



# City of San Bernardino, CA

## HOME Investment Partnerships Program

**Office of Audit, Region 9**  
**Los Angeles, CA**

**Audit Report Number: 2019-LA-1003**  
**February 20, 2019**

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**To:** Rufus Washington, Director, Los Angeles Office of Community Planning and Development, 9DD

**//SIGNED//**

**From:** Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

**Subject:** The City of San Bernardino, CA, Did Not Fully Administer Its HOME Investment Partnerships Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of San Bernardino's HOME Investment Partnerships grant program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



**Audit Report Number: 2019-LA-1003**

**Date: February 20, 2019**

**The City of San Bernardino, CA, Did Not Fully Administer Its HOME Investment Partnerships Program in Accordance With HUD Requirements**

## Highlights

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### What We Audited and Why

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We audited the City of San Bernardino, CA's HOME Investment Partnerships program. We audited the City based on the Region 9<sup>1</sup> Office of Inspector General's 2016 risk analysis of Los Angeles area community planning and development grantees. In addition, although the County of San Bernardino had been administering the City's recent HOME grants, the City still had several of its own HOME activities underway and others that had closed within the past 2 years. Our audit objective was to determine whether the City administered its HOME program in accordance with HUD requirements.

### What We Found

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The City did not fully administer its HOME program in accordance with HUD requirements. For the most part, the City used its HOME funding in accordance with program requirements. However, accounting and drawdown errors resulted in \$22,402 in duplicative overcharges to the program. This error was due to the City's not having adequate policies, procedures, and controls to ensure that HOME draws were accurate and in accordance with HUD requirements. As a result, these funds were not available to carry out eligible HOME activities.

### What We Recommend

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We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to (1) repay its program \$22,402 for erroneous costs charged to HOME activity 2292 from non-Federal funds and (2) update and implement changes to its policies and procedures to prevent similar errors and ensure that HOME draws are accurate and in accordance with HUD requirements.

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<sup>1</sup>HUD-OIG Region 9 covers California, Arizona, Nevada, and the Pacific Islands.

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# Background and Objective

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The HOME Investment Partnerships Program (HOME) provides formula grants funds to fund affordable housing for low-income households through a range of activities including building, buying, and rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income households.

The City of San Bernardino receives annual HOME Investment Partnerships program entitlement allocation funds from the U.S. Department of Housing and Urban Development (HUD). However, during our audit scope period, July 2015 through June 2018, the City entered into an agreement to participate in San Bernardino County's HOME Consortium program. Through this partnership, the County was responsible for implementing the City's 2015 to 2018 HOME program awards. However, the City had accumulated enough prior-year HOME funding and program income to continue to operate its HOME program during that period. The City's Economic and Housing Development department administers its HOME program. HUD data and City records show that the City had drawn more than \$5.7 million in HOME funds over the past 3 years from the following HOME grants:

Grant year	Grant number	Drawn amount
2008	M08MC060531	\$32,331
2009	M09MC060531	1,231,149
2010	M10MC060531	1,279,276
2011	M11MC060531	1,272,586
2012	M12MC060531	212,188
2013	M13MC060531	843,574
2014	M14MC060531	666,817
2015	M15MC060531	168,582
<b>Total HOME funds</b>		<b>5,706,503</b>

Our audit objective was to determine whether the City administered its HOME program in accordance with HUD requirements.

# Results of Audit

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## **Finding: The City Did Not Fully Administer Its HOME Program in Accordance With HUD Requirements**

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The City did not fully administer its HOME program in accordance with HUD requirements. For the most part, the City used its HOME funding in accordance with program requirements. However, accounting and drawdown errors resulted in duplicative overcharges of \$22,402 to the program. The City did not have adequate policies, procedures, and controls to ensure that HOME activities were conducted in accordance with HUD requirements. As a result, these funds were not available to carry out eligible HOME activities.

### **The City Made Erroneous Charges to Its HOME Infill Housing Properties Activity**

HUD regulations at 2 CFR 200.403 state that costs must meet the following general criteria to be allowable under Federal awards: “(a) be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles... (c) be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...” and “(g) be adequately documented.” (See appendix C.)

The City’s assigned developer for its Infill Housing Program properties activity used \$650,000 in City HOME funds for the purpose of acquiring three eligible properties to develop affordable housing units to be sold to qualified home buyers. We reviewed expenditures totaling \$211,096 for the three single-family homes related to this activity. The expenditures were generally eligible and properly supported; however, adding errors resulted in duplicative amounts. A combined total amount of \$22,402 from two of the three homes was overcharged to the HOME voucher. See the table below.

Voucher date	IDIS* ID	Journal entry date	Journal entry reference	Drawdown amount	Overcharged amount
6/28/2018	2292	5/30/2018	1430041645	\$72,880.08	\$11,580.22
6/28/2018	2292	1/10/2018	1430041634	82,703.85	10,821.59
				<b>Total</b>	<b>22,401.81</b>

\* IDIS = Integrated Disbursement and Information System

Revised journal entries resulted in reversing entries recorded as negative amounts. However, when the expenditures were later added for the total voucher amount, the negative amounts were incorrectly added as positive amounts, resulting in duplicative overcharges. The City’s HOME and grants management policies and procedures were not updated and did not include levels of approval to identify and prevent errors.

We notified the City of the errors, and it agreed and indicated that a mistake was made while adding the amounts from a list of expenditures using an adding machine. We were notified that the City would make the required adjustments to correct the issue and repay the grant, which still had a balance of unused funds. However, the City did not provide documentation to support the repayment by the end of our audit fieldwork.

### **The City Did Not Have Adequate HOME Policies and Procedures**

HUD conducted a review of the City's HOME program in May 2016 and found that the City's HOME policies and procedures did not include sufficient detail to ensure that its Housing Division staff administered the HOME program in a fair and consistent manner in compliance with Federal requirements. As a result, HUD recommended that the City submit updated HOME policies and procedures for HUD's review and comment by July 17, 2016. The City responded that an update to its HOME policies and procedures was in process and requested additional time to finalize these revisions and submit the final draft of the policies and procedures.

The City could not produce correspondence indicating compliance with HUD's recommendation. Instead, it provided policies and procedures for the HOME program that were updated in July 2018, after the errors noted above. No prior-year procedures were provided by the City with the exception of the incomplete policies and procedures reviewed by HUD in 2016. Neither the prior nor the updated policies and procedures included sufficient specific draw process controls to ensure that accurate amounts were charged to the program.

The recently updated policies and procedures included many typographic errors and appeared to be several handbooks put together in a haphazard fashion. The table of contents was incorrect, making it difficult to determine how the policies and procedures were organized. Although the City failed to organize the information properly, the content appeared to be correct.

### **Conclusion**

For the most part, the City, used its HOME funding in accordance with the grant and program requirements. However, issues with its policies, procedures, and controls resulted in duplicative overcharges to the program. As a result, \$22,402 in HOME funds was not used for its intended purpose.

### **Recommendations**

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

- 1A. Repay its program \$22,402 for duplicative charges to HOME activity 2292 from non-Federal funds.
- 1B. Update and implement changes to the City's HOME and grants management policies and procedures to prevent similar errors and ensure that HOME draws are accurate and in accordance with HUD requirements.

# Scope and Methodology

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We performed our onsite survey work at the City's Economic and Housing Development department located at 201 North E Street, 3rd Floor, San Bernardino, CA, from July 30 to November 7, 2018. Our review generally covered the period July 1, 2015, to June 30, 2018, and was expanded as necessary.

To accomplish our objective, we performed the following:

- Reviewed HUD regulations and requirements.
- Interviewed appropriate City staff personnel.
- Reviewed relevant City policies, procedures, and controls over the program.
- Reviewed HUD monitoring reports.
- Reviewed the City's consolidated plans, consolidated annual performance and evaluation reports, and action plans.
- Reviewed HOME recipient and subrecipient funding agreements.
- Reviewed reports from HUD's Integrated Disbursement and Information System (IDIS)<sup>2</sup> and Line of Credit Control System (LOCCS)<sup>3</sup> to obtain HOME disbursements for the audit period.
- Reviewed drawdowns (vouchers) and supporting documentation for sampled program expenses.
- Reviewed the City's audited financial statements for fiscal years 2015, 2016, and 2017.

The voucher universe for the review consisted of 16 vouchers submitted by the City and paid by HUD during our audit period (July 1, 2015, through June 30, 2018). The total from the voucher universe was more than \$4.8 million in expenditures from HOME activities. Since the voucher universe was relatively small, we selected a nonstatistical sample for our review. We reviewed details from each of the vouchers and decided to select two vouchers, one from fiscal year 2017 and one from fiscal year 2018, based on various activities identified in the draw. The selected vouchers covered expenditures of more than \$1.1 million for six activities, including HOME administration, and they represented 24.48 percent of the total amount from the universe. See the table below.

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<sup>2</sup> IDIS is a nationwide database that provides HUD with current information regarding the program activities underway across the Nation. HUD uses this information to report to Congress and to monitor grantees. IDIS is the drawdown and reporting system for the Community Development Block Grant.

<sup>3</sup> LOCCS is HUD's primary grant disbursement system, handling disbursements for most HUD programs.

**Sample items and activities reviewed**

Voucher number	Voucher amount	Activity number	Activity name	Activity amount <sup>4</sup>
V5948499	\$967,585			
		2223	Waterman Gardens 1	\$660,600
		2040	Neighborhood Housing Services	102,884
		2196	Valencia 9 Apartments	150,000
		2123	Single Family Rehabilitation Loan Program	1,630
		2225	HOME Administration	52,472
			Voucher total	<b>967,585</b>
V6167031	211,096	2292	Infill Housing Program	<b>211,096</b>
<b>Total</b>	<b>1,178,681</b>			<b>1,178,681</b>

The results from our review were limited to the vouchers in our sample and cannot be projected to the universe.

We found that data contained in source documentation provided by the City agreed with data contained in LOCCS. Therefore, we determined the data from the City to be sufficiently reliable for our use during the audit

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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>4</sup> \$1 Difference due to rounding.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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 objective:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiency**

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

- The City did not have adequate policies, procedures, and controls to ensure that expenditures charged to HOME program activity 2292 were supported and properly calculated in accordance with program requirements (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>
1A	\$22,402
<b>Total</b>	<b>22,402</b>

- 1/ Ineligible costs are those 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. In this instance, the ineligible costs included \$22,402 in HOME costs erroneously charged to activity 2292.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments



City of  
**San Bernardino**

Office of the City Manager | Andrea M. Miller, City Manager

February 7, 2019

Ms. Tanya E. Schulze  
Regional Inspector General for Audit  
300 N. Los Angeles Street, Suite 4070  
Los Angeles, California 90012

**Re: Response to Audit Report Number 2019-LA-100# - City of San Bernardino HOME Program**

Dear Ms. Schulze:

The City of San Bernardino is most appreciative of the time you and your staff took to meet with City staff and discuss the U.S. Department of Housing and Urban Development's Office of the Inspector General's (OIG) audit report, on the City's HOME Investment Partnerships Program. The report is instructive in assisting the City improve its systems and administration of the HOME program.

As noted in the audit result findings, the City did not fully administer its HOME program in Accordance with HUD requirements, and two specific areas were noted:

1. The City Made Erroneous Charges to its HOME Infill Housing Properties Activity  
A duplication of invoice amounts resulted in the overcharge of \$22,402 to the HOME voucher for Integrated Disbursement and Information System (IDIS) activity #2292 - Infill Housing Program.
  - Resolution: Following our meeting with OIG on February 6, 2019 to discuss our proposed solution, since activity #2292 is currently open and active; the City is processing a draw less \$22,402 in order to correct the overcharge.
2. The City Did Not Have Adequate HOME Policies and Procedures  
The City's HOME Policies and Procedures were disorganized and not sufficiently specific in areas such as draw process controls.
  - Resolution: On January 16, 2019 the San Bernardino City Council approved a consultant services agreement between the City and Keyser Marston Associates, Inc. for the preparation of a draft HOME Policies and Procedures Manual. The draft HOME Policies and Procedures Manual

290 North D St, San Bernardino, CA 92401 | P: 909-384-5122 | F: 909-384-5138 | www.SBCity.org

Comment 1

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 2

will be submitted to the Office of Community Planning and Development (CPD) for review and approval. After approval by CPD the Manual will be finalized and presented to the City Council for adoption.

Once again, we are appreciative of your expertise and the opportunity to rectify areas of the HOME Program that are not up to standard, so the program will comply with all federal requirements.

Sincerely,

**CITY OF SAN BERNARDINO**



Andrea M. Miller  
City Manager

cc: Rufus Washington, Director, Office of Community Planning and Development  
Ebony Madyun, Program Manager, Community Planning and Development  
Michael Kovalsky, Senior Community Planning and Development Representative  
Teri Ledoux, Assistant City Manager  
Rita Conrad, Interim Finance Director, City of San Bernardino  
Jeff Bloom, Interim Community & Economic Development Director, City of San Bernardino  
Gretel Noble, Housing Manager, City of San Bernardino  
Annie Clark, Financial Consultant

### **OIG Evaluation of Auditee Comments**

- Comment 1 We acknowledge the City's proposed solution to process a draw adjusted to correct the overcharge and we also recognize the City's will to work with HUD-CPD to address the related finding recommendation.
- Comment 2 We acknowledge the City's commitment to improve its HOME program policies and procedures by hiring a consultant firm for the preparation of a draft HOME Policies and Procedures Manual. The City will work with HUD during the audit resolution process to provide support that its HOME policies and procedures have been approved and implemented.

## Appendix C

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### Criteria

#### **2 CFR 200.403, Factors affecting allowability of costs.**

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.