OFFICE OF AUDIT
REGION 4
ATLANTA, GA

City of Sarasota, Sarasota, FL

Neighborhood Stabilization Program 2 Recovery Act Program

2013-AT-1004

APRIL 25, 2013

April 25, 2013

The City of Sarasota, FL, Did Not Always Properly Administer Its NSP2

TO: Gary Causey, Director of Community Planning and Development, Jacksonville Field Office, 4HD

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, (Atlanta) Region, 4AGA

SUBJECT: The City of Sarasota, FL, Did Not Always Properly Administer Its NSP2

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 Sarasota's administration of the Neighborhood Stabilization Program 2 (NSP2) funds authorized under the American Recovery and Reinvestment Act of 2009.

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 8L, requires that OIG post its publicly available reports on the OIG Web site. 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 404-331-3369.

April 25, 2013

The City of Sarasota, FL, Did Not Always Properly Administer Its NSP2

Highlights

Audit Report 2013-AT-1004

What We Audited and Why

We audited the City of Sarasota because it was awarded $23 million in Neighborhood Stabilization Program 2 (NSP2) funds and it was in accordance with our audit plan to review funds provided under the American Recovery and Reinvestment Act of 2009. Our objective was to determine whether the City administered its NSP2 in accordance with applicable Federal requirements. Specifically, we wanted to determine whether (1) approved activities met a national objective, (2) program income was properly accounted for, and (3) expended funds were allowable.

What We Recommend

We recommend that the Director of Community Planning and Development of the Jacksonville field office require the City to (1) implement its NSP2 policies and procedures, and (2) request its internal audit division to continually examine potentially risky areas of the City's Office of Housing and Community Development program operations.

What We Found

The City met the low-, moderate-, or middle-income national objective and properly accounted for program income. However, it did not ensure that some NSP2 expenditures for the redevelopment of a public housing site were eligible. This condition occurred because the City did not (1) appropriately review expenditures, (2) have an adequate agreement with its subrecipient, (3) maintain effective coordination with all the parties involved in this activity, and (4) have continuous internal audit reviews conducted on its NSP2. This deficiency resulted in ineligible costs of $388,130 to the program.

In response to our audit, the City provided additional documentation after the exit conference to show that ineligible expenditures were allowable or reclassified with other eligible expenditures. Therefore, the City was not required to reimburse the U.S. Treasury $388,130 from non-Federal funds.

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BACKGROUND AND OBJECTIVE

On February 17, 2009, Congress enacted Public Law 111-5, known as the American Recovery and Reinvestment Act of 2009. Title XII of Division A of the Recovery Act provided additional emergency assistance for the redevelopment of abandoned and foreclosed-upon homes as initially authorized under Division B, Title III, of the Housing and Economic Recovery Act of 2008. Specifically, Congress appropriated $1.93 billion in Neighborhood Stabilization Program 2 (NSP2) funds to stabilize communities that have suffered from foreclosure and abandonment through the purchase and redevelopment of foreclosed-upon and abandoned homes and residential properties. In 2010, the U.S. Department of Housing and Urban Development (HUD) awarded NSP2 grants to 56 grantees nationwide, which included States, units of general local government, nonprofits, and a consortium of public and private nonprofit entities.

HUD awarded the City of Sarasota, a municipal corporation of the State of Florida, $23 million in NSP2 funds on behalf of the Sarasota Consortium, which included the City as the lead entity and Sarasota County. NSP2 funds are administered by the City and County Office of Housing Community Development. This office was established in 1995 in an interlocal agreement between the City and County to cooperatively administer housing and community development programs.

According to HUD's Disaster Recovery Grant Reporting system, as of June 30, 2012, the City had expended $15.6 million, which included $794,107 in program income. The system indicated that the City had progressed with activities related to the acquisition and rehabilitation of single-family and multifamily properties, demolition of blighted structures, and redevelopment of a public housing site. The City worked with nonprofit developers and subrecipients to implement its NSP2.

Our objective was to determine whether the City administered its NSP2 in accordance with the Recovery Act and HUD requirements. Specifically, we wanted to determine whether (1) approved activities met a national objective, (2) program income was properly accounted for, and (3) expended funds were allowable.

RESULTS OF AUDIT

Finding: The City Did Not Ensure That Some NSP2 Expenditures Were Eligible

The City did not ensure that some NSP2 expenditures for the redevelopment of a public housing site were eligible. This condition occurred because the City did not (1) appropriately review expenditures, (2) have an adequate agreement with the subrecipient, (3) maintain effective coordination with all the parties involved in this activity, and (4) have continuous internal audit reviews conducted on its NSP2. As a result, the City charged ineligible costs of $388,130 to the program.

Ineligible Expenditures

The City drew down $2.5 million in NSP2 funds for the redevelopment of a public housing site. This was a mixed financed project that was funded by multiple sources administered by the City and other entities. This activity resulted in the development of 68 affordable apartments and a commercial retail component, consisting of 10,500 square feet of retail space.

The drawdown of $2.5 million was comprised of four drawdown vouchers. Two of the four vouchers reviewed were eligible and supported. However, the remaining two vouchers had ineligible expenditures totaling $388,130. Regulations at 24 CFR (Code of Federal Regulations) 85.20 (b)(2) and (3) requires the grantees to maintain accounting records and effective controls and accountability of funds.

NSP2 drawdown voucher no.	Total voucher amount	Questioned amount	Ineligible
137767	$1,692,900	$186,814	X
168338	$ 201,316	$201,316	X
163913	$ 305,784	$ 0	
158354	$ 300,000	$ 0	
Total	**$2,500,000**	**$388,130**	

1. *Drawdown Voucher 137767 - $1,692,900*

This drawdown voucher contained more than $1.5 million in eligible expenditures. However, the remaining $186,814 in expenditures were ineligible. The City agreed that the voucher contained unallowable expenditures that should have been charged to other funds. These expenditures included $2,479 in excess draws and $171,975 in ineligible expenses related to the commercial retail component and demolition; therefore, the City did not appropriately review expenditures to ensure that costs were eligible NSP2 expenses.

In response to our audit, the City proposed to offset these unallowable expenditures with other eligible expenses incurred for this redevelopment activity. HUD agreed with the City transferring the expenses. During the exit conference on March 19, 2013, the City provided additional documentation to support this reclassification of expenditures to the appropriate programs, as well as a complete reconciliation of the project funds. As a result, the City provided sufficient documentation to address this finding.

This voucher also contained $12,360 in unallowable legal expenses that were related to the retail section according to the invoice description. The City did not recognize this expense as unallowable. Neighborhood Stabilization Program Resource Exchange, FAQ ID: 672, further explains that under eligible use E for redevelopment, NSP2 funds may not be used for nonresidential purposes. Therefore, this legal expense should not have been charged to the program and $12,360 was ineligible.

In response to our audit, after the exit conference, the City provided additional information from the attorney certifying that legal services were for the residential portion of the activity. Therefore, the City provided sufficient documentation to address this finding.

2. *Drawdown Voucher 168338 - $201,316*

During the audit, the City discovered that the developer also sent private funds to the trustee to pay for the expenditures that supported drawdown voucher 168338, resulting in unused NSP2 funds of $201,316. On November 21, 2012, the unused funds were returned to the City. This occurred because there was no effective coordination with all the parties involved in this activity to ensure expenses were not funded by multiple sources. As a result, we recommended that unused funds be returned to the U.S. Treasury. According to the City's NSP2 grant agreement, February 11, 2013, was the deadline to expend 100 percent of the NSP2 funds.

On March 15, 2013, the City indicated that it used the returned funds to pay for other eligible expenses by reallocating funds. During the exit conference on March 19, 2013, HUD agreed with the City's adjustment. We reviewed and accepted the reallocation of funds; therefore, the City provided documentation to address this finding.

See appendix B for further details of these questioned costs.

The conditions described above occurred because the City did not properly administer its NSP2 funds by not maintaining effective coordination with all the parties involved in this activity and not having an adequate agreement with its subrecipient. The agreement did not include provisions concerning program requirements as required by 24 CFR 570.503(a). In response to our audit, after the exit conference, the City provided an executed subrecipient agreement dated, March 25, 2013, that included the NSP2 provisions and a reconciliation prepared by all the parties involved in the activity; therefore, the City addressed this finding.

In addition, the City did not appropriately review expenditures and it did not have continuous internal audit reviews conducted on its NSP2 program as required by NSP2 Notice of Funding Availability Docket No. FR-5321-N-01.

In accordance with the NSP2 grant agreement, the City assumed full responsibility for the administration of the NSP2 grant. Therefore, as the administrator, it was responsible to ensure efficient oversight of the grant funds. During the exit conference, the City recognized that it needs and plans to strengthen its controls and accountability of funds and better coordinate with its subrecipient. To ensure that the controls are effective and efficient, we recommend that its internal audit division conduct continuous reviews of potentially risky areas of the Office of Housing Community Development's program operations.

As a result of the City's improper administration of its NSP2 funds, HUD had no assurance that $388,130 in NSP2 funds were eligible. Since the City provided additional documentation showing the eligibility or reclassification of the ineligible expenditures, the City sufficiently addressed the finding and it will not be required to reimburse the U.S. Treasury $388,130 from non-Federal funds.

Recommendations

We recommend that the Director of Community Planning and Development of the Jacksonville field office require the City to

1A. Implement its NSP2 policies and procedures to ensure program income is expended in compliance with NSP2 requirements.

1B. Request its internal audit division to continuously review potentially risky areas of the Office of Housing Community Development's program operations.

SCOPE AND METHODOLOGY

We performed the review from September 2012 through January 2013 at the City's Office of Housing and Community Development located at 111 South Orange Avenue, Sarasota, FL. Our review generally covered the period February 11, 2010, through June 30, 2012, and it was extended as necessary.

To accomplish our objective, we

- Reviewed relevant HUD regulations,
- Reviewed relevant City policies and procedures,
- Interviewed HUD and City officials,
- Reviewed City financial records related to program expenditures and program income,
- Reviewed reports from HUD's Disaster Recovery Grant Reporting system, and
- Reviewed City recipient and property files and records.

The City was awarded $23 million in NSP2 funds. Based on the City's quarterly performance report, as of June 30, 2012, the City had expended $15.6 million, which included $794,107 in program income. The report indicated that the City had progressed with activities related to the acquisition and rehabilitation of single-family and multifamily properties, demolition of blighted structures, and redevelopment of a public housing site. To carry out these activities, the City worked with eight nonprofit developers and subrecipients. The nonprofit developers and subrecipients purchased, rehabilitated, and sold or rented the properties to eligible beneficiaries. We selected two of these eight entities based on the large dollar amount drawn down and a third entity because of its relationship to a City commissioner.[1]

Of these entities, we initially selected the activity with the largest drawdown to review for cost allowability. Specifically, we selected the largest drawdown voucher from each of the selected activities, which totaled approximately $2.2 million, or 14.4 percent of the total drawdown. Our review disclosed questionable expenditures with one activity, the redevelopment of a public housing unit site. As a result, we extended our review to the entire $2.5 million that this activity received.

[1] Since the commissioner was not in office when the City entered into the NSP2 contract with the selected entity, there was no conflict of interest.

In addition, to determine whether the national objective was met, we selected properties administered by these entities. Based on the spreadsheet provided by the City, as of June 30, 2012, we had identified 10 of 33 properties that had 20 beneficiaries and expenditures of approximately $2.7 million, or 17.6 percent of the total amount drawn down. We also determined whether the City properly accounted for the program income generated by these properties. The program income for these properties totaled approximately $261,340, or 32.9 percent of the program income received as of June 30, 2012. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

We determined that computer-processed data generated by the City were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of its computer-processed data.

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

INTERNAL CONTROLS

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:

- Controls over program operations;
- Controls over compliance with laws and regulations; and
- Controls over the safeguarding of resources against waste, loss, and misuse.

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 following item is a significant deficiency:

- The City did not comply with Federal requirements by not ensuring that some NSP2 expenditures were eligible for the redevelopment of a public housing site.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

OHCD
Office of Housing & Community Development
City of Sarasota & Sarasota County Government

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April 4, 2013

Nikita N. Irons
Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Housing and Urban Development
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Ms. Irons:

This is in response to the March 29 draft audit report. The City of Sarasota (City) appreciates having the opportunity to respond prior to the final report being issued.

The Inspector General's audit team spent more than five (5) months reviewing the City's Neighborhood Stabilization Program 2 (NSP2) and examined a significant number of program files and financial records. The audit was comprehensive and the report reflects the significant time and effort that was spent reviewing the City's program.

While program rules were not fully developed, the City complied with the direction of the Administration and Congress to begin its program in order to put our citizens to work and stimulate the economy as quickly as possible. Absent complete program rules, the City used its best judgment on how to proceed using its experience in managing other federal programs. The results of this audit found that the City was successful in accomplishing this difficult task.

The audit examined:

1. Compliance with a National Objective – Did the program assist qualified individuals and families?
2. Program Income – Were loan repayments made and were they accurately reported?
3. Use of federal funds – Were all funds used for their intended purpose?

Comment 1

The City is very pleased that the audit found that the City had met the national objectives for the NSP2 program which is to assist low, moderate and middle income families with housing assistance. More than 30% of the completed NSP2 projects were reviewed by the audit team. The audit team reviewed individual project files that each contained approximately one hundred pages of documents. The audit team verified whether the City had obtained the

Sarasota County

required information to accurately calculate income and assets, whether required construction contracts were in each of the files, whether the amount spent on each property was appropriate, whether documentation existed showing proper payments to contractors and the sale or lease of each of the assisted properties. The audit team found that each of the reviewed files contained evidence that the City had properly qualified the beneficiaries in accordance with federal law.

Comment 1

At the time the audit was conducted, the City received $794,107 in "program income" from the repayment of loans that were made to nonprofit developers and from mortgages that were made to individual homebuyers. The audit team examined the program and financial records of the city and determined that the reviewed program income was accurately received and reported.

Comment 1

The City assisted a total of 48 different individual projects. Forty seven (47) of these projects involved properties that were purchased by nonprofit developers, that were renovated and either sold or leased to eligible beneficiaries. The audit team sampled approximately 30% of the completed projects to determine if funds were used in accordance with federal law. The audit team examined program files, the financial records maintained by the Office of Housing and Community Development and the City Finance Department. After this thorough review, the audit team determined that each of the sampled projects met the requirements of federal law and again there were no findings or concerns.

The preliminary report contains one finding related to $12,775,395 Janie's Garden Phase II development that was constructed by the Sarasota Housing Authority. Janie's Garden Phase II is an award winning mixed use development containing a retail component, public housing, tax credit and market rate housing and was the first housing development that the City assisted with NSP2 funds.

The financing for the Janie's Garden project was reviewed and approved by the HUD Miami Office of Public and Indian Housing in advance of starting construction. The development was financed with 19 different sources of funds that were combined and used to pay for 17 residential and 15 retail draws and which included private activity bonds that were collateralized with other funds, including NSP2 funding.

The residential component cost $12,775,395. Additionally, $6,470,000 in private activity bonds financed a portion of the construction and were redeemed when the construction was finished. The City contributed $2,500,000 in NSP2 funds to the project or a total of 19.5% of the total project cost. The City and Sarasota County contributed an additional $1,282,500 in state and local financing that was administered by the Office of Housing and Community Development. The Sarasota Housing Authority provided $2,961,000 in funding from three federal grants. The private financing totaled $6,031,895 and came from a combination of permanent bonds, a loan from the Federal Home Loan Bank, deferred developer's fees, interest income from the bond proceeds and equity from the developer.

The preliminary audit report stated that the City did not ensure that some NSP2 expenditures were eligible and that the City charged $388,130 in ineligible costs to the program. These ineligible costs were contained in two draws.

Drawdown Voucher 137767

Drawdown Voucher 137767 was for $1,692,900. The audit report states that $186,814 of these expenditures were for ineligible costs. The four (4) costs that were questioned by the auditors are as follows:

Comment 2

Comment 3

A. The City paid $36,475 in demolition costs. The demolition of public housing buildings is not an eligible use of NSP2 funds. When the invoice was presented for payment, the developer told the City that the line item was for site work demolition, which is eligible for NSP2 funding. During the audit, the developer told the City that they could not prove that the demolition line item was limited to site work demolition and that one of the public housing buildings may have been included in this invoice. Because the City wanted to be as conservative as possible, the City agreed to pay for this line item with State Housing Initiatives Partnership (SHIP) funding to eliminate any question about the eligibility of the expense.

B. The audit team determined that some retail costs had been incorrectly included in Drawdown Voucher 137767. The City originally inadvertently coded these retail costs to the NSP2 account. These costs were subsequently recoded and paid with approved City of Sarasota Tax Increment Financing (TIF). Eligible NSP2 expenses that had been previously been paid with non NSP2 funding sources were then recoded to pay those expenses using NSP2 funds. This was done prior to the conclusion of the audit and with the knowledge and concurrence of the audit team.

Comment 4

C. During the course of the audit, the City informed the audit team that Sarasota Housing Authority had reimbursed the City in the amount of $2,479.38 from this draw. The amount originally requested by the Sarasota Housing Authority for the bond closing was $1,692,899.93. However, because the closing was delayed for several days, the prorated closing costs changed and only $1,690,420.55 was actually needed. The $2,479.38 was returned to the City and used for other eligible NSP2 expenses.

D. The audit team questioned one specific invoice from an attorney, Levine Staller, which was paid from this draw. The invoice was for both residential and retail costs. The invoice subject line referenced the Market Place at Janie's Gardens. This led the audit team to believe that the entire invoice pertained to the retail portion of the project. The developer confirmed that the invoice related to both retail and residential expenses and was recorded correctly by the City.

The City is pleased that the audit states that the City has provided sufficient documentation to address the auditor's concerns.

Drawdown Voucher 168338

Comment 4

The City received and paid a request from the Sarasota Housing Authority for $201,315.71. Those funds were then sent by the Sarasota Housing Authority to the Bond Trustee. The Sarasota Housing Authority was unaware that the developer had also sent private funds from their equity account to the Bond Trustee. The Bond Trustee did not spend the Sarasota Housing Authority funds, the funds were returned to the City and used to pay other eligible NSP2 expenses. The City voluntarily disclosed this situation to the audit team.

The City is pleased that the audit states that the City has provided documentation to address the auditor's concerns and that the finding is cleared.

The audit report makes two (2) recommendations. It recommends that the Director of Community Planning and Development of the Jacksonville field office require the City to (1) implement its NSP2 policies and procedures to ensure program income is expended in compliance with NSP2 requirements; and (2) request the City's internal audit division to continually examine potentially risky areas of the City's Office of Housing and Community Development program operations.

The City concurs with these two recommendations as they restate existing department policy. The Jacksonville Field Office's role has always been to ensure that grantees administer their programs in conformance with federal law. The City Manager's Office, which oversees the Office of Housing and Community Development, will continue to work with the City Auditor and Clerk to perform internal audit reviews when required.

The City wants to emphasize that the audit team never asserted that any NSP2 funds used by the City, the Sarasota Housing Authority or the developer were misappropriated or missing. There were sufficient eligible costs to use all of the NSP2 funds. All funds have been accounted for and the project's costs and the sources of funding were independently audited with these costs certified to the Florida Housing Finance Corporation and to the Internal Revenue Service. Copies of that audit and certification were provided to the audit team.

The NSP2 program has greatly stabilized the Newtown neighborhood as was promised in the City's application for funding. The City exceeded the promises that it made to HUD related to the number of units assisted, the enhanced green and energy efficiency improvements that would be installed and most importantly exceeded the promised number of Section 3 (local residents) that would be hired. By any measure the Sarasota NSP2 program met all of the federal goals and has been a tremendous local success.

We appreciate Ms. Kilah White taking the time to talk with our staff again by phone on April 3rd and confirming that the audit team had specifically added the word "always" in the subject line of the audit report in an effort to convey that, while there was one finding, it did not mean

Comment 5

that the overall NSP2 program had not been properly administered. The City strived for perfection, however, we acknowledge that the audit team had questions about 2 of the 623 NSP2 vouchers that were processed. More than 99.6% of all vouchers were not questioned by the audit team and most importantly, the .4% that were questioned were later found to be eligible or reclassified to be eligible.

The City realizes that it is the Inspector General's responsibility to point out areas for improvement. The City has implemented or will implement the recommendations made by the audit team in this report and during the audit process. The suggestions were helpful and will strengthen all of our federal programs moving forward.

Finally, the City wants to thank the audit team for their professionalism and cooperativeness throughout the audit. The audit team worked very hard to conduct the audit with minimal disruption and was successful in accomplishing this task. The City appreciates all of their suggestions and diligence in making sure that our tax dollars are used in an appropriate manner.

Respectfully,

Donald Hadsell
Director, Office of Housing & Community Development

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OIG Evaluation of Auditee Comments

Comment 1 The City described the work performed by our office to achieve the audit objective. The City's explanation was not accurate; therefore, for the extent of work performed by our office please refer to the Scope and Methodology section of the report.

Comment 2 The City indicated that it paid $36,475 in demolition costs; however, we identified $37,039 in demolition costs. The City did reclassify these unallowable expenses to address the finding.

Comment 3 The City indicated that it was unable to obtain the necessary documentation to show demolition cost was eligible. As a result, it reclassified this expense to another program. Going forward, the City should consider implementing the necessary policies and procedures to ensure that its basis of cost eligibility is supported.

Comment 4 The City stated that during the audit it voluntarily disclosed that the funds it paid to the Sarasota Housing Authority were not used and returned. The City discovered these unused funds as a result of obtaining audit information that we requested, from other parties involved in the project. Therefore, in the future the City should have better communication with all the parties involved in a project.

Comment 5 The City stated that more than 99.6 percent of all vouchers were not questioned by the audit team. As stated in the Scope and Methodology section of the report, we did not review 100 percent of the vouchers. Specifically, for the review of cost allowability, we reviewed 19.6 percent of the total vouchers drawn as of June 30, 2012, and questioned $388,130 in NSP2 funds.

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Appendix B

QUESTIONED COSTS FOR THE REDEVELOPMENT OF A PUBLIC HOUSING SITE

Drawdown voucher	Amount	Demolition 1/	Retail 2/	Refunds 3/
137767	$184,335	X	X	
137767	$ 2,479			X
168338	$201,316			X
Total	**$388,130***			

1/ The City charged demolition expenditures related to the redevelopment of a public housing site. According to Docket No. FR-5321-N-01 (III)(A)(3)(i), NSP2 funds may not be used to demolish any public housing site.

2/ The City charged NSP2 expenditures related to the commercial retail portion of the public housing site. Neighborhood Stabilization Program Resource Exchange, FAQ ID: 672, further explains that under eligible use E for redevelopment, NSP2 funds may not be used for nonresidential purposes.

3/ The City admitted to receiving refunds totaling to $203,795 for overpayments. According to the City's NSP2 grant agreement, February 11, 2013, was the deadline to expend 100 percent of the NSP2 funds. As a result, we recommended that the funds be returned to the U.S. Treasury.

*In response to our audit, the City provided additional documentation to show the ineligible expenditures were allowable or reclassified with other eligible expenditures. Therefore, the City was not required to reimburse the U.S. Treasury $388,130 from non-Federal funds.