



OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET
ROOM 300
LOS ANGELES 90012
(213) 978-7200

October 27, 2004

The Honorable James K. Hahn
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council
City Hall
200 North Spring Street
Los Angeles, California 90012

Dear Mayor Hahn, City Attorney Delgadillo, and Members of the City Council:

Unlike traditional lending institutions, the CRA's mission is to infuse investment into depressed communities by providing housing and jobs. With over \$138 million worth of real estate on their books, the Los Angeles Community Redevelopment Agency (CRA) is one of the largest landowners in the City of Los Angeles. The final installment in a series of three audits of the CRA, "CRA's Disposition of Real Estate," examines the way in which the CRA makes land available to private interests.

Unfortunately, my audit found that the CRA does not have written rules governing the disposition of real estate to developers or adequate records tracking the transactions. For example, during the audit, my staff was told that the CRA disposed of 6 parcels of land, with an acquisition cost of \$1.2 million. However, we were not able to verify this information because the CRA does not track the disposition of real estate properties.

If approved by the CRA Board, the CRA may dispose of land for less than its acquisition cost or fair market value. We looked at the Metropolitan Lofts Project as an example of that practice. My auditors found that the CRA had under-reported the total cost of the land acquisition by over \$2.5 million at the time of the Board's vote. This vital information could have influenced the Board's decision to approve the project as presented.

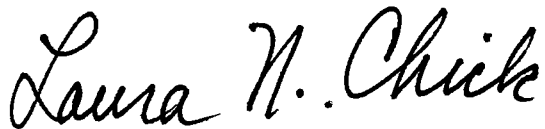


October 27, 2004
page two

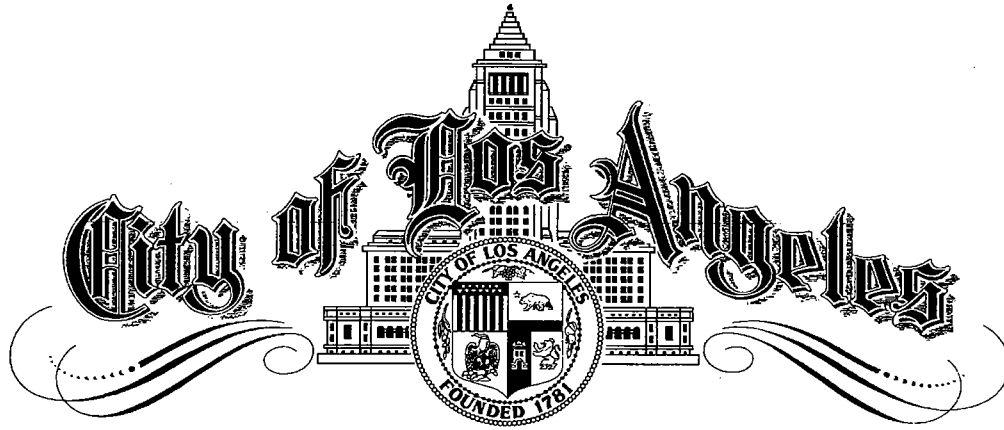
The CRA owns a sizable amount of real estate throughout the City, which if managed properly and equitably, can be used as a powerful tool for economic development and creating home ownership opportunities for first-time home buyers. Moreover, this illustrates what I have found in my audit of the City's real estate management, that we lack a clear and comprehensive vision in managing these valuable assets. Further, the time is long overdue for one central, integrated database of the City's real estate holdings.

My audits of the CRA revealed an agency lacking the most basic of written procedures governing the issuance and collection of loans, the award of subsidies or the transfer and use of land. The CRA is one of the most important tools in the City's arsenal to improve the lives of our residents in communities of greatest need. It is imperative that we work together to improve the management and oversight of this Agency.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

October 27, 2004

Mr. Robert R. Ovrom, Chief Executive Officer
Community Redevelopment Agency
354 So. Spring St., Suite 800
Los Angeles, CA 90013

Dear Mr. Ovrom:

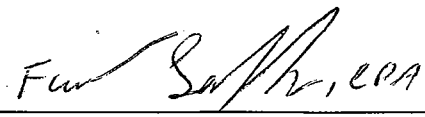
Enclosed is a report on the Financial and Compliance Audit of the Community Redevelopment Agency's (CRA) Disposition of Real Estate.

A draft of the audit report was provided to your office on October 1, 2004. An exit conference was subsequently held on October 8, 2004, wherein the findings and recommendations were discussed with you and your staff. Your responses and additional documents provided during and after the exit conference were evaluated and considered prior to finalizing the report.

Please review the final audit report and advise the Controller's Office within 30 days of the date of this report on actions taken to implement the recommendations. If you have any questions or comments, please contact Farid Saffar, Director of Auditing at (213) 978-7392.

Sincerely,

LAURA N. CHICK, CITY CONTROLLER

By: 
FOV _____
Marcus Allen
Chief Deputy Controller

Enclosure:

AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER



Mr. Robert R. Ovrom
Community Redevelopment Agency
October 27, 2004
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cc: Honorable James K. Hahn, Mayor
Honorable Members of the City Council
Honorable Rockard J. Delgadillo, City Attorney
Paul Hudson, Chairman, CRA Board of Commissioners
Timothy B. McOsker, Chief of Staff, Office of the Mayor
Renata Simril, Deputy Mayor
William T. Fujioka, City Administrative Officer
Ronald F. Deaton, Chief Legislative Analyst
Antoinette Christovale, Director of Finance
Independent City Auditors



City of Los Angeles Office of the Controller

Financial and Compliance Audit of the Community Redevelopment Agency's (CRA) Disposition of Real Estate

October 27, 2004

**Laura N. Chick
City Controller**

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Appendix 1: Ranking of Recommendations

Financial and Compliance Audit of the Community Redevelopment Agency's (CRA) Disposition of Real Estate

EXECUTIVE SUMMARY

The City Controller's Internal Audit Division completed a financial and compliance audit of the Community Redevelopment Agency's (CRA) disposition of real estate properties made between July 1, 2002 and December 31, 2003. The CRA disposes of real estate properties for redevelopment through the execution of a document called a Disposition and Development Agreement (DDA). A DDA is a contract between a developer and the CRA that involves the sale (or ownership transfer) of CRA owned land in a proposed development and for the development of a specific project. The CRA also disposes of real estate properties through direct sale to first-time homebuyers.

As of December 31, 2003, the CRA's land inventory records reflected 258 parcels with a total book value of approximately \$137.8 million. According to CRA management, during the audit period, the CRA disposed six parcels for \$865,000, with total acquisition costs of approximately \$1.2 million.

Objective

The objective of the audit was to determine if the CRA has adequate controls to properly account for, monitor, record and report dispositions of real estate properties. In achieving this objective, we tested certain real estate disposition transactions to determine if they were properly authorized and supported, and in compliance with CRA's policies and procedures.

Summary of Audit Results

We noted several areas where CRA can improve controls to properly account for, record, and report the disposition of real estate properties. The following are examples of our key findings:

- 1. The CRA does not maintain accurate land inventory records.** We compared the CRA's landholdings subsidiary ledger to the general ledger as of July 1, 2002 and July 1, 2003 and noted discrepancies of \$302,000 and \$202,000, respectively. In both cases, the general ledger reflected a higher amount. Inaccurate land inventory records may adversely affect management's ability to accurately assess the results of the CRA's real estate activities and make important management decisions. We have recommended that the CRA ensure

that real estate acquisitions and sales are recorded in the Agency's records in a timely manner.

- 2. The CRA does not track the disposition of real estate properties.** According to CRA representatives, the CRA disposed of six parcels of land during our audit period. However, we were not able to verify this information because the CRA does not maintain records to track the disposition of real estate properties. This maintenance of records is important in confirming the appropriateness of CRA's real estate transactions and in identifying trends (e.g., below cost sales) that require management's attention. Therefore, we recommended that CRA management implement a tracking system to record the disposition of real estate properties.
- 3. Information provided to the CRA Board and the City Council regarding the Metropolitan Loft project acquisition costs does not agree with documentation contained in the CRA's files.** Our review identified a total of \$8.4 million in acquisition costs for the Metropolitan Loft project. However, the CRA reported a total acquisition cost of \$5.9 million to the CRA Board and City Council. CRA management could not explain the \$2.5 million difference. We recommended that CRA management ensure that documentation is maintained to support the acquisition costs associated with redevelopment projects and that the CRA Board require CRA management to explain the \$2.5 million difference in the acquisition cost for the Metropolitan Loft project.
- 4. The CRA does not always follow its stated practices in disposing of real estate properties.** We found that the CRA does not always follow its stated practices, such as performing an initial review of the proposed project, extending reasonable opportunities to owners of real property in the project area, and ensuring developers comply with insurance requirements. CRA management needs to develop written procedures for the disposal of real estate properties and monitor staff for compliance.

Details of these and other findings, along with recommendations for corrective action, are included in the Findings and Recommendations section of this report.

TABLE OF RECOMMENDATIONS

| Recommendations | Page Reference |
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| We recommend that: | |
| 1.1 CRA management develop written policies and procedures for the disposition of real estate properties. | 8 |
| 1.2 CRA management train staff on the application of the written procedures above and monitor their compliance. | 8 |
| 2.1 CRA management implement a tracking system to record the disposition of real estate properties. | 9 |
| 3.1 CRA management implement written procedures that require staff involved in the disposition of real estate properties to forward required documents to the Asset Management Division in a timely manner. | 10 |
| 3.2 CRA management ensure real estate acquisitions and sales are recorded in the land inventory subsidiary and general ledgers in a timely manner. | 10 |
| 4.1 CRA management submit all proposed projects to the Project Review Committee for review. | 12 |
| 4.2 CRA management ensure property owners within a redevelopment project area have an opportunity to participate in redevelopment projects. | 12 |
| 4.3 CRA management ensure DDA reflects complete and accurate requirements on redevelopment projects. | 12 |
| 4.4 CRA management ensure all developers submit Environmental Reviews approved by appropriate government agency(ies). | 12 |
| 5.1 CRA management ensure that documentation is maintained to support the acquisition costs associated with redevelopment projects submitted to the CRA Board and the City Council. | 12 |

| | | |
|-----|---|----|
| 5.2 | The CRA Board require CRA management to explain the \$2.5 million difference in the acquisition cost for the Metropolitan Loft project. | 12 |
| 6.1 | CRA management ensure that contractors comply with DDA's insurance requirements. | 13 |
| 7.1 | CRA management ensure that the sale of homes to first-time homebuyers is advertised in a newspaper of general circulation. | 13 |

INTRODUCTION AND BACKGROUND

The Community Redevelopment Agency (CRA or Agency) may, within the project area or “for purposes of redevelopment, sell, lease, for a period not to exceed 99 years, exchange, subdivide, transfer, assign, pledge, encumber by mortgage, deed of trust, or otherwise dispose of real or personal property or any interest in property.” (Health and Safety Code 33430).

The CRA disposes of real estate properties in redevelopment areas through the execution of a document called Disposition and Development Agreement (DDA). A disposition may include selecting a developer and entering into an exclusive negotiation for a DDA. The Board of Commissioners of the CRA, subject to the review and approval of the City Council, shall approve the transaction. The CRA may dispose of property for less than its acquisition costs and/or fair market value. If it does, the CRA is required to provide an explanation of the reason(s) for the difference.

The CRA also disposes of real estate through the direct sale of properties to first-time homebuyers. The CRA established a “First-Time Homebuyer Program Guidelines” for a small housing project.

Disposition of Real Estate through a DDA

The CRA’s procedures and practices for the disposition of real estate properties through a DDA include the following:

- Negotiating with developers the business terms and conditions for the disposition of the real estate to be included in the DDA.
- Hiring an independent appraiser to determine the current property value within a project area based on proposed redevelopment.
- Opening an escrow account for all pending real estate sales.
- Undertaking with the developer, certain activities enumerated in the DDA, such as submission by the developer and approval by the CRA of a financial plan, no later than the date specified in the Schedule of Performance.

Disposition of Real Estate through Direct Sale

The CRA's procedures and practices for the direct sale of real estate properties include the following:

A. Determination of Real Estate Property for Direct Sale

- The Project Operation team, who develops an annual program of planned work activities, determines the real estate for sale.
- The CRA Board of Commissioners (Board) approves the Program and the guidelines that lead to the sale.
- The Board conducts a public hearing to notify the public that the CRA intends to sell a property at a future date.
- The Board is required to approve the disposition of the Property and authorize the future sale, subject to the review and approval of the City Council.

B. Sale Price

- Hire an independent appraiser who shall establish the fair market value of the property, which will be the selling price of the property.

C. Community Outreach

The Los Angeles Neighborhood Housing Services (LANHS), a contractor that works with the CRA's community affairs specialist, will perform the community outreach and advertise the availability of the program, including homes for sale to first-time homebuyers.

LANHS sets up an "open house" for prospective applicants/homebuyers to come and look at the house and encourage them to ask questions and submit their application.

LANHS conducts the review and selection of applications/proposals from the pool of applicants. Over time, the pool of applicants decreases as others fail to attend the "open house," while others fail to complete the required process that includes attending a seminar conducted by LANHS to educate first-time homebuyers about the responsibilities that come with homeownership, such as budgeting, paying the mortgage, and others.

D. Selection of Prospective Buyers

- The selected prospective homebuyers must meet the requirements, as set forth by the CRA. LANHS invites the selected prospective homebuyers to participate in a lottery.
- LANHS conducts the lottery in public in the presence of, and to witness the event, CRA staff, the Council Member, media and the community.
- CRA sells the property to whomever wins the lottery.

E. Conveyance of the Property

- CRA conveys the property to the buyer when escrow closes, which means all the financing is in place.

As of December 31, 2003, the CRA land inventory records indicated 258 parcels with a total book value of approximately \$137.8 million. During the period under review, the CRA's subsidiary ledger showed that the CRA had disposed six parcels for \$865,000, with total acquisition costs of approximately \$1.2 million. Of the six properties:

- Three sold for a total amount of \$635,000. The acquisition cost for these properties totaled \$292,463.
- Two parcels, with a total acquisition cost of \$524,540, were conveyed to the City of Los Angeles, and the other one to a developer, for nothing. Said disposition is a form of a developer's subsidy, which is given to developers in return for whatever the developers would provide, as called for in the DDA.
- One parcel was still in the process of being sold.

During the period under review, the CRA had entered into a DDA involving three projects. The CRA was in the process of entering into a DDA for two other projects.

Audit Methodology

Our audit included:

- Interviews with appropriate CRA personnel to gain an understanding of CRA's procedures and practices for the disposition of real estate properties.
- A review of relevant provisions of the California Health and Safety Code pertaining to property disposition, rehabilitation, and development.
- Test work to determine CRA's compliance with real estate disposition procedures and practices.

The fieldwork for this audit was conducted from February 27, 2004 through July 30, 2004, in accordance with Generally Accepted Government Auditing Standards.

FINDINGS AND RECOMMENDATIONS

We reviewed the disposition of three properties, one through a DDA and two through direct sales. Our findings and recommendations are presented below.

Metropolitan Loft DDA

The Metropolitan Loft project (Project) located at 1030 Flower Street in Downtown Los Angeles, consists of 11,500 sq. ft. of commercial space and 264 apartment units. The Project required at least 20% of the units to be affordable to low-income households. In the original DDA, the CRA intended to sell the property to the developer, F C Metropolitan Lofts, Inc., for \$3 million, the fair reuse value of the site, as determined by an analysis prepared by Keyster Marston Associates, Inc. (KMA), a real estate advisor. However, the original DDA was amended on December 13, 2002, to convert the fee conveyance (sale) to a leasehold conveyance (ground lease). Pursuant to the ground lease, the CRA agreed to lease its property to the developer (lessee), who agreed to develop and operate on the property a multi-family housing development, retail space, parking facilities, landscaping and other common areas. The lease is for an initial term of 57 years, with four options to extend the initial term, each for a period of ten years, for a total extension of 40 years. The annual lease payment of \$10,000 per year is payable on July 1 of each year and is subject to adjustment annually based on the Consumer Price Index.

West Jefferson Direct Sales

The Normandie 5 Redevelopment Project Area involved two properties located at 1720 and 1724 West Jefferson Boulevard. In 1990, the CRA acquired the two vacant lots at Jefferson Boulevard for future development of affordable housing. Then, in 1999, the CRA acquired two older 3-bedroom homes located at South St. Andrews Place in the adjacent Adams-Normandie Redevelopment Project Area. The CRA acquired the two structures from St. John of God Church at a cost of \$15,000 and moved them to the 1720-1724 Jefferson Boulevard site in January 2000. The CRA rehabilitated the two homes and marketed them to first-time homebuyers with low- or moderate family income. The Los Angeles Neighborhood Housing Services (LANHS), a non-profit organization specializing in providing home ownership opportunities to low- and moderate-income first-time homebuyers marketed the sale of the homes on behalf of the CRA.

These CRA properties were sold to qualified first-time homebuyers through a lottery at current market sale price. The 1720 West Jefferson Boulevard home was sold for \$215,000, while the 1724 West Jefferson Boulevard home was sold for \$210,000.

Finding Number 1: The CRA does not have detailed written policies and procedures for the disposition of real estate properties.

Interviews with CRA personnel disclosed that the CRA does not have written policies and procedures for the disposition of real estate. According to CRA personnel, they follow existing redevelopment laws and a one-page outline, "Typical Real Estate Disposition and Development Process," in the disposition of real estate properties.

Without written procedures, there is an increased likelihood of CRA Staff disposing of property not in accordance with CRA policies and practices. Our review disclosed that the CRA does not always dispose of real estate properties in accordance with its stated practice. We discussed the CRA's inconsistent real estate disposal practices in Finding Number 4 of this report.

CRA management should develop detailed written policies and procedures for the disposal of the Agency's real estate properties. In addition, CRA management should train staff on the application of the policy and procedures, and monitor their compliance.

Recommendation

CRA management:

- 1.1 Develop written policies and procedures for the disposition of real estate properties.**
- 1.2 Train staff on the application of the written procedures above and monitor their compliance.**

Finding Number 2: The CRA does not track the disposition of real estate properties.

We met with CRA representatives and requested their records on real estate properties disposed of between July 1, 2002 and December 31, 2003. According to the CRA's representatives, the CRA disposed of six parcels of land, with a total acquisition cost of approximately \$ 1.2 million. However, we were not able to verify this information because the CRA does not maintain records to track its disposition of real estate properties.

CRA staff stated that they did not track the disposition of real estate properties because they consider it a low risk area, therefore resources were not assigned to do this function.

The maintenance of records to track the disposition of properties is important in confirming the appropriateness of CRA real estate transactions and in identifying trends (e.g., below cost sales) that require management’s attention.

Recommendation

2.1 CRA management implement a tracking system to record the disposition of real estate properties.

Finding Number 3: The CRA does not maintain accurate land inventory records.

We traced CRA real estate transactions to the Agency’s land inventory records and noted two instances in which CRA staff incorrectly posted the disposition of real estate. Specifically, we noted the Assessor Parcel Number (APN) 5144-023-062 and the APN 5467-010-900 (APN 5467-010-001) disposed to City Center Development and to the City of Los Angeles in 1999 and 2001, respectively, were incorrectly posted in the land inventory records as being disposed of in FY 2002/2003. In addition, we reviewed the CRA’s landholdings subsidiary ledger and noted that the recorded dollar amount of the Agency’s landholdings at July 1, 2002 and 2003 did not agree with the balance shown in the general ledger.

| As of | Land Inventory | Gen. Ledgers | Difference |
|--------------|----------------|---------------|------------|
| July 1, 2002 | \$116,718,543 | \$116,416,566 | \$301,976 |
| July 1, 2003 | \$134,516,996 | \$134,314,984 | \$202,011 |
| | | | |

According to CRA staff, the Agency’s land inventory records were not updated because staff involved in the disposition did not forward the required documents (e.g., memo of closing, grant deed, etc.) to the CRA’s Asset Management Division. CRA staff also stated that the land inventory subsidiary and general ledgers did not reconcile because they did not always record real estate transactions in a timely manner.

The timely recording of real estate dispositions in the land inventory records and the reconciliation of the subsidiary and general ledgers help ensure the accuracy of the CRA’s financial records. Inaccurate land inventory records may adversely affect management’s ability to accurately assess the results of the CRA’s real estate activities and make important management decisions.

Recommendations

CRA management:

- 3.1 Implement written procedures that require staff involved in the disposition of real estate properties to forward required documents to the Asset Management Division in a timely manner.**
- 3.2 Ensure real estate acquisitions and sales are recorded in the land inventory subsidiary and general ledgers in a timely manner.**

Finding Number 4: The CRA does not always follow its stated practices in disposing of real estate properties.

Our review and verification of the CRA's files for the disposition of real estate properties through a DDA (Metropolitan Lofts) disclosed the following:

- (a) According to CRA staff, the CRA's Project Review Committee is required to perform the initial review, which includes the design, density, and financial feasibility review of the proposed project. We reviewed the files for the Metropolitan Loft DDA and noted that the CRA's Project Review Committee did not perform an initial review of the proposed project.

The CRA personnel informed us that no initial review of the proposed project was performed by the Project Review Committee because an outside consultant performing services to CRA reviewed the documents submitted during the negotiation process. We believe that this is not a valid reason because at the negotiation process the CRA has already decided to pursue a proposed redevelopment project and is already negotiating with one developer for the terms that would be included in the DDA.

Performing the required initial review at the negotiation phase is too late for the Project Review Committee to evaluate the financial feasibility of the proposed project. As a result, there is an increased risk that the expectations of City constituents will not be met.

The CRA representatives told us during the exit conference that initial review by CRA's Project Review Committee was not mandatory for all proposed projects, which is contrary to the information provided to us during the audit. However, because of the CRA's lack of written policy and procedures, we could not verify

the statements made by CRA representatives at the exit conference.

- (b) Section 300 of the Rules Governing Participation by Property Owners requires the CRA to extend to owners of real property within a Project Area reasonable opportunities to participate in the redevelopment of property in the Project Area. No documents were provided to us to show that other owners in the project area were extended the opportunity to participate in the development of the project site. The CRA stated that they are not required to issue an RFP in the redevelopment of property in the Project Area and that it based its selection on the developer's financial capability, experience, and satisfactory performance on other related projects, including two projects in close proximity to the Metropolitan Lofts project. According to CRA staff, the selected developer submitted the only proposal for the project.

Failure to extend reasonable opportunities to owners and/or eligible participants within a project area to participate in the area's redevelopment of project site could result in complaints regarding the propriety of redevelopment projects.

- (c) DDA Section 2.3 requires the Developer to submit to the CRA, as part of the Financing Plan, a firm binding commitment to fully finance the development of the project. The CRA did not obtain the developer's firm binding commitment to fully finance the development of the project. According to CRA staff, DDA Section 2.3 no longer applies because the financing for this project changed from conventional financing to bond financing. The CRA staff stated that the Agency should have changed the DDA language to reflect the correct financing requirement for the project, but did not.
- (d) DDA Section 2.2 requires that during negotiations, the developer shall complete and obtain approval on environmental remediation activities, from appropriate government agencies. The CRA did not have documentation to show that the developer obtained approval of an environmental review from a government agency.

The CRA personnel confirmed that the CRA did not receive the signed-off documents from the Los Angeles Fire Department (LAFD), although the Developer, as required, had submitted the closure report.

Non-approval of the Environmental review by the LAFD may adversely affect the construction of the project and may expose the CRA to financial risk.

Recommendations

CRA management:

- 4.1 Submit all proposed projects to the Project Review Committee for review.**
- 4.2 Ensure property owners within a redevelopment project area have an opportunity to participate in redevelopment projects.**
- 4.3 Ensure DDA reflects complete and accurate requirements on redevelopment projects.**
- 4.4 Ensure all developers submit Environmental Reviews approved by appropriate government agency(ies).**

Finding Number 5: Information provided to the CRA Board and the City Council regarding the Metropolitan Loft project acquisition costs does not agree with documentation contained in the CRA's files.

The CRA does not have documentation to support the \$5.9 million acquisition cost for the Metropolitan Loft project reported to the CRA Board and the City Council. We reviewed the acquisition cost for the Metropolitan Loft project and identified a total of \$8.4 million acquisition cost. In a Board report dated July 11, 2002, the CRA reported a total acquisition cost of \$5.9 million. We met with CRA staff and requested support for the \$5.9 million and they could not provide any supporting documents or explain the \$2.5 million difference.

Providing inaccurate data to decision makers may adversely affect their decision-making process and may result in decisions that are not in the best interest of the City and its constituents.

Recommendations

- 5.1 CRA management ensure that documentation is maintained to support the acquisition costs associated with redevelopment projects submitted to the CRA Board and the City Council.**
- 5.2 The CRA Board require CRA management to explain the \$2.5 million difference in the acquisition cost for the Metropolitan Loft project.**

Finding Number 6: The CRA does not always ensure that contractors comply with the DDA's insurance requirements.

DDA Section 2.10 requires the developer to maintain current insurance coverage. Our review of the CRA's Risk Management Division's files disclosed the developer's Commercial General Liability Insurance, Automobile Insurance and Workers' Compensation Insurance expired on November 1, 2003. The construction started on July 1, 2003.

The CRA personnel informed us that they did not know why the developer had not renewed these insurance policies.

Recommendation

6.1 CRA management ensure that contractors comply with DDA's insurance requirements.

Finding Number 7: The CRA does not always advertise the sale of homes to first-time homebuyers in a newspaper of general circulation.

According to CRA staff, the CRA's standard practice is to publish the sale of homes to first-time homebuyers in a newspaper of general circulation. Our review of two CRA files about direct sale of homes to first-time homebuyers disclosed that the CRA did not have documents to show that the availability of homes for sale to first-time homebuyers was published in a newspaper of general circulation.

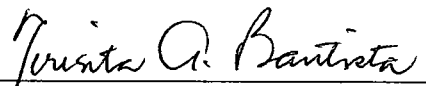
CRA personnel stated that they could not find the required documents. The lack of the required public notice may deprive potential first-time homebuyers the opportunity to participate in the program.

Recommendation

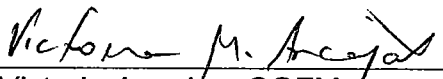
7.1 CRA management ensure that the sale of homes to first-time homebuyers is advertised in a newspaper of general circulation.

A draft audit report was provided to the Community Redevelopment Agency (CRA) on October 1, 2004. An exit conference was conducted on October 8, 2004, at which time the audit staff discussed the findings and recommendations in the draft audit report with representatives of the CRA. The CRA's comments during the exit conference were evaluated and considered prior to finalizing the report.


Respectfully submitted,



Teresita Bautista, CGFM
Internal Auditor



Victoria Ancajas, CGFM
Chief Internal Auditor



Farid Saffar, CPA
Director of Auditing

July 30, 2004

OFFICE OF THE CONTROLLER

FINANCIAL AND COMPLIANCE AUDIT OF THE COMMUNITY REDEVELOPMENT AGENCY'S (CRA) DISPOSITION OF REAL ESTATE

Ranking of Recommendations

| Number | Summary Description of Observations | Ranking Code | Recommendations |
|--------|---|--------------|---|
| 1 | The CRA does not have detailed written policies and procedures for the disposition of real estate properties. | N | We recommend that: 1.1 CRA management develop written policies and procedures for the disposition of real estate properties. |
| | | N | 1.2 CRA management train staff on the application of the written procedures above and monitor their compliance. |
| 2 | The CRA does not track the disposition of real estate properties. | N | 2.1 CRA management implement a tracking system to record the disposition of real estate properties. |
| 3 | The CRA does not maintain accurate land inventory records. | N | 3.1 CRA management implement written procedures that require staff involved in the disposition of real estate properties to forward required documents to the Asset Management Division in a timely manner. |
| | | N | 3.2 CRA management ensure real estate acquisitions and sales are recorded in the land |

| Number | Summary Description of Observations | Ranking Code | Recommendations |
|--------|--|--------------|--|
| 4 | The CRA does not always follow its stated practices in disposing of real estate properties. | N | <p>inventory subsidiary and general ledgers in a timely manner.</p> <p>4.1 CRA management submit all proposed projects to the Project Review Committee for review.</p> <p>4.2 CRA management ensure property owners within a redevelopment project area have an opportunity to participate in redevelopment projects.</p> <p>4.3 CRA management ensure DDA reflects complete and accurate requirements on redevelopment projects.</p> <p>4.4 CRA management ensure all developers submit Environmental Reviews approved by appropriate government agency(ies).</p> |
| 5 | Information provided to the CRA Board and the City Council regarding the Metropolitan Loft project acquisition costs does not agree with the documentation contained in the CRA's files. | N | <p>5.1 CRA management ensure that documentation is maintained to support the acquisition costs associated with redevelopment projects submitted to the CRA</p> |

| Number | Summary Description of Observations | Ranking Code | Recommendations |
|--------|---|--------------|---|
| 6 | The CRA does not always ensure that contractors comply with the DDA's insurance requirements. | N | <p>Board and the City Council.</p> <p>5.2 The CRA Board require CRA management to explain the \$2.5 million difference in the acquisition cost for the Metropolitan Loft project.</p> <p>6.1 CRA management ensure that contractors comply with DDA's insurance requirements.</p> |
| 7 | The CRA does not always advertise the sale of homes to first-time homebuyers in a newspaper of general circulation. | N | 7.1 CRA management ensure that the sale of homes to first-time homebuyers is advertised in a newspaper of general circulation. |

Description of Recommendation Ranking Codes

U - Urgent - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N - Necessary - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D - Desirable - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A - Not Applicable