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City Manager*

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*Hearing and Speech
Impaired Only
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October 28, 2011

Jonathan D'Attilio
Chair, Board of Directors
Stanislaus Community Assistance Project
2209 Coffee Road, Suite A
Modesto, CA 95355

**Re: 2011 City of Modesto Neighborhood Stabilization Program
Monitoring Report**

Dear Mr. D'Attilio:

On September 20-22, 2011, City of Modesto staff met with the Executive Director of SCAP Denise Gibbs and other SCAP employees to conduct a file monitoring of SCAP's participation in the Neighborhood Stabilization Programs (NSP). The purpose of the monitoring review was to determine whether the terms of the NSP requirements were being met. This letter summarizes the results of the City's monitoring on the above date(s).

The specific areas monitored were:

- Certification of tenant income/assets
- Rent Levels
- Affirmative Marketing
- Property Standards
- Lead-based Paint (if applicable)
- Residential Lease
- Regulatory Agreement Compliance

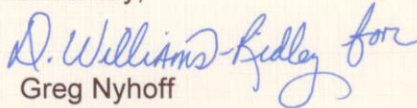
During the monitoring, information is documented on checklists based on NSP requirements. The information gathered serves as a basis for the monitoring report. Findings and concerns are identified in the report and require a response. For clarification purposes, the definitions are as follows: a "finding" is an element which does not comply with a federal or state statute or regulation; whereas a "concern" represents a potential finding or a program deficiency that should be improved before it leads to a finding. The attached Monitoring Summary Report provides detail on the findings and concerns. If you should need further information on the monitoring report or technical assistance, please contact Carol Averell at caverell@modestogov.com or (209) 577-5310.

In addition to the findings and concerns addressed in the Report, the City's review of the tenant placement and income verification functions reveal egregious management and performance deficiencies on the part of the agency's Executive Director, Denise Gibbs, and the Housing Director, Caryl Prunty. As a result of these deficiencies, SCAP has failed to comply with Regulatory

Agreement Section H.2. Compliance with NSP2 Regulations, which states, "BORROWER agrees that at all times it acts regarding the Property/Project and the use of NSP2 funds provided herein shall be in conformity with all the provisions of the NSP2 Program..." and Section H.10., Property Management and Maintenance, which states, "BORROWER is responsible for all management functions with respect to the Project, including without limitation the selection of tenants, certification and recertification of housing size and income, evictions... and shall retain an experienced management agent reasonably acceptable to the CITY..."

While the Board has taken steps to better the agency over the long-term, it is the City's belief that Ms. Gibbs failed to effectively and efficiently oversee these programs and, once issues were identified, failed to respond in an appropriate manner. Further, as the Director of Housing, Ms. Prunty oversaw a function that through mismanagement and poor judgment has resulted in a public perception that there is unequal access to these NSP properties. The City understands that the Board of Directors is working to strengthen program delivery and ensure ethical decision-making. We suggest that more change is necessary if SCAP is to regain public confidence and have a future relationship with the City of Modesto.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Williams-Bidley for", is written over the printed name "Greg Nyhoff".

Greg Nyhoff
City Manager

cc: Jim Ridenour, Mayor
Susana Alcala Wood, City Attorney
Dee Ridley-Williams, Deputy City Manager
Julie Hannon, Director of Parks, Recreation and Neighborhoods

MONITORING SUMMARY REPORT

FINDINGS:

Finding No. 1: SCAP Conflict of Interest (COI) policy is not in compliance with Section 8, subsection (i) of the NSP2 Memorandum of Understanding between the City of Modesto and SCAP.

SCAP has created an internal COI policy and review panel for potential conflicts of interest. While SCAP can set up an internal COI process, the process must be approved by the City and HUD. The signing of the COI form utilized by SCAP does not replace or supersede a COI waiver by HUD. A list of individuals reviewing the COI should also be provided and no SCAP employees should be part of the COI review panel.

Conflict Addresses:

913 E. Rumble	Executive Director parents – no longer there
2716 Medinah	Parents of SCAP Housing Director/minor children
2212 Cimarron Hills	Employee of SCAP
405 Johnson	Employee of SCAP
2405 Callaham	Relative of SCAP Housing Director
3928 Weston Way	SCAP Housing Director – has vacated
124 Bonita	SCAP Housing Director- (moved from Weston Way)
2020 Floral Ct	Relative of SCAP Housing Director

Corrective Action Required for Finding #1:

1. All rents collected during tenant's residency must be forfeited and conveyed to the City of Modesto's Neighborhood Stabilization Program.
2. Submit waiver requests to the City of Modesto for properties where COI still exists by November 7, 2011, or give tenants 30-day notices immediately. Any relocation assistance triggered by this action will be at SCAP's expense.
3. Within 30 days, at SCAP's expense, engage the services of a property management firm with experience in affordable housing to handle all tenant qualification and placement activities. The City must approve the property management firm and for first six months, City will review all tenant files prior to placement of tenant until City can be assured that the property management firm is appropriately handling. Until the property management firm is hired, the City will continue to review and approve all prospective tenant applications. This will be re-evaluated annually.

Finding No. 2: Income verification documents are routinely incomplete or contain inaccurate information. Examples include:

- Blacked out names and social security #s.
- Applications not signed by SCAP and/or tenant;

- Income certifications and intake forms have changes on them that have not been acknowledged by applicant.
- Tenant certifications indicate that the prospective tenant has no checking or savings accounts but in same certification there are references to direct deposits or other assets; also, none of the certifications make note of a vehicle as a result all property tenant certifications are in questioned.
- The following tenants' units are currently known to have been charged more than 30% of income. This determination has been made based on provided tenant files which, in most cases are incomplete/ inaccurate and the total impact to all tenant occupied NSP units are unknown.
 - 534 Kimble – Bland
 - 3928 Weston Way – Edwards
 - 221 E. Coolidge # 20 – Rankin
 - 221 E. Coolidge # 22 – Ball, Cheers
 - 221 Coolidge # 6 – Smith
- Tenant income calculations are done incorrectly for example: tenant continuous overtime pay is not included in the calculations, as well as public assistance, all calculations for social security recipients are calculated incorrectly (the gross benefit should be utilized, not the net after medical deductions), during tenant income certifications or re-certifications the tenant must provide the most recent income information such as pay stubs, bank statements, etc. (All income verification data must be no older than 6 months); in many files, outdated information has been used to determine eligibility.
- Section 6 of the City's required Tenant Income Certification form is routinely filled out incorrectly. SCAP's chosen Tenant Income Certification form is insufficient and does not meet City and HUD requirements. Regardless of the chosen form being used neither one is filled out correctly.
- Lease Agreements in tenant files do not match the Lease Agreement submitted to the City for approval.

Finding No. 3: The lease agreement that SCAP is using in their tenant files is not the same document that was submitted for approval by the City of Modesto. SCAP has used at least 3 different versions of a lease agreement, including a month-to-month lease agreement that does not comply with federal housing standards. Program requirements stipulate that all leases must be for 1 year.

Corrective Actions Required for Findings #2 and #3:

1. All SCAP staff with tenant certification responsibilities will undergo training provided by City or as identified by City – at SCAP's cost.
2. Utilizing property management services recertify all NSP tenants and enter into annual lease agreements with those qualified as required by HUD. This must be completed within the next 30 days.

3. For those with rents in excess of 30% and without a COI, rents must be decreased and rental credit tenants for overage; documented in writing.
4. For files of existing tenants who are over income after the 1st certification and who do not have a COI, rents must be lesser of the amount payable by the tenant under State or local law or 30% of the family's adjusted income, with the exception of tax credit units, which must pay rents governed by Section 42 of the Internal Revenue Code of 1986 (26 U.S.C. 42).

CONCERNS:

Concern No. 1: Applications contain inaccurate or incomplete information. For example, some tenants are not listed and/or full names and social security #s are not included. Others don't have all adults signing the lease agreements, addendums, etc.

Concern No. 2: Caryl Prunty (SCAP Housing Director) is listed as Caryl on one property and as Belinda on another.

Concern No. 3: Lease amount on some tenant certifications does not match what's on the lease agreement.

Concern No. 4: Waiting list is non-exist on a program basis and process inefficiently handled. There appears to be no viable process for applicant in-take, selection, and monitoring. Copies not included in file.

Concern No. 5: Property file and tenant files need to be consistently managed and documented throughout process.

Concern No. 6: Tenant certification – utility allowance calculation form is not in file for some but reflected on tenant certification form.

Concern No. 7: Nothing in files that clearly reflects how they meet eligibility for SCAP programs and where their income falls (AMI).

Corrective Actions Required for Concerns #1 - #7:

1. Files must be brought up to HUD standards within 30 days. City staff shall provide Technical Assistance as needed through this process.
2. Follow-up file monitoring conducted by City staff in a timeframe deemed appropriate by City staff.