



Issue Date	September 30, 2009
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Audit Report Number	2009-CH-1020
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TO: Jeanette Harris, Director of Community Planning and Development, 5FD

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

SUBJECT: The City of Flint, Michigan, Lacked Adequate Controls over Its Commitment and Disbursement of HOME Investment Partnerships Program Funds

HIGHLIGHTS

What We Audited and Why

We audited the City of Flint's (City) HOME Investment Partnerships Program (Program). The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the City based upon our analysis of risk factors relating to Program grantees in Region V's jurisdiction and a citizen complaint to our office. Our audit objectives were to determine whether the City effectively committed and disbursed Program funds and followed the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

The City did not effectively commit and disburse Program funds. It inappropriately reported in HUD's Integrated Disbursement and Information System (System) at least \$2.5 million in Program funds as subgrants, did not cancel subgrants in HUD's System totaling \$400,000 in Program funds, did not reduce a subgrant in HUD's System by nearly \$1,000 in Program funds, and could not provide written agreements supporting nearly \$141,000 of subgrants in HUD's System. As a result, the City must commit nearly \$870,000 in Program funds for eligible subgrants and/or activities by September 30, 2009.

The City also inappropriately drew down and disbursed more than \$1 million in Program funds that were not used for eligible Program costs for more than 15 days after the City drew down the Program funds from its HOME trust fund treasury account (treasury account) and/or HUD's five-year disbursement deadlines as of July 31, 2007, and June 30, 2008. As a result of the inappropriate draw downs and disbursements, the City avoided not meeting HUD's five-year disbursement deadlines and losing more than \$499,000 in Program funds.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Community Planning and Development reduce the City's line of credit in its treasury account by nearly \$680,000 for the Program funds that the City did not appropriately commit by HUD's 24-month commitment deadline and drawdown and disburse by HUD's five-year disbursement deadlines. We also recommend that the Director require the City to cancel incorrect subgrants in HUD's System totaling more than \$1.5 million in Program funds, provide written agreements supporting subgrants or decommit nearly \$141,000 of Program funds in HUD's System, reduce subgrants by more than \$30,000 in Program funds, and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that Program funds are committed and disbursed in accordance with federal requirements and the City does not lose more than \$730,000 in Program funds over the next month.

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

Auditee's Response

We provided our discussion draft audit report to the superintendent of the City's Department, the City's mayor, and HUD's staff during the audit. We held an exit conference with the City's superintendent on September 18, 2009.

We asked the City's superintendent to provide comments on our discussion draft audit report by September 24, 2009. The superintendent provided written comments, dated September 22, 2009. The superintendent partially agreed with finding 1 and agreed with finding 2. The complete text of the written comments, except for a name on the enclosure, along with our evaluation of that response, can be found in appendix B of this audit report.

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BACKGROUND AND OBJECTIVES

The Program. Authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act (Act), as amended, the HOME Investment Partnerships Program (Program) is funded for the purpose of increasing the supply of affordable standard rental housing; improving substandard housing for existing homeowners; assisting new home buyers through acquisition, construction, and rehabilitation of housing; and providing tenant-based rental assistance.

The City. Organized under the laws of the State of Michigan, the City of Flint (City) is governed by a mayor and a nine-member council, elected to four-year terms. The City designated its Department of Community and Economic Development (Department) as the lead agency to administer its Program. The overall mission of the Department is to strengthen the economic well-being of the City by promoting affordable housing, neighborhood revitalization, business development, and job growth. The City did not renew its contract with the former director of the Department and hired the superintendent of the Department on May 1, 2009, to replace the former director. The City's Program records are located at 1101 South Saginaw Road, Flint, Michigan.

The following table shows the amount of Program funds the U.S. Department of Housing and Urban Development (HUD) awarded the City for Program years 2005 through 2008.

Program year	Program funds
2005	\$1,299,639
2006	0
2007	1,027,094
2008	<u>1,173,131</u>
Total	<u>\$3,499,864</u>

HUD did not award the City Program funds in Program year 2006 and reduced the City's award of Program funds for Program year 2007 by more than \$100,000 due to the City's failure to commit nearly \$156,000 in Program funds by June 30, 2005, to comply with HUD's 24-month commitment deadline and to disburse more than \$1.2 million in Program funds by October 31, 2005, to comply with HUD's five-year disbursement deadline.

Our audit objectives were to determine whether the City effectively committed and disbursed Program funds and followed HUD's requirements.

RESULTS OF AUDIT

Finding 1: Controls over the City's Program Commitments Were Inadequate

The City did not maintain an adequate system of controls over its commitment of Program funds. It inappropriately reported in HUD's Integrated Disbursement and Information System (System) at least \$2.5 million in Program funds as subgrants, did not cancel subgrants in HUD's System totaling \$400,000 in Program funds, did not reduce a subgrant in HUD's System by nearly \$1,000 in Program funds, and could not provide written agreements supporting nearly \$141,000 of subgrants in HUD's System because it lacked adequate procedures and controls to ensure that it committed Program funds in accordance with federal requirements. As a result, the City must commit nearly \$870,000 in Program funds for eligible subgrants and/or activities by September 30, 2009, to avoid losing the funds.

The City Inappropriately Reported More Than \$2.5 Million in Commitments in HUD's System

We reviewed all of the commitments the City had reported in HUD's System for its Program as of July 31, 2009. The commitments totaled more than \$24.5 million in Program funds. The City inappropriately reported in HUD's System at least \$2.5 million in Program funds as subgrants and commitments.

Title II of the Act, as amended, section 218(g), states that if any funds become available to a participating jurisdiction under this title that are not placed under binding commitment to affordable housing within 24 months after the last day of the month in which such funds are deposited in a participating jurisdiction's HOME trust fund treasury account (treasury account), the participating jurisdiction's right to draw such funds from its treasury account shall expire. HUD's Secretary shall reduce the line of credit in the participating jurisdiction's treasury account by the expiring amount and shall reallocate the funds by formula.

HUD's regulations at 24 CFR [*Code of Regulations*] 92.2 state that a commitment of Program funds occurs when a participating jurisdiction has executed a legally binding agreement with a state recipient, subrecipient, or contractor to use a specific amount of Program funds to produce affordable housing or provide tenant-based rental assistance, has executed a written agreement reserving a specific amount of Program funds to a community housing development organization, or has met the requirements to commit Program funds to a specific local project. If the project consists of rehabilitation or new construction, a

commitment of Program funds to a specific local project occurs when the participating jurisdiction and project owner have executed a written legally binding agreement under which Program assistance will be provided to the project owner for an identifiable project under which construction can reasonably be expected to start within 12 months of the agreement date. If the project is owned by the participating jurisdiction, the project has been set up in HUD's System, and construction can reasonably be expected to start within 12 months of the project setup date.

Chapter VII, paragraph B.2, of HUD's Office of Community Planning and Development Notice 07-06 states that if a participating jurisdiction owns the property and/or is the developer, acceptable commitment documentation to support that construction is to be expected to start within 12 months includes architectural plans and if required, the construction permit, along with an executed contract for construction of the project or a schedule for construction work.

The City reported in HUD's System at least \$2.5 million in Program funds as subgrants to the City – Flint Area Enterprise Community, Incorporated (Community). The subgrants also counted as commitments to assist the City in complying with HUD's 24-month commitment deadlines. The Community is a nonprofit corporation created by the City and the Township of Mount Morris to alleviate and prevent conditions of long-term unemployment and economic distress and accompanying social ills, stimulate the creation of new jobs for the disadvantaged and long-term unemployed, and promote the revitalization of economically distressed areas. The City did not enter into written agreements with the Community for the more than \$2.5 million in subgrants the City reported in HUD's System. The Program manager of the Department said that the City never intended to subgrant the Program funds to the Community. The Program funds were to be used by the City for its homeownership zone project to provide affordable housing. However, paragraph 6.1.1 of HUD's reference manual for its System, updated June 28, 2002, states that a subgrant is a portion of a grant that is given to other organizations such as community housing development organizations and subrecipients. Further, the City did not have architectural plans, construction permits, executed contracts for construction, or schedules for construction work. Therefore, the \$2.5 million in Program funds also did not qualify as a commitment to a specific local project.

As a result, the City inappropriately reported in HUD's System at least \$2.5 million in Program funds as subgrants and commitments. As of July 31, 2009, the subgrants to the City – Community totaled nearly \$1.9 million in HUD's System. The following table shows the date that the City initially set up the subgrants in HUD's System, the fiscal year in which HUD awarded the Program funds, and the amount of Program funds subgranted on the date the City set up the subgrants and as of April 2 and July 31, 2009.

Date subgrants set up in HUD's System	Fiscal year	Program funds subgranted as of		
		Setup date	April 2, 2009	July 31, 2009
July 25, 2001	2000	\$250,000	\$216,858	\$200,000
April 29, 2004	1996	338,450	414,973	414,973
April 29, 2004	1997	164,521	164,521	164,521
April 29, 2004	1998	15,932	15,932	15,932
April 29, 2004	1999	147,989	185,142	185,142
May 7, 2004	2001	137,879	603,763	428,763
September 27, 2006	2003	172,375	355,204	355,204
June 28, 2007	2005	11,000	11,000	11,000
July 11, 2007	1992	2,744	2,744	2,744
September 28, 2007	2004	53,277	108,115	108,115
November 29, 2007	2002	571,106	436,375	0
Totals		<u>\$1,865,273</u>	<u>\$2,514,627</u>	<u>\$1,886,394</u>

In addition, as of July 31, 2009, the City committed more than \$753,000, as well as drew down and disbursed nearly \$712,000, of the nearly \$1.9 million in Program funds that it had inappropriately reported in HUD's System as subgrants to the City – Community for Program activities that were not related to the homeownership zone project. The City did not fund the new activities until after August 2, 2006. The following table shows the fiscal year in which HUD awarded the Program funds for the subgrants, the amount of Program funds subgranted as of July 31, 2009, and the amount of the subgranted Program funds that the City committed and drew down and disbursed as of July 31, 2009.

Fiscal year	Program funds as of July 31, 2009		
	Subgranted	Committed	Drawn and disbursed
2000	\$200,000	\$0	\$0
1996	414,973	414,973	414,973
1997	164,521	164,521	164,521
1998	15,932	15,932	15,932
1999	185,142	155,094	113,380
2001	428,763	0	0
2003	355,204	0	0
2005	11,000	0	0
1992	2,744	2,744	2,744
2004	108,115	0	0
2002	0	0	0
Totals	<u>\$1,886,394</u>	<u>\$753,264</u>	<u>\$711,550</u>

As previously stated, HUD did not award the City Program funds in Program year 2006 and reduced the City's award of Program funds for Program year 2007 due in part to the City's failure to commit nearly \$156,000 in Program funds by HUD's 24-month commitment deadline as of June 30, 2005. Therefore, had the City not inappropriately reported in HUD's System the \$180,453 in Program funds awarded in fiscal years 1997 (\$164,521) and 1998 (\$15,932) as subgrants

on April 29, 2004, the City would have failed to commit an additional \$180,453 in Program funds by HUD's 24-month commitment deadline as of June 30, 2005.

After the City set up the subgrants in HUD's System for the Program funds awarded in fiscal years 1992, 1996, and 1999 through 2004, it revised the amounts subgranted. HUD's System did not sufficiently track revisions to the amount of Program funds subgranted, and contrary to HUD's regulations at 24 CFR 92.508(a), the City could not provide documentation to support the history of its subgrants in HUD's System. Therefore, we were unable to determine whether the City failed to comply with HUD's prior 24-month commitment deadlines regarding the subgrants for the Program funds awarded in fiscal years 1992, 1996, and 1999 through 2005.

The City Did Not Cancel or Reduce Subgrants in HUD's System Totalling Nearly \$401,000 in Program Funds

As of July 31, 2009, the City had subgrants in HUD's System to Career Alliance, Inc. and Salem Housing Task Force Corporation with remaining balances of \$400,000 and \$954 in Program funds, respectively. However, the City's written agreement with Career Alliance, Inc. expired on August 14, 2008, and the City had not drawn down or disbursed any of the Program funds. Further, the City's written agreement with Salem Housing Task Force Corporation was not dated and did not contain an expiration date. However, the City's Program manager stated that the subgrant to Salem Housing Task Force Corporation had been completed and needed to be closed out in HUD's System. Therefore, the City should have cancelled the subgrants to Career Alliance, Inc. totaling \$400,000 in Program funds and reduced the subgrant to Salem Housing Task Force Corporation by the nearly \$1,000 in Program funds.

The City Could Not Provide Written Agreements Supporting Nearly \$141,000 of Commitments in HUD's System

As of July 31, 2009, the City had subgrants in HUD's System to Flint Neighborhood Improvement and Preservation Project (Flint Project), Flint Community Development Corporation, and Metro Housing Partnership with remaining balances of \$87,099, \$47,450, and \$6,124 in Program funds, respectively. However, the City could not provide written agreements with the organizations that covered the remaining balances. Therefore, it lacked documentation to support that the remaining \$140,673 of Program funds in the subgrants were eligible commitments.

The City Must Commit More Than \$1 Million in Program Funds by September 30, 2009

HUD's 24-month commitment deadline requirement for the City as of September 30, 2009, is more than \$23.8 million in Program funds. As of July 31, 2009, HUD's Program deadline compliance status report (report) showed that the City had committed more than \$24.5 million in Program funds, which exceeded HUD's 24-month commitment deadline amount by \$664,154. However, as of July 31, 2009, the more than \$24.5 million in commitments included \$1,133,130 of inappropriately reported subgrants to the City – Community (\$1,886,394) not committed to Program activities that were not related to the homeownership zone project (\$753,264), \$400,000 in subgrants to Career Alliance, Inc. that the City had not cancelled, and \$954 in a subgrant to Salem Housing Task Force Corporation that the City had not reduced. Therefore, the City must commit \$869,930 in Program funds (\$1,133,130 in inappropriately reported subgrants to the City – Community not committed to Program activities that were not related to the homeownership zone project minus the \$664,154 in excess commitments plus the \$400,000 in subgrants to Career Alliance, Inc. that the City should have cancelled plus the \$954 in a subgrant to Salem Housing Task Force Corporation that the City should have reduced) for eligible activities by September 30, 2009.

The City had committed \$5,367,760 in Program funds since September 1, 2006. However, it inappropriately subgranted at least \$474,319 of that amount. The more than \$474,000 in inappropriate commitments was the amount of Program funds subgranted to the City – Community as of July 31, 2009, not committed to Program activities. Therefore, the City had only appropriately committed \$4,893,441 in Program funds since September 1, 2006, for an average of \$1,677,751 (\$4,893,441 divided by 35 months time 12 months) per year or \$139,813 (\$1,677,751 divided by 12 months times one month remaining to commit Program funds) over a one-month period.

As of August 20, 2009, the City planned to subgrant more than \$1.2 million in Program funds to three nonprofit organizations by September 30, 2009. However, as of August 31, 2009, it had yet to enter into contracts with the nonprofit organizations and had not reported the subgrants in HUD's System.

The City Lacked Adequate Procedures and Controls

The weaknesses regarding the City's commitments for its Program occurred because the City lacked adequate procedures and controls to ensure that it committed Program funds in accordance with federal requirements.

The Department's Program manager stated that the City reported the Program funds in HUD's System as subgrants to the City – Community after discussions with and a recommendation from HUD's Detroit Office of Community Planning and Development to comply with HUD's 24-month commitment deadlines and avoid losing Program funds. However, the Department's superintendent could not provide documentation to support this statement and a community planning and development representative in HUD's Detroit Office of Community Planning and Development said that the office did not direct the City to subgrant the Program funds to comply with HUD's 24-month commitment deadline and avoid losing Program funds.

The Program manager stated that although the City's written agreement with Career Alliance, Inc. had expired, there were third-party agreements that the City and Career Alliance, Inc. had to honor. The Program manager also stated that the written agreement included that the City could reimburse for expenses incurred, provided there was a commitment or obligation to pay for services rendered. However, the written agreement stated all payment requests had to be submitted to the City within 30 days and the City was not obligated to reimburse any expenses after the expiration date of the written agreement. Career Alliance, Inc. had not submitted any payment requests and the written agreement expired more than one year ago. The Program manager said that the City's failure to close out the subgrant to Salem Housing Task Force Corporation and decommit the outstanding Program funds was an oversight.

Conclusion

As previously mentioned, the City lacked adequate procedures and controls to ensure that it committed Program funds in accordance with federal requirements. The City inappropriately reported in HUD's System more than \$2.5 million in Program funds as subgrants to City – Community. If the City had not incorrectly reported the subgrants, it would have lost at least \$180,000 in Program funds due to not meeting HUD's 24-month commitment deadline. In addition, the City did not decommit nearly \$401,000 in Program funds for subgrants in HUD's System associated with expired written agreements and could not provide written agreements to support nearly \$141,000 in Program funds remaining in subgrants in HUD's System. As a result, HUD and the City lacked assurance that Program funds were used effectively and efficiently.

Further, the City must commit \$730,117 (\$869,930 that it must commit minus the \$139,813 average over a one-month period) in Program funds by September 30, 2009, above the one-month average of Program funds the City had appropriately committed since September 1, 2006, to avoid losing the funds.

Recommendations

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

- 1A. Reduce the City's line of credit in its treasury account by \$180,453 for the Program funds the City had not appropriately committed by HUD's 24-month commitment deadline as of June 30, 2005.

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

- 1B. Cancel the subgrants in HUD's System totaling \$1,503,082 in Program funds to City – Community in which none of the Program funds were ever committed to Program activities that were not related to the homeownership zone project (\$1,103,082) and Career Alliance, Inc. (\$400,000).
- 1C. Reduce the subgrants in HUD's System to City – Community for fiscal year 1999 (\$30,048) and Salem Housing Task Force Corporation (\$954) by the remaining \$30,102 in Program funds.
- 1D. Provide legally binding written agreements to support that the remaining \$140,673 of Program funds in the subgrants in HUD's System to Flint Project, Flint Community Development Corporation, and Metro Housing Partnership are eligible commitments. If the City cannot provide legally binding written agreements, it must close-out and decommit the remaining \$140,673 of Program funds in the subgrants and commit the funds for eligible subgrants and/or activities by September 30, 2009, to avoid losing the funds.
- 1E. Implement adequate procedures and controls to commit Program funds for eligible subgrants and/or activities by September 30, 2009, to help ensure that the City does not lose \$730,117 of Program funds in September 2009.
- 1F. Implement adequate procedures and controls to maintain documentation to sufficiently support its commitments, including subgrants reported in HUD's System.

Finding 2: Controls over the City's Disbursement of Program Funds Were Inadequate

The City did not comply with HUD's regulations in its drawing down and disbursement of Program funds from its treasury account. It inappropriately drew down and disbursed more than \$1 million in Program funds that were not used for eligible Program costs for more than 15 days after the City drew down the Program funds from its treasury account and/or HUD's five-year disbursement deadlines as of July 31, 2007, and June 30, 2008, because it lacked adequate procedures and controls to ensure that it drew down and disbursed Program funds in accordance with HUD's regulations. As a result of the inappropriate draw-downs and disbursements, the City avoided not meeting HUD's five-year disbursement deadlines and losing more than \$499,000 in Program funds.

The City Inappropriately Drew Down Nearly \$1.1 Million in Program Funds

We reviewed the nearly \$4.3 million in Program funds that the City drew down from its treasury account for non-administrative activities in the month before and month of HUD's five-year disbursement deadlines as of September 30, 2006, July 31, 2007, and June 30, 2008. The City inappropriately drew down and disbursed more than \$1 million of the Program funds to Flint Project.

HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days. Further, HUD's regulations at 24 CFR 92.500(d)(1) state that HUD will reduce or recapture Program funds in a participating jurisdiction's treasury account by the amount of Program funds in the treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of a Program agreement.

Contrary to HUD's regulations, more than \$1 million of the Program funds were not used for eligible Program costs for more than 15 days after the City drew down the Program funds from its treasury account and/or HUD's five-year disbursement deadlines as of July 31, 2007, and June 30, 2008. The following table shows the voucher number, date Program funds were drawn down, date of HUD's five-year disbursement deadline, date on which the inappropriately drawn down Program funds were first used, and amount of Program funds inappropriately drawn down.

Voucher number	Drawdown date	Disbursement deadline date	First use date	Program funds
1422257	June 22, 2007	July 31, 2007	October 3, 2007	\$25,764
1423251	June 26, 2007	July 31, 2007	March 18, 2008	92,095
1423292	June 26, 2007	July 31, 2007	September 26, 2007	464,025
1431273	July 19, 2007	July 31, 2007	October 3, 2007	2,575
1432392	July 20, 2007	July 31, 2007	September 26, 2007	56,704
1544743	May 29, 2008	June 30, 2008	July 24, 2008	42,972
1544749	May 29, 2008	June 30, 2008	July 24, 2008	35,451
1556592	June 30, 2008	June 30, 2008	July 31, 2008	131,892
1556598	June 30, 2008	June 30, 2008	July 31, 2008	172,008
Total				<u>\$1,023,486</u>

HUD's five-year disbursement deadline amount for the City as of July 31, 2007, was nearly \$17.3 million in Program funds. The City had disbursed more than \$17.4 million as of the deadline date, which exceeded HUD's five-year disbursement deadline amount by \$152,786. However, the more than \$17.4 million in disbursements included \$641,163 in inappropriate disbursements. Therefore, had the City not inappropriately disbursed the Program funds in June and July of 2007, it would have failed to disburse \$488,377 in Program funds by HUD's five-year disbursement deadline as of July 31, 2007.

HUD's five-year disbursement deadline amount for the City as of June 30, 2008, was more than \$18.6 million in Program funds. The City had disbursed more than \$19 million as of the deadline date, which exceeded HUD's five-year disbursement deadline amount by \$371,251. However, the more than \$19 million in disbursements included \$382,323 in inappropriate disbursements. Therefore, had the City not inappropriately disbursed the Program funds in May and June of 2008, it would have failed to disburse \$11,072 in Program funds by HUD's five-year disbursement deadline as of June 30, 2008.

The City's Procedures and Controls Had Weaknesses

The weaknesses regarding the City's inappropriate disbursements of Program funds occurred because the City lacked adequate procedures and controls to ensure that it drew down and disbursed Program funds in accordance with HUD's regulations.

The Department's Program manager stated that the City advanced Program funds to subrecipients to provide capital to contractors so they could complete work and to alleviate delays in the City's reimbursement of subrecipients' costs. The Program manager also stated that Office of Management and Budget Circular A-110 allows advances to be made when funds are needed for cash requirements. However, the Program manager would not explain why the City disbursed Program funds contrary to HUD's regulations.

Conclusion

As previously mentioned, the City lacked adequate procedures and controls to ensure that it drew down and disbursed Program funds in accordance with HUD's regulations. The City drew down and disbursed more than \$1 million in Program funds that were not used for eligible Program costs for more than 15 days after the City drew down the Program funds from its treasury account and/or HUD's five-year disbursement deadlines as of July 31, 2007, and June 30, 2008. If the City had not incorrectly drawn down and disbursed the Program funds, it would have lost more than \$499,000 in Program funds due to not meeting HUD's five-year disbursement deadlines as of July 31, 2007 (more than \$488,000), and June 30, 2008 (more than \$11,000).

Recommendations

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

- 2A. Reduce the City's line of credit in its treasury account by \$499,449 for the Program funds the City did not appropriately draw down and disburse by HUD's five-year disbursement deadlines as of July 31, 2007 (\$488,377), and June 30, 2008 (\$11,072).

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

- 2B. Implement adequate procedures and controls to ensure that it appropriately disburses Program funds for eligible Program costs within 15 days of drawing down the Program funds from its treasury account and HUD's five-year disbursement deadline.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws, Office of Management and Budget Circular A-110, HUD's regulations at 24 CFR Part 92, HUD's Office of Community Planning and Development Notice 07-06, and HUD's "Building HOME: A Program Primer."
- The City's accounting records, annual audited financial statements for 2007, data from HUD's System, Program and activity files, computerized databases, policies, procedures, organizational chart, consolidated community development and annual plans, and consolidated annual performance and evaluation reports.
- HUD's files for the City.

We also interviewed the City's employees, Flint Project's employees, and HUD's staff.

Finding 1

We reviewed all of the more than \$24.5 million in Program commitments that the City reported in HUD's System. The Program commitments were selected to determine whether the City effectively administered its Program, appropriately committed Program funds, and followed federal requirements.

Finding 2

We reviewed all of the nearly \$4.3 million in Program funds that the City drew down from its treasury account for non-administrative activities in the month before and month of HUD's five-year disbursement deadlines as of September 30, 2006, July 31, 2007, and June 30, 2008. The draw downs were selected to determine whether the City effectively administered its Program, appropriately drew down and disbursed Program funds, and followed HUD's regulations.

We performed our on-site audit work from February through July 2009 at the City's offices located at 1101 South Saginaw Road, Flint, Michigan. The audit covered the period July 2007 through January 2009 and was expanded as determined necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our review, we believe that the following item is a significant weakness:

- The City lacked adequate procedures and controls to ensure that it complied with federal requirements in regard to committing Program funds and drawing down and disbursing Program funds from its treasury account (see findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			\$180,453
1B			1,503,802
1C			<u>30,102</u>
1D		<u>\$140,673</u>	
2A	<u>\$499,449</u>		
Totals	<u>\$499,449</u>	<u>\$140,673</u>	<u>\$1,714,357</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ 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 these instances, if the City implements our recommendations, it will cease reporting in HUD's System Program funds for improper subgrants.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation


Auditee Comments

9-24-09; 4:01PM; :3 # 2/ 5



TRACY B. ATKINSON
Superintendent

OFFICE OF THE CITY ADMINISTRATOR
Department of Community and Economic Development



Dayne Walling
Mayor

September 22, 2009

United States Department of Housing and Urban Development
Office of the Inspector General for Audit, Region V
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604

Attn: Brent G. Bowen, Assistant Regional Inspector General for Audit

RE: Office of Inspector General's Draft Audit
HOME Investment Partnerships Program
Audit Report Number: 2009-CH-101X

Audit Finding 1: Controls over the City's Program Commitments Were Inadequate

The city did not maintain an adequate system of controls over its commitment of Program funds. It inappropriately reported in HUD's Integrated Disbursement and Information System (System) at least \$2.5 million in Program funds as subgrants, did not cancel subgrants in HUD's System totaling \$400,000 in Program funds, did not reduce a subgrant in HUD's System by nearly \$1,000 in Program funds, and could not provide written agreements supporting nearly \$141,000 of subgrants in HUD's System because it lacked adequate procedures and controls to ensure that it committed Program funds in accordance with federal requirements. As a result, the City must commit nearly \$870,000 in Program funds for eligible subgrants and/or activities by September 30, 2009, to avoid losing the funds.

AUDIT RECOMMENDATION OR FINDING 1:

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

1A. Reduce the City's line of credit in its treasury account by \$180,453 for the Program funds the City had not appropriately committed by HUD's 24-month commitment deadline as of June 30, 2005.

City of Flint Department of Community and Economic Development Comments for Finding 1:
The City of Flint disagrees with the above referenced citation in the audit and supports its commitment of at least \$2.5 million in program funds to a local project known as the City's Homeownership Zone. These funds were included in HUD financial and disbursement system after consultation and recommendation from HUD local field office representative that was

CITY OF FLINT 1101 SAGINAW ST., ROOM N 102 FLINT MICHIGAN 48502
OFFICE: 810.766.7436 FAX: 810.766.7351

Comment 1
Comment 2

Ref to OIG Evaluation

Auditee Comments

Comment 2

assigned to the Flint area during this time. The rationale to commit the funds were based solely upon the City developing a local project known as the City's Homeownership Zone.

Comment 1

The City's Homeownership Zone is a federally designated area the City proposes to build 309 single family homes that will result in homeownership opportunities for low to moderate income families. HOME funds committed, \$2.5 million, is for the purpose of completing this local project with the City functioning as the primary developer. As the developer, the City has preliminary plans, budgets (\$2.5 million) and project timelines it completed for the project to start within a 12 month period. In 2003, housing rehabilitation, which is a component of the project plan began in the development area.

Comment 1

As circumstances changed within the department and for the City as a whole, the project was stalled. During 2005-6, HUD provided technical assistance from its HUD "College of Experts" to develop a restart strategy where revised plans and budgets were developed, and a market study conducted to evidence project readiness within a 12 month period. Engineering and utility assessments are completed as well as the completion of the topographic survey. Additional technical assistance was retained at the local level and the project progressed to initiate infrastructure needs and continue housing rehabilitation needs. Due to recent change in the administration, current economic climate as well as the need to comply with HOME expiring funds, the project and its funding is being reevaluated at this time.

Comment 3

In reference to the \$400,000 of program funds as cited in the audit, the City disagree that these funds do not constitute a commitment reservation. These funds are obligated by written agreement between the city and the subrecipient organization due to an obligation of a third party agreement. The written agreement executed between the city and its subrecipient states that

Comment 3

"Obligated funds are defined as those funds, which the Subrecipient has committed by placing orders, awarding contracts, receiving goods or services, or completing similar documented transactions that require payment in the future. (For purposes of housing rehabilitation activities, funds become obligated when the rehabilitation contract is signed by both the homeowner and contractor.)"

Comment 3

Funds are obligated as long as the obligation was made prior to the expiration of the written agreement.

Comment 4

In reference to HOME agreements in the amount of \$141,000 not being available for the audit, the City agrees that these records were not available. The City was asked to provide written agreements as evidence of HOME commitments dating back from 1992 to the present which represents over \$26 million of HOME funds. Federal record retention requirements indicate that records should be retained for a period of six years after termination of activities or resolution of audit findings. Although the records were not available, the City procedures mandate a written agreement to disburse all funds.

The City agrees that \$870,000 is necessary to commit and expend on or before September 30, 2009. The City was notified of the new HOME expiring funds deadline, February 2009 which indicates that participating jurisdictions have 7 years to expend HOME funds. The City took steps to finance projects that were project ready as an aggressive effort to comply with the

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Ref to OIG Evaluation

Auditee Comments

HOME expending funds deadline. Currently, the City has \$59,000 to commit and draw that will be committed and drawn before September 30, 2009.

Audit Finding 2: Controls over the City's Disbursement of Program Funds Were Inadequate

The City did not comply with HUD's regulations in its drawing down and disbursement of Program funds from its treasury account. It inappropriately drew down and disbursed nearly \$1.1 million in Program funds that were not used for eligible Program costs for more than 15 days after the City drew down the Program funds from its treasury account and/or HUD's five year disbursement deadlines as of July 31, 2007, and June 30, 2008, because it lacked adequate procedures and controls to ensure that it drew down and disbursed Program funds in accordance with HUD's regulations. As a result of the inappropriate draw-downs and disbursements, the City avoided not meeting HUD's five year disbursement deadlines and losing more than \$549,000 in Program funds.

AUDIT RECOMMENDATION OR FINDING 2:

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

- 2A. Reduce the City's line of credit in its treasury account by \$549,238 for the Program funds the City did not appropriately draw down and disburse by HUD's five-year disbursement deadlines as of July 31, 2007 (\$513,639), and June 30, 2008 (\$35,599).

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

- 2B. Implement adequate procedures and controls to ensure that it appropriately disburses Program funds for eligible Program cost within 15 days of drawing down the Program funds from its treasury account and before HUD's five year disbursement deadline.

City of Flint Department of Community and Economic Development Comments for Finding 2:

The City agrees that it inappropriately drew down a million dollars of HOME funds that were not used for eligible program costs for more than 15 days after the funds were drawn from the treasury account. Funds were advanced to subrecipient organization(s) in accordance to OMB Circular construction advance requirements in an effort to pay contractors for eligible costs in order to have funds on hand when billed due to economic and financial conditions that has impacted the City's general contractor pool. The 15-day rule was brought to the City's attention by the Office of Inspection General. The City was not aware of the 15-day requirement. The City immediately issued corrective action informing subrecipient organizations of the 15 day rule and this HOME rule is aggressively monitored by the City's monitoring staff to ensure compliance. (Please see enclosed subrecipient letter)

Comment 5


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Ref to OIG Evaluation

Auditee Comments


Comment 5

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**DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT**
TRUST • TEAMWORK • TIMELINESS

OFFICE OF THE CITY ADMINISTRATOR
Department of Community and Economic Development



1817
1955
THE SOCIAL OPPORTUNITY ENERGY

NANCY JURKIEWICZ RICH
Director

April 1, 2009

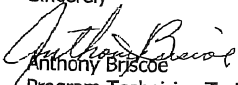
RE: HOME Final Rule

Dear [REDACTED]:

The purpose of this letter is to serve as a reminder that all HOME Funds issued to your agency must be disbursed for eligible expenditures per the HOME Final Rule within 15 days of the disbursement from the City of Flint.

Please be advised that any funds not expended must be returned to the City of Flint so that these funds can be forwarded to the U.S Department of Housing and Urban Development.

If you have any questions, please contact Karen Morris at (810) 766-7436 ext.3010.

Sincerely

Anthony Briscoe
Program Technician Trainee

Xc: Karen Morris

MICHAEL K. BROWN
Acting Mayor

CITY OF FLINT 120 E FIFTH STREET, ROOM N 102 FLINT MICHIGAN 48502
OFFICE: 810.766.7436 FAX: 810.766.7351

OIG's Evaluation of Auditee Comments

Comment 1 HUD's regulations at 24 CFR 92.2 state that a commitment of Program funds occurs when a participating jurisdiction has executed a legally binding agreement with a state recipient, subrecipient, or contractor to use a specific amount of Program funds to produce affordable housing or provide tenant-based rental assistance, has executed a written agreement reserving a specific amount of Program funds to a community housing development organization, or has met the requirements to commit Program funds to a specific local project. If the project consists of rehabilitation or new construction, a commitment of Program funds to a specific local project occurs when the participating jurisdiction and project owner have executed a written legally binding agreement under which Program assistance will be provided to the project owner for an identifiable project under which construction can reasonably be expected to start within 12 months of the agreement date. If the project is owned by the participating jurisdiction, the project has been set up in HUD's System, and construction can reasonably be expected to start within 12 months of the project setup date.

Chapter VII, paragraph B.2, of HUD's Office of Community Planning and Development Notice 07-06 states that if a participating jurisdiction owns the property and/or is the developer, acceptable commitment documentation to support that construction is to be expected to start within 12 months includes architectural plans and if required, the construction permit, along with an executed contract for construction of the project or a schedule for construction work.

The City did not have architectural plans, construction permits, executed contracts for construction, or schedules for construction work.

Comment 2 We revised the report to state that the Department's Program manager stated that the City reported the Program funds in HUD's System as subgrants to the City – Community after discussions with and a recommendation from HUD's Detroit Office of Community Planning and Development to comply with HUD's 24-month commitment deadlines and avoid losing Program funds.

Comment 3 As of July 31, 2009, the City had subgrants in HUD's System to Career Alliance, Inc. with a remaining balance of \$400,000 in Program funds. Section II of the City's written agreement with Career Alliance, Inc., dated August 15, 2006, states that all payment requests must be submitted to the City within 30 days and the City is not obligated to reimburse any expenses after August 14, 2008, the expiration date of the written agreement. The City had not drawn down or disbursed any of the Program funds. Further, Career Alliance, Inc. had not submitted any payment requests and the written agreement expired more than one year ago.

Comment 4 HUD's regulations at 24 CFR 92.508(c) state that written agreements must be retained for five years after the agreement terminates.

As of July 31, 2009, the City had subgrants in HUD's System to Flint Project, Flint Community Development Corporation, and Metro Housing Partnership with remaining balances of \$87,099, \$47,450, and \$6,124 in Program funds, respectively. However, the City could not provide written agreements with the organizations that covered the remaining balances. Therefore, it lacked documentation to support that the remaining \$140,673 of Program funds in the subgrants were eligible commitments.

Comment 5 The City's corrective action should assist it in complying with HUD's regulations in its drawing down and disbursement of Program funds from its treasury account.

Appendix C

FEDERAL REQUIREMENTS

Finding 1

Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, section 218(g), states that if any funds becoming available to a participating jurisdiction under this title are not placed under binding commitment to affordable housing within 24 months after the last day of the month in which such funds are deposited in a participating jurisdiction's treasury account, the participating jurisdiction's right to draw such funds from its treasury account shall expire. HUD's Secretary shall reduce the line of credit in the participating jurisdiction's treasury account by the expiring amount and shall reallocate the funds by formula.

HUD's regulations at 24 CFR 92.2 states that a commitment of Program funds occurs when a participating jurisdiction has executed a legally binding agreement with a state recipient, subrecipient, or contractor to use a specific amount of Program funds to produce affordable housing or provide tenant-based rental assistance, has executed a written agreement reserving a specific amount of Program funds to a community housing development organization, or has met the requirements to commit Program funds to a specific local project. If the project consists of rehabilitation or new construction, a commitment of Program funds to a specific local project occurs when the participating jurisdiction and project owner have executed a written legally binding agreement under which Program assistance will be provided to the project owner for an identifiable project under which construction can reasonably be expected to start within 12 months of the agreement date. If the project is owned by the participating jurisdiction, the project has been set up in HUD's System, and construction can reasonably be expected to start within 12 months of the project setup date.

HUD's regulations at 24 CFR 92.500(d)(1) state that HUD will reduce or recapture Program funds in a participating jurisdiction's treasury account by the amount of Program funds in the treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of a Program agreement.

HUD's regulations at 24 CFR 92.508(a) state that a participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of 24 CFR Part 92. The participating jurisdiction must maintain records documenting compliance with the 24-month commitment deadline of 24 CFR 92.500(d).

Chapter II, paragraph B.1, of HUD's Office of Community Planning and Development Notice 07-06 states that the 24-month commitment requirement for Program funds is statutory and cannot be waived. Paragraph A.2 of chapter VI states that to determine compliance with the commitment requirement, HUD must compare a participating jurisdiction's cumulative allocations from Program inception through the deadline year, minus any deobligations, to its cumulative commitments to Program activities from Program inception to its commitment deadline. Paragraph A.3.a states that a participating jurisdiction meets the commitment

requirement if its cumulative commitments through its commitment deadline are equal to or greater than its cumulative allocations, minus any deobligations, through the deadline year. Paragraph A.3.c states that the amount of any ineligible activities will be subtracted from the participating jurisdiction's cumulative commitments since ineligible activities do not count as Program commitments. Paragraph B.1 of chapter VII states that acceptable commitment documentation means a written agreement or contract between a participating jurisdiction and subrecipient, signed by both parties before the deadline date, committing a specific amount of Program funds for a specific Program project. Paragraph B.2 states that if a participating jurisdiction owns the property and/or is the developer, acceptable commitment documentation to support that construction is to be expected to start within 12 months includes architectural plans and if required, the construction permit, along with an executed contract for construction of the project or a schedule for construction work.

Paragraph 6.1.1 of HUD's reference manual for its System, updated June 28, 2002, states that a subgrant is a portion of a grant that is given to other organizations such as community housing development organizations and subrecipients.

Section II of the City's written agreement with Career Alliance, Inc., dated August 15, 2006, states that all payment requests must be submitted to the City within 30 days and the City is not obligated to reimburse any expenses after August 14, 2008, the expiration date of the written agreement.

Finding 2

HUD's regulations at 24 CFR 92.500(d)(1) state that HUD will reduce or recapture Program funds in a participating jurisdiction's treasury account by the amount of Program funds in the treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of a Program agreement.

HUD's regulations at 24 CFR 92.502(c)(2) state that Program funds drawn down from a participating jurisdiction's treasury account must be expended for eligible costs within 15 days.