



The City of Toledo, OH

**Community Development Block Grant-
Recovery Act Program**



Issue Date: September 30, 2013

Audit Report Number: 2013-CH-1010

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

//signed//

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

SUBJECT: The City of Toledo, OH, Did Not Always Administer Its Community Development Block Grant-Recovery Act Program in Accordance With HUD's and Its Own Requirements.

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final audit report of our audit of the City of Toledo's Community Development Block Grant program funded under the American Recovery and Reinvestment Act of 2009.

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

The Inspector General Act, Title 5 United States Code, section 8M, 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) 353-7832.



September 30, 2013

The City of Toledo, OH, Did Not Always Administer Its Community Development Block Grant-Recovery Act Program in Accordance With HUD's and Its Own Requirements

Highlights

Audit Report 2013-CH-1010

What We Audited and Why

We audited the City of Toledo's Community Development Block Grant funded under the American Recovery and Reinvestment Act of 2009 as part of the activities in our fiscal year 2013 annual audit plan. We selected the City's Block Grant 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 objective was to determine whether the City effectively administered its grant in accordance with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the City to (1) support or reimburse more than \$74,000 to HUD from non-Federal funds for transmission to the U.S. Treasury for the inappropriately assisted households or unreasonable or excessive costs for roof and exterior repairs and (2) develop and 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 its Recovery Act Block Grant funds. Specifically, it did not always ensure that assisted households were income eligible. As a result, HUD and the City lacked assurance that Recovery Act Block Grant funds were used for eligible households.

Further, the City did not always (1) obtain price quotes from at least three contractors and (2) ensure that it paid reasonable prices for its roof and exterior repair projects. As a result, HUD lacked assurance that the City's procurements were conducted in a manner that provided full and open competition, and HUD and the City lacked assurance that Recovery Act Block Grant funds were used appropriately.

TABLE OF CONTENTS

Background and Objective	3
Results of Audit	
Finding 1: The City Did Not Always Ensure That Assisted Households Were Income Eligible	4
Finding 2: The City Did Not Always Comply With HUD's and Its Own Procurement Requirements	8
Scope and Methodology	13
Internal Controls	16
Appendixes	
A. Schedule of Questioned Costs	18
B. Auditee Comments and OIG's Evaluation	19
C. Schedule of Program Projects' Deficiencies	24
D. Federal Regulations and the City's Policies	26

BACKGROUND AND OBJECTIVE

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.

American Recovery and Reinvestment Act of 2009-funded Community Development Block Grant. On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 into law. The Recovery Act awarded the U.S. Department of Housing and Urban Development (HUD) \$13.6 billion. Of this amount, \$1 billion was allocated to the Community Development Block Grant program to carry out, on an expedited basis, eligible activities under the Block Grant program. Of the \$1 billion, more than \$2.1 million in formula funds was allocated to the City of Toledo.

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 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 used a portion of the City's Recovery Act Block Grant funds to provide roof and other exterior repairs for residential structures. It provided eligible property owners Recovery Act Block Grant-funded grants of up to \$7,500 to address roof and other exterior repair needs. The City's project records are located at One Government Center, Suite 1800, Toledo, OH.

The City completed 158 roof and other exterior repair projects totaling \$997,643 in Recovery Act Block Grant funds. We reviewed 60 of the 158 projects that the City reported as complete in HUD's Integrated Disbursement and Information System¹ from March 18, 2009, through September 24, 2012. It drew down \$377,603 in Recovery Act Block Grant funds for the 60 projects.

Our objective was to determine whether the City effectively administered its Recovery Act Block Grant funds that were used for roof and other exterior repairs in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the City ensured that (1) the procurement of housing rehabilitation services was properly performed and supported, (2) sufficient documentation was maintained to support the use of Block Grant funds, and (3) services were provided only to eligible households.

¹ HUD's Integrated Disbursement and Information System is a nationwide database used by grantees to request grant funding from HUD and report on what is accomplished with these funds for the four Community Planning and Development formula grant programs as well as select Recovery Act programs.

RESULTS OF AUDIT

Finding 1: The City Did Not Always Ensure That Assisted Households Were Income Eligible

The City did not always ensure that assisted households were income eligible. These weaknesses occurred because the City lacked adequate procedures and controls in the administration of its grant to ensure that it complied with HUD's requirements. As a result, more than \$14,000 in Recovery Act funds was used to support households that were not income eligible, and HUD and the City lacked assurance that more than \$46,000 in Recovery Act funds was used to provide roof and exterior repairs to eligible households.

The City Did Not Always Ensure That Recovery Act Funds Were Used for Eligible Households

Contrary to HUD's regulations at 24 CFR (Code of Federal Regulations) 570.208(a)(3), the City drew down \$14,145 in Recovery Act Block Grant funds from June 30, 2010, through December 8, 2011, to assist two households that were not income eligible. The Recovery Act grant funds were used to provide roof and other exterior repairs for project numbers 3427 (\$6,785) and 3624 (\$7,360). The households' income exceeded HUD's income guidelines by \$5,755 (12.9 percent) and \$2,950 (6.7 percent), respectively.

The City also did not ensure that it maintained adequate and sufficient documentation to support that seven households were income eligible. The City's files for the seven households did not contain sufficient documentation to support income for all adult members of the household as required by HUD's regulations at 24 CFR 570.3 and 570.506(b)(4)(iii). The City used \$46,504 in Recovery Act Block Grant funds to provide roof and exterior repair services to these households.

The City Lacked Support for Its Income Determinations

Although the City maintained adequate documentation to determine that the households for the remaining 51 projects were income eligible, it lacked documentation to support its household income determinations. The City could not provide one or more of the following: (1) sufficient and timely income documentation for household members, (2) the income limits used for the households, (3) the date the income determination was performed, and (4) the

estimated projected annual income that it calculated for the households as required by HUD.²

The table in appendix C of this report shows the 7 projects for which the City did not maintain adequate income eligibility documentation and the 51 projects for which the City could not provide documentation to support its household income determinations.

The City Lacked Adequate Procedures and Controls

The City lacked adequate procedures and controls to ensure compliance with HUD's requirements. According to the City's rehabilitation specialist and former housing manager, the Department's former director instructed the staff to get the projects completed quickly. Therefore, nearly all of the Recovery Act Block Grant roof and exterior repair projects were completed from approximately the end of 2009 through the end of 2010. The former housing manager told the neighborhood development specialists that the Recovery Act funds had to be spent quickly; therefore, they were rushed to get clients under contract, causing mistakes to be made. In addition, at the time, there were only two neighborhood development specialists providing client intake for all of the HUD programs including the Recovery Act Block Grant.

The City did not use the prevailing rate of income when calculating the annual income for one member of the household associated with project number 3427. The household member received monthly child care income both from the families of the children cared for and the county. However, according to a neighborhood development specialist, when calculating annual income, the City mistakenly included only the portion that was paid by the families. Regarding project number 3624, the City determined that the household's income exceeded HUD's income limit; however, a neighborhood development specialist stated that despite this excess income, the former housing manager verbally instructed her to proceed with the project and did not provide a reason.

The current housing manager stated that when applications were taken and processed, there were no established policies or procedures in place that explained (1) what income documentation was needed, (2) how income documentation was used to determine the household's annual income, and (3) how income verifications were performed. Further, the neighborhood development specialists did not use a worksheet or other similar form that would aid in documenting the income eligibility determination by having all pertinent information in one place. Any income calculations that the housing specialists performed were documented on scratch paper. The former housing manager did not tell them that they had to (1) perform household income determinations in any particular way and (2)

² 24 CFR 570.506 and 24 CFR 570.506(b)(1)

document their determinations. A neighborhood development specialist said that the neighborhood development specialists were told by the former housing manager to use the income documentation that the household brought to the initial meeting. Therefore, the households were not asked to provide additional support for their income to clarify or supplement what was brought in. Further, at the time the projects were completed, the files were disorganized, and documents were scattered. It was also mentioned that it took a significant amount of time to clean up and organize the files and documents may have been misplaced or discarded as a result.

Conclusion

The City lacked adequate procedures and controls in its administration of the Recovery Act Block Grant to ensure that it appropriately followed HUD's regulations. As a result, more than \$14,000 in Recovery Act funds was used to support households that were not income eligible, and HUD and the City lacked assurance that more than \$46,000 in Recovery Act funds was used to provide services to eligible households.

In projecting the 9 households for which the City used \$60,649 (\$6,785 + \$7,360 + \$46,504) in Recovery Act funds to the universe of 158 roof and other exterior repair projects of other assisted households, we estimated that the City used at least \$82,574 in Recovery Act Block Grant funds for 12 households that either were not income eligible or provided insufficient income documentation to determine eligibility.

Recommendations

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

- 1A. Reimburse HUD \$14,145 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act Block Grant funds inappropriately used to assist project numbers 3427 and 3624.
- 1B. Support or reimburse HUD \$46,504 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act Block Grant funds used for project numbers 3439 (\$6,963), 3449 (\$7,500), 3502 (\$7,300), 3819 (\$4,995), 3873 (\$7,500), 3884 (\$7,300), and 3922 (\$4,946) for which the City did not maintain sufficient documentation to determine whether the assisted households were income eligible.
- 1C. Review and provide the results to HUD for the remaining 98 Recovery Act Block Grant-funded roof and other exterior repair project files that were not part of our sample to ensure that the households were income eligible and

that it maintained adequate and sufficient documentation to support that households were income eligible. For any household determined to be ineligible or if the City's files lack documentation to support a household's eligibility, the related amount will be added to 1A or 1B as appropriate.

- 1D. Develop and implement adequate procedures and controls, including training for its employees, to ensure that it (1) accurately calculates a household's estimated annual income by projecting the prevailing rate of income; (2) maintains documentation to support the calculation of the household's estimated projected annual income including the household's estimated projected annual income, the household size, HUD's applicable income limit, a determination as to whether the household is income eligible, and the date on which the determination is made; and (3) does not provide assistance to households with incomes exceeding HUD's income guidelines.

Finding 2: The City Did Not Always Comply With HUD's and Its Own Procurement Requirements

The City did not always (1) obtain price quotes from at least three contractors and (2) ensure that it paid reasonable prices for its roof and exterior repair projects. These weaknesses occurred because the City lacked adequate procedures and controls to ensure that its procurements complied with Federal and its own requirements. As a result, HUD lacked assurance that the City's procurements were conducted in a manner that provided full and open competition. Further, HUD and the City lacked assurance that Recovery Act Block Grant funds were used appropriately.

The City Did Not Obtain a Sufficient Number of Price Quotes for Services

The City did not obtain price quotes from at least three contractors for the services associated with all 60 of its roof and exterior repair projects reviewed. Contrary to HUD's requirements and its own policies,³ for 49 projects, the City obtained price quotes from only one contractor, and for the remaining 11 projects, it obtained price quotes from two. Further, for the 11 projects, the City only obtained a price quote from a second contractor because the price quoted from the first contractor was not within a 15 percent range above or below the City's independent cost estimate (see appendix C). Therefore, the City's procurements for its Recovery Act Block Grant-funded projects were not always conducted in a manner that allowed full and open competition as required by HUD.⁴ The City also did not maintain sufficient records, as required by HUD's regulations at 24 CFR 85.36(b)(9), to detail the rationale for not following the City's policies in the procurement of services for the 60 projects.

The City Did Not Ensure That the Costs of Its Roof and Exterior Repairs Projects Were Reasonable

For 26 of the 60 projects (43 percent), the contract costs exceeded the City's independent estimate(s) by more than \$10,237 collectively. However, the City's files did not contain adequate documentation, such as a cost analysis, to determine whether the amounts exceeding the estimates for its roof and exterior repair projects were reasonable in accordance with HUD's and its own procurement

³ Section I.E. of the City's Administrative Policy and Procedure Number Five, effective January 31, 2008, and 24 CFR 85.36(d)(1)

⁴ 24 CFR 85.36(c)(1)

requirements.⁵ For 21 of the 26 projects, as previously mentioned, the City received only one bid, and for the remaining 5 projects, it received two. Had it appropriately procured the contracts for its roof and exterior projects, it may have received the services at a lower cost. In projecting these 26 projects to the universe of 158 roof and exterior repair projects, we estimate that the City used at least \$21,233 in Recovery Act Block Grant funds for 83 projects without adequate support to show whether the roof and exterior repairs were provided at a reasonable cost.⁶

The table in appendix C shows the 26 projects and the amount of Recovery Act Block Grant funds used for roof and exterior repairs for which the City lacked sufficient documentation to support that the costs of the repairs were reasonable.

The City Lacked Independent Cost Estimates or Analyses

The City lacked sufficient documentation to support \$8,814 in Recovery Act Block Grant funds used for six roof and exterior repair projects. Specifically, it could not support that it performed an independent estimate for the contract price of \$6,754 to repair two projects (project numbers 3477 and 3819) and did not perform a cost analysis or independent estimate for change orders totaling \$2,060 for four projects (project numbers 3503, 3515, 3687, and 3792) as required by HUD regulations at 24 CFR 85.36(b)(9) and (f)(1). Further, the City could not support that it performed an independent estimate of the cost of the repairs before receiving price quotes from contractors for 25 projects.

The City Accepted Estimates Above Its 15 Percent Threshold

Contrary to its own policies,⁷ the City accepted estimates from contractors that exceeded the City's independent estimate by more than 15 percent for two projects (project numbers 3478 and 3647). Therefore, it used \$651 in Recovery Act Block Grant funds that was not reasonable for two projects. Further, for one project, the City disbursed an additional \$264 above the contractor's estimate because the amounts were calculated incorrectly.

The City Lacked Adequate Procedures and Controls

The weaknesses described above occurred because the City lacked adequate procedures and controls to ensure that its procurements for roof and other exterior repairs complied with Federal and its own requirements. The procurement process for contracts that were less than \$10,000 did not include the receipt of at

⁵ Federal regulations at appendix A, section C, of 2 CFR Part 225 and 24 CFR 85.36(f)(1)

⁶ Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

⁷ Chapter 8, section F, of the City's Housing Rehabilitation Policy and Procedure Manual

least three price quotes.⁸ Previously, the procurement of contractors within the Department was handled by the rehabilitation specialists, and for any contract that was less than \$10,000, only one contractor was solicited to provide a price quote. Contracts were procured on a rotating basis by the rehabilitation specialists, using their own judgment in considering the contractor's capacity and ability to perform the work. Before the Recovery Act Block Grant funds became available, the former housing manager took over the procurement function from the housing specialists and became the sole person within the Department who performed contractor procurement. The former housing manager did not have the same level of experience as the rehabilitation specialists.

For the Recovery Act Block Grant-funded roof and other exterior repair projects, the former housing manager would select one contractor from a list of contractors that she maintained and provide the contractor's name to the rehabilitation technicians, who would then contact the contractor and obtain a price quote. The former housing manager selected the contractors for the projects by going straight down the list, choosing a different one for each project. However, some contractors declined jobs so not every contractor on the list received an equal number of contracts. In addition, some contractors were working on projects in multiple programs offered by the City and could not accept additional work or did not have the capacity to do additional work, and some contractors declined because the amounts were small and they were interested in bigger projects. Further, some contractors received more work because they could complete the job in a short amount of time, and other contractors could not compete with them.

Regarding the City's lack of documentation to support the reasonableness of prices paid for six roof and exterior repair projects, as mentioned in finding 1, according to a neighborhood development specialist at the time the Recovery Act Block Grant-funded repair projects were completed, the files were disorganized, and documents were scattered. It took a significant amount of time to clean up and organize the files, and documents may have been misplaced or discarded as a result.

Conclusion

The City lacked adequate procedures and controls to ensure that its procurements complied with Federal and its own requirements. As a result, HUD lacked assurance that the City's procurements were conducted in a manner that provided full and open competition. Further, HUD and the City lacked assurance that Recovery Act Block Grant funds were used appropriately.

Recommendations

⁸ Section I.E. of the City's Administrative Policy and Procedure Number Five, effective January 31, 2008

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

- 2A. Support or reimburse HUD from non-Federal funds \$8,635 for transmission to the U.S. Treasury for the Recovery Act Block Grant funds used for the 24 projects for which the City could not provide adequate support to show whether the services were provided at a reasonable cost.⁹
- 2B. Support or reimburse HUD \$1,759 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act Block Grant funds used for project number 3477 for which the City lacked documentation to support that it performed an independent estimate for the costs of the services.¹⁰
- 2C. Support or reimburse HUD \$2,060 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act Block Grant funds used for project numbers 3503 (\$490), 3515 (\$320), 3687 (\$900), and 3792 (\$350) that lacked support that an independent cost estimate was performed for change order items.
- 2D. Reimburse HUD \$915 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act Block Grant funds used for project numbers 3478 (\$572) and 3647 (\$79) that exceeded the City's estimate by more than 15 percent and project number 3876 (\$264) that were excessive.
- 2E. Review and provide the results to HUD for the remaining 98 Recovery Act Block Grant-funded roof and other exterior repair project files that were not part of our sample to ensure that the City maintained adequate support to show whether the services were provided at a reasonable cost. For any project for which a price quote was not obtained from at least three contractors and the contract cost exceeded the City's independent estimate, the project and the overage amount will be added to recommendation 2A.
- 2F. Develop and implement adequate procedures and controls, including training for the City's employees, to ensure that (1) price quotes for services are obtained from at least three contractors for projects with a contract cost under \$10,000; (2) estimates for the costs of housing rehabilitation services are completed before price quotes are received for the services, the date they are completed is maintained, and cost estimates for all change orders are

⁹ We did not include \$1,602 in Recovery Act Block Grant funds used for four projects for which the City could not provide adequate support to show whether the services were provided at a reasonable cost since we included it in recommendation 1B (\$625 for project 3884 and \$326 for project 3922) and recommendation 2D (\$572 for project 3478 and \$79 for project 3647) of this report. However, the number of projects included in this recommendation was reduced from 26 to 24 since a portion of the costs for projects 3478 and 3647 is included in the recommendation.

¹⁰ We did not include \$4,995 in Recovery Act Block Grant funds used for project number 3819 for which the City lacked documentation to support that it performed an independent estimate for the costs of the services since we included it in recommendation 1B of this report.

performed and maintained; and (3) documentation is maintained showing contractor selection or rejection.

SCOPE AND METHODOLOGY

We performed our onsite audit work from February through July 2013 at the City's offices located at One Government Center, Suite 1800, Toledo, OH. The audit covered the period March 2009 through September 2012 and was expanded as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws, Federal regulations at 2 CFR Part 225, HUD's regulations at 24 CFR Parts 85 and 570, HUD's notice of program requirements for Recovery Act Block Grant funding, and HUD's Office of Block Grant Assistance's "Basically CDBG [Block Grant]" training manual from November 2007.
- The City's financial records, data from HUD's Integrated Disbursement and Information System, Recovery Act Block Grant roof and other exterior repair project files, policies and procedures, organizational chart, consolidated plan for 2010 through 2015, 2008-2009 action plan substantial amendment, and Recovery Act Block Grant funding agreement with HUD.

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

Findings 1 and 2

We statistically selected 60 of the 158 Recovery Act Block Grant-funded roof and other exterior repair projects that the City reported as complete in HUD's system from March 18, 2009, through September 24, 2012, to determine whether the City complied with Federal regulations and its own policies in its use of Recovery Act Block Grant funds for roof and other exterior repair projects. The 60 projects totaled \$377,603 in Recovery Act Block Grant funds. Modeling showed a stratified random sample to be the most effective way to sample the data. We found a sample size of 60 to be the best size for providing meaningful audit results without an unnecessary risk of spurious¹¹ errors. With the frequent occurrence of null values in audits, possible audit findings follow a lognormal distribution, which approximates a bell curve.

We used replicated sampling to proof-test the sample design and model the true sampling distribution, thereby confirming the performance of the sample design. The data were sampled using a computer program written in SAS^{®12} using the surveyselect procedure with a random-number seed value of 7. The stratification variable is the grant amount for each Recovery Act Block Grant-funded roof and other exterior repair project. Taken in rank order by the size of the grant, the strata were designed to account for fluctuations in low-end grant amounts that would

¹¹ In addition to verifying the sample design conformed to the stated confidence interval – a one-sided confidence interval of 95 percent – we tested those rare occurrences that fall under the remaining 5 percent where the projection would be overstated. We did this to ensure that overstatements are not excessively higher than the true amount when using this sample design.

¹² A widely accepted platform for statistical calculations, which was specifically designed to evaluate cluster samples, to project the overall percentage of properties with problems based on the audit results

be expected to cause large variance estimates. With this in mind, there are seven total strata. The breakdown by stratum, to include total grants in each stratum, total samples per stratum, grant ranges that make up the strata divisions, probability of selection, and sampling weights, is listed in the table below.

Universe and sample size by stratum

Stratum name	Total number of grants in stratum	Number of samples per stratum	Grant range	Probability of selection	Sampling weight
Tier1	4	2	\$0 - \$2,799	0.500	2.000
Tier2	7	3	\$2,800 - \$3,799	0.429	2.333
Tier3	12	4	\$3,800 - \$4,499	0.333	3.000
Tier4	18	7	\$4,500 - \$4,999	0.389	2.571
Tier5	11	4	\$5,000 - \$5,999	0.364	2.750
Tier6	21	8	\$6,000 - \$6,999	0.381	2.625
Tier7	85	32	\$7,000 - \$7,500	0.376	2.656
Total	158	60	N/A	N/A	N/A

Both the amount of projected Recovery Act Block Grant funds that the City used in the universe without adequate support to show whether the services were provided at a reasonable cost and the amount of projected Recovery Act Block Grant funds that the City used in the universe for households that were not income eligible or households that had insufficient income records maintained by the City were based on traditional means or proportions and their standard errors, using the `surveymeans` and `surveyfreq` procedures provided by SAS®.

Finding 1

We found that there were 9 projects in the sample of 60 in which households were not income eligible or the households had insufficient income records maintained by the City. We determined that \$60,649 in Recovery Act Block Grant funds was used for households that were not income eligible or households that had insufficient income records maintained by the City for the nine projects. This amounts to an average of \$1,013 per project. Deducting for statistical variance to accommodate the uncertainties inherent to statistical sampling, we can state, with a one-sided confidence interval of 95 percent, that the average amount per activity is \$523.¹³ Projecting this amount to the 158 audit universe, we can state that at least \$82,574 ($\$522.62 * 158$) in funds was paid on activities that did not meet this specific program requirement. Additionally, this defect was found across many Recovery Act Block Grant activities, and we can also state, with a one-sided confidence interval of 95 percent, that at least 12 activities in our universe were affected.

Finding 2

We found that there were 26 projects in the sample of 60 in which the contract cost exceeded the City’s independent estimate. Adding the differences between the contract costs and the City’s independent estimates, we determined that \$10,237 in Recovery Act Block Grant funds was used without adequate support to show whether the services were provided at a reasonable cost for the

¹³ The amount is rounded.

26 projects. This amounts to a mean of \$184 per project. Deducting for statistical variance to accommodate the uncertainties inherent to statistical sampling, we can still say, with a one-sided confidence interval of 95 percent, that the average amount per activity is \$134. Projecting this to the universe of 158 projects, we can say that at least \$21,233 in Recovery Act Block Grant funds was used for projects without adequate support to show whether the services were provided at a reasonable cost, and it could be more. Additionally, this defect was found across many Recovery Act Block Grant-funded projects, and we can also say, with a one-sided confidence interval of 95 percent, that at least 83 projects in our universe were affected.

We relied in part on hard copy documentation maintained by the City for the Recovery Act Block Grant-funded roof and other exterior repair projects 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, which was informational.

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 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

- It provided roof and exterior repair services to households that were income eligible (see finding 1).
- Federal regulations and its own procurement policies were followed for its roof and other exterior repair projects (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$14,145	
1B		\$46,504
2A		8,635
2B		1,759
2C		<u>2,060</u>
2D	<u>915</u>	
	<u>\$15,060</u>	<u>\$58,958</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

<u>Ref to OIG Evaluation</u>	<u>Auditee Comments</u>
	<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 style="text-align: center;">September 16, 2013</p> <p>Kelly Anderson, Regional Inspector General for Audit-Region 5 U.S. Department of Housing and Urban Development Office of Inspector General Ralph H. Metcalf federal Building 77 West Jackson Blvd., Suite 2201 Chicago, IL 60604</p> <p>Re: HUD OIG draft CDBG-R report dated September 11, 2013</p> <p>Dear Ms. Anderson:</p>
Comment 1	<p>The City of Toledo (COT) Department of Neighborhoods (DON) concurs with the conclusion articulated in the HUD OIG “subject” draft Report which states, “the COT did not always administer its Community Development Block Grant-Recovery Act program in accordance with HUD’s and its own requirements”. It is most likely, however, that “always” is not achievable by any Grantee.</p>
Comment 1	<p>Basically, the HUD OIG’s recommendations as to the “always” are centered on (a) income eligibility of the applicant/household and (b) the procurement practice followed by the DON with the CDBG-R “Roof/Envelope Repair” Program.</p>
Comment 2	<p>As to the recommendations regarding (a), the HUD OIG premises their recommendations citing 24 CFR 570.208(a) (3) or 24 CFR 570.3 and 24 CFR 570.506(b)(4)(iii). These cited regulations are not totally on point, controlling or final in assessing the performance of a HUD program. A grantee, primarily per HUD regulations, is required to document that a minimum of 70% of the funds awarded were allocated to benefit low and moderate income individuals.</p>
Comment 3	<p>Therefore, it is possible that although a few or some of those households assisted may be outside of the “low and moderate income” rubric, the COT/DON can show that more than 70% of the individuals or households who benefitted from the CDBG-R “Roof/Envelope Repair” Program were within the “low and moderate income” levels. The COT can also show it targeted “slum and blighted” neighborhoods. Both of these fall within HUD national objectives. Furthermore, the HUD approved Substantial Amendment for the CDBG-R specifically provides that the “Roof/Envelope” Program will target <u>neighborhoods</u> included in the NSP tipping point areas. This fact alone can impact the “income” eligibility of the possible participants of this Program.</p>
Comment 4	

Ref to OIG Evaluation

Auditee Comments

Comment 5

Likewise, as to the HUD OIG’s recommendations regarding the above stated (b), the COT/DON had a “procurement practice” for the CDBG-R “Roof/Envelope Repair” Program that is, arguably, within the guidelines allowed by HUD and the COT. Specifically, the component of the CDBG-R Program reviewed by the HUD OIG was a “roof repair” program limited to a dollar amount of \$7500. Therefore, it did not meet the dollar threshold (more than \$100,000) that would trigger a more competitive bidding process under HUD regulations or COT’s procurement policy. The COT/DON can show that the Administrator responsible for implementing the “roof repair” program had a “rotation list” process to allow for minority contractor participation in the “roof repair” program. Three (3) contractors, one of which had to be a minority contractor, were asked to provide a bid for the “roof repair” on a rotational basis and based on a pre-determined roof repair estimate of “no more than” \$7500. Although not the best model or practice for procurement, even at the low dollar amount, the purpose was to provide for minority contractor participation; a stated goal of HUD and the COT procurement policy.

Comment 6

Comment 7

It merits factoring into any analysis of this Program, that the CDBG-R was an “emergency measure” implemented to assist communities in weathering the economic downturn experienced nationally and on a local level. The “addressing of an urgent or emergency need” is one of HUD’s three national objectives.

Comment 8

The COT/DON welcomes the opportunity to provide HUD Columbus with its corrective action plan as to the HUD OIG’s recommendations, because prior to the HUD OIG review of the Program, the COT/DON had already put in place procedures to correct some of the weaknesses highlighted by the HUD OIG. For example, the COT/DON had already put in place procedures to better document case files with income eligibility analysis, implementing a more robust and rigorous procurement protocol, as well as, providing extensive (ongoing) training to DON staff with regards to Program procedures and criteria.

Respectfully,

//signed//

Lourdes Santiago, Director
Department of Neighborhoods

cc: Paul F. Syring, Acting Deputy Mayor, External Relations
Kathleen Kovacs, Deputy Director, DON
Bonita Bonds, Acting Commissioner-Adm. Services, DON
Adam Loukx, Director, Law Department

OIG Evaluation of Auditee Comments

- Comment 1** The City's policies and procedures should provide reasonable assurance that assisted households meet income eligibility requirements. The specific issues identified during the audit and included in this report would not have occurred had proper procedures and oversight been established and functioning accordingly.
- Comment 2** The objectives of our audit were to determine whether the City effectively administered its Recovery Act Block Grant funds that were used for roof and other exterior repairs in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the City ensured that (1) the procurement of housing rehabilitation services was properly performed and supported, (2) sufficient documentation was maintained to support the use of Block Grant funds, and (3) services were provided only to eligible households. Therefore, HUD's regulations at 24 CFR 570.3, 24 CFR 570.208(a)(3), 24 CFR 570.506(b)(4)(iii), and the City's requirements included in appendix D of this report were applied.
- Comment 3** According to the City's substantial amendment to its 2008-2009 one year action plan for its roof and repair program the national objective citation is low- and moderate-income housing activities. Therefore, HUD's regulations at 24 CFR 570.208(a)(3) apply and 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. Thus, for all activities completed, the assisted household must be occupied by low- and moderate-income households not merely more than 70 percent of the activities completed.
- Comment 4** The City is correct that one of HUD's national objectives is activities which aid in the prevention or elimination of slums or blight. However, this national objective was not cited in the City's substantial amendment to its 2008-2009 one year action plan for the roof and repair program. According to the City's substantial amendment the national objective citation is low- and moderate-income housing activities. 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.
- Comment 5** 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(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(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. The City's procurement procedures state 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 and then selects the best vendor from the price quotes submitted.

The procurement practice used for the City's CDBG-R Roof and Repair Program did not (1) adhere to the City's procurement procedures as required in 24 CFR 85.36(b)(1), (2) ensure procurements were conducted in manners that provided full and open competition, and (3) ensure that price or rate quotations were obtained from an adequate number of qualified sources.

Comment 6 As stated in the report, the City did not obtain price quotes from at least three contractors for the services associated with all 60 of its roof and exterior repair projects reviewed. Contrary to HUD's requirements and its own policies, for 49 projects, the City obtained price quotes from only one contractor, and for the remaining 11 projects, it obtained price quotes from two. Further, former staff who worked directly with the CDBG-R roof repair program stated that only one contractor was asked to submit a bid on each project.

The City did not provide documentation to support that three contractors were solicited to provide bids for the CDBG-R roof repair projects on a rotational basis.

Comment 7 The City is correct that one of HUD's national objectives is activities designed to meet community development needs having a particular urgency. However, this national objective was not cited in the City's substantial amendment to its 2008-2009 one year action plan for the roof and repair program. According to the City's substantial amendment the national objective citation is low- and moderate-income housing activities. 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.

Further, according to HUD's notice of program requirements for Recovery Act Block Grant funding, if the urgent need criteria is to be used then the City had to certify that current economic conditions are of recent origin and constitute a serious and immediate threat to the welfare of the community and demonstrate that it is unable to finance the activity on its own, and that other sources of funding are not available. The City did not provide documentation to support the urgent need national objective.

Comment 8 The City's planned corrective action plan putting in place procedures to ensure that income eligibility determinations are properly documented, ineligible households are not assisted, HUD's requirement and its own policies regarding procurement are followed, and documentation is maintained showing contractor

selection or rejection should resolve the issues and recommendations cited in this audit report, as applicable.

Appendix C

SCHEDULE OF PROGRAM PROJECTS' DEFICIENCIES

Program project number	Lack of documentation to support		Solicited one quote	Solicited two quotes	Lacked documentation to support that cost of roof and exterior repairs was reasonable
	Household eligibility	Income determination			
3463		X	X		
3470		X	X		\$237
3477		X	X		
3508		X		X	
3510		X	X		
3515		X	X		
3625		X	X		\$520
3628		X	X		\$200
3652		X	X		
3790		X		X	\$180
3792		X	X		\$376
3796		X	X		\$325
3817		X	X		\$855
3873	X		X		
3427			X		
3431		X	X		\$439
3433		X	X		\$445
3439	X			X	
3449	X		X		
3450		X	X		
3453		X	X		
3454		X	X		
3467		X	X		
3468		X	X		
3472		X	X		
3474		X	X		
3478		X	X		\$756
3479		X		X	
3482		X	X		
3485		X	X		
3502	X		X		
3503		X	X		\$372
3507		X	X		\$502
3511		X	X		
3619		X	X		\$120
3620		X		X	

SCHEDULE OF PROGRAM PROJECTS' DEFICIENCIES (CONCLUDED)

Program project number	Lack documentation to support		Solicited one quote	Solicited two quotes	Lacked documentation to support that cost of roof and exterior repairs was reasonable
	Household eligibility	Income determination			
3622		X	X		\$270
3624			X		
3631		X		X	\$125
3640		X	X		
3645		X	X		\$122
3647		X		X	\$440
3649		X	X		
3650		X	X		\$290
3653		X		X	
3687		X	X		
3787		X	X		
3791		X	X		\$557
3794		X		X	\$202
3802		X	X		
3805		X	X		\$370
3806		X	X		
3807		X	X		\$450
3818		X	X		\$176
3819	X			X	
3875		X		X	\$957
3876		X	X		
3884	X		X		\$625
3887		X	X		
3922	<u>X</u>		X		\$326
Totals	<u>7</u>	<u>51</u>	<u>49</u>	<u>11</u>	<u>\$10,237</u>

Appendix D

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 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 needs records demonstrating that each activity undertaken meets one of the criteria set forth in 24 CFR 570.208. Section 570.506(b)(1) states that for each activity determined to benefit low- and moderate-income persons, the recipient must maintain the income limits applied and the point in time when the benefit was determined. 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.

Finding 2

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(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.

Appendix A, section C.1, of 2 CFR Part 225¹⁴ 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) 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

¹⁴ Office of Management and Budget Circular A-87 was relocated to 2 CFR Part 225.

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.

Chapter eight, section F, of the City's Housing Rehabilitation Policy and Procedure Manual, effective June 1989, states that bids which are within 15 percent range below or above the staff estimate are considered for acceptance.