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MEMORANDUM NO.
2010-CH-1804

March 31, 2010

MEMORANDUM FOR: Jeanette Harris, Director of Community Planning and Development,
5FD

//signed//

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The City of Saginaw, MI, Needs To Improve Its Capacity To Effectively and Efficiently Administer Its Community Development Block Grant Program Under the American Recovery and Reinvestment Act of 2009

INTRODUCTION

We reviewed the City of Saginaw's (City) Community Development Block Grant (Block Grant) program under the American Recovery and Reinvestment Act of 2009 (Act). The review was part of the activities in our fiscal year 2010 annual audit plan. We selected the City based upon the results of our prior audit of the City's Block Grant-funded demolition activities. Our objective was to determine whether the City had the capacity to effectively and efficiently administer its Block Grant program under the Act.

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 review.

METHODOLOGY AND SCOPE

To accomplish our objective, we reviewed

- Applicable laws; HUD's notice of program requirements for Block Grant program funding under the Act, dated May 4, 2009; HUD's regulations at 24 CFR (Code of Federal Regulations) Parts 85 and 570; HUD's Guide to National Objectives and Eligible Activities for Entitlement Communities under the Block Grant Program (Guide); Michigan Compiled Laws; HUD's grant agreement with the City for Block Grant funds under the Act; and HUD's Detroit Office of Community Planning and Development's monitoring reports for the City's Block Grant program from 2007 through 2008.

- The City's 2008-2009 action plan substantial amendment for the Block Grant program under the Act (substantial amendment); contract with the Michigan Department of Transportation (Department) for the Interstate 675 project, dated May 7, 2009; policies and procedures; contracts and agreements; staffing plans and allocations; job descriptions; organizational charts; and procurement and project activity files.

We also interviewed the City's and the Department's employees and HUD's staff.

We performed our on-site audit work from November through December 2009 at the City's office located at 1435 South Washington Avenue, Saginaw, MI. The review covered the period July 2007 through September 2009 and was expanded as determined necessary.

We did not perform our review in accordance with generally accepted government auditing standards. We designed the review to be proactive and focus on prevention. Therefore, we significantly reduced the scope of our review. These facts do not affect the significance of the conditions identified in this memorandum.

BACKGROUND

The Block Grant program. Authorized under Title XII of the Act, the Block Grant program provides grants to every State and certain local communities to undertake a wide range of activities intended to create suitable living environments, provide decent affordable housing, and create economic opportunities, primarily for persons of low and moderate income. HUD allocated \$980 million in Block Grant funds under the Act to grantees. All Block Grant activities must meet one of the following national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet certain community development needs having a particular urgency.

The City. Organized under the laws of the State of Michigan, the City is governed by a mayor and an eight-member council, elected to 4-year terms. The council designated the City's Department of Development as the lead agency to administer the City's Block Grant program. The Department of Development includes the Community Development Block Grant Division, which administers Federal funds to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The City's records are located at 1315 South Washington Avenue and 1435 South Washington Avenue, Saginaw, MI.

HUD allocated more than \$668,000 in Block Grant funds to the City based upon the funding formula developed by HUD pursuant to the Act. On July 27, 2009, HUD entered into a grant agreement with the City for the full amount allocated. The City's Block Grant program budget included the following:

- Nearly \$358,000 for the Interstate 675 project,
- Nearly \$33,000 for a sidewalk ramp construction project, and
- More than \$278,000 for a local street resurfacing project.

Due to the severely deteriorated condition of the bridges on Interstate 675 within the Saginaw city limits, the Department initiated the Interstate 675 project. Its estimated cost for the project totaled more than \$28.6 million. As required by section 247.651c of the Michigan Compiled Laws, the City's share of the costs for the project totaled \$357,600. Therefore, on May 7, 2009, the City entered into a contract with the Department for the project. The City funded the project with its Block Grant funds under the Act. The Department was responsible for the planning of, the construction work for, compliance determinations for, and oversight of the project. The Department began construction work on the project in June 2009 and is expected to complete construction work in November 2010.

RESULTS OF REVIEW

The City's Capacity To Effectively and Efficiently Administer Its Block Grant Program Under the Act Had Weaknesses

Eligibility of the Interstate 675 Project

The City's substantial amendment included the use of the \$357,600 in Block Grant funds for the Interstate 675 project for the following activities:

- Concrete pavement repairs on Interstate 675 interchange ramps,
- Bridge overlay and rehabilitation work on multiple bridges,
- Deck replacement on the Henry Marsh Bridge,
- Removal of an 11th Street pedestrian bridge,
- Removal and replacement of a 21st Street pedestrian bridge, and
- Sidewalk improvements along 5th, 6th, Fitzhugh, and Wadsworth Streets.

The substantial amendment stated that the Interstate 675 project met the national objective of activities benefiting low- and moderate-income persons in an area.

HUD's regulations at 24 CFR 570.200 state that grant recipients' Block Grant-funded activities must meet one of the following three national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet certain community development needs having a particular urgency. Each grant recipient must ensure and maintain evidence that each of its Block Grant-funded activities meets one of the three national objectives.

HUD's regulations at 24 CFR 570.208(a) state that activities meeting the criteria in section 570.208(a) will be considered to benefit low- and moderate-income persons unless there is substantial evidence to the contrary. In assessing such evidence, the full range of direct effects of an assisted activity will be considered. Section 570.208(a)(1) states that an area benefit activity under activities benefiting low- and moderate-income persons is an activity in which the benefits of the activity are available to all of the residents in a particular area and at least 51 percent of the residents are low- and moderate-income persons.

Chapter 3 of HUD's Guide states that HUD's regulations provide that in any case in which there is substantial evidence that an activity might not principally benefit low- and moderate-income persons, even though the activity conforms to a literal reading of the low- and moderate-income

benefit criteria, the presumption that the activity meets the national objective may be rebutted. In such cases, HUD will consider the full range of direct effects of the assisted activity. This provision means that HUD will examine the extent to which the activity, in addition to benefiting the low- and moderate-income persons, either negatively affects such persons or provides direct benefits to a substantial number of other persons that are not low to moderate income. When such a rebuttal is raised by HUD, the grantee will have to show why the activity should meet the national objective of benefiting low- to moderate-income persons. The determination of the area served by an activity is critical to the national objective of benefiting low- to moderate-income persons. The principal responsibility for determining the area served by an activity rests with the grantee. HUD will generally accept a grantee's determination unless the nature of the activity or its location raises serious doubts about the area claimed by the grantee. It is critical that the service area determined by the grantee be the entire area served by the activity.

Appendix D of HUD's Guide provides guidance on how service areas should be determined for this purpose. Appendix D states that when a grantee does not already have an identification of the area served for a given facility or service, it will be necessary for the grantee to determine the service area before Block Grant assistance may be provided if the activity is to qualify under the national objective of benefiting low- to moderate-income persons. As previously indicated, a grantee's determination of the area served will usually be accepted by HUD unless there are indications that the grantee-defined area is clearly too small or too large. A factor to be considered in making the determination of the area served is the nature of the activity. In determining the boundaries of the area served by a facility, its size and how it is equipped need to be considered. For example, a park which contains three ball fields or a ball field with grandstands that can accommodate hundreds of spectators could not reasonably be said to be designed to serve a single neighborhood. The same comparison would apply to the case of assisting a small, two-lane street in a residential neighborhood versus that of an arterial four-lane street that may pass through the neighborhood but is clearly used primarily by persons passing through from other areas.

The City's contract with the Department for the Interstate 675 project stated that the City's \$357,600 share of the project costs was to be used for the following activities:

- \$8,950 for reconstruction work, guardrail upgrades, and shoulder improvements on six ramps at the interchange of Interstate 675 and Veterans Memorial Highway, four ramps at the interchange of Interstate 675 and 5th and 6th Avenues, and the ramp connecting northbound Interstate 675 to westbound Davenport Avenue and eastbound State Street, together with necessary related work;
- \$38,600 for deep overlay work on a bridge that carries northbound and southbound Interstate 675 over the Saginaw Bay Southern Railroad, deck replacement work on the bridge that carries 14th Street over Interstate 675, and deck replacement and deep overlay work on the bridges that carry northbound and southbound Interstate 675 over Michigan Avenue and Weiss Street, together with necessary related work;

- \$21,850 for the removal and replacement of the 21st Street walkover structure over Interstate 675 and the removal of the 11th Street walkover structure over Interstate 675, together with necessary related work; and
- \$288,200 for (1) deck replacement of and widening work on the bridge that carries Interstate 675 over Washington Avenue, the Saginaw River, the Huron and Eastern and Saginaw Bay Southern Railroads and the ramp that connects northbound Interstate 675 to Davenport Avenue and (2) deck replacement work on the bridge that carries the ramp connecting eastbound State Street to southbound Interstate 675 over Davenport Avenue and the Huron and Eastern Railroad, together with necessary related work.

The City planned to use its Block Grant funds to pay for its share of the Interstate 675 project costs. Neither the City nor the Department had a breakdown of the City's costs associated with the work contained within each of the activities. The Engineering Department's city engineer said that the City could provide a breakdown of its costs. However, if it is determined that the City cannot use Block Grant funds for nearly all of the costs of the project, it would not be worth the City's time and effort to determine the breakdown of its costs.

The cost and scheduling engineer stated that if the Department did not complete the deck replacement work for the bridges in the Interstate 675 project, it would eventually have to post weight restrictions on commercial vehicles or close the bridges. Further, the Interstate 675 project will increase traffic safety for those persons who work and live in the area and pass through Saginaw using Interstate 675. The Engineering Department's city engineer agreed that if improvements are not made to the bridges in the Interstate 675 project, the Department may be forced to impose weight restrictions on commercial vehicles and ultimately close the bridges. The roadways below the bridges would also have to be closed due to unsafe conditions from falling concrete. The Department's engineer manager said that the widening work on one of the bridges will allow vehicles to better accelerate when merging onto Interstate 675. The director of the City's Department of Development stated that Interstate 675 is the main road used by residents to access shopping centers and services. The significant state of disrepair of Interstate 675 raises concerns for the health and safety of and the overall quality of life for the residents of Saginaw.

The Director of HUD's Detroit Office of Community Planning and Development said that her office approved the City's substantial amendment since all of the Block Grant-funded work on the Interstate 675 project would occur within the Saginaw city limits and more than 51 percent of the residents of Saginaw are low- to moderate-income persons. However, Interstate 675 is a business route into Saginaw from Interstate 75. HUD's Detroit Office of Community Planning and Development did not request additional documentation from the City to support the eligibility of the project. Although Saginaw's residents use Interstate 675, the City did not have documentation, such as a use survey, to support that work associated with the Interstate 675 ramps and bridges principally benefited Saginaw's low- to moderate- income residents. Therefore, the City lacked documentation to support that \$335,750 in Block Grant funds for the project met the national objective of activities principally benefiting low- and moderate-income persons in an area.

As of March 25, 2010, the City had paid the Department more than \$132,000 from its general fund as part of its share for the Interstate 675 project. However, it had not drawn down or disbursed any Block Grant funds under the Act for the project.

Contract for the Interstate 675 Project

The City's contract with the Department for the Interstate 675 project lacked a work completion schedule. HUD's regulations at 24 CFR 570.503 state that an agreement between a grant recipient and a subrecipient shall include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient to effectively monitor performance under the agreement. The city engineer said that the City's contract with the Department referenced the Department's contracts for the work that the Department bid out for the project. The work completion schedule for the project was part of the proposal and construction drawings that were part of the Department's contracts. Therefore, when the City signed its contract with the Department, the City agreed to the Department's work items and schedule that was a part of the proposal and construction drawings. However, the City's contract with the Department did not incorporate the Department's contracts or the proposal and construction drawings as part of the City's contract with the Department or state that the work completion schedule for the project was contained in the Department's contracts or the proposal and construction drawings.

Monitoring of the Interstate 675 Project

The City did not follow HUD's regulations and its own requirements for monitoring the Interstate 675 project. HUD's regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity. In addition, HUD's regulations at 24 CFR 570.501(b) state that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise. The Engineering Department's Block Grant procedures state that a City field inspector will be on site to oversee construction projects.

The city engineer said that while construction is in process on the Interstate 675 project, the Department is responsible for all of the inspections to ensure that work is completed in accordance with applicable requirements, plans, and specifications that were approved for construction. He periodically monitors the progress of the project and associated costs by reviewing the inspection daily reports using the Department's field manager software and monitors compliance with requirements of the Davis-Bacon Act using the Department's monthly employee reporting system. He also ensures that the amount the Department invoices for the project does not exceed the agreed-upon amounts in the City's contract with the Department for the project. However, the City's staff had not conducted on-site monitoring of the project and had not verified that the Department's invoices reflected the actual work performed. The city engineer said that the Department follows more rigorous compliance requirements than the City.

Therefore, a City inspector does not need to be on site to monitor the project daily. Further, on-site City inspectors would duplicate the efforts of the Department's inspectors.

On December 18, 2009, the director of the City's Department of Development said that the City planned to start reviewing the progress of the Interstate 675 project every 2 weeks. The city engineer stated that the City can perform semiweekly or weekly monitoring of the Interstate 675 project. The city engineer also said to conduct daily on-site monitoring, it would have to hire one to two additional inspectors. As of December 22, 2009, the Department had stopped its work on the Interstate 675 project for the winter. Therefore, we were unable to determine whether the City had started reviewing the progress of the project.

Policies, Procedures, and Controls

As of January 26, 2010, the City had not established sufficient policies and procedures for its Block Grant program under the Act. Although the City had policies and procedures for its different Block Grant-funded programs, it did not have policies and procedures regarding financial management. The City's accountant said that the City's management informed staff to follow all applicable Federal regulations regarding financial management. Some staff used HUD guidebooks and different training materials as a reference when conducting the day-to-day operations of the City's programs.

In addition, the City's 2008-2009 action plan contained policies and procedures for monitoring subrecipients. However, the policies and procedures did not include steps to ensure that subrecipients complete work in accordance with applicable requirements before the City pays for the services.

On December 16, 2009, the City showed us a sample administrative handbook, which it was using as a guide to create a consolidated policies and procedures handbook (handbook) for all of its HUD-funded programs. However, as of January 22, 2010, the City had only completed the table of contents for the handbook. The table of contents included sections for project and grant administration and financial management. The Block Grant program manager for the City's Department of Development said that the City expects to complete its handbook by March 2010. It planned to distribute the handbook to and discuss the handbook with its staff for discussion during the first 2 weeks of April 2010. The section for project and grant administration will include monitoring. The City's director of development said that the City is in the process of contracting with an outside contractor to assist it in developing the handbook. The handbook will include applicable requirements from HUD and the Office of Management and Budget.

RECOMMENDATIONS

We recommend that the Director of HUD's Detroit Office of Community Planning and Development require the City to

- 1A. Provide documentation, such as a use survey, to support that the \$335,750 in Block Grant funds under the Act for work associated with the Interstate 675 ramps and bridges principally benefitted the City's low- to moderate-income residents. If the City cannot provide supporting documentation, it should amend its substantial amendment to remove

the concrete pavement repairs on Interstate 675 interchange ramps, bridge overlay and rehabilitation work on multiple bridges, and deck replacement on the Henry Marsh Bridge for the Interstate 675 project and include for the \$335,750 in Block Grant funds an eligible activity or activities that meet one of HUD's three national objectives.

- 1B. Implement adequate policies, procedures, and controls to ensure that Block Grant funds under the Act are used effectively and efficiently and in accordance with applicable requirements.

Schedule of Funds To Be Put to Better Use 1/

Recommendation <u>number</u>	<u>Amount</u>
1A	<u>\$335,750</u>
Total	<u>\$335,750</u>

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. - In this instance, if the City implements recommendation 1A, it will ensure that the nearly \$336,000 in Block Grant funds under the Act are used for an eligible activity or activities that meet one of HUD's three national objectives.

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation

Auditee Comments

**CITY OF
SAGINAW**



March 17, 2010

Mr. Brent G. Bowen
Assistant Regional Inspector General for Audit
Region V U.S. Dept. HUD Office of Inspector General
Ralph H. Metcalfe Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Dear Sir:

We are in receipt of the draft memorandum audit report from Mr. Heath Wolfe, the Regional Inspector General for Audit. We appreciate the opportunity to respond to the draft. The Audit involved a review of a planned use of \$668,000 in recovery act funds under the CDBG-R initiative. Of the total, \$358,000 was planned to be used as a city match to the I-675 larger state project that passes through the city, \$33,000 for sidewalk and ramp construction, and \$278,000 for local street resurfacing. The match portion has been questioned for viability. In view of the audit comments the match portion will be reassigned to local street projects in an amendment. We assure you all the necessary steps will be taken to make procedural and process corrections in our administration of the CDBG-R program and CDBG in general, based on comments as provided.

The City of Saginaw continues its work to improve and have itself removed from the "high risk" category as a recipient of CDBG funds. This status originates from a "proactive report" to HUD by the city per a review of the city's demolition cost estimation practices in 2007. Although our cost with some errors was at or below benchmark cost in similar cities, we appropriately reported our findings to HUD. In this regard permanent process fixes with appropriate process checks and balances were put in place. Responses regarding these corrective action steps are duly recorded. Further reviews have found no concerns after the new processes were put in place. The current review focused on our capacity to implement the CDBG-R program under the American Recovery and Reinvestment Act of 2009. The city was approved to receive \$668,000 in entitlement funds per amendment to our Consolidated Plan. The focus of our planned projects was infrastructure improvements, described as "shovel ready" which benefit the low to moderate-income constituency located in the core of the municipality. We have done local street improvements historically and keep a running list of priorities.

The audit findings suggested inadequate justification for the city's match portion of the I-675 portion of the project. While we are disappointed in the finding, new priorities are

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set and the plan will be amended appropriately. The new priorities are taken from our list of local streets already on our CDBG request list. **We do remind all that no federal dollars have been inappropriately disbursed per these findings as related to CDBG-R.**

Response to Findings

While the audit was conducted in a thorough and professional manner and the findings are accurate in part, further explanation and a detailed response to the "Results of Review" and Recommendations are warranted to clarify our procedures and practices as it pertains to our capacity to administer block grant funds. The City of Saginaw utilizes HUD funds for a variety of public improvement projects. The review found the City's capacity to effectively and efficiently administer its block grant program under the Act had weaknesses as it pertains to the City's use of the funds as a match source for federal transportation construction projects within the city limits. The "Results of Review" **did not identify any inadequacies with how the City administers HUD funds for sidewalk ramp construction projects and local street resurfacing projects.** Therefore, our response is directed toward our processes and procedures for administering funds for the Interstate 675 project. Overall, the review identified weaknesses pertaining to contract language, construction oversight, documentation, and approval processes for drawing down funds. We determined the procedure the City has followed in executing contracts between itself and the Michigan Department of Transportation (MDOT) are adequate to comply with HUD's guidelines for administering federal funds. However, we submit that certain contract language can be ended to clarify issues such as costs shared, work schedules, documentation requirements, project monitoring, on-site inspection, and invoice verification. Specific comments regarding the findings are below.

Comment 1

Cost breakdown

The City is able to provide a breakdown of all costs for work associated with the Interstate 675 project through the use of field manager software and the MDOT website to review pay items, City participating categories, and submit approval for payment of items.

Lack of documentation to support work on I-675 benefited Saginaw's low to moderate-income residents

There are four interchange points that allow access to and from the interstate within the city limits. All four of the interchange points lie within and access neighborhoods that are considered low to moderate income. This fact can be quantified with city geographic information data. The need for a formal study or survey as back up documentation that the users of the interstate system are from low and moderate income neighborhoods would be inefficient, time consuming, and yield obvious results. In fact, both revitalization projects in the City's plan have their core within 1 mile of the exit ramps. Our error was in the haste to get "shovel ready" projects off to a fast start we did not do use surveys, and proper polling of citizens in the low to moderate income area as to their use of the entry/exit ramps to I-675 to secure vital family services.

Comment 2

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Comment 1

Draw down / disbursement of Block Grant funds

While the City had not drawn down or disbursed any Block Grant funds for the project prior to the time of the HUD audit, the City had paid \$132,342.46 from other funds. Typically, the City utilizes a variety of funds for construction projects and reimburses itself where applicable with CDBG or other grant funds upon approval.

Work completion schedule

The City of Saginaw enters into agreements with sub-recipients-MDOT in this case-that covers the work to be performed, a schedule for completing the work and a budget. However, general language in engineering contracts refers to work completion schedules as "progress schedules". Progress schedules for the I-675 project were included in MDOT Contract 08-5441, Contract ID# 73101-84019, and Item Number 0904-032. Within the agreement, it clearly shows the description of the work associated with each category and the budget for each category. The progress schedule for the contract is included in both the proposal and special provisions for the project.

Comment 3

Requirements for monitoring

The City is able to utilize MDOT inspectors for daily monitoring, reporting and oversight through several standing agreements between the City, MDOT, Bureau of Highway Instructional Memorandums and the Federal Highway Administration. (See: Bureau of Highway Instructional Memorandum dated June 10, 2009 (BOHIM 2009-06), titled "Regional Oversight at Local Agency Construction Projects" and "Federal Aid Project Administration and Oversight Agreement" dated March 10, 2004, and signed by the MDOT Director and the Division Administrator-Michigan for the Federal Highway Administration). These agreements detail the requirements for municipalities receiving federal funds and MDOT's responsibility to provide federal aid project administration and contractor oversight, including daily inspection and technical personnel. Therefore, the City utilized MDOT inspectors to monitor the project. Inspectors make available daily inspection reports to both the City of Saginaw and MDOT for review. Therefore, in this instance the MDOT personnel were serving by agreement as inspectors for the City and providing reports on progress, material and performance directly to the City Engineer via software designed for monitoring construction projects called Field Manager. In addition, the City Engineer visited the site bi-monthly to review the product, performance and progress of the work. Furthermore, the project is also partially funded by the American Recovery and Reinvestment Act (ARRA). MDOT personnel were utilized for inspection purposes by design because they are properly trained and accustomed to implementing Federal Construction Administration Procedures that are required for expending federal, state, and ARRA funds. Daily inspection reports from the MDOT inspectors, which include items paid for on the project, are kept on file and can be provided.

Comment 4

Comment 3

Comment 4

Invoicing for work performed

Through the use of MDOT inspectors, MDOT website, Field Manager software and bi-monthly site visits, the City Engineer is able to account for the activities performed, work progress, and contractor performance. The OIG's finding that there was a lack of on-site monitoring and lack of verification that the invoices reflected the actual work performed is

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Comment 4

inaccurate and can be shown otherwise. The City's payment process on MDOT projects was provided to the review team and is also on file.

We trust this addresses the concerns for weaknesses in our policies and procedures for the project. We respectfully submit that further review of the oversight agreement between MDOT and the City will show that the Engineering Division adequately implemented, monitored, reviewed and approved the use of HUD funding.

Comment 5

Policies, Procedures, and Controls

This subject is raised in the context of adequacy. Throughout the process, the auditors raised the subject of our having detailed books of procedures and policies as required under the act. It was recognized the City had policies and procedures for its different Block Grant-funded programs; it did not have policies and procedures regarding financial management. The auditors, again in the context of adequacy recognized that the 2008-09 Action Plan contained policies and procedures for monitoring sub-recipients but still viewed those as inadequate. The City has begun the benchmarking process for adequate procedure books as noted in the findings. We consider the policies adequate, but certainly can be improved in detail and administration. 24 CFR lists several components that a grantee's financial management system must have to be in compliance. Among those listed, the regulation states a grantee's financial reporting is to be an accurate, current, and provide complete disclosure of the financial results of financially assisted activities made in accordance with the financial reporting requirements of the grant. The Comprehensive Annual Financial Report of the City of Saginaw was completed and submitted to the Department of HUD for the year ended June 30, 2009, and is available for review on the City's website.

Comment 6

The regulations also require the grantee's accounting records to adequately identify the source and application of funds provided for financially assisted activities. The City of Saginaw accomplishes this with its financial software's project management system. Other items listed in the regulations for compliance including internal control, budget control source documentation and allowable costs have been tested by the City of Saginaw's external financial auditor and results reported in the single audit report for the year ended, June 30, 2009, also required under the Act, and can be found on the City of Saginaw's website.

Comment 7

Recommendations

1A. In terms of documentation to support that the I-675 work associated with the city's match for the I-675 overall project, the City provided a detailed narrative to the auditors, which included economic data regarding citizens in the area served. This included proximity of the ramps to the City's Revitalization Area, critical services accessibility for the underserved community via the various ramps and sidewalks. We failed the test of adequacy as described by the auditors. **With the time compression stipulated on the use of CDBG-R funds, the City will drop its attempt to justify expenditures for this work and focus its amendment on strictly local streets in the low-to- moderate income area.**

Comment 8

1B. We have asked a major firm to quote the cost of production of major books and procedures to insure the question of adequacy is properly addressed. In addition the updated

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Comment 8

5-Year plan will have additional detail regarding program monitoring and program management.

In general the City has been very proactive in providing additional management oversight of our programs. A new position of Assistant Director of Development has been filled at the city to address concerns of general program oversight. Overall the audit process has been a positive influence in driving us to better oversight and management of our programs. The need for documentation, justification, monitoring and reporting are driven home as significant learning experiences.

/signed/
Odail Thorns
Director of Development, City of Saginaw

OIG's Evaluation of Auditee Comments

Comment 1 The City's contract with the Department for the Interstate 675 project lacked a work completion schedule. HUD's regulations at 24 CFR 570.503 state that an agreement between a grant recipient and a subrecipient shall include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient to effectively monitor performance under the agreement. However, the City's contract with the Department did not incorporate the Department's contracts for the work that the Department bid out for the project or the proposal and construction drawings that were part of the Department's contracts as part of the City's contract with the Department or state that the work completion schedule for the project was contained in the Department's contracts or the proposal and construction drawings.

Comment 2 HUD's regulations at 24 CFR 570.200 state that grant recipients' Block Grant-funded activities must meet one of the following three national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet certain community development needs having a particular urgency. Each grant recipient must ensure and maintain evidence that each of its Block Grant-funded activities meets one of the three national objectives.

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Chapter 3 of HUD's Guide states that HUD's regulations provide that in any case in which there is substantial evidence that an activity might not principally benefit low- and moderate-income persons, even though the activity conforms to a literal reading of the low- and moderate-income benefit criteria, the presumption that the activity meets the national objective may be rebutted. In such cases, HUD will consider the full range of direct effects of the assisted activity. This provision means that HUD will examine the extent to which the activity, in addition to benefiting the low- and moderate-income persons, either negatively affects such persons or provides direct benefits to a substantial number of other persons that are not low to moderate income. When such a rebuttal is raised by HUD, the grantee will have to show why the activity should meet the national objective of benefiting low- to moderate-income persons. The determination of the area served by an activity is critical to the national objective of benefiting low- to moderate-income persons. The principal responsibility for determining the area served by an activity rests with the grantee. HUD will generally accept a

grantee's determination unless the nature of the activity or its location raises serious doubts about the area claimed by the grantee. It is critical that the service area determined by the grantee be the entire area served by the activity.

Appendix D of HUD's Guide provides guidance on how service areas should be determined for this purpose. Appendix D states that when a grantee does not already have an identification of the area served for a given facility or service, it will be necessary for the grantee to determine the service area before Block Grant assistance may be provided if the activity is to qualify under the national objective of benefiting low- to moderate-income persons. As previously indicated, a grantee's determination of the area served will usually be accepted by HUD unless there are indications that the grantee-defined area is clearly too small or too large. A factor to be considered in making the determination of the area served is the nature of the activity. In determining the boundaries of the area served by a facility, its size and how it is equipped need to be considered. For example, a park which contains three ball fields or a ball field with grandstands that can accommodate hundreds of spectators could not reasonably be said to be designed to serve a single neighborhood. The same comparison would apply to the case of assisting a small, two-lane street in a residential neighborhood versus that of an arterial four-lane street that may pass through the neighborhood but is clearly used primarily by persons passing through from other areas.

Interstate 675 is a business route into Saginaw from Interstate 75. Although Saginaw's residents use Interstate 675, the City did not have documentation, such as a use survey, to support that work associated with the Interstate 675 ramps and bridges principally benefited Saginaw's low- to moderate- income residents.

Comment 3 HUD's regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity. In addition, HUD's regulations at 24 CFR 570.501(b) state that that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise.

Comment 4 On December 9, 2009, the city engineer said that the City's staff had not conducted on-site monitoring of the Interstate 675 project and had not verified that the Department's invoices reflected the actual work performed. While construction is in process on the Interstate 675 project, the Department is responsible for all of the inspections to ensure that work is completed in accordance with applicable requirements, plans, and specifications that were

approved for construction. The Department follows more rigorous compliance requirements than the City. Therefore, a City inspector does not need to be on site to monitor the project daily. On December 16, 2010, the city engineer said that on-site City inspectors would duplicate the efforts of the Department's inspectors.

On December 18, 2009, the director of the City's Department of Development said that the City planned to start reviewing the progress of the Interstate 675 project every 2 weeks. The city engineer stated that the City can perform semiweekly or weekly monitoring of the Interstate 675 project. As of December 22, 2009, the Department had stopped its work on the Interstate 675 project for the winter. Therefore, we were unable to determine whether the City had started reviewing the progress of the project.

The City did not provide documentation to support that the city engineer conducted bi-monthly on-site monitoring of the Interstate 675 project.

Comment 5 We did not inform the City that it needed a detailed book of policies and procedures or that a detailed book of policies and procedures was required by the Act.

Comment 6 The City did not have policies and procedures regarding financial management.

The City's 2008-2009 action plan contained policies and procedures for monitoring subrecipients. However, the policies and procedures did not include steps to ensure that subrecipients complete work in accordance with applicable requirements before the City pays for the services.

Comment 7 If the City amends its substantial amendment, this should help ensure that the nearly \$336,000 in Block Grant funds under the Act are used for an eligible activity or activities that meet one of HUD's three national objectives.

Comment 8 The City's commitment to update its policies and procedures, if fully implemented, should improve its capacity to effectively and efficiently administer its Block Grant program under the Act.