



City of Toledo, OH

Community Development Block Grant Program



Issue Date: June 7, 2013

Audit Report Number: 2013-CH-1002

TO: Jorgelle Lawson, Director of Community Planning and Development, 5ED

Kelly Anderson

FROM: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: The City of Toledo, OH, Lacked Adequate Controls Over Its Community
Development Block Grant-Funded Code Violation Abatement Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), results of our review of the City of Toledo's Community Development Block Grant-funded Code Violation Abatement 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 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 (312) 913-8684.



June 7, 2013

The City of Toledo, OH, Lacked Adequate Controls Over Its Community Development Block Grant-Funded Code Violation Abatement Program

Highlights

Audit Report 2013-CH-1002

What We Audited and Why

We audited the City of Toledo's Community Development Block Grant-funded Code Violation Abatement Program as part of the activities in our fiscal year 2013 annual audit plan. We selected the City's Program based upon recent media attention regarding the City's programs, a request by the Honorable Marcy Kaptur, and a referral from the Office of Inspector General's Office of Investigation. Our objectives were to determine whether the City complied with Federal regulations and its own policies in its use of Block Grant funds for Program projects.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the City to (1) ensure that housing rehabilitation services cited in this audit report are properly completed or reimburse its Block Grant program nearly \$73,000, (2) provide sufficient supporting documentation or reimburse its Block Grant program nearly \$24,000, (3) reimburse its Block Grant program more than \$9,000, and (4) implement adequate procedures and controls to address the findings cited in this audit report.

What We Found

The City did not ensure that Federal regulations and its own policies were followed in the administration of the Program. Specifically, the City did not ensure that the Toledo Municipal Court (1) conducted independent cost estimates and obtained sufficient price quotes for housing rehabilitation services and (2) completed work specifications that sufficiently detailed the services for Program projects.

It also did not ensure that (1) contractors properly performed or provided services, (2) the cost of services was reasonable, (3) HUD's regulations regarding lead-based paint were followed, and (4) households were income eligible.

As a result, the City used more than \$73,000 in Block Grant funds for 23 projects for which the housing rehabilitation services were either improperly performed or not provided or the cost of the services was not reasonable. Further, the Court did not maintain sufficient documentation to support the use of nearly \$24,000 in Block Grant funds for services associated with 10 projects. Additionally, the City provided nearly \$9,000 in Block Grant funds to assist two households that were not income eligible.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding 1: The City Lacked Adequate Controls Over the Court’s Contracting Processes and Housing Rehabilitation Services Provided to Program Projects	5
Finding 2: The City Did Not Always Ensure That Assisted Households Were Income Eligible	15
Scope and Methodology	18
Internal Controls	20
Appendixes	
A. Schedule of Questioned Costs	22
B. Auditee Comments and OIG’s Evaluation	23
C. Federal Regulations and the City’s Policies	25
D. Schedule of Program Projects’ Deficiencies	28

BACKGROUND AND OBJECTIVES

The Block Grant program. Authorized under Title I of the Housing and Community Development Act of 1974, as amended, the Community Development Block Grant program is funded to assist in the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. All Block Grant activities must meet one of the following national objectives: (1) benefit low- and moderate-income persons, (2) aid in the prevention or elimination of slums and blight, or (3) meet certain community development needs having a particular urgency.

The City. Organized under the laws of the State of Ohio, the City of Toledo is governed by a mayor and a 12-member council, elected to 4-year terms. The City's Department of Neighborhoods is responsible for administering the City's Block Grant program funded by the U.S. Department of Housing and Urban Development (HUD). The overall mission of the Department is to responsibly, efficiently, and with citizen input plan, administer, allocate, and monitor the Federal dollars received by the City as an entitlement city to ensure compliance with HUD's national objectives. The Department provides Block Grant funds to subrecipients in an effort to address the needs within the community. The Toledo Municipal Court, a subrecipient, established the Code Violation Abatement Program in 2001 to assist low- and moderate-income households in bringing their owner-occupied homes into compliance with the City's housing code. The Program provided households Block Grant-funded grants of up to \$4,500 to correct housing code violations that had been cited by the Court. As a result of our audit, effective November 30, 2012, the Court ceased operation of the Program. The Court's Program records are located at 555 North Erie Street, Toledo, OH.

The following table shows the amount of Block Grant funds that the City awarded the Court for program years 2009 through 2011.

Program year	Block Grant funds for the Program
2009	\$102,131
2010	100,000
2011	<u>100,000</u>
Totals	<u>\$302,131</u>

We reviewed all 39 of the Program projects that the City reported as complete in HUD's Integrated Disbursement and Information System from July 1, 2009, through February 28, 2012. We reviewed two additional projects that the Court completed but the City had not reported as complete in HUD's System as of February 28, 2012. The City reported the two projects as complete in HUD's System on June 12, 2012. It drew down \$181,745 in Block Grant funds for the 41 projects.

Our objectives were to determine whether the City complied with Federal regulations and its own policies in its use of Block Grant funds for Program projects. Specifically, our objectives were to determine whether the City ensured that (1) all housing rehabilitation services were properly performed and provided, (2) sufficient documentation was maintained to support the use of Block Grant funds, and (3) services were provided only to eligible households.

RESULTS OF AUDIT

Finding 1: The City Lacked Adequate Controls Over the Court's Contracting Processes and Housing Rehabilitation Services Provided to Program Projects

The City did not ensure that the Court (1) conducted independent cost estimates and obtained sufficient price quotes for housing rehabilitation services and (2) completed work specifications that sufficiently detailed the services for Program projects. It also did not ensure that (1) contractors properly performed or provided services, (2) the cost of services was reasonable, and (3) HUD's regulations regarding lead-based paint were followed. These weaknesses occurred because the City lacked adequate procedures and controls regarding the Court's contracting processes and services to ensure compliance with Federal requirements and its own procurement policies. As a result, the City used more than \$73,000 in Block Grant funds for 23 projects for which the services were either improperly performed or not provided or the cost of the services was not reasonable. Further, the Court did not maintain sufficient documentation to support the use of nearly \$24,000 in Block Grant funds for services associated with 10 projects.

The City Did Not Ensure That Independent Cost Estimates Were Made and Sufficient Price Quotes Were Obtained for Housing Rehabilitation Services

The City did not ensure that the Court determined a basis for the contract price for housing rehabilitation services associated with all 41 of the Program projects. The Court did not independently estimate the cost of services before receiving price quotes as required by HUD regulations at 24 CFR (Code of Federal Regulations) 85.36(b)(9) and (f)(1).

The City also did not ensure that the Court obtained price quotes from at least three contractors for the housing rehabilitation services. Contrary to the City's policies, the Court obtained a price quote from only 1 contractor for 37 projects and price quotes from 2 contractors for the remaining 4 projects. Further, the Court did not maintain sufficient records as required by HUD's regulations at 24 CFR 85.36(b)(1) to detail the rationale for not following the City's policies in the procurement of services for the 41 projects.

The City Did Not Ensure That Work Specifications Sufficiently Detailed the Housing Rehabilitation Services To Be Provided

Contrary to HUD's regulations at 24 CFR 85.36(c)(3)(i), the City did not ensure that the Court completed work specifications that sufficiently detailed the housing rehabilitation services to be provided for the 41 Program projects. The work specifications lacked an accurate description of the technical requirements, including measurements, dimensions, or other specific details related to the housing rehabilitation services. The Court provided its work specifications to the contractors that were selected to provide the services.

The contractors also completed work specifications for the services to be provided based on the Court's work specifications. However, the contractors' work specifications also did not sufficiently detail the services to be provided for 40 of the 41 projects. Further, although the contractors' work specifications included a total cost for the services, the work specifications for 22 of the 41 projects did not include a cost for the individual items.

The table in appendix D of this report shows the 40 Program projects for which both the Court's and the contractors' work specifications did not sufficiently detail the housing rehabilitation services to be provided.

The City Did Not Ensure That Contractors Properly Performed or Provided Housing Rehabilitation Services

We also selected all 41 Program projects for inspection. We inspected the housing rehabilitation services associated with 40 of the 41 projects to determine whether (1) the services were provided, (2) the services were properly performed, and (3) the cost of the services was reasonable. We were unable to inspect the services associated with project number 3489 since the home was demolished as a result of a fire. Contrary to HUD's regulations at 24 CFR 85.36(b)(2), the City did not always ensure that contractors performed in accordance with the terms, conditions, and specifications of their agreements with the homeowners.

The work specifications for the 40 projects included 143 items to be completed. However, 25 items for 20 of the projects were improperly performed, and 8 items for 6 of the projects were not provided. The following table categorizes the services that were either improperly performed or not provided for the 22 projects (4 of the 6 projects for which items were not provided also had items that were improperly performed).

Category	Number of items
Exterior painting	14
Gutters and downspouts	3
Overhangs and soffits	3
Chimneys	3
Windows	3
Siding	3
Garage doors	2
Porches	2
Total	<u>33</u>

Further, although the work specifications for Program project number 3490 included (1) repairing the front overhang and soffit; (2) power washing, scraping, and painting the front of the house; and (3) installing new facer and gutter for front porch, the contractor (1) installed vinyl siding on the front of the house, including the fascia and soffits; (2) installed gutters and downspouts; and (3) painted the lower front porch foundation.

The City inappropriately used \$72,501 in Block Grant funds for the 22 projects. The following pictures are examples of exterior painting, overhang and soffit, chimney, window, and garage door work that was not properly performed or provided.

Exterior painting

Project number 3592:
Existing paint not properly scraped, paint applied over existing peeling paint, and paint peeling



Project number 3692:
Existing paint not
properly scraped, paint
applied over existing
peeling paint, and paint
peeling



Overhangs and soffits

Project number 3835:
Overhang and soffit
material not properly
secured



Chimneys

Project number 3684:
Chimney not properly
tuckpointed



Project number 3707:
Chimney not reflashed or
resealed



Windows

Project number 3605:
Window installed without
proper weather sealing



Project number 3704:
Window sash not
repaired or completely
painted



Garage doors

Project number 3714:
Plywood barn style doors
installed rather than
overhead garage doors



We provided our inspection results to the Director of HUD's Columbus Office of Community Planning and Development and the director of the City's Department of Neighborhoods. The table in appendix D of this report shows for the 22 Program projects, the amount of Block Grant funds used for housing rehabilitation services that were not properly performed or provided.

The City Did Not Ensure That the Cost of Housing Rehabilitation Services Was Reasonable

Of the \$181,745 in Block Grant funds the City used for the 41 projects, \$147,854 of the estimated costs included in the contractors' price quotes for housing rehabilitation services was reasonable.¹ However, contrary to Federal regulations at appendix A, section C, of 2 CFR Part 225, the City did not ensure that the remaining costs of services were reasonable. Specifically, it used \$680 in Block Grant funds for services provided to project number 3494 that was not reasonable. Further, it lacked sufficient support to determine the reasonableness of \$33,211 ((\$181,745 - \$147,854) - \$680) in costs for services associated with 15 of the projects.

¹ Although neither the Court's nor the contractors' work specifications were sufficient to detail the services to be provided for 40 of the projects, we were able to determine that some of the estimated costs included in the contractors' price quotes were reasonable by estimating the cost of the individual items in the work specifications that we confirmed were completed during the inspections.

The table in appendix D of this report shows for the 15 projects, the amount of Block Grant funds used for services for which the Court lacked sufficient documentation to support that the cost of the services was reasonable.

The City Did Not Ensure That HUD's Regulations Regarding Lead-Based Paint Were Followed

The City did not ensure that the Court maintained sufficient documentation to support that HUD's regulations at 24 CFR 35.175 and 35.930 regarding the possible presence of lead-based paint were followed. The Court lacked sufficient documentation to support that (1) a determination was made that painted surfaces would not be disturbed, (2) paint testing was completed on painted surfaces that were to be disturbed or replaced, or (3) it was presumed that painted surfaces contained lead-based paint for 16 Program projects that included housing rehabilitation services that involved either the painting of homes or scraping of paint on and painting of homes that were built before 1978. The Court also could not provide documentation to support that a clearance examination was conducted after the housing rehabilitation work was completed.

The City used \$56,518 in Block Grant funds for the 16 projects. The table in appendix D of this report shows for the 16 projects, the amount of Block Grant funds used for services that involved either the painting of homes or scraping of paint on and painting of homes, for which the Court lacked documentation to support that HUD's regulations regarding the possible presence of lead-based paint were followed.

The City Lacked Adequate Procedures and Controls

The City lacked adequate procedures and controls to ensure that it appropriately followed Federal requirements and its own policies. Specifically, the City's Department of Neighborhoods did not adequately monitor the Program to ensure that Federal regulations and its own policies were followed regarding the Court's contracting processes for the Program and housing rehabilitation services associated with Program projects. The Department's monitoring did not include a review as to whether the Court's contracting processes met Federal regulations and the City's policies. Further, both the former and current Department program monitoring specialists said that their monitoring of the Program did not include site visits to the homes or conversations with the homeowners to ensure that the services were properly performed and provided.

The Court's senior housing specialist said that the Court was not aware that it was required to independently estimate the cost of the housing rehabilitation services

before receiving price quotes for the services because the City's Department of Neighborhoods did not inform the Court that it needed to estimate the cost of the services. Further, the Court often contacted only one contractor, which it knew would want and could provide the services. Since the services to be provided for each home were \$4,500 or less, the senior housing specialist believed that the Court could deviate from the City's policies that required at least three quotes from at least three different vendors or suppliers. In addition, the Court was not aware that it was required to complete work specifications that sufficiently detailed the services to be provided because it was not brought to the Court's attention through the Department's monitoring.

Further, a housing specialist with the Court and a neighborhood development specialist, who was previously a program monitoring specialist, with the City's Department said that the Court was trying to maximize the amount of housing rehabilitation services provided with the available Block Grant funds. The Court's senior housing specialist said that the Court's review of the services completed at the homes was not thorough.

Conclusion

The City lacked adequate procedures and controls regarding the Court's contracting processes for the Program and housing rehabilitation services associated with projects to ensure that it appropriately followed Federal regulations and its own policies. As a result, the City used more than \$73,000 in Block Grant funds for 23 projects for which the services were either improperly performed or not provided or the cost of the services was not reasonable. Further, the Court did not maintain sufficient documentation to support the use of \$83,562 in Block Grant funds for rehabilitation services.²

Recommendations

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

- 1A. Ensure that the housing rehabilitation services cited in this finding are properly completed using non-Federal funds or reimburse its Block Grant program \$72,501 from non-Federal funds for the Block Grant funds used for the 22 Program projects for which housing rehabilitation services were either improperly performed or not provided.

² The \$83,862 in Block Grant funds consists of \$56,518 for housing rehabilitation services for which the Court did not maintain documentation to support that HUD's regulations regarding the possible presence of lead-based paint were followed, plus \$33,211 for which the Court did not have sufficient documentation to demonstrate that the services were reasonable, less \$6,167 that was included in both of the costs above ((\$56,518-\$6,167) + \$33,211).

- 1B. Reimburse its Block Grant program from non-Federal funds for the \$680 in Block Grant funds used for Program project number 3494 for which the cost of the housing rehabilitation services was not reasonable.
- 1C. Provide sufficient supporting documentation or reimburse its Block Grant program from non-Federal funds, as appropriate, for the \$23,719 in Block Grant funds used for 10 Program projects for which the Court did not have sufficient documentation to demonstrate that the use of Block Grant funds for housing rehabilitation services was reasonable or that HUD's regulations regarding the possible presence of lead-based paint were followed.³
- 1D. Implement adequate procedures and controls, including training for the City's employees, to ensure that it appropriately monitors subrecipients that provide housing rehabilitation services to ensure that the subrecipients (1) complete estimates for the cost of services before price quotes are received for the services, (2) obtain price quotes for services from at least three contractors, (3) complete work specifications that sufficiently detail the services to be provided, (4) require contractors' price quotes for services to include a cost for the individual items, (5) require contractors to properly perform and provide services, and (6) maintain documentation to support that HUD's regulations regarding the possible presence of lead-based paint were followed.

³ We did not include \$59,843 in Block Grant funds used for 17 projects for which the Court did not have sufficient documentation to demonstrate that the use of Block Grant funds for housing rehabilitation services was reasonable or that HUD's regulations regarding the possible presence of lead-based paint were followed since we included it in recommendation 1A (\$55,343) and recommendation 2A (\$4,500) of this report.

Finding 2: The City Did Not Always Ensure That Assisted Households Were Income Eligible

The City did not always ensure that assisted households were income eligible. This weakness occurred because the City lacked adequate procedures and controls in its administration of the Program to ensure that it appropriately followed HUD's regulations. As a result, it inappropriately provided nearly \$9,000 in Block Grant funds to assist two ineligible households.

The City Provided \$9,000 in Block Grant Funds for Ineligible Households

Contrary to HUD's regulations at 24 CFR 570.208(a)(3), the City drew down \$9,000 in Block Grant funds to assist two households that were not income eligible. The Block Grant funds were used to provide housing rehabilitation services for the two projects (\$4,500 per project). The household income exceeded HUD's income guidelines by \$2,898 (5.9 percent) and \$1,803 (5.2 percent) for project numbers 3362 and 3492, respectively.

Further, although the Court maintained sufficient documentation to determine that the households for the remaining 39 Program projects were income eligible, it could not provide its estimated projected annual income for 36 households. The table in appendix D of this report shows the 36 projects for which the Court could not provide its estimated projected annual income calculations for the households.

The City Lacked Adequate Procedures and Controls

The City's Department of Neighborhoods did not adequately monitor the Program projects to ensure that the Court accurately calculated households' estimated projected annual income and maintained documentation to support the estimated projected annual income that it calculated for households. A neighborhood development specialist, who was previously a program monitoring specialist, with the City's Department said that when he performed onsite monitoring reviews of the projects, he would ensure that income documentation was available and calculate the households' estimated projected annual income to determine whether it met HUD's income guidelines. However, the former program monitoring specialist did not (1) inform the Court that it needed to document the estimated projected annual income that it calculated for the households or (2) document the estimated projected annual income that was calculated for the households.

The Court did not use the prevailing rate of income when calculating the annual income for one member of the household associated with Program project number 3362. A housing specialist with the Court said that the previous year's Internal Revenue Service Form W-2 wage and tax statement was used to calculate the annual income for the household member since the household member's job was seasonal. However, the Court could not provide documentation to support that the job was seasonal. Further, the household member's September 2009 weekly pay statements did not support that the job was seasonal. The average of the gross pay in the pay statements multiplied by the number of weeks that had elapsed for the year as of the last pay statement totaled nearly the year-to-date gross pay on the last pay statement. The housing specialist also said that the Court mistakenly used the monthly income listed on the household's application for another household member rather than the income shown on the household member's bank statement. Regarding project number 3492, the Court determined that the household income exceeded HUD's income guidelines. The housing specialist said that the Court made an exception for the household after discussing the issue with staff from the City's Department of Neighborhoods. However, neither staff from the Court nor the Department could explain why an exception was made for the household.

Conclusion

The City lacked adequate procedures and controls in its administration of the Program to ensure that it appropriately followed HUD's regulations. As a result, it inappropriately provided nearly \$9,000 in Block Grant funds to assist the two ineligible households.

Recommendations

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

- 2A. Reimburse its Block Grant program \$8,691 from non-Federal funds for the Block Grant funds inappropriately used to assist Program project numbers 3362 and 3492.⁴
- 2B. Implement adequate procedures and controls, including training for the City's employees, to ensure that it appropriately monitors subrecipients that provide housing rehabilitation services to ensure that the subrecipients (1) accurately calculate households' estimated projected annual income, (2) maintain documentation to support the estimated projected annual income

⁴ We did not include \$309 in Block Grant funds used for Program project number 3362 for which the household was not income eligible since we included it in recommendation 1A of this report.

that the subrecipients calculate for households, and (3) do not provide assistance to households that exceed HUD's income guidelines.

SCOPE AND METHODOLOGY

We performed our onsite audit work from March through June 2012 at the City's and Court's offices located at One Government Center, Suite 1800, Toledo, OH, and 555 North Erie Street, Toledo, OH, respectively, and the locations of the 40 Program projects inspected. The audit covered the period July 2009 through February 2012 and was expanded as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws; Federal regulations at 24 CFR Part 225; HUD's regulations at 24 CFR Parts 35, 85, and 570; HUD's Office of Block Grant Assistance's "Basically CDBG [Block Grant]" training manual from November 2007; and HUD's Columbus Office of Community Planning and Development's monitoring review, dated October 12, 2010.
- The City's financial records; single audit reports for 2009 and 2010; municipal code; data from HUD's Integrated Disbursement and Information System; Program project files; policies and procedures; organizational charts; consolidated plan for 2010 through 2015; action plans from 2009 through 2012; and written agreements with the Toledo Municipal Court from 2009 through 2012.

In addition, we interviewed the City's and Court's employees and HUD's staff.

Findings 1 and 2

We reviewed all 39 of the Program projects that the City reported as complete in HUD's System from July 1, 2009, through February 28, 2012. We reviewed two additional projects that the Court completed but the City had not reported as complete in HUD's System as of February 28, 2012. The City reported the two projects as complete in HUD's System on June 12, 2012. It drew down \$181,745 in Block Grant funds for the 41 projects.

Finding 1

We selected all 41 Program projects for inspection. We inspected the housing rehabilitation services associated with 40 of the 41 projects from June 20 through 25, 2012, to determine whether (1) the services were completed, (2) the services were properly performed, and (3) the cost of the services was reasonable. We were unable to inspect the services associated with project number 3489 since the home was demolished as a result of a fire.

We relied in part on data maintained by the City for the Block Grant-funded Program and data in HUD's system. Although we did not perform detailed assessments of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes.

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

INTERNAL CONTROLS

Internal control is 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 objectives:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The City lacked adequate procedures and controls to ensure that

- Federal regulations and its own policies were followed (1) in the Court's contracting processes for the Program and (2) for housing rehabilitation services associated with Program projects (see finding 1).
- HUD's regulations were not always followed in providing housing rehabilitation services through the Program to only income-eligible households (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	72,501	
1B	680	
1C		<u>\$23,719</u>
2A	<u>8,691</u>	
Totals	<u>\$81,872</u>	<u>\$23,719</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.


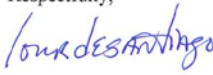
Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

<p style="text-align: center;">CITY OF TOLEDO</p> <p style="text-align: center;"></p> <p style="text-align: center;">Department of Neighborhoods</p> <p>April 29, 2013</p> <p>Brent G. Bowen, Assistant Regional Inspector General for Audit United States Department of HUD-Office of Inspector General Ralph H. Metcalfe Federal Building 77 West Jackson Boulevard, Room 2201 Chicago, IL 60604</p> <p>RE: HUD-OIG draft C-VAP Report Dated April 23, 2013</p> <p>Dear Mr. Bowen:</p> <p>The City of Toledo Department of Neighborhoods (COT/DON) concurs with the recommendations proposed by the HUD-OIG regarding the C-VAP and will timely implement the corrective action measures designated by HUD-Columbus.</p> <p>The COT/DON, however, questions the alleged period audited: 2009-2012. The HUD-OIG initiated its inquiry in December 2011. As a result, the C-VAP activities ceased immediately at that time. Although two projects closed in IDIS after December 2012, the activity audited was within the period of 2009-2011 not 2012.</p> <p>On or about November 30, 2012 the program was relinquished by the Court, in writing, although no activity had been undertaken since the HUD-OIG investigation commenced in December 2011.</p> <p>Respectfully,</p> <p></p> <p>Lourdes Santiago Director</p> <p>Cc Paul Syring, Deputy Mayor, External Relations Kathleen Kovacs, Deputy Director, Department of Neighborhoods Bonita Bonds, Acting Commissioner, Department of Neighborhoods Adam Loukx, Director, Law Department</p> <p style="text-align: center;"><small>One Government Center ♦ Suite 1800 ♦ Toledo, Ohio 43604 ♦ Office: 419-245-1400 ♦ Fax: 419-245-1192 ♦ website: www.toledo.oh.gov</small></p>	
--	--

OIG's Evaluation of Auditee Comments

Comment 1 We started our audit in March 2012. The audit covered the period July 2009 through February 2012 and was expanded as determined necessary.

Appendix C

FEDERAL REGULATIONS AND THE CITY'S POLICIES

Findings 1 and 2

HUD's regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity.

HUD's regulations at 24 CFR 570.501(b) state that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise.

HUD's regulations at 24 CFR 570.502(a) state that recipients and subrecipients that are governmental entities must comply with HUD's regulations at 24 CFR 85.40(a).

Finding 1

HUD's regulations at 24 CFR 35.100(c) state that 24 CFR 35.930(b) is applicable to properties receiving up to and including \$5,000 in rehabilitation assistance.

HUD's regulations at 24 CFR 35.175 state that a designated party, as specified in subparts C, D, and F through M of 24 CFR Part 35, must keep a copy of each notice, evaluation, and clearance or abatement report required by subparts C, D, and F through M of 24 CFR Part 35 for at least 3 years.

HUD's regulations at 24 CFR 35.900(a)(3) state that for purposes of the Block Grant entitlement program, the requirements of subpart J of 24 CFR Part 35 (24 CFR 35.900 through 35.940) apply to all residential rehabilitation activities (except those otherwise exempted) for which funds are first obligated on or after September 15, 2000.

HUD's regulations at 24 CFR 35.930(a) state that a grantee or participating jurisdiction must either perform paint testing on the painted surfaces to be disturbed or replaced during rehabilitation activities or presume that all of the painted surfaces are coated with lead-based paint. Section 35.930(b) states that for residential property receiving an average of up to and including \$5,000 per unit in Federal rehabilitation assistance, each grantee or participating jurisdiction must (1) conduct paint testing or presume the presence of lead-based paint in accordance with 24 CFR 35.930(a); (2) implement safe work practices during rehabilitation work

in accordance with 24 CFR 35.1350 and repair any paint that is disturbed; and (3) after completion of any rehabilitation disturbing painted surfaces, perform a clearance examination of the worksite(s) in accordance with 24 CFR 35.1340. If paint testing indicates that the painted surfaces are not coated with lead-based paint, safe work practices and clearance are not required.

HUD's regulations at 24 CFR 85.36(b)(1) state that grantees and subgrantees must use their own procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in 24 CFR 85.36. Section 85.36(b)(2) states that grantees and subgrantees must maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Section 85.36(b)(9) states that grantees and subgrantees must maintain records sufficient to detail the significant history of a procurement. These records include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Section 85.36(c)(1) states that all procurement transactions must be conducted in a manner providing full and open competition consistent with 24 CFR 85.36. Section 85.36(c)(3)(i) states that grantees must have written selection procedures for procurement transactions to ensure that all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Section 85.36(d)(1) states that when procurement by small purchase is used, price or rate quotations must be obtained from an adequate number of qualified sources. Section 85.36(f)(1) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis are dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals.

HUD's regulations at 24 CFR 570.200(f)(1)(i)(B) state that eligible activities may be undertaken, subject to local law, by the recipient through procurement contracts governed by HUD's regulations at 24 CFR 85.36.

HUD's regulations at 24 CFR 570.502(a) state that recipients and subrecipients that are governmental entities must comply with Office of Management and Budget Circular A-87 and HUD's regulations at 24 CFR 85.36.

HUD's regulations at 24 CFR 570.608 state that the Lead-Based Paint Poisoning Prevention Act, the Residential Lead-Based Paint Hazard Reduction Act of 1992, and implementing regulations of subparts A, B, J, K, and R of HUD's regulations at 24 CFR Part 35 apply to activities under the Block Grant program.

Appendix A, section C.1, of 2 CFR Part 225⁵ requires all costs to be necessary, reasonable, and adequately documented. Section C.2 states that a cost is reasonable if in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to (1) the restraints or requirements imposed by such factors as sound business practices; (2) market prices for comparable goods or services; and (3)

⁵ Office of Management and Budget Circular A-87 was relocated to 2 CFR Part 225.

whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its employees, the public at large, and the Federal Government.

Section I.E. of the City's Administrative Policy and Procedure Number Five, effective January 31, 2008, states that purchases under \$10,000 may be authorized only after the department or division obtains at least three quotes from at least three different vendors or suppliers of the item or service in the requisition. Section II refers to the City's Purchasing Process and Procedures Manual. Section III.A. states that all department, division, and agency heads are responsible for observing and following the Administrative Policy and Procedure Number Five. The City's Purchasing Process and Procedures Manual states that the manual is provided to the City's employees to follow or reference when procuring commodities and services or entering into contracts for the City. For purchases under \$10,000, the requesting division obtains at least three price quotes for the product or service desired and then selects the best vendor from the price quotes submitted.

Finding 2

HUD's regulations at 24 CFR 570.3 define a low- and moderate-income household as a household having an income equal to or less than the Section 8 low-income limit established by HUD. Grantees must estimate the annual income of a household by projecting the prevailing rate of income of each member of the household at the time assistance is provided to the household. Estimated annual income must include income from all household members.

HUD's regulations at 24 CFR 570.208(a)(3) state that eligible housing activities carried out for the purpose of providing or improving permanent residential structures must be occupied by low- and moderate-income households upon completion.

HUD's regulations at 24 CFR 570.506 state that each recipient must establish and maintain sufficient records to enable HUD to determine whether the recipient has met the requirements of 24 CFR Part 570. Section 570.506(b) states that at a minimum, the recipient must maintain records demonstrating that each activity undertaken meets one of the criteria set forth in 24 CFR 570.208. Section 570.506(b)(4)(iii) states that for each activity carried out for the purpose of providing or improving housing which is determined to benefit low- and moderate-income persons, the recipient must maintain records to support the size and income of the household.

Appendix D

SCHEDULE OF PROGRAM PROJECTS' DEFICIENCIES

Program project number	Work specifications not sufficiently detailed	Housing rehabilitation services not properly performed or provided	Lacked documentation to support that		Lacked documentation to support estimated projected annual income was calculated
			Cost of housing rehabilitation services was reasonable	HUD's lead-based paint regulations were followed	
3241	X	\$656		\$1,354	X
3242	X	275			X
3304	X			\$4,500	
3305	X	4,270		\$4,270	X
3306	X	4,500		\$4,500	X
3362	X	309			
3416	X				X
3418	X				
3419	X	2,900		\$2,900	X
3420	X				X
3421	X	4,500	\$2,290	\$4,500	X
3452	X				X
3488	X	735			X
3489	X		4,500		X
3490	X	4,500	4,500		X
3491					X
3492	X		1,005	\$4,500	
3493	X				X
3494	X				X
3495	X	4,500	987		X
3592	X	3,380	1,981	\$2,760	X
3601	X	3,300	875	\$2,430	X
3602	X				X
3603	X		3,017		X
3605	X	3,222			X
3684	X	4,500		\$4,500	X
3685	X		2,710		X
3686	X				X
3690	X		340	\$2,850	X
3692	X	2,860		\$2,860	X
3693	X				X
3694	X				X
3702	X		3,544		X
3703	X	3,085	834	3,085	X
3704	X	4,500	1,576	4,500	X
3707	X	4,500			X
3708	X	2,509		2,509	X
3714	X	4,500	3,498		X

SCHEDULE OF PROGRAM PROJECTS' DEFICIENCIES (CONCLUDED)

Program project number	Work specifications not sufficiently detailed	Housing rehabilitation services not properly performed or provided	Lacked documentation to support that		Lacked documentation to support estimated projected annual income was calculated
			Cost of housing rehabilitation services was reasonable	HUD's lead-based paint regulations were followed	
3715	X	4,500		<u>4,500</u>	X
3835	X	<u>4,500</u>	<u>1,554</u>		<u>X</u>
3841	<u>X</u>				
Totals	<u>40</u>	<u>\$72,501</u>	<u>\$33,211</u>	<u>\$56,518</u>	<u>36</u>