2027 budget, which requests are typically due in late November for the next budget cycle.

Recommendation #5:

Work with the City Attorney's Office to ensure that new regulatory agreements going forward do not strictly limit the dollar amount of its monitoring fee.

Asset Management Response: LAHD will review this recommendation with the City Attorney. If applicable, fees will be adjusted accordingly.

Recommendation #6:

Develop and implement ongoing property standards that, at a minimum, requires HOME-funded rental projects to be free of mold, infestation, and other deficiencies established by HUD.

Code Enforcement Response: Historically, the Los Angeles County Health Department has been the lead agency responsible for enforcement of health violations (i.e.; living organisms), while LAHD has addressed and will continue to address the underlying conditions and/or defects it finds during inspections, which could lead to some of these health violations, such as defective weather protection, plumbing, and/or maintenance (i.e.; holes, leaks, etc.). Moving forward, LAHD will develop standards and train inspection staff regarding baseline standards for mold and infestation and utilize the regulatory requirements as a possible enforcement mechanism.

Recommendation #7:

Develop and implement written inspection procedures for HOME-funded rental projects. At a minimum, LAHD's written inspection procedures should include detailed inspection checklists, a description of how and by whom inspections will be carried out (whether it is LAHD's Housing Inspectors or the County Public Health Department's inspectors), and procedures for training and certifying qualified inspectors. The procedures must also describe how frequently HOME-funded rental projects will be inspected, and include a more frequent inspection schedule for properties that have been found to have health and safety deficiencies, like mold and infestation.

Code Enforcement Response: In response to this recommendation, Code Enforcement will develop written inspection procedures for HOME-funded rental projects which will include at minimum:

- Procedures for expanded HOME violations Inspectors are responsible for.

- Procedures for which staff is responsible for conducting which types of inspections.
- Procedures for training new HOME Inspectors.
- Procedures that illustrate the frequency of required inspections and development of a shortened cycle.
- Procedures for addressing egregious conditions.

Recommendation #8:

Consider working with relevant departments in the City and the County to obtain the authority to enforce mold and infestation violations as part of its inspections of rental units subject to SCEP, or develop a direct referral mechanism to the County's Public Health Department.

Code Enforcement Response: In response to this recommendation, Code Enforcement will initiate discussions with relevant departments in the City and County regarding enforcement of infestation and mold when those conditions are identified during an LAHD Inspection.

Recommendation #9:

Develop and implement written policies and procedures to monitor the financial condition of HOME-funded rental projects. At a minimum, LAHD's policies and procedures should address what financial information it will examine, how often it will review a project's financial condition (at least annually), how it will determine the project's continued financial viability, what corrective actions it can and will take to address the financial problems identified, and how it will document its financial oversight results and decisions.

Asset Management Response: Asset Management has Policies and Procedures related to monitoring of HOME-funded and all other projects with various funding sources. In addition, in order to comply with a specific funding source and a project type, Asset Management follows contract agreements for each project. We have shared policies and procedures for LPU that were fully revised in 2020 by transaction type, which includes project workouts. We also have a Watch List Policy and Procedure and hardship requests in the residual receipts policies and procedures. In the 2021 action plan, we identified many improvements that would help with multi-family reporting. Current Policies and Procedures have been approved in 2020-2021. Asset Management will review and update current policies and procedures, if and as applicable.

Recommendation #10:

Extend its policies and procedures developed for HOME financial monitoring to apply to all affordable housing projects that have a loan with the department.

Asset Management Response: Asset Management's Policies and Procedures are for all projects, there may be additional requirements for certain funding sources, but the policies, practices and procedures are for all projects. Asset Management will review and update current policies and procedures, if and as applicable.

Recommendation #11:

Develop and implement its policies and procedures to:

- a. collect missing project financial statements,
- b. standardize financial reporting requirements for its borrowers,
- c. monitor and enforce borrower contributions to project financial reserves, and
- d. monitor and enforce authorization requirements for withdrawals from project financial reserves.

Asset Management Response: Asset Management will re-evaluate its current processes and procedures and will create an efficient methodology to collect missing financial statements. Asset Management has already begun standardizing our reporting and we have created budgets, variance analyses, and other improvements that we shared with Controller staff. The Controller's suggestions are good, and Asset Management has already begun to address most of them, but the big issue has been lack of bandwidth due to understaffing. In recent years, Asset Management staff has been focused on closing 9 Project Homekey - 2.0 deals resulting in over 900 units and transferring 29 SRHT projects with more than 2000 affordable housing units that were at risk of being lost to foreclosure. Asset Management will review and update current policies and procedures, if and as applicable.

Recommendation #12:

Develop and implement a process to regularly review, reconcile, and process the information it has about the Affordable Housing Inventory so that it can be relied on for oversight purposes.

Code Enforcement Response: Code Enforcement is responsible for inspecting projects referred by LAHD's Asset Management. In response to this recommendation, Code Enforcement and Asset Management have already begun the process to reconcile the inventories and will continue to meet routinely to ensure accurate reconciliation and inventory.

Asset Management Response: Asset Management has requested additional positions through the FY 2025-26 budget process to assist with the servicing and monitoring needs of City's current affordable housing loan portfolio. The plan is to assign 60-80 loans/projects per each Finance Officer I in Loan Portfolio Unit to monitor multifamily affordable housing inventory. The review and financial evaluation will be performed using the data from Audited Financial Statements (AFS) for each loan/project on an annual basis. A comparative analysis will be done using years of AFS to create acceptable operating margins, coverage ratios, reserve limits, etc. Asset Management will review and update processes, policies and procedures, if and as applicable.

Recommendation #13:

Develop and implement written policies and procedures for a risk-based monitoring system. At a minimum, LAHD's policies and procedures should address how it will identify, assess, monitor, and respond to risks in its HOME program.

Code Enforcement Response: In response to this recommendation, Code Enforcement will assist in developing and implementing procedures to identify HOME-funded rental projects at risk based on current and historical inspection data.

Asset Management Response: Asset Management has a Watch List (that has a policy and procedure set up in 2021) that lists all projects that are considered unstable. There is a process to be added to Watchlist and what steps should be taken for monitoring and resolution. Asset Management will review current policies and procedures and will update, if and as applicable.

Recommendation #14:

Work with HUD officials to determine if the department needs to continue monitoring HOME-funded projects that continue to operate beyond the minimum period of affordability.

Asset Management Response: LAHD monitors projects through the compliance term. HOME regulations are clear on the minimum affordability period. LAHD shared this reference with Controller staff. LAHD will also confirm with the City Attorney.

Recommendation #15:

Extend the risk-based monitoring system it develops for HOME-funded rental projects to apply to all properties that are part of the City's Affordable Housing Inventory, and incorporate information about affordability, habitability, and financial risks it identifies.

Asset Management Response: We monitor all projects, we do not distinguish for HOME only.

Recommendation #16:

Develop and propose for the City Council's consideration a program to strategically preserve distressed affordable housing projects at risk of failing during their period of affordability. LAHD's program proposal should include the goals, processes, and criteria it will use to identify and select potential projects for preservation, a mechanism to periodically report on distressed projects to policymakers, and the proposed funding sources to finance the department's interventions.

Asset Management Response: LAHD has already started this process by creating a Troubled Assets Unit (TA). The staffing of the unit has been delayed due to the City's managed hiring process. LAHD most recently was able to get the authority to unfreeze the three remaining existing positions for the TA unit. The unit currently has a Finance Development Officer II, as a unit and program lead and a supervisor and three Finance Development Officers I, with one position filled and the other two with the accepted offers and in the process of being filled in May 2025. Additional staff for the TA Unit was requested in the FY26 budget. The Troubled Asset team together with the Loan Portfolio team will continue working together and evaluate projects on the Watch List and Troubled Assets List and identify the best and most feasible solutions for

each project with a goal of preventing loss of units and financial and operational stabilization. The TA unit is also working on the creation of policies and procedures and preparing a City Council transmittal to request various delegated authorities in connection with the actions related to TA.

In addition, Measure ULA will offer funding under the ULA Operating Assistance Program NOFA to assist and provide subsidies for projects undergoing various financial and operations difficulties. The NOFA is tentatively planned to be released in the fall of 2025.

Cordially,



Tiena Johnson Hall
GENERAL MANAGER

Attachment 1: Code Enforcement Implementation Dates

Recommendation #	Target Implementation Date
1	N/A
2	N/A
3	N/A
4	N/A
5	N/A
6	7/1/2026
7	1/1/2026
8	1/1/2026
9	N/A
10	N/A
11	N/A
12	Ongoing
13	1/1/2026
14	N/A
15	N/A

AUDITOR COMMENTS ON LAHD'S RESPONSE

To provide clarity and perspective, we are commenting on the LAHD's written response to our audit.

LAHD's Code Enforcement Division asserted that it "...strongly disagrees with the report's implication that HOME properties are unsafe, unsanitary, and indecent." We did not draw any conclusions on the overall habitability of units in the Affordable Housing Inventory. Instead, the photographs and examples of distressed affordable housing projects in the audit report were drawn from the protocol we developed to identify at-risk properties. We intentionally highlighted these problematic or distressed properties to demonstrate the effectiveness of risk-based monitoring. **We strongly encourage LAHD to implement its own risk assessment protocol to identify affordable housing projects that warrant additional attention.**

LAHD's Asset Management Division asserted that it "strongly disagrees with the report's determination that LAHD is not complying with the important federal regulations governing how it must oversee federally funded affordable rental housing." **We stand by our conclusion that LAHD did not have a policy and procedure or process to annually examine the financial condition of HOME-funded rental projects.** We flagged this issue at the early stages of the audit and gave LAHD several opportunities to respond. None of the policies and procedures, agreements, action plans, or other responses that LAHD provided were relevant or compelling enough to change our determination that the department is not meeting the federal requirement for financial monitoring.

In their response to our audit, LAHD agreed with 11 recommendations and disagreed with the remaining five recommendations. We strongly encourage LAHD to fully implement the recommendations it disagrees with in order to strengthen oversight of the City's Affordable Housing Inventory. Below, we also comment on LAHD's disagreements with our recommendations.

Recommendation 2: Develop and follow written policies and procedures to review, at least annually, the performance and compliance of each contractor it uses to carry out the City's responsibilities as a participating jurisdiction in the HOME program. For example, LAHD's policies and procedures should describe how it will review Urban Futures' performance to ensure that it is conducting onsite audits of HOME-funded rental projects at least once every three years.

LAHD Response: Disagree (see page 62)

Auditor Comment: As we discuss in pages 26–27 of the report, LAHD’s current contractor monitoring process is ineffective. LAHD’s contractor, Urban Futures, failed to conduct an onsite audit of many HOME-funded rental projects during the three-year period we reviewed. LAHD was also missing contractor evaluation forms for part of our audit scope period. Further, the contractor evaluation forms that LAHD provided only indicated that the Urban Futures’ performance was “satisfactory”, and did not describe if or how they evaluated Urban Futures’ performance. Because LAHD relies on Urban Futures to carry out its oversight responsibilities, we strongly encourage LAHD to implement policies and procedures to evaluate the contractor’s performance.

Recommendation 9: Develop and implement written policies and procedures to monitor the financial condition of HOME-funded rental projects. At a minimum, LAHD’s policies and procedures should address what financial information it will examine, how often it will review a project’s financial condition (at least annually), how it will determine the project’s continued financial viability, what corrective actions it can and will take to address the financial problems identified, and how it will document its financial oversight results and decisions.

Recommendation 10: Extend its policies and procedures developed for HOME financial monitoring to apply to all affordable housing projects that have a loan with the department.

LAHD Response: Disagree (see page 64)

Auditor Comment: Although LAHD disagrees with our finding, their response indicates that they intend to implement our recommendations. As described in their response to Recommendation 12 on page 65, LAHD is requesting additional positions for the FY 2025–26 budget, and plans to assign affordable housing projects to its staff for financial monitoring purposes. LAHD’s budget request and plan, if implemented, may satisfy the intent of Recommendations 9 and 10. We encourage LAHD to codify its plan into policies and procedures, and begin proactively monitoring the financial health of the affordable housing projects that have a loan with the City.

Recommendation 14: Work with HUD officials to determine if the department needs to continue monitoring HOME-funded projects that continue to operate beyond the minimum period of affordability.

LAHD Response: Disagree (see page 66)

Auditor Comment: HUD requires HOME-funded rental projects to have a minimum period of affordability that ranges from 5 to 20 years. However, LAHD is allowed, and

has chosen to, create regulatory agreements with longer periods of affordability that can last up to 55 years. Moreover, HUD regulations generally require the City to monitor HOME-funded rental projects for their entire period of affordability. As a result, we believe that LAHD should monitor HOME-funded rental projects according to HOME requirements for the entire period of affordability that the department has chosen to establish.

As we discuss in pages 48-49, LAHD is inconsistent in its monitoring of HOME-funded rental projects, relative to the period of affordability established in its regulatory agreements. We identified some HOME-funded projects that Urban Futures was monitoring according to HOME requirements, and others that were not. LAHD's Code Enforcement Division was also inspecting many HOME-funded rental projects according to the federal triennial requirement, while Urban Futures was not.

Because HUD declined to meet with us during the audit to discuss our concerns, LAHD should work with HUD to clarify monitoring requirements for HOME-funded rental projects where the department has chosen to establish a longer period of affordability. More importantly, we strongly encourage LAHD's Occupancy Monitoring Unit and Code Enforcement Division to use this clarification to work together and create a shared inventory of HOME-funded rental projects for oversight purposes.

Recommendation 15: Extend the risk-based monitoring system it develops for HOME-funded rental projects to apply to all properties that are part of the City's Affordable Housing Inventory, and incorporate information about affordability, habitability, and financial risks it identifies.

LAHD Response: Disagree (see page 66)

Auditor Comment: Although LAHD disagrees, its response indicates that it intends to implement the recommendation. As we describe on page 54, LAHD's watchlist is currently not an effective risk-based monitoring tool, and its corresponding policy and procedure was an incomplete draft that was not yet implemented. To fully comply with HUD regulations, LAHD should formally adopt and follow policies and procedures for a risk-based monitoring system. LAHD's risk-based monitoring plan may also satisfy the intent of this recommendation, if its policies and procedures apply to all properties that are part of the City's Affordable Housing Inventory, and incorporates information about the affordability, habitability, and financial risks that the department identifies.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

We conducted an audit on LAHD's responsibilities to oversee restricted affordable rental units during their period of affordability. Our audit objectives were to evaluate how well LAHD:

- monitors and enforces compliance with the affordability requirements in its regulatory agreements;
- inspects properties with affordable restricted units; and
- oversees the financial condition of City-funded affordable housing developments.

Scope

The audit scope covers activities associated with LAHD's oversight of the Affordable Housing Inventory, including its compliance with federal regulations for the HOME Investment Partnership Program that we determined were significant to the audit's objectives. This generally covered the period of January 2019 to December 2023. However, to better address our objectives, we also reviewed data from 2017 through 2019 related to LAHD's on-site audits of HOME-funded rental projects, and LAHD's inspection data from January through May 2024.

We did not evaluate LAHD's efforts related to the development of affordable housing, or the preservation of affordable restricted units nearing the end of their period of affordability.

The City is also responsible for ensuring that certain affordable restricted units are built to accessibility standards and are used by people with disabilities. The City's compliance with accessibility requirements for affordable housing is outside the scope of this audit, and is currently overseen through a 2016 class action settlement agreement with the Independent Living Center of Southern California and a 2019 voluntary compliance agreement with HUD.

Scope Limitation

The City Attorney's Office is responsible for providing legal guidance to City departments. The City Attorney's staff assigned to its Housing Division initially met with us during the planning phase of the audit to discuss LAHD's oversight of affordable housing. However, the City Attorney's Office later refused our requests to communicate directly with its subject matter experts during the fieldwork phase of this audit.

Audit Services Division staff requested to meet directly with the City Attorney's subject matter experts to discuss the City's efforts to enforce affordability requirements, LAHD's financial monitoring of affordable housing, and compliance with federal regulations for the HOME program. Generally accepted government auditing standards advise that information collected under conditions when individuals can speak freely is generally more reliable. We therefore identified and requested direct access to subject matter experts in the City Attorney's Office.

At this juncture, the City Attorney's Office refused our meeting requests and would only accept questions in writing that were submitted through a liaison of their choosing. Under these conditions, we were concerned that the City Attorney's Office could filter the responses of their subject matter experts through departmental management, rendering the information less reliable for our audit's purposes. These access issues with the City Attorney's Office limited our ability to more fully assess legal and compliance risks associated with the City's oversight of affordable housing.

Methodology

To complete this audit, we:

- Reviewed laws, rules, and regulations, related to LAHD's oversight of affordable housing, including regulations and technical assistance materials related to the federal HOME Investment Partnership Program
- Reviewed LAHD's contract with its contractor, Urban Futures, and reviewed annual monitoring reports and other documentation for selected affordable housing projects
- Interviewed LAHD staff from the department's Asset Management Division (including its Occupancy Monitoring Unit and Loan Portfolio Unit), Code Enforcement Division, and Accounting Division
- Evaluated the adequacy of internal controls by reviewing LAHD's policies and procedures related its oversight of affordable housing
- Developed a risk assessment protocol and analyzed data from LAHD and Urban Futures to rank and score affordable housing projects by risk
- Analyzed data from Urban Futures and LAHD's Code Enforcement Division to determine the frequency of onsite audits and inspections
- Analyzed annual financial statements for selected high-risk affordable housing projects to assess their financial condition
- Conducted site visits and interviewed property management staff of selected affordable housing projects

- Compared lists of affordable housing projects obtained from LAHD’s Housing Information Management System, the Code Enforcement Division, the Loan Portfolio Unit, and Urban Futures
- Conducted a benchmarking analysis that included an online survey, review of policies and procedures, and interviews with officials from other jurisdictions that oversee affordable housing

Data Reliability Assessment

Government auditing standards require us to assess the reliability of data we use to support our findings, conclusions, and recommendations. To assess the reliability of each of the data sources listed below, we interviewed agency officials and others that were knowledgeable about the data, and performed logic testing on key data elements. The table below describes additional testing we did to assess reliability, and provides our data reliability determination.

Data Used and Source	Assessment Methods and Results	Data Reliability Determination
List of affordable housing projects from the Housing Information Management System (HIMS)	Logic testing identified data accuracy issues, such as projects with HOME funding but no HOME-restricted units. Tracing data to source contract documents also identified inaccuracies. The data also contained projects that are not related to affordable housing.	Not sufficiently reliable for the purposes of identifying properties in the City’s Affordable Housing Inventory or reporting on the number of HOME-funded affordable housing projects. These issues are reported as findings in the audit.
List of affordable housing projects from Urban Futures’ Case Management System (CMS)	Logic testing identified accuracy issues, such as missing data and monitored projects whose period of affordability had ended. A comparison with HIMS also identified missing projects.	
List of HOME-funded affordable housing projects compiled by LAHD’s Code Enforcement Division.	Logic testing did not identify accuracy issues. A comparison with Urban Future’s report on HOME onsite audits identified missing projects.	

Data Used and Source	Assessment Methods and Results	Data Reliability Determination
Urban Future's report on HOME onsite audits queried from CMS	Logic testing identified inaccuracies, such as missing data. A comparison with LAHD's list of HOME projects identified missing projects. Urban Futures also identified inaccuracies in the last audit data.	Not sufficiently reliable for purposes of describing the size and scope of the City's Affordable Housing Inventory and testing compliance with federal regulations, and disclose these issues in the audit report.
Report on code complaints queried from the Code, Compliance, and Rent Information System (CCRIS)	Logic testing did not identify accuracy issues. Testing for completeness would have required an information system control review, which was cost-prohibitive relative to the low audit risk of using this data.	Undetermined reliability. Notwithstanding these limitations, the data used represent the best source of information available on code compliance inspections and on the status of annual financial statements submissions to LAHD. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.
Report on urgent repair orders and substandard designations from CCRIS		
Report on the inventory of properties and inspection related to the Systematic Code Enforcement Program from CCRIS		
Financial statement delinquency report queried from HIMS		
Urban Futures' report on annual project compliance statuses from Urban Futures	Tracing from source documents for a judgmental selection of affordable housing projects, and testing Urban Futures' compliance designations, did not identify any reliability issues.	Sufficiently reliable for this audit to report on the overall rate of annual project compliance statuses.

How We Ensure Quality

We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Audit Services Division implemented policies and procedures to comply with generally accepted government auditing standards in July 2023. Government auditing standards require that we obtain an external peer review of our system of quality control at least once every three years. We plan to undergo an external peer review in 2026.

APPENDIX A – ASSESSING RISK FOR AFFORDABLE HOUSING

To identify high-risk affordable housing projects for this audit, we used:

- Project compliance status reports for 2021, 2022, and 2023, from Urban Futures
- Inspection case data from LAHD’s Code, Compliance, and Rent Information System
- The Financial Statement Delinquency Report from LAHD’s Housing Information Management System

The example below illustrates how we assessed and scored one affordable housing project’s risk. The quality of this risk assessment is limited by data availability and reliability, and the factors and weights we chose for demonstration purposes. **We recommend LAHD to develop its own system for assessing the risks of affordable housing activities and projects.**

Risk Factors and Criteria			Assessment		Weights	Score	Ranking			
Affordability Compliance	Project Compliance Status for:	2021	Compliant - 15%		1	1	Total: 13	Total Score	Project Name	Rank
		2022	Non-Submission		4	4		97	Project A	1
		2023	Non-Submission		4	4		87	Project B	2
	Count of "Noncompliant" Statuses		None		1	0		65	Project C	3
	Count of "Non-Submission" Statuses		Two times		2	4		61	Project D	4
Habitability	Code Complaints with a Notice to Comply		24 cases	47 restricted/ 97 total units	2	23	Total: 37	57	Project E	5
	Code Complaints without a Notice to Comply		56 cases	47 restricted/ 97 total units	0.5	14		57	Project F	6
	Serious Code Violations		No cases		4	0		57	Project G	7
								56	Project H	8
Financial Performance	Annual Financial Statement Submitted for Fiscal Year:	2019	Yes		0	0	Total: 6	50	Project I	9
		2020	Yes		0	0		45	Project J	10
		2021	Yes		0	0		44	Project K	11
		2022	No		4	4		44	Project L	12
	Count of Missing Statements		One statement missing		2	2		44	Project M	13
								42	Project N	14
								41	Project O	15
								40	Project P	16
								38	Project Q	17
						37	Project R	18		
						37	Project S	19		
						36	Project T	20		
						36	Project U	21		
						35	Project V	22		

APPENDIX B – COMPLIANCE WITH HOME REGULATIONS

Below are HOME regulations that we determined were significant to our audit objectives. We found that LAHD was not fully compliant with these regulations. We do not express any opinion on LAHD's compliance with the many other HOME regulatory requirements that we did not review.

- Title 24, Code of Federal Regulations (24 CFR), section 92.504(a)
 - A comprehensive set of written policies and procedures for managing its HOME program
 - Systems for assessing risk of activities and projects
 - Systems for monitoring entities
 - Annual review of contractor performance and compliance
- 24 CFR 92.251
 - Ongoing property standards for HOME-funded rental projects
 - Written inspection procedures for HOME-funded rental projects
 - Ongoing periodic inspections and on-site audits that must occur at least once every three years.
 - Financial oversight of HOME-funded rental projects that must occur at least annually.



ACKNOWLEDGEMENTS

AUDIT SERVICES DIVISION

The Office of the Controller was created by the Los Angeles City Charter as an independent office, and is headed by the Controller: the elected auditor, paymaster, and chief accounting officer for the City of Los Angeles. Under the Controller's leadership, the Office's Audit Services Division performs audits, investigations, and other oversight functions to help provide transparency, accountability, and improve City services for all Angelenos.

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