



U.S. Department of Housing and Urban Development  
Region 4, Office of Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
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Atlanta, GA 30303-3388  
(404) 331-3369

**MEMORANDUM NO:**  
2010-AT-1801

November 20, 2009

**MEMORANDUM FOR:** Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

**FROM:** //signed//  
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

**SUBJECT:** Miami-Dade County, Florida, Needs to Strengthen Controls over Its Neighborhood Stabilization Program

### **INTRODUCTION**

Miami-Dade County (County), Florida, was awarded a \$62.2 million Neighborhood Stabilization Program (NSP) grant under the Housing and Economic Recovery Act of 2008 (HERA). As part of our organization's commitment to ensure the proper use of these funds, we performed a review of the County's operations to evaluate its capacity to administer NSP funding.

We provided a draft report to the County on October 28, 2009, and received written comments on November 4 and 6, 2009. We have included the comments and our evaluation of those comments in appendix A. Attachments to the County's comments were not included in the report, but are available for review upon request.

For each recommendation without a management decision, please respond and provide status reports in accordance with U.S. Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **METHODOLOGY AND SCOPE**

To accomplish our objective, we

- Reviewed and obtained an understanding of relevant HERA legislation, the *Federal Register*, and HUD regulations;

- Reviewed the County’s NSP substantial amendment to the 2008 action plan and the special conditions placed on the County by HUD;
- Reviewed relevant County policies and procedures;
- Interviewed HUD and County officials; and
- Reviewed County financial records.

We limited our review to assessing the County’s capacity and risks in the following areas: basic internal controls, financial management, and cost allowability.

The County planned to use NSP funds for six activities. We selected two activities for review because they had progressed further than the other four activities. The financing mechanism activity provides second mortgages to assist eligible households in purchasing foreclosed-upon homes. We reviewed County files for 7 of 80 home buyers to determine whether they were eligible to receive NSP funds. The purpose of the other activity is to purchase and rehabilitate foreclosed-upon single-family properties for sale to income-eligible households. We reviewed County files for three of eight properties to determine whether the properties were eligible to be purchased with NSP funds.

As of September 2009, the County had obligated \$1.13 million for the financing mechanism activity and \$906,660 for the purchase and rehabilitation of single-family properties. We selected \$260,000 in obligations for the financing mechanism activity and \$306,806 in obligations for the purchase and rehabilitation of single-family properties to review because, as indicated above, these activities had progressed further than the other four NSP activities. As of August 2009, the County had expended \$267,437 in NSP funds. We selected \$131,529 in expenditures to review based on their large dollar amounts. We reviewed County records to determine whether NSP obligations and expenditures were allowable and adequate supporting documentation was maintained.

The results of our review apply only to the items selected and cannot be projected to the universe or population.

Our review generally covered the period July 2008 through June 2009, and we extended the period as needed to accomplish our objective. We conducted our review from July through October 2009 at the County Department of Housing and Community Development (HCD)<sup>1</sup> located at 701 NW 1st Court, Miami, Florida.

For this capacity report, our work was not conducted in accordance with generally accepted government auditing standards. Therefore, this report is significantly reduced in scope.

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<sup>1</sup> Beginning October 1, 2009, the County’s Office of Community and Economic Development was renamed the Department of Housing and Community Development.

## BACKGROUND

On July 30, 2008, the President signed HERA. On September 26, 2008, HUD provided \$3.92 billion to states, territories, and local governments for the purpose of stabilizing communities by redeveloping abandoned and foreclosed-upon homes and residential properties. On March 6, 2009, HUD awarded the County a \$62.2 million NSP grant under HERA.

HCD is responsible for overall oversight and administration of the NSP grant. The table below shows the County departments responsible for administering the six NSP activities, along with the amount of NSP funds awarded and obligated as of September 30, 2009.

#	Activity description	County department	Funds awarded	Funds obligated
1	Provide financing mechanisms (second mortgages) to assist eligible households in purchasing foreclosed-upon homes	HCD Homeownership section	\$ 9,790,000	\$ 1,130,000
2	Purchase and rehabilitate foreclosed-upon single-family properties for sale to eligible households	General Services Administration	10,025,000	906,660
3	Purchase and rehabilitate foreclosed-upon multifamily properties for rental to eligible households	General Services Administration	21,571,480	0
4	Demolish blighted structures	Department of Building and Neighborhood Compliance <sup>2</sup>	1,000,000	0
5	Redevelop vacant land for a HOPE VI project	Public Housing Agency	8,600,000	0
6	Redevelop vacant land in the expanded HOPE VI area	HCD Housing Development and Loan Administration	5,000,000	0
	Subtotal		\$55,986,480	\$ 2,036,660
	Administration	HCD	6,220,720	6,220,720
	Total		\$62,207,200	\$ 8,257,380

In July 2009, the County applied for an additional \$162 million in NSP funds under the American Recovery and Reinvestment Act of 2009. The application is under review.

## RESULTS OF REVIEW

### **Agreements Were Not Executed Between HCD and Other County Departments**

Under HERA, except as otherwise provided, NSP funds made available to state and local governments shall be treated as though such funds were Community Development Block Grant (CDBG) funds. Regulations at 24 CFR [*Code of Federal Regulations*] 570.501 state that a

<sup>2</sup> Beginning October 1, 2009, the County Office of Neighborhood Compliance and the Building Department combined to create the Department of Building and Neighborhood Compliance.

public agency designated by the grantee to undertake CDBG-funded activities is subject to the same requirements as a subrecipient. Regulations at 24 CFR 570.503 require that no CDBG funds are disbursed to the subrecipient until an agreement is executed between the grantee and the subrecipient. The regulation also requires the agreement to include certain provisions.

The County had not executed agreements between HCD and the other County departments responsible for administering the NSP grant. In October 2009, HCD executed an agreement with the General Services Administration to administer two NSP activities but had not executed agreements with the other two County departments. County officials informed us that they were developing the agreements with the other County departments. In addition, the executed agreement between HCD and the General Services Administration did not include two of the seven minimum provisions required by 24 CFR 570.503. The executed agreement did not (1) contain a schedule for completing the work and (2) list all federal regulations that needed to be followed.

### **Existing Policies and Procedures Did Not Address NSP Requirements**

NSP requirements at section 2301 of HERA, applicable *Federal Register* notices, and 24 CFR 85 and 570 were not addressed in the policies and procedures for County departments responsible for administering the NSP grant. County officials stated that the implementation order approved by the Board of County Commissioners constituted a written NSP policy and they were developing an NSP procedures manual. The manual would be a compilation of existing procedures.

We reviewed the implementation order and the procedures of two HCD sections and one County department. These policies and procedures did not provide detailed guidance for complying with the following NSP requirements: (1) eligibility of an activity, (2) monitoring, (3) national objective, (4) supporting documentation to be maintained for expenditures and drawdowns, (5) accounting for and reporting of program income, and (6) reporting to the HUD Disaster Recovery Grant Reporting system.

### **The County Did Not Maintain Adequate Supporting Documentation for an NSP Activity**

Section 2301(c)(3)(A) of HERA states that NSP funds may be used to establish financing mechanisms for purchase of foreclosed-upon homes and residential properties.

We reviewed County files for seven home buyers under the financing mechanism activity. The County did not maintain adequate supporting documentation showing that one home buyer purchased a foreclosed-upon property. A County official acknowledged that staff failed to obtain the documentation.

### **NSP Expenditures Were Improperly Classified**

Regulations at 24 CFR 85.20(b) state that the grantee's financial management system must maintain accurate, current, and complete disclosure of the financial results of financially assisted activities. Salary expenditures totaling \$17,104 were improperly classified to the wrong NSP

index code in the County's financial management system. The salary expenditures were classified to the home-buyer counseling index code instead of the second mortgage index code. A County official explained that the salaries had been inadvertently classified to the wrong index code.

### **Conclusion**

The County needs to strengthen its controls to fulfill NSP requirements under HERA. It needs to (1) revise the executed agreement, (2) execute agreements between HCD and the other County departments that administer the NSP grant, (3) maintain and enforce policies and procedures that comply with NSP requirements, (4) maintain adequate supporting documentation for NSP activities, and (5) properly classify NSP expenditures.

### **RECOMMENDATIONS**

We recommend that the Director of the Office of Community Planning and Development require the County to

- 1A. Revise the executed agreement between HCD and the General Services Administration to include all provisions as required by 24 CFR 570.503.
- 1B. Develop and execute agreements between HCD and the other County departments responsible for administering the NSP grant to comply with 24 CFR 570.503.
- 1C. Maintain and enforce policies and procedures that comply with NSP requirements.
- 1D. Provide documentation supporting that the property purchased by the home buyer was a foreclosure to comply with NSP requirements.
- 1E. Reclassify the \$17,104 from the home-buyer counseling index code to the second mortgage index code.



Carlos Alvarez, Mayor

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November 4, 2009

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75 Spring Street, SW, Room 330  
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Subject: Review of Draft Audit Report of Miami-Dade County's Neighborhood Stabilization Program

Dear Mr. McKay:

Miami-Dade County's Department of Housing and Community Development (HCD) received the draft audit results of its Neighborhood Stabilization Program from your office on October 29, 2009. The recommendations appear to be accurate with one exception listed below. I have taken this opportunity to outline below the changes that the County will implement this year to correct those concerns:

- The interdepartmental agreement between our office and the General Services Administration, as well as the agreement with the Housing Agency, have been revised so that they will contain the guidelines mentioned in 24 CFR 570.503 - the regulations that govern sub recipient agreements. Our initial response will contain the revised version of the agreements.
- We will provide US HUD with the agreements for each of the County's NSP components once they have been executed. That action should occur sometime in November 2009.
- The existing procedures of the components of the NSP are being updated so that they will contain eligibility requirements, monitoring guidelines, national objectives, supporting documentation for accomplishments and expenditures, and reporting to US HUD's Disaster Recovery Grant Reporting System. Throughout the last three months, the NSP consultant has been developing that program's procedures manual. That document will be ready for distribution and use by December 2009.
- The County used \$60,000 of its General Revenue funds to purchase the site that was covered by the financing mechanism activity and that was identified as ineligible by US HUD's staff. No NSP funds were used for that acquisition. Therefore Miami-Dade County should not be required to reimburse that amount to its Neighborhood Stabilization Program.
- The \$17,104 in salary expenditures that were erroneously classified under the Program's homebuyer counseling index code have now been properly classified under the Program's second mortgage index code.

James D. McKay  
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Miami-Dade will continue to work diligently to successfully administer this new and vital economic recovery program. We have implemented additional controls at the point of payment disbursement to identify and prevent disallowable costs. Facilitated through ICF International, Inc., we recently conducted NSP training sessions that were well received by our staff and our County partners. We will ensure compliance by internally monitoring the Program through our Compliance, Correspondence and Constituent Services Section and by continuing to provide periodic training to the Program's components.

Please contact Felipe M. Rivero, III, Supervisor of our Compliance, Correspondence, and Constituent Services Section, at 786-469-2152 if you have any questions regarding our response.

Sincerely,

Shalley Jones~Hom  
Director

Enclosure

cc: Barry Shulman, Assistant Regional Inspector General for Audit, US HUD Miami Office

SJH/FMR

Carlos Alvarez, Mayor

November 6, 2009

Mr. Barry Shulman  
Assistant Regional Inspector General for Audit  
Office of the Inspector General  
United States Department of  
Housing and Urban Development  
909 S.E. 1<sup>st</sup> Avenue  
Room 500  
Miami, FL 33131

**RE: Materials Pertaining to Audit of Miami-Dade County's Neighborhood Stabilization Program**

Dear Mr. Shulman:

During our meeting this week, you requested documentation that confirms that the County addressed the last two issues that your staff identified in its review of Miami-Dade County's Neighborhood Stabilization Program. This letter accompanies the documentation that our office compiled to address those items. Please note the following details as you review the enclosed items:

**Maintenance of Adequate Documentation for an NSP Activity**

County staff erred by not obtaining documentation that confirmed that a property purchased for the Neighborhood Stabilization Program in the amount of \$60,000 was actually a foreclosed site. The first two documents in Attachment One display the initial entries into the County's financial system to account for the purchase and that would have assigned the expenditure to the County's NSP account. The second set of documents confirms that the expenditure was removed from the NSP account and covered by Surtax funds. The attachment's third set of documents display the process workflow for the Program's second mortgage component.

**Classification of NSP Expenditures**

An error in expenditure classifications assigned salary expenditures of the NSP's second mortgage component to its homebuyer counseling component. Our review indicates that the total correction amount was \$35,716.85 and not \$17,104. The first two listings in the journal entry document in Attachment Two confirm the correction.

Please contact Felipe M. Rivero, III, Supervisor of our Compliance, Correspondence, and Constituent Services Section, at 786-469-2152 if you have any questions about the submitted items.

Sincerely,

Rick Glasgow  
Assistant Director

C: Shalley Jones Horn, Director

## OIG Evaluation of Auditee Comments

- Comment 1** The County stated that it has begun implementing several corrective measures to address our findings and recommendations. We believe that the corrective measures when implemented and enforced would improve County administration of the NSP.
- Comment 2** The County agreed that it did not maintain adequate supporting documentation that a property purchased for the NSP program was a foreclosed property. The County removed the expenditure from its NSP records and provided documentation that it transferred the \$60,000 expenditure to its local Surtax funds. Accordingly, we removed the issue of the \$60,000 from the final report. However, the County needs to ensure that adequate supporting documentation is maintained for future properties purchased for NSP activities.
- Comment 3** The County stated that it had reclassified the \$17,104 in salary expenditures from the home buyer counseling index code to the correct second mortgage index code. The County provided documentation to support this transaction. We reviewed the documentation but were unable to determine whether the \$17,104 was reclassified. The County indicated that \$35,716.85 was reclassified but failed to provide adequate documentation to support that this amount included the \$17,104 in salary expenditures.