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Financial Distress, Noncompliant Properties, Habitability Concerns: Controller Kenneth Mejia Releases Audit of Affordable Housing Oversight, Calls for More Investment, Stronger Enforcement, Better Oversight To Improve Living Conditions

Controller's Office Finds City of LA's Housing Department Is Struggling To Enforce Habitability, Affordability, and Financial Viability Standards

LOS ANGELES – The Office of City Controller Kenneth Mejia today released a **performance audit of the Los Angeles Housing Department (LAHD)'s oversight of the affordability, habitability, and financial viability of the City's affordable rental housing**. The audit covers the period between 2020 and 2023.

Full audit:

bit.ly/ah-audit

Main findings:

- LAHD is **not doing enough to protect vulnerable tenants** in affordable housing. Examples include:
 - Lack of meaningful **enforcement** of **income-limit** requirements
 - Lack of meaningful **enforcement** of **rent-limit** requirements.
 - Failure to cite **mold and infestation** issues.
 - Failure to **actively monitor the financial health** of affordable housing projects.
 - **Siloed and reactive oversight processes.**
- LAHD is **also not fully complying with federal regulations** for **habitability oversight** and **financial oversight**

Examples:

- Auditors found that **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**).
- Auditors identified **a number of affordable housing projects whose financial distress LAHD was not aware of**. One of these projects has not been profitable since it began operating as an affordable housing project in 2016. Auditors determined that, based on their 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 aware of.

- **Auditors found one property that has been charging higher rents than LAHD and the City deem allowable**, since at least 2019. For some of its units, the rents are **more than 30% above LAHD's rent limits**. In 2023, the same property also reported several units whose **tenants' income surpassed LAHD's income limits, including one instance where the limit was exceeded by over 60%**.
- **During site visits, auditors found evidence of roach infestations at affordable housing units that LAHD should be able to, but does not, enforce through citation.** While mold and infestation issues are jurisdiction of the LA County Department of Public Health, **federal regulations require the City to follow inspection procedures that address mold, infestation, and other health and safety issues for federally-funded affordable units.** The audit recommends that LAHD consider working with the City and County to obtain the authority to cite mold and infestation violations.
- Auditors were told openly by property management staff at two properties that their **properties were not using waiting lists** to identify new tenants for affordable units. One property's staff explained that they preferred to fill vacant units with friends and family of existing tenants, while the other property's staff explained that they were working with several organizations to receive referrals.
- In a risk assessment of affordable housing projects, auditors found one project to have been **operating at a deficit since 2021**. The same project was also the subject of **nearly three dozen code complaints**, proving poor financial health to be a red flag for habitability issues. While on-site at the project, auditors encountered a **trash- and feces-strewn** stairwell leading to an **unsecured emergency exit**. Property management staff even had to leave a meeting with the auditors in order to address an unallowed entry incident at the unsecured emergency exit. Despite all this, **the project was not on LAHD's internal watchlist of at-risk projects.**

"As Chair of the Homelessness and Housing Committee, I want our work on these issues to be as powerful and effective as possible, so that we can serve the people of Los Angeles better," said **Councilmember Nithya Raman**. "While some of the recommendations in the audit are already being studied and implemented, I welcome the opportunity for the Housing Department to further improve on its mission and thank Controller Mejia for his continued focus on improving our city's capacity to serve those most in need"

"I asked the Controller to conduct this review because of serious concerns regarding the exact issues raised today – occupancy, livability and more," said **Mayor Karen Bass**. "I want to thank the Controller for agreeing to take on this effort – this is exactly why I brought new leadership to the department in Tiena Johnson Hall to challenge the existing system, and I look forward to working with General Manager Johnson Hall and Controller Mejia to use this report as a

roadmap for reforming the department to maximize the building of affordable housing, preserve existing housing stock and make sure that Angelenos have housing that is safe and habitable. This is the kind of collaboration among City leaders that the people of Los Angeles deserve.”

"LAHD is committed to its mission of preserving, protecting and producing safe and affordable housing for all Angelenos. This audit sheds light on where the Department can and should improve its policies and protocols," said **Tiena Johnson Hall**, new General Manager of the Los Angeles Housing Department. "I appreciate the partnership between LAHD, the Mayor and the City Council in providing the Department with the tools we need to effectuate more robust asset management, occupancy monitoring, and Code enforcement to ensure habitability standards are met."

Controller Mejia stated, "Our audit's identifying of the problems LAHD is facing is a step toward making sure affordable housing reaches the people who need it the most, and ensuring that affordable housing is habitable and financially stable enough to keep operating.

"To ensure that every single affordable unit serves its intended purpose of assisting lower-income households, it is extremely important that the City effectively monitors these units and that rent and income limits are strictly enforced."

Additional findings:

Financial oversight of affordable housing is LAHD's biggest weakness:

- **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 does not sufficiently monitor or enforce important loan requirements that affect its ability to conduct financial oversight.**

Oversight of properties' compliance with affordability requirements needs significant improvement:

- **LAHD delegates many of its monitoring functions to a contractor.**
 - When compliance issues are discovered, **LAHD does little to address them.**
 - **LAHD cannot easily access its contractor's data.**
 - LAHD's contractor found issues including **overcharged rents, over-income-limit tenants, insufficient affordable units set aside, and incomplete or unsigned self-certifications by owners/tenants.**
- LAHD generally **does not assign any staff to follow up** with non-compliant properties.
- LAHD does **not** have a formal protocol for making referrals for **legal action.**
- LAHD **seldom** refers cases to the City Attorney's Office for **further enforcement.**
- LAHD has **few other enforcement tools.**
- LAHD's lack of easy access to its contractor's data means it **cannot easily assess and prioritize compliance issues for enforcement.**

Habitability inspection standards and frequency can improve:

- LAHD **does not inspect or cite for mold and infestation** because these are under the County's jurisdiction, but **federal regulations require the City address these** and other health and safety issues for federally-funded affordable units.
- LAHD is **not fully compliant with federal regulations** that require it to conduct **onsite audits of federally funded rental projects** at least once every three years.
- **Lack of onsite audits** increase the risk of **waiting lists not being used for tenant selection**.

LAHD's oversight processes are **siloed and reactive**:

- LAHD has inconsistent data due to a **lack of coordination between LAHD teams**.
- **Disorganized, inaccurate, and inconsistent data** limits the usefulness of LAHD's data management system

Recommendations:

The Controller's Office recommends that LAHD **strengthen its oversight** and **ensure compliance with federal regulations**. To do so, LAHD should:

- 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.

Background: A Snapshot of the City of LA's Affordable Housing System

The Affordable Housing Model: 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. Properties with affordable restricted units are largely privately owned. Affordable housing projects (like other privately-owned rental properties) operate as a business and are expected to generate at least enough income to pay for necessary expenses, maintenance and operations, and debt payments.

Affordable Housing Funding: The City receives millions of dollars in federal funding each year from HUD's HOME Investment Partnership program (HOME), designed 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.

Affordable Housing Loan Portfolio: As of 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.

Affordable Housing Statistics:

- As of 2022, the City's affordable housing inventory consisted of approximately **47,000 affordable restricted rental units** across approximately 1,600 properties with City affordable housing regulatory agreements.
- The City would **need to add more than 400,000 affordable rentals** to its housing stock to address the affordable housing shortage.
- **41% of households (over 568,000 households) in the City of LA are lower-income renters.** 78% of lower-income renters are cost-burdened and spend 30% or more of their income on housing costs.

Audits and Assessments by City Controller Kenneth Mejia's Office

Completed:

- Affordable Housing Oversight
- [TAHO](#)
- [Pathways to Permanent Housing](#)
- [LAPD Military Equipment](#)
- [LAPD Helicopters](#)
- [Interim Housing](#)

In progress:

- CARE/CARE+
- Unarmed Response