



City of West Palm Beach, West Palm Beach, FL

HOME Investment Partnerships Program



Issue Date: September 30, 2013

Audit Report Number: 2013-AT-1008

TO: Ann D. Chavis, Director of Community Planning and Development, Miami Field Office, 6DD

//signed//

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

SUBJECT: The City of West Palm Beach Did Not Always Properly Administer Its HOME Program

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 West Palm Beach's administration of the HOME Investment Partnerships Program authorized under the National Affordable Housing Act.

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.



Date of Issuance: September 30, 2013

The City of West Palm Beach Did Not Always Properly Administer Its HOME Program

Highlights

Audit Report 2013-AT-1008

What We Audited and Why

We audited the City of West Palm Beach's HOME Investment Partnerships Program. The City was selected for review because (1) our audit plan included audits of HOME grantees, (2) the U.S. Department of Housing and Urban Development's (HUD) Miami Office of Community Planning and Development ranked the City as high risk in its 2012 risk assessment, and (3) the most recent HUD monitoring review in 2012 identified concerns with the City's administration of the HOME program. Our objective was to determine whether the City administered its HOME program in accordance with applicable HUD requirements.

What We Recommend

We recommend that the Director of the Miami Office of Community Planning and Development require the City to (1) recapture \$559,289 in HOME funds that it did not commit by the 24-month statutory deadline, (2) reprogram \$988,272 in canceled activity funds and determine whether \$11,728 drawn down was for eligible expenditures, (3) provide support or reimburse its program more than \$1.2 million for unsupported expenditures from non-Federal funds, and (4) reimburse \$229,777 in ineligible costs from non-Federal funds.

What We Found

The City did not always administer its HOME program in accordance with applicable HUD requirements. Specifically, it did not properly commit HOME funds or accurately report activity information in HUD's Integrated Disbursement and Information System (IDIS). These conditions occurred because the City did not enforce HUD's 24-month commitment deadline requirement and did not have effective procedures to ensure that it reported current and accurate information in IDIS. This deficiency resulted in \$559,289 in HOME funds not being properly committed because activities were committed after the 24-month deadline, and two activities totaling \$1 million were canceled, but the funds were not made available for other eligible HOME activities.

In addition, the City did not ensure that it charged adequately supported and eligible expenditures to the program. These expenditures were related to project delivery and operating costs. This condition occurred because City staff did not exercise due care in reviewing and supporting the City's expenditures. As a result, the City charged the HOME program more than \$1.2 million in unsupported costs and \$229,777 in ineligible costs.

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BACKGROUND AND OBJECTIVE

The City of West Palm Beach has been an entitlement City since 1974, receiving annual allocations of HOME Investment Partnerships Program funds from the U.S. Department of Housing and Urban Development (HUD). Authorized under the National Affordable Housing Act, as amended, HUD allocates funds by formula among eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing.

Participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, and new construction of housing and tenant-based rental assistance. To assist in achieving these purposes, participating jurisdictions must designate a minimum of 15 percent of their HOME allocations for investment in housing to be developed, sponsored, or owned by community housing development organizations (CHDO). A CHDO is a private nonprofit, community-based service organization, the primary purpose of which is to provide and develop decent, affordable housing for the community it serves. All certified CHDOs must receive a certification from a participating jurisdiction indicating that they meet certain HOME program requirements and are, therefore, eligible for HOME funding.

During fiscal years 2009 through 2012, HUD allocated more than \$2.3 million in HOME funds to the City. The City's HOME program is administered by its Housing and Community Development Department. Over the past 3 years, the Department has experienced high staff turnover and decline; staff went from a total of 19 to 4 employees. Since 1998, the Department has had eight different directors. The City explained that it had challenges in finding an experienced director. As a result, on April 16, 2012, it hired the Community Redevelopment Associates of Florida, Inc., to provide technical oversight to the Department and administer its housing programs.

During the last 2 years, the City has been highly scrutinized due to recent allegations that it lacked oversight of its Coleman Park housing project, which was administered by one of its CHDOs. This project involved four phases, for which the City provided more than \$2.5 million in HOME funds. Its objective was to acquire, develop, or acquire and develop properties in the Coleman Park area to sell to low- and moderate-income persons. Some of these funds were also used to assist first-time home buyers. In June 2011, the City monitored its Coleman Park housing project and identified serious deficiencies and concerns with the project. The City requested additional information from its CHDO to clear its findings and concerns. The City obtained additional documentation from the CHDO; however, the staff that conducted the review left the City in the middle of the process, and the documentation may not have been reviewed.

Our objective was to determine whether the City administered its HOME program in accordance with applicable HUD requirements. Specifically, we wanted to determine whether the City (1) properly committed HOME funds and accurately reported information in HUD's Integrated Disbursement and Information System (IDIS)¹ and (2) ensured that expenditures of HOME funds were allowable.

¹ IDIS is a nationwide database that provides HUD with current information regarding program activities across the nation, including funding data. HUD uses this information to report to Congress and to monitor grantees. The system allows grantees to request their grant funding from HUD and report on what is accomplished with these funds.

RESULTS OF AUDIT

Finding 1: The City Did Not Properly Commit and Accurately Report HOME Funds

The City did not properly commit HOME funds and did not accurately report activity information in IDIS. This condition occurred because the City did not enforce HUD’s 24-month commitment deadline requirement and did not have effective procedures to ensure that it reported current and accurate information in IDIS. As a result, \$559,289 in HOME funds was not properly committed, and two activities totaling \$1 million were canceled, but the funds were not made available for other eligible HOME activities.

Funds Improperly Committed

The City committed more than \$2.1 million in HOME funds to 21 activities between October 1, 2009, and April 23, 2013. To ensure that the City adequately committed HOME funds, we reviewed 14 activities that had commitments of more than \$1.9 million. According to the Office of Community Planning and Development’s (CPD) Notice CPD 07-06, the commitment deadline occurs 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD’s execution of the HOME agreement or the congressional release date.

Six of the fourteen activities reviewed were committed after the 24-month deadline. The City committed a total of \$559,289 for the six activities.

No.	Activity no.	Commitment due date (24-month deadline)	Actual agreement date (obligation date)	Committed amount	Drawn down	Remaining balance
1	670	10/31/2009	11/06/2009	\$250,000	\$146,274	\$103,726
2	704	11/31/2008	04/13/2010	\$120,000	\$120,000	\$-
3	768	10/31/2009	11/21/2011	\$37,527	\$37,527	\$-
4	769	10/31/2009	11/21/2011	\$39,837	\$39,837	\$-
5	770	10/31/2009	11/21/2011	\$47,159	\$47,159	\$-
6	776	10/31/2009	07/09/2012	\$64,766	\$11,420	\$53,346
Total amount of commitments past deadline				\$559,289	\$402,217	\$157,072

This condition occurred because the City lacked due diligence in ensuring that it enforced the 24-month HOME deadline. As a result, \$402,217 drawn down on the improperly committed funds was ineligible. The remaining \$157,072 should be recaptured.

Canceled Activities Not Reported

The City canceled two activities but did not adequately report the cancellations in IDIS. HOMEfires - Vol. 6 No. 1, dated August 2005, requires participating jurisdictions to periodically review the status of all projects in the system and identify those that need to be canceled. The City canceled activities 750 and 777 totaling \$1 million but did not report these cancellations in IDIS.

No.	Activity no.	Committed amount
1.	750	\$555,445
2.	777	\$444,555
Total of canceled activities		<u>\$1,000,000</u>

Based on the agreement between the City and the developer, activities 750 and 777 involved the development of eight single-family scattered-site units on City-owned lots. The City's consultant explained that although the City terminated its agreement with the developer in 2012, it did not cancel the activities because it planned to continue undertaking the project. However, little progress had been made since the agreement was canceled. The consultant stated that the City had drawn down \$11,728 for predevelopment costs. It planned to send an invitation to bid to general contractors and expected to have a new contractor and obligate funds by September 30, 2013. According to 24 CFR (Code of Federal Regulations) 92.205(e), a HOME-assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible activity. Therefore, since the City did not have a contractor to undertake the project, it did not have a valid commitment. As a result, the committed amount was overstated in IDIS by \$988,272. These funds should be reprogrammed to other eligible HOME activities. Consequently, HUD was misled regarding the City's enforcement of its commitment deadline.

Inaccurately Reported Activity Information

The City entered inaccurate activity information into IDIS, such as the commitment date, activity address, and amount. Of the 14 activities reviewed, the committed

- Date reported in IDIS did not agree with the executed written agreement date for 14 activities;
- Activity address reported in IDIS differed from the address in the executed written agreement for 6 activities; and
- Amount reported in IDIS for 1 activity did not correspond with the amount in the executed written agreement (see appendix C for a listing of activities).

Conclusion

The City did not adequately commit HOME funds and did not accurately report activity information in IDIS. Some factors that contributed to these occurrences included that the City did not (1) enforce HUD's 24-month commitment deadline requirement and (2) have effective procedures to ensure that it entered accurate and current information into IDIS. The City did not provide a reason why these deficiencies occurred since the staff members responsible for committing and reporting funds were no longer employed by the City. One employee who temporarily worked on reporting the funds indicated that a lack of knowledge, caring, oversight, and training may have contributed to these issues. As a result, \$559,289 in HOME funds was not properly committed by the 24-month deadline, and two activities totaling \$1 million were canceled, and the funds were not made available for other eligible HOME activities. In addition, the incorrect information reported in IDIS undermined the integrity of HUD's information system and HUD's efforts to monitor the City's compliance with HOME program requirements.

Recommendations

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

- 1A. Reimburse the U.S. Treasury \$402,217 in ineligible costs from non-Federal funds for activities 670, 704, 768, 769, 770, and 776, that the City did not commit by the 24-month statutory deadline.
- 1B. Recapture \$157,072 in remaining HOME funds for activities 670 and 776 that the City did not commit by the 24-month statutory deadline.
- 1C. Reprogram \$988,272 committed for canceled activities and make funds available for other eligible HOME activities.
- 1D. Determine whether \$11,728 drawn down for those canceled activities was for supported and eligible expenditures.
- 1E. Establish and implement procedures to ensure that future HOME funds are committed by the required deadline, ensure the accuracy of information entered into IDIS, and take appropriate action to promptly correct detected violations.
- 1F. Train staff regarding HUD's documentation and entry requirements for commitments entered into IDIS.

Finding 2: The City Did Not Ensure That It Charged Supported and Eligible Expenditures to the HOME Program

The City did not ensure that it charged supported and eligible expenditures to the HOME program. These unsupported and ineligible costs were related to project delivery and operating expenditures. In some instances, the support provided was insufficient to determine what services were paid for, and the ineligible expenditures included unauthorized payments to board members. This condition occurred because City staff did not exercise due care in reviewing and supporting the City's expenditures. As a result, the City charged unsupported and ineligible costs totaling more than \$1.4 million to the HOME program.

Unsupported and Ineligible Project Costs

The City did not ensure that expenditures of more than \$1.4 million were adequately supported and eligible. Regulations at 24 CFR 92.508 require that each participating jurisdiction maintain sufficient financial records identifying the source and application of funds for each fiscal year, including supporting documentation.

We selected 14 transactions involving project-related costs. Our review disclosed that the City charged unsupported and ineligible project costs of more than \$1.1 million.

Activities 429,526, and 637 - Coleman Park Infill Project

The Coleman Park project consisted of four phases that were administered by the City's CHDO. The CHDO was reimbursed approximately \$2.4 million in HOME funds for acquiring land, constructing homes, and assisting first-time home buyers.

The City did not have adequate documentation to support expenditures of more than \$1 million. For example, the documentation provided for activities 429 and 526 did not identify the properties assisted or the work performed.

The City also paid \$93,862 for ineligible project costs. For instance, activity 637 included ineligible costs for a 2009 land acquisition that according to county records was never sold. The only documentation supporting this payment, as well as other similar transactions, was a vacant land contract. This documentation was insufficient because it did not confirm that a sale occurred or the final sales price.

This condition occurred due to the City's lack of due care when reviewing and approving expenditures. The City's 2011 monitoring report on this project found

similar issues of ineligible and unsupported costs. In response to this report, the CHDO provided written comments confirming that there were some ineligible and unsupported costs. The City said that it had not reviewed the CHDO's response and supporting documents and did not know whether prior staff had reviewed these documents. According to 24 CFR 92.508(6)(iii), participating jurisdictions are required to document monitoring reviews and the resolution of any findings or concerns.

Activity 699 - Rental Housing Rehabilitation

The City reimbursed \$53,618 to the owner-contractor of this rehabilitation project. The property owner acted as the contractor for his property. HUD stated that this arrangement was allowed provided that the City followed regulations at 24 CFR 85.36, requiring that all procurement transactions be conducted in a manner providing full and open competition. The City's Rental Rehab Program requires that the property owner obtain a minimum of three bids from qualified contractors. The file did not show that the City procured a contractor; rather, it contained a note from the owner-contractor informing the City that he would act as the contractor of this project. The City did not ensure that it conducted a procurement that provided for full and open competition. Therefore, the expenditure of \$53,618 was ineligible. In addition, the City paid \$1,000 of the \$53,618 to furnish and install a flagpole, which was not an allowable cost.

Further, the contract stated that the City did not assume responsibility or liability for the performance or the quality of the work performed. HUD stated that the City was ultimately responsible for the work product and could not be released from its responsibilities. City staff agreed that it was the City's responsibility to ensure the quality of the work product. The table below summarizes the questioned project costs.

Activity no.	Voucher no. - invoice no.	Ineligible costs			Unsupported costs	Total questioned costs
		Double billed	Incomplete sales transaction	Improperly procured		
429	9/29/04-1	\$0	\$0	\$0	\$160,560	\$160,560
	1/5/05	\$0	\$0	\$0	\$157,800	\$157,800
	2/16/05	\$0	\$0	\$0	\$157,800	\$157,800
	2005-4-8A	\$0	\$0	\$0	\$195,495	\$195,495
526	2007/11/4a	\$4,363	\$0	\$0	\$340,366	\$344,729
637	5095340	\$0	\$28,500	\$0	\$4,500	\$33,000
	5095357	\$60,999	\$0	\$0	\$0	\$60,999
699	5095356	\$0	\$0	\$30,465	\$0	\$30,465
	5095329	\$0	\$0	\$23,153	\$0	\$23,153
	Total	\$65,362	\$28,500	\$53,618	\$1,016,521	\$1,164,001

Remaining Funds

The City did not ensure that \$42,950 in HOME funds was spent by the expenditure deadline. According to 24 CFR 92.500(d)(1)(C), HUD will reduce or recapture any funds in the United States Treasury account that are not expended within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement. According to IDIS, activities 523, 526, and 637 had remaining balances of \$9,508, \$12,441, and \$21,001 respectively, that were not spent by the 5-year expenditure deadline. Activity 523 had an expenditure deadline of October 31, 2009, activity 526 had an expenditure deadline of October 31, 2010, and activity 637 had an expenditure deadline of October 31, 2012. As of July 31, 2013, the remaining balances for both activities had not been spent and must be recaptured.

In addition, the City did not reprogram the remaining funds for a completed activity. City staff confirmed that activity 699 was completed and had remaining funds of \$28,282. Based on HUD's open activities report,² this activity had not had drawdowns since April 2010, or in 1,164 days. In HUD's monitoring report, it required the City to update the status of all outstanding activities in IDIS. Therefore, since the project was complete, these funds must be reprogrammed to other eligible HOME activities and put to better use.

Activity #	Funded amount	Drawn amount	Remaining balance
523	\$628,713	\$619,205	\$9,508
526	\$654,000	\$641,559	\$12,441
637	\$200,000	\$178,999	\$21,001
699	\$81,900	\$53,618	\$28,282
Total	\$1,564,613	\$1,493,381	\$71,232

Unsupported and Ineligible CHDO Administrative and Operating Costs

The City's CHDO also received \$89,082 in operating and administrative funds to manage the Coleman Park project. For activities 476 and 546, the City paid approximately \$29,000 for salaries of the CHDO's chief executive and operating officers, who were also CHDO board members. The chief executive officer was also a founder of the nonprofit organization. According to 24 CFR 92.2, a CHDO is a private nonprofit organization that has no part of its net earnings benefiting any member, founder, contributor, or individual. Consequently, the CHDO's status was lost because it no longer met the CHDO requirements once it made salary payments to its board members. As a result, the nonprofit organization was not eligible to receive \$29,082 in HOME operating funds.

² HUD publishes in its Web site IDIS HOME open activities reports; this report contained information through June 30, 2013.

In one case, the City provided \$30,000 in CHDO operating funds from the City’s administrative funds under activity 672. The City reimbursed the nonprofit organization’s salary expenses, which were not adequately supported. The only documents provided were copies of checks the CHDO provided to its staff. It provided no documentation showing the hours worked or the rate of pay. Therefore, these expenditures were unsupported.

The City had another CHDO administer activity 524. The file included copies of checks and pay stubs it provided to its staff. The file also contained a letter from the CHDO requesting \$31,904 in operating funds, which included \$31,008 in staff salaries from 2006 to 2008. The staff was composed of a chief operating officer, chief financial officer, and vice president of programs, who were also CHDO board members. As stated above, the payments to CHDO board members were ineligible, resulting in the nonprofit organization’s losing its CHDO status. Therefore, it was not eligible to receive \$48,673 in CHDO operating funds.

Activity no.	Voucher no. invoice no.	Ineligible	Unsupported
476	02/16/05	\$7,500	\$0
	02/09/05	\$7,582	\$0
546	01/11/06	\$14,000	\$0
672	5095341	<u>\$0</u>	<u>\$30,000</u>
Subtotal Coleman Park infill project		\$29,082	\$30,000
524	Various	<u>\$48,673</u>	<u>\$0</u>
	Total	<u>\$77,755</u>	<u>\$30,000</u>

The City was unable to explain why these issues occurred since the staff responsible for these activities no longer worked for the City. The City’s consultant indicated that it had assessed the City’s current operations to determine areas that needed improvement. One of the areas in need of improvement was ensuring that costs were allowable and adequately supported. The City’s consultant indicated that it was working with the City to strengthen its controls to ensure that expenditures were eligible and adequately supported.

Overdrawn HOME Funds

The City did not ensure that it drew down accurate amounts for reimbursement. Based on IDIS, the City drew down more than \$1.4 million for activity 429; however, the general ledger indicated total expenditures of \$4,542 less than that reported in IDIS. The City noted in its general ledger that the difference was due to overstated permit and water expenditures. According to 24 CFR 85.20(b)(1) and (3), effective control and accountability must be maintained. The information reported to HUD must be accurate, current, and complete.

The City’s general ledger also showed that it paid \$34,571 for permits, meter installs, and water expenditures for activities 429 and 526. However, the general

ledger did not describe the properties the expenditures applied to or how the amounts were determined. The City was not able to provide the supporting documentation and stated that it would try to obtain it from other City departments.

The City also overdrew HOME funds for activity 524 related to CHDO operating expenses. According to IDIS, the City drew down \$48,673, while its general ledger indicated expenditures of \$46,158. The City agreed that it overdrew \$2,515 in HOME funds. Since the nonprofit paid its board members, the total amount of CHDO operating funds drawn down, including the \$2,515 in overdrawn funds, was ineligible (see Unsupported and Ineligible CHDO Administrative and Operating Costs above.)

According to its consultant, the City was reconciling information in its financial management system to HUD’s information system. The consultant’s status report indicated that reconciliations between the City’s financial information system and HUD’s system had not been completed for years. As a result, the City overdrew HOME funds of \$7,057. The City should continue to perform reconciliations and implement a process for reconciliation.

Other Reporting Concerns

In response to questions regarding the reporting deficiencies, the City provided a status report it used to update HUD. Based on our limited review, the list identified areas of concern. Specifically, the list indicated that lead-based testing was not conducted or that the activity needed to be transferred out of the HOME program.

No.	IDIS no.	Drawn amount	According to City reports	
			Activity needs to be transferred out	No evidence of lead-based testing conducted
1	675	\$ 25,000	X	X
2	697	\$ 40,000	X	
3	701	\$ 80,000	X	
4	702	\$ 8,950	X	X
	Total	\$153,950		

The City indicated that it did not know whether the activities were moved because many of the staff members associated with the report were no longer employed by the City. However, the City stated that it would conduct further research. In addition, the City explained that in many instances, there was a lack of coordination among various sections within the Housing and Community Development Department. As a result, \$153,950 was unsupported, and the City must provide documentation to show whether the costs were eligible.

Conclusion

The City did not ensure that it charged supported and eligible expenditures to the HOME program. These unsupported and ineligible costs were related to project delivery and CHDO operating and administrative expenditures. In some instances, the support provided was insufficient to determine what services were paid, and the ineligible expenditures included payments to CHDO board members. This condition occurred because City staff did not exercise due care in reviewing and supporting the City's expenditures. As a result, the City charged more than \$1.4 million in unsupported and ineligible costs to the HOME program.

Recommendations

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

- 2A. Provide supporting documentation or reimburse its program \$1,081,092 in unsupported expenditures related to activities 429, 526, 637, and 672 from non-Federal funds.
- 2B. Reimburse \$225,235 in ineligible costs related to activities 476, 524, 526, 546, 637, and 699 from non-Federal funds.
- 2C. Reprogram \$28,282 in remaining funds for completed activity 699 and deobligate \$42,950 from activities 523, 526 and 637 since it did not expend funds by the 5-year deadline.
- 2D. Review the status of its open activities and determine whether the projects are completed. The City should also update IDIS and ensure that HOME funds allocated to any activities with remaining funds are reprogrammed or deobligated if the funds were not spent by the 5-year deadline.
- 2E. Reimburse \$4,542 in HOME funds overdrawn from non-Federal funds.³
- 2F. Maintain supporting documentation and implement controls over disbursements that are sufficient to ensure compliance with applicable regulations.
- 2G. Amend all present and future contracts to ensure the City accepts responsibility for the performance and quality of the work performed.

³ The City overdraw \$2,515 in HOME funds under activity 524; however, we did not include this amount since we questioned all funds for this activity in recommendation 2B.

- 2H. Review and reconcile its information regarding the Coleman Park infill project and determine the results of its monitoring review.
- 2I. Provide supporting documentation for activities 675, 697, 701, and 702 to show whether they were eligible HOME activities or reimburse its program \$153,950 from non-Federal funds.

SCOPE AND METHODOLOGY

We performed the review from April through July 2013 at the City's Housing and Community Development Department office located at 401 Clematis Street, third floor, West Palm Beach, FL. Our review generally covered the period October 1, 2009, to March 31, 2013, and was expanded as necessary.

To accomplish our objective, we

- Reviewed relevant HUD regulations,
- Reviewed relevant City policies and procedures,
- Interviewed officials of the Miami HUD Office of Community Planning and Development and the City,
- Reviewed IDIS reports,
- Reviewed City financial records related to program expenditures, and
- Reviewed City activity files and records.

During the period October 1, 2009, to April 23, 2013, the City committed more than \$2.1 million in HOME funds for 21 activities. We selected and reviewed 14 activities that had commitments of more than \$1.9 million based on high dollar amounts, current commitments, and activities with the same property address. Our selection represents 94 percent of total commitments during our scope period.

In addition, the City had drawdowns totaling more than \$1.5 million with a total of 74 completed transactions during our scope period of October 1, 2009, through March 31, 2013. To make our selection, we used the IDIS drawdown report by voucher and selected nine transactions with expenditures of approximately \$694,130 for review of cost allowability. These transactions were selected based on high dollar amount, activities that were slow in progress, and a minimum of one transaction according to activity type. Since most of the expenditures questioned in the survey phase were related to the Coleman Park project phases III and IV, which were administered by the City's CHDO, we expanded our review of expenditures to phases I and II of this project during the audit phase. The City drew down more than \$2 million in HOME funds for phases I and II of the Coleman Park project. We attempted to select transactions using IDIS drawdown reports; however, the City was not able to reconcile the transactions in its general ledger to an IDIS voucher number. Using the City's general ledger, we selected nine transactions based on high dollar amounts, suggestions made by HUD, and all expenditures associated with the CHDO's operating funds. We reviewed expenditures of more than \$1 million, or 50.4 percent of the total drawdowns for these phases.

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 the following item is a significant deficiency:

- The City did not comply with HUD requirements by not ensuring that HOME funds were properly committed and accurately reported in IDIS and that expenditures were adequately supported and eligible.

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	\$402,217		
1B			\$157,072
1C			\$988,272
1D		\$11,728	
2A		\$1,081,092	
2B	\$225,235		
2C			\$71,232
2E	\$4,542		
2I		<u>\$153,950</u>	
Total	<u>\$ 631,994</u>	<u>\$1,246,770</u>	<u>\$1,216,576</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 this case, if our recommendations are implemented, HUD will recapture (1) \$157,072 in funds not committed by the 24-month statutory deadline if recommendation 1B is implemented and (2) \$42,950 in funds not expended by the 5-year statutory deadline if recommendation 2C is implemented. In addition, if the City implements recommendations 1C and 2C, funds will be available for other eligible activities consistent with HOME requirements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



"The Capital City of the Palm Beaches"

Department of Housing & Community Development
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September 4, 2013

Nikita N. Irons, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit (Region 4)
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

RE: Audit Report
 Review of the City of West Palm Beach's (PY 2002-2012)
 HOME Investment Partnership Program

Dear Ms. Nikita Irons,

Enclosed are the written comments, on the audit report of your review of the City of West Palm Beach's HOME Investment Partnership Program.

Finding 1: The City Did Not Properly Commit and Accurately Report HOME Funds

1A. Funds Improperly Committed: PY 2007

The HCD management staff at the time interpreted the 24- month commitment deadline as the date the allocations were approved by the City Commission. This has since been corrected.

1B. Canceled Activities Not Reported: PY 2009, 2011

The above IDIS activities relate to new housing construction in the Coleman Park neighborhood. Community Redevelopment Associates, in reviewing the contract and procurement related to the aforementioned new construction determined that the original procurement was flawed. The contract was, itself flawed, was cancelled. The City of West Palm Beach determined it would undertake the project itself.

Results of the review of the prior procurement related to the Coleman Park project were reported to La Vora Bussey, CPD of the Miami Regional Office of

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Comment 1

Comment 2

Comment 2

HUD. (See attached email.) Subsequently the City prepared site plans, had the properties surveyed and began the process of moving the project forward. Those documents were also provided to the Miami Regional Office. An Invitation to Bid (ITB) was issued on 8/30/13 to the City's properly procured pool of new construction contractors. There was no attempt to mislead HUD, either by omission or otherwise as the Miami Regional Office of HUD was kept fully informed as to the status of the project.

Therefore, this project has been and continues to be ongoing. As such it would not have been reported as cancelled in IDIS and there is no need to reprogram the funding.

Comment 3

1C. Inaccurately Reported Activity Information:

Procedures have since been put in place to ensure that accurate information is entered into IDIS.

Finding 2: The City Did Not Ensure That It Charged Supported and Eligible Expenditures to the HOME Program

Comment 4

2A. Unsupported and Ineligible Project Costs: PY 2002, 2005, 2007 2009

Some of these documents date back to 2002. The City is continuing to research source documents to support all expenditures in question. New procedures have been implemented for reviewing, approving and reimbursing expenditures

Procedures are being revised to make sure that all procurement transactions are conducted in a manner providing full and open competition. The City will ensure that all expenditures are allowable costs under the HOME program.

Comment 5

2B. Remaining Funds: PY 2005, 2007, 2009

The City has ensured that HOME funds will be spent by the expenditure deadline. Procedures are being revised to make sure that the status of all outstanding activities, are updated in IDIS. The remaining funds are being reprogrammed to eligible HOME activities. In order to ensure proper checks and balances, the Accounting Clerk's functions that previously existed in Housing and Community Development has been transferred to the Finance Department. The proper separation of the accounting function from the management of IDIS has been established.

Comment 5

2C. Unsupported and Ineligible CHDO Administrative and Operating Costs: PY 2002, 2004, 2005, 2006, 2008

Procedures are being revised to make sure that all expenditures are eligible and adequately supported.

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Comment 5

2E. Overdrawn HOME Funds: PY 2002, 2004, 2005

Procedures are being established to make sure that the City's ledger reconciles with IDIS, by maintaining effective control and accountability. (See the answer to 2B above).

Comment 6

2I. Other Reporting Concerns: PY 2004, 2009

Further research was conducted and it was determined that the files did not contain lead-based testing reports. Due care will be exercised in reviewing and supporting the City's expenditures.

If you have any questions, please do not hesitate to contact me at 561-822-1405.

Sincerely,



Dorritt M. Miller
Deputy City Administrator

DM/jg

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OIG Evaluation of Auditee Comments

Comment 1 The City indicated that it has corrected its misinterpretation of the 24-month commitment deadline. The City explained that it considered the 24-month commitment as the date the allocations were approved by its Commission.

We acknowledge the City's effort in correcting this misinterpretation. In its response, the City did not provide documentation showing how it corrected the definition of a valid commitment, or that the procedures were implemented to ensure compliance with the commitment deadline. Therefore, the City must reimburse the U.S. Treasury \$402,217 from non-Federal funds and recapture \$157,072 in HOME funds that it did not commit by the 24-month statutory deadline.

Comment 2 The City disagreed that it should cancel and reprogram activities 750 and 777 related to the housing construction in the Coleman Park neighborhood because the City is moving forward with the project. The City explained that its consultant determined that the initial procurement conducted on the project was flawed resulting in the cancellation of the contract with its previous developer. Subsequently, the City prepared site plans, surveyed the properties, and began the process of moving forward with the project. The City provided an e-mail to show that it did not mislead HUD of the status of the project and it kept HUD informed of its procurement issue. The City said that on August 30, 2013, it issued an invitation to bid to the City's pool of new construction contractors.

The City informed HUD that the initial procurement conducted was flawed. However, the e-mail did not state the City's plans on moving forward. When the City cancelled the contract with the former developer, the funds were no longer committed. In order for the funds to be properly committed, in addition to a legally binding agreement, construction had to start within 12 months of the set-up date in IDIS. According to IDIS, the funding date for this project was on October 28, 2011. As of August 31, 2013, construction has not started and the City is in the process of selecting a contractor. Therefore, the City should have cancelled the activities and reprogrammed the funds.

Comment 3 The City stated that it has put procedures in place to ensure that accurate information is entered into IDIS.

We acknowledge the City's efforts in correcting this deficiency. The City must provide documentation to show it established and implemented procedures to ensure the accuracy of information entered into IDIS.

Comment 4 The City said that it is still researching documents to support the expenditures in question. In addition, it has established new procedures for reviewing, approving, and reimbursing expenditures and is in the process of revising its procedures for

procurement transactions. The City indicated that it will ensure that expenditures are allowable under the HOME program.

We acknowledge the City's willingness to establish procedures for reviewing, approving, and reimbursing expenditures. The City must provide HUD with its (1) documentation supporting the expenditures in question and results of its monitoring review of its CHDO's Coleman Park project, and (2) procedures for reviewing and approving expenditures and its procurement process.

Comment 5 The City said it has ensured that HOME funds will be spent by the expenditure deadline. In addition, the City is in the process of revising its procedures to ensure that the status of outstanding activities is updated in IDIS. The remaining funds are being reprogrammed to eligible HOME activities. The function of the previous Accounting Clerk has been transferred to the Finance Department to ensure proper separation of the accounting function from the management of IDIS. Therefore, the City is in the process of establishing procedures to ensure the City's ledger reconciles with IDIS.

We acknowledge the City's proactive approach to ensure that it will meet its expenditure deadline. The audit disclosed that the City had a remaining balance in three activities (523, 526, and 637) of which the funds were not spent by the five year deadline. Therefore, the remaining funds are subject to recapture by HUD according to 24 CFR 92.500 (d)(1)(C). As a result, the City cannot reprogram all remaining funds to other activities. As stated in our report, it has to determine whether the five year deadline expired for those activities with remaining funds. If the five year deadline expired, HUD will recapture those funds and reprogram the remaining funds.

In addition, the City should provide HUD with a status of each open activity, its revised procedures on how it plans to ensure that the status of outstanding activities is updated in IDIS and its reconciliation process.

Comment 6 The City explained that after further researching its files, it determined that the files did not contain the lead-based testing reports. Therefore, the City will be exercising due care in reviewing and supporting the City's expenditures.

The City must provide documentation to show whether the costs charged to the HOME program were eligible expenses, or repay \$153,950 from non-Federal funds.

Appendix C

INFORMATION IMPROPERLY REPORTED IN IDIS

No.	IDIS no.	Commitment amount	Commitment date	Activity address
1.	670		X	X
2.	698		X	
3.	699		X	X
4.	701		X	
5.	704		X	
6.	714		X	
7.	750		X	
8.	768		X	X
9.	769		X	X
10.	770		X	X
11.	776	X	X	
12.	777		X	X
13.	797		X	
14.	798		X	
Total # of activities		<u>1</u>	<u>14</u>	<u>6</u>