



The City of Auburn, NY

Community Development Block Grant Program



Issue Date: September 26, 2013

Audit Report Number: 2013-NY-1010

TO: William T. O'Connell
Director, Community Planning and Development Division, Buffalo, NY, 2CD

FROM: *Edgar Moore*
Edgar Moore
Regional Inspector General for Audit, New York, New Jersey Region, 2AGA

SUBJECT: The City of Auburn, NY, Did Not Always Administer Its Community
Development Block Grant Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the City of Auburn, NY's Community Development Block Grant program.

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

The Inspector General Act, Title 5 United States Code, section 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 (212) 264-4174.



September 26, 2013

The City of Auburn, NY, Did Not Always Administer Its Community Development Block Grant Program in Accordance With HUD Requirements

Highlights

Audit Report 2013-NY-1010

What We Audited and Why

We audited the City of Auburn, NY's Community Development Block Grant (CDBG) program based on an Office of Inspector General risk analysis that considered the amount of funding the City had available to expend. The objectives of the audit were to determine whether the City had (1) established and implemented the necessary controls to ensure that program activities were adequately documented and administered in accordance with U.S. Department of Housing and Urban Development (HUD) regulations, (2) expended CDBG funds for eligible activities, and (3) properly expended and accounted for program income.

What We Recommend

We recommend that HUD instruct City officials to (1) expend more than \$2.4 million in CDBG program income or reprogram the funds to other eligible program activities, (2) provide documentation to support the \$177,923 shortage in program income or repay any unsupported amount from non-Federal funds, (3) provide documentation to justify the \$949,064 in unsupported costs and repay any amount determined to be ineligible from non-Federal funds, and (4) establish and implement controls and procedures to ensure the proper administration of the program.

What We Found

City officials did not (1) adequately establish and implement the necessary controls to ensure that program activities were adequately documented and administered in accordance with HUD regulations, (2) always expend CDBG funds for eligible activities, and (3) adequately expend and account for program income.

City officials (1) were slow in expending the City's revolving loan funds and maintained an excessive balance of program income, (2) made unnecessary draws from the City's CDBG entitlement funding, (3) had weaknesses in accounting controls related to the City's revolving loan program income accounts, and (4) did not report program income to HUD accurately or in a timely manner. City officials also did not always ensure that the City's CDBG-funded activities accomplished program objectives. Specifically, City officials did not (1) maintain sufficient documentation to support that all CDBG-funded activities met their stated objectives and that costs were eligible, (2) perform adequate monitoring or oversight of the funded activities, and (3) fully use the available funds for program administration. We attribute these deficiencies to the City's (1) lack of communication and coordination between officials in the program and financial divisions of the City, (2) ongoing capacity issues due to recent budget constraints and staff turnover, and (3) inadequate written policies and procedures.

TABLE OF CONTENTS

Background and Objectives	3
Results of Audit	
Finding 1: City Officials Did Not Adequately Administer the City’s CDBG Revolving Loan Fund	4
Finding 2: City Officials Did Not Always Ensure That CDBG-Funded Activities Met Program Objectives	11
Scope and Methodology	15
Internal Controls	16
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	18
B. Auditee Comments and OIG’s Evaluation	19

BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974, Public Law 93-383 as amended, 42 U.S.C. (United States Code) 5301. The program provides grants to State and local governments to aid in the development of viable urban communities. Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. To be eligible for funding, every CDBG-funded activity must meet one of the program's three national objectives. Specifically, every activity, except for program administration and planning, must

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The City of Auburn, NY, is a CDBG entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) awarded the City more than \$1.1 million in CDBG funding in program year 2010, \$984,494 in 2011, and \$814,792 in 2012.¹ In addition, the City received \$288,052 in funds under the American Recovery and Reinvestment Act of 2009. These funds were available to support a variety of activities directed at improving the physical condition of neighborhoods by providing housing rehabilitation and public improvements and facilities, fostering economic development by providing technical and financial assistance to local businesses and creating employment, or improving services for low- and moderate-income households. The City also administers a CDBG-funded revolving loan fund. The City operates under the council-manager form of government, and its CDBG activities are administered through the City's Office of Planning and Economic Development. It is the responsibility of the Office of the City Comptroller to receive, disburse, and account for all financial transactions of the City. The files and records related to the City's CDBG program are maintained at Memorial City Hall, located in Auburn, NY.

The objectives of the audit were to determine whether the City had (1) established and implemented the necessary controls to ensure that program activities were adequately documented and administered in accordance with HUD regulations, (2) expended CDBG funds for eligible activities, and (3) properly expended and accounted for program income.

¹ The City's CDBG program year is April 1 through March 31.

RESULTS OF AUDIT

Finding 1: City Officials Did Not Adequately Administer the City's CDBG Revolving Loan Fund

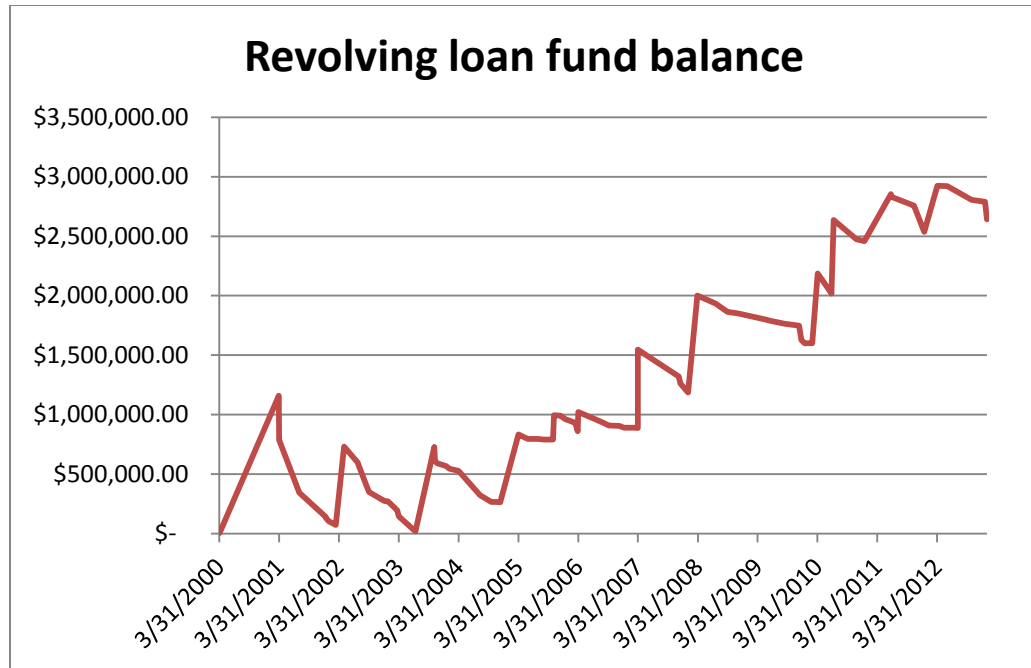
City officials did not properly administer a CDBG revolving loan fund, which was supposed to be used to provide low-interest loans for housing rehabilitation and economic development activities directed at benefiting low- and moderate-income persons. Specifically, City officials (1) were slow in expending these funds and maintained an excessive balance of program income, (2) made unnecessary draws from the City's CDBG entitlement funding when a sufficient amount of program income was available, (3) had weaknesses in their accounting controls related to the City's revolving loan program income accounts, and (4) reported program income to HUD inaccurately and in an untimely manner. We attribute these deficiencies to the City's lack of communication and coordination between officials in the program and financial divisions of the City as well as its inadequate written policies and procedures. As a result, more than \$2.4 million in program income funds was not used to benefit low- and moderate-income persons in a timely manner and could have been used instead of having unnecessary drawdowns from the City's CDBG line of credit. Also, there was an unexplained shortage of more than \$177,000 in the City's bank balance when compared to the program income balance reported to HUD.

Slow Progress and Excessive Revolving Loan Fund Balance

In recent years, the City had been slow in expending its revolving loan fund balance. This condition resulted in the City's maintaining an excessively large balance of program income. The City had a bank balance of more than \$2.4 million as of June 30, 2013; in comparison, the City received entitlement funding of only \$814,792 in program year 2012. Therefore, the City had more than three times its entitlement funding for the program year on hand as of that date. Regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(7) state that procedures for minimizing the time elapsing between the transfer of funds and disbursement by grantees must be followed.

The City's slow progress in expending its revolving loan fund can be seen through analysis of the receipts and draws recorded in HUD's Integrated Disbursement and Information System (IDIS).² The following chart represents the balance contained in the City's revolving loan fund over time using these IDIS data.

² IDIS is a nationwide drawdown and reporting system for HUD's four community planning and development grant programs: CDBG, the HOME Investment Partnerships, the Emergency Shelter Grants, and Housing Opportunities for Persons With AIDS. The system allows grantees to request their grant funding from HUD and report on their program accomplishments. HUD uses these data to report to Congress and monitor grantees.



The chart above shows how the balance in the City’s revolving loan fund steadily increased over time with more receipts than draws annually. For example, program income receipts were \$465,759 more than program income draws in program year 2011, \$271,181 more in program year 2010, and \$335,770 more in program year 2009. Data downloaded from IDIS showed that as of June 30, 2013, the City was expending revolving loan funds that had been received during program year 2007 and, thus, had not drawn any of the funds received since the end of that program year, which occurred March 31, 2008.

City officials had been budgeting only small amounts for the City’s revolving loan fund in recent annual action plans. Discussions with City officials also revealed that little marketing was performed for the City’s revolving loan programs. The City’s excessive program income balance was discussed with HUD officials, who stated that the City would be required to develop a plan to expend these funds in a timely manner. However, as of the end of our review, City officials had made no progress on the development of this plan. Therefore, the more than \$2.4 million maintained in the City’s bank accounts should be reprogrammed for other eligible purposes and put to better use.

Unnecessary CDBG Entitlement Drawdowns

City officials made draws from the City’s CDBG entitlement funding for activities that were budgeted under its revolving loan fund when a sufficient amount of program income was available to expend. The City’s annual action plans stated that the revolving loan fund was to be used in the award of loans for

the City's Home Repair Assistance Program, Small Business Assistance Program, and special development projects. However, on many occasions, City officials made draws from the City's CDBG entitlement to fund these expenditures. Regulations at 24 CFR 570.504(b)(2)(i) state that program income in the form of repayments to or interest earned on a revolving fund must be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity.

Four Home Repair Assistance Program activities drawn from the City's CDBG entitlement were reviewed as part of this audit. All four of these activities included loans awarded through the City's CDBG entitlement draws instead of its revolving loan fund balance. One special development project loan awarded to Currier Plastics, Inc., in the amount of \$750,000 was also reviewed as part of this audit. Of this amount, \$600,000 was drawn from the City's CDBG entitlement funding, and \$150,000 was from the City's revolving loan fund balance. Instead of using the available revolving loan funds to make this payment, City officials drew down \$600,000 on January 28, 2013, and, in turn, were able to meet the City's program year 2012 CDBG timeliness requirement by the January 31, 2013, test date. It should be noted that the City failed to meet its program year 2011 CDBG timeliness requirement and would have been subject to recapture if it had failed to meet it for a second straight year. Regulations at 24 CFR 570.902(a) state that before the funding of the next annual grant, HUD will consider an entitlement recipient to be failing to carry out its CDBG activities in a timely manner if 60 days before the end of the grantee's current program year, the amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year.

Accounting Control Weaknesses With Program Income

It is the responsibility of the City's Office of the Comptroller to receive, disburse, and account for all financial transactions of the City, including those related to the CDBG program. During this review, multiple instances of weaknesses in the controls implemented over the accounting of the City's program income were identified. Regulations at 24 CFR 85.20(b)(3) state that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets and that grantees and subgrantees must adequately safeguard all such property and ensure that it is used solely for authorized purposes.

The City maintained all of its CDBG funding in the same bank accounts,³ which included entitlement draws and program income related to its multiple revolving loan programs. These accounts were also used for Urban Development Action Grant-related transactions. However, City officials did not keep schedules or other documentation to sufficiently track the revolving loan funds in the accounts. As a result, City officials were unable to easily provide information to support all deposits and transfers between the City's bank accounts. This condition also resulted in the City's using its revolving loan funds as advances for CDBG activity expenditures later reimbursed through entitlement draws. These practices were contrary to regulations at 24 CFR 570.500(b), which define a revolving fund as a separate fund (with a set of accounts that are independent of other program accounts) established for the purpose of carrying out specific activities, which, in turn, generate payments to the fund for use in carrying out the same activities.

City officials also did not perform regular reconciliations between the program income balance reported to HUD through IDIS and the balances maintained in the City's related bank accounts. There was a disconnect between the program and financial divisions of the City. The Office of Planning and Economic Development handled all IDIS-related reporting, and the Office of the City Comptroller handled all of the financial reporting, but the data prepared by the two divisions were not adequately compared and reconciled.

The program income balance presented in IDIS is calculated based on the program income receipts and draws entered by City officials. As of June 30, 2013, the balance shown in IDIS was more than \$2.6 million. However, on that date, the balance in the City's related bank accounts was less than \$2.5 million. There was an unexplained difference of \$177,923 between what had been reported to HUD through IDIS and the amount of program income on hand. Regulations at 24 CFR 85.20(b)(2) state that grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities, including information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Because City officials did not perform regular reconciliations between the program income balance reported to HUD through IDIS and the balances available to expend in the City's related bank accounts, they were unable to explain the difference between them. Therefore, \$177,923 was considered unsupported costs.

In addition, the City did not have comprehensive written policies and procedures. City officials used their experience and in some cases, brief individual program procedures to direct them in the administration of the City's CDBG-funded programs. However, many of the day-to-day activities involved in the

³ The City has two community development bank accounts; one is a checking account, and the other is a savings account.

administration of the grant were not documented. HUD identified this condition as a concern during its 2011 monitoring of the City, but no corrective action was taken. City officials were also unable to provide written accounting policies and procedures during our review.

Program Income Not Reported Accurately and in a Timely Manner

Officials in the City's Office of Planning and Economic Development were responsible for recording program income receipts and draw information in IDIS. Regulations at 24 CFR 85.20(b)(1) state that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. However, we identified instances of the City's failure to record program income transactions accurately and in a timely manner.

City officials recorded revolving loan payment receipts under inaccurate IDIS activity numbers. Each loan awarded from the City's revolving loan fund was given its own distinct activity number in IDIS. However, City officials grouped the receipt amounts by program area and recorded them under four distinct activity numbers, representing the four revolving loan programs. Some of the numbers used to represent revolving loan program areas represented activities that were funded through the City's CDBG entitlement. Therefore, the receipts were not accurately recorded under the activity numbers related to the loans that generated the program income.

The City received payments on its outstanding revolving loans throughout the year. However, City officials only recorded these payments as receipts in IDIS annually and did so months after the end of the program year on multiple occasions. Therefore, the program income balance reported to HUD in IDIS was regularly inaccurate as it was understated for nearly the entire year due to the failure of the City to report program income receipts in a timely manner. For example, as of March 31, 2013, the end of program year 2012, there were no program income receipts reported in IDIS for the period. However, on June 28, 2013, City officials recorded program income receipts of \$289,235 for program year 2012. Thus, it was nearly 3 months after the end of the program year that related receipts were recorded in IDIS.

City officials also did not report the City's IDIS draws in a timely manner. On average during the audit period, City officials made IDIS draws approximately 3 months after the related expenditures occurred and were entered into the City's internal accounting system. As a result, City officials expended the City's revolving loan funds maintained in its community development bank accounts and later reimbursed these funds through IDIS entitlement draws. Therefore, the

program income funds included in the City's revolving loan fund were being used as advances for CDBG entitlement expenditures.

Conclusion

City officials did not properly administer a CDBG revolving loan fund, which was supposed to be used to provide low-interest loans for housing rehabilitation and economic development activities directed at benefiting low- and moderate-income persons. Specifically, City officials (1) were slow in expending these funds and maintained an excessive balance of program income, (2) made unnecessary draws from the City's CDBG entitlement funding when a sufficient amount of program income was available, (3) had weaknesses in their accounting controls related to the City's revolving loan program income accounts, and (4) did not report program income to HUD accurately and in a timely manner. We attribute these deficiencies to the lack of communication and coordination between the program and financial divisions of the City as well as the City's inadequate written policies and procedures. As a result, more than \$2.4 million in program income funds was not used to benefit low- and moderate-income persons in a timely manner and could have been used instead of having unnecessary drawdowns from the City's CDBG line of credit. Also, there was an unexplained shortage of more than \$177,000 in the City's bank balance when compared to the program income balance reported to HUD .

Recommendations

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to

- 1A. Expend or reprogram to other eligible program activities the \$2,451,645 in CDBG program income maintained in the City's community development bank accounts as of June 30, 2013, so the City can assure HUD that these funds have been put to better use.
- 1B. Establish and implement controls to ensure that all CDBG program income and disbursements are accounted for properly. Specifically, City officials should perform regular CDBG program income reconciliations among data in IDIS, City bank accounts, and the City's internal accounting system, as well as maintaining more adequate documentation to track CDBG program income receipts and expenditures.
- 1C. Develop procedures to ensure that program income is disbursed before drawing down CDBG funds from the U.S. Treasury and CDBG funds are not drawn down for expenses that were already paid for with program income funds.

- 1D. Provide documentation to justify the \$177,923 unsupported difference between the City's CDBG program income balance in IDIS and its bank account balances as of June 30, 2013. Any portion of the unsupported difference determined to be ineligible should be reimbursed from non-Federal funds.

- 1E. Develop a comprehensive overall CDBG policies and procedures manual to ensure that City officials adequately administer the City's CDBG program in accordance with HUD regulations. Specifically, the City should ensure that program income is accurately accounted for and reported to HUD in a timely manner.

Finding 2: City Officials Did Not Always Ensure That CDBG-Funded Activities Met Program Objectives

City officials did not always ensure that all of the City's CDBG-funded activities accomplished program objectives before disbursing funding. Specifically, City officials did not (1) maintain sufficient documentation to support that all CDBG-funded activities met their stated objectives and that costs were eligible, (2) perform adequate monitoring or oversight of the funded activities, and (3) fully use the available funds for program administration, which contributed to the lack of capacity to properly administer the CDBG program. We attribute these deficiencies to the City's lack of capacity to properly administer the program due to staff turnover and budget constraints and the lack of adequate written policies and procedures. As a result, the City expended more than \$949,000 for activities that did not have adequate documentation to support the eligibility of the costs incurred.

Insufficient Supporting Documentation Maintained

The City's CDBG project files did not contain sufficient documentation to support that each activity met program objectives. Specifically, economic development loan files did not include job creation data or proof of eligible expenditures after the disbursement of the loan proceeds, and a public services activity file did not contain adequately documented clientele income certifications.

Three economic development loans awarded by the City were reviewed as part of this audit. They included loans awarded to Columbus Center Development, LLC, in the amount of \$140,000, Downtown Deli in the amount of \$40,000, and Currier Plastics, Inc., in the amount of \$750,000. None of the City's project files related to these three loans included job creation data or proof of eligible expenditures after the disbursement of the loan proceeds. Regulations at 24 CFR 570.208(a)(4) state that for an activity that creates jobs, the recipient must document that at least 51 percent of the jobs will be held by or available to low- and moderate-income persons and for an activity that retains jobs, the recipient must document that the jobs would be lost without the CDBG assistance. The loan recipient commitments for each of these loans stated that the borrower agreed to spend the funds for purposes of the commitment within 30 days of the date of the commitment. They also required that the borrower document to the City's satisfaction the actual costs paid as part of the project before final disbursement; however, this documentation was not adequate. City officials, as a result of our audit, obtained additional documentation from one borrower, Columbus Center Development, LLC, to support job creation and the eligible expenditure of the loan proceeds; however, these documents did not provide sufficient support that program objectives were met.

The City disbursed \$19,064 for its Chronic Offenders Rehabilitation Program public services activity. This activity consisted of counseling chronic juvenile delinquents and young criminals rather than incarcerating them. The file maintained by the City for this public services activity did not include documentation supporting its qualification under the low- and moderate-income limited clientele national objective. However, after our request for this information, City officials obtained client information reports for nine different clients from the subrecipient administering the program. These reports contained incomplete and insufficient information regarding the household size and income of the clientele assisted. Regulations at 24 CFR 570.208(a)(2) state that activities qualifying under the low- to moderate-income limited clientele national objective require information on family size and income evidencing that at least 51 percent of the clientele includes persons whose family income does not exceed the low- and moderate-income limit. Based on the documentation provided, there was inadequate assurance that program objectives were met.

The City's CDBG project files did not contain adequate documentation to support that each activity met program objectives. As a result, City officials lacked assurance that these objectives were accomplished. Therefore, the \$930,000 expended on three economic development loans and the \$19,064 expended on a public services activity were considered unsupported.

Inadequate Monitoring of CDBG-Funded Activities

Several instances were identified in which City officials did not perform adequate monitoring or oversight of the City's CDBG-funded activities. Specifically, subrecipients were provided funds without valid contracts in place and later not monitored in a sufficient manner. Further, loan recipients were not monitored after disbursement of the loan proceeds to ensure that program objectives were accomplished. 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.

The City used a subrecipient, Homsite Fund, Inc., to administer its Home Repair Assistance Program, which provides low-interest loans to homeowners in need of eligible repairs to their homes. Although the City reimbursed the subrecipient for its administration of the program, the two parties did not execute a subrecipient agreement for the 2011 program year. The contract that was executed for the 2010 program year expired on June 30, 2011, and was not extended. Therefore, contrary to regulations at 24 CFR 570.503, the City disbursed CDBG funds to a subrecipient without having a signed, written agreement in place.

During the period in which this subrecipient operated without a valid contract, the City also did not perform adequate monitoring of its operations. Specifically, City officials informed us that they did not perform regular onsite monitoring of Homsite Fund, Inc., and instead relied on the reports that were submitted with each request for payment. Therefore, the City did not comply with HUD regulations and, thus, lacked assurance that program objectives were met.

Annually, the City issues a request for proposals related to its CDBG funding to be expended for public services activities. During the 2008 program year, the City awarded CDBG funding to Partnership for Results, Inc., to administer the Chronic Offenders Rehabilitation Program. The purpose of this program was to have chronic juvenile delinquents and young criminals counseled rather than incarcerated. The City executed a subrecipient agreement with Partnership for Results, Inc., on August 29, 2008. However, this program progressed slowly, and no funds were disbursed for it until more than 2 years later. The City made a single draw on January 25, 2011, to fund this activity. However, by then, the subrecipient agreement, which covered the period August 1, 2008, through July 31, 2009, had been expired for more than a year. Specifically, the 2008 contract read, “The Subrecipient agrees to perform all activities under this contract between August 1, 2008 and July 31, 2009. All projects undertaken in relation to this contract will be completed by the end of this contract period. All activities are to be implemented to ensure their completion in the time allowed.” City officials were unable to provide written contract extensions related to this CDBG-funded activity.

Under its Small Business Assistance Program, the City awarded economic development loans to local small businesses. Three such economic development loans were reviewed as part of this audit. They included loans awarded to Columbus Center Development, LLC, Downtown Deli, and Currier Plastics, Inc. City officials informed us that the City’s economic development program manager was let go in July 2012 due to budget constraints. As a result, no monitoring was performed on any of the City’s Small Business Assistance Program loan recipients. City officials explained that this condition also contributed to the missing documentation identified above.

Based on the above, City officials did not always perform adequate monitoring or oversight of the City’s CDBG-funded activities. As a result, they lacked assurance that these activities accomplished program objectives.

**Underuse of Program
Administration Funds and
Capacity Issues**

Regulations at 24 CFR 570.200(g) allow up to 20 percent of the sum of any grant, plus program income, to be expended for planning and program administrative

costs. The City budgeted \$160,000, or 16.25 percent of its 2011 entitlement grant (\$160,000/\$984,494 = 16.25%), for program administration costs but made draws of only \$79,635, or 8 percent (\$79,635/\$984,494 = 8%). The City made draws of \$105,685 from its 2010 program administration activity, which amounted to just 9 percent of its 2010 CDBG entitlement (\$105,685/\$1,173,920 = 9%). Therefore, the City used much less program administration funding than it was entitled to. Through discussions with City officials and our review of the City's CDBG expenditures, we determined that the City experienced capacity issues due to budget constraints. These capacity issues affected the City's CDBG timeliness and ability to ensure that program objectives were met. However, the City did not fully use the program administration funds allowable by HUD. Regulations at 24 CFR 570.206(a)(1)(v) state that the salaries, wages, and related costs involved with monitoring program activities for progress and compliance with program requirements are eligible under program administration. Therefore, not using the available funds for the allowable administrative costs contributed to City officials' lack of monitoring and proper administration of CDBG activities.

Conclusion

City officials did not always ensure that all of the City's CDBG-funded activities accomplished program objectives before disbursing funding. Specifically, City officials did not maintain sufficient documentation to support that all CDBG-funded activities met their stated objectives and did not perform adequate monitoring or oversight of the funded activities. We attribute these deficiencies to the City's ongoing capacity issues due to recent budget constraints and staff turnover as well as its inadequate written policies and procedures. As a result, the City expended more than \$949,000 for unsupported costs.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to

- 2A. Provide documentation to justify \$949,064 in unsupported costs charged to the CDBG program. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.
- 2B. Develop procedures to ensure that funded activities comply with program objectives and that the activities are sufficiently monitored.
- 2C. Review the City's use of available program administration funds and determine whether the staffing is appropriate and funds should be reallocated to program administration to more effectively administer the City's CDBG program.

SCOPE AND METHODOLOGY

We performed onsite audit work at the City's offices in Memorial City Hall located in Auburn, NY, between January and July 2013. The audit scope covered the period January 1, 2011, through December 31, 2012, and was extended as necessary. We relied in part on computer-processed data primarily for obtaining background information on the City's expenditure of CDBG funds. We performed a minimal level of testing and found the data to be adequate for our purposes. To accomplish our objectives, we

- Reviewed relevant HUD regulations, guidebooks, and files.
- Interviewed HUD officials to obtain an understanding of and identify HUD's concerns with the City's operations.
- Reviewed HUD's 2008 and 2011 monitoring reports.
- Reviewed the City's policies, procedures, and practices.
- Interviewed key personnel responsible for the administration of the City's CDBG program.
- Tested expenditures in many program areas, including public facilities and improvements, economic development, rehabilitation, public services, clearance, and direct homeowner assistance. Specifically, we selected a sample consisting of the 14 activities that had received the largest amounts of funding out of the 126 activities funded since the start of our audit period. For program years 2010 through 2012, the City received more than \$2.9 million in CDBG entitlement funding and reported program income receipts of \$784,544. HUD's IDIS reports reflected that more than \$3.3 million in CDBG funds was disbursed for 126 activities between January 1, 2011, and March 31, 2013. Our sample consisted of expenditures totaling more than \$1.7 million for 14 different activities. This amount represented almost 52 percent of the City's more than \$3.3 million in expenditures during this period.
- Reviewed the City's CDBG revolving loan fund transactions and balance. For program years 2010 and 2011, the City reported program income receipts of \$784,544. As of March 31, 2013, no program income receipts had been reported for program year 2012. IDIS reports reflected that \$455,110 in CDBG program income funds was disbursed for 14 activities between January 1, 2011, and December 31, 2012. As of June 30, 2013, IDIS reports reflected a program income balance of more than \$2.6 million.

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The City did not have adequate controls over the effectiveness and efficiency of program operations when it did not establish adequate administrative controls to ensure that costs associated with various program areas were supported and eligible under the CDBG program (see finding 2).
- The City did not have adequate controls over the reliability of data when it did not report program income transactions to HUD through IDIS in an accurate and timely manner (see finding 1).
- The City did not have adequate controls over compliance with laws and regulations as it did not always comply with HUD regulations while disbursing CDBG funds (see findings 1 and 2).
- The City did not have adequate controls to ensure that CDBG resources were safeguarded when program income was not adequately tracked or accounted for (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		\$2,451,645
1D	\$177,923	
2A	\$949,064	
Total	\$1,126,987	\$2,451,645


- 1/ 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.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if our recommendation is implemented, it will result in the elimination of an excessive balance of program income of more than \$2.4 million by ensuring that the funds are used in a timely manner to benefit low- and moderate-income people and prevent unnecessary draws from the U.S. Treasury.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



CITY OF AUBURN
"History's Hometown"

CITY OF AUBURN
Office of Planning and Economic Development
Jennifer L. Haines, Director

September 11, 2013

Mr. Edgar Moore, Regional Inspector General
Office of Audit
New York/New Jersey Region 2
US Department of Housing and Urban Development
26 Federal Plaza, Room 3430
New York, New York 10278

Re: Draft Audit Report – City of Auburn, New York
Community Development Block Grant Program

Dear Mr. Moore:

Thank you for the opportunity to comment on the Draft Audit Report for the City of Auburn's Community Development Block Grant (CDBG) Program. The City of Auburn offers the following responses to the narrative and recommendations provided in the HUD Office of Inspector General Draft Audit Report. The City respectfully requests that comments provided be included in the body of the Audit Report, immediately following the section referenced for each comment. This will allow the reader of the report to see the City's response immediately, instead of the comments being placed in the back of the document in an appendix. Please advise as to whether this is possible.

"Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low- and moderate-income." (P. 3 of Draft Audit Report). Since 1974, through 19 successful Small Cities CDBG applications and CDBG Entitlement Action Plans from 1994 to present, the City of Auburn has utilized CDBG funding for exactly these purposes. In fact, the City's expenditures are well above the required 70% benefit to low and moderate income individuals, reflecting our commitment to effectively utilize CDBG funding for the highest and best purposes in our community.

Finding 1: City Officials Did Not Adequately Administer the City's CDBG Revolving Loan Fund

On page 5, the following statement appears: "The City's excessive program income balance was discussed with HUD officials, who stated that the City was going to be required to develop a plan to expend these funds in a timely manner. However, as of the end of our review City officials had not made any progress on the development of this plan." As stated in the City's exit

Memorial City Hall • 24 South Street • Auburn, New York 13021-3832 • Fax (315) 253-0282
E-mail: jhaines@auburnny.gov • www.auburnny.gov

Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

Mr. Edgar Moore
September 11, 2013
Page 2

Comment 3

conference with HUD OIG staff, the City was not aware that this plan was to be developed before the end of the OIG review, or even ultimately what the finding was going to state until just prior to the auditor's departure. When City staff learned of the likely finding, we reached out to HUD Buffalo Community Planning and Development (CPD) representatives and outlined a plan, which is described below in the response to Recommendation 1A.

Page 6 states that "Regulations at 24 CFR 570.504(b)(2)(i) state that program income in the form of repayments to, or interest earned on, a revolving fund shall be substantially disbursed from the fund before additional cash withdrawals are made from the US Treasury for the same activity." The City is requesting a definition of "substantially disbursed."

Comment 4

On page 8, the report says that "...City officials expended the City's revolving loan funds maintained in the Community Development bank accounts and later reimbursed these funds through IDIS entitlement draws. Please note that program staff in the Office of Planning and Economic Development was not aware of this practice, which does point to the need for better communication with the Finance Department. The City's responses to Recommendations 1B and 1C below will address this issue. The City is aware that drawdowns can be done prior to disbursement of funds, but has always taken a conservative approach in requesting CDBG on a reimbursement basis instead. The intention was to utilize City General Funds for the initial payment, to be reimbursed by CDBG funding.

The City's responses to the recommendations in the Draft Audit Report related to this finding follow:

- 1A. Expend or reprogram to other eligible program activities, the \$2,451,645 in CDBG program income maintained in the City's Community Development bank accounts as of June 30, 2013 so that the City can assure HUD that these funds have been put to better use.

Comment 5

This balance is a result of more than 20 years of making good loans that continue to be repaid in a timely fashion, couple with the economic downturn in recent years, which has caused companies to delay investment and expansion plans.

The City does have a use for these funds, if it is determined that they could be available to us for another purpose beyond the RLF itself. In the City's Comprehensive Plan, which was adopted in January 2010, there are specific goals and objectives around addressing Brownfields. Since that time, the City has applied for and was awarded a Brownfield Assessment Grant through the US EPA. We are soon expecting the results of Phase II Environmental reports on several City-owned properties, as well as a couple of privately-owned properties. In addition, the City is expecting a contract from NYS

Ref to OIG Evaluation

Auditee Comments

Mr. Edgar Moore
September 11, 2013
Page 3

Department of State for a Brownfield Opportunity Area (BOA) grant that has been awarded.

The next step for the City is Brownfield Cleanup funding. If a portion of the balance the City has in RLF funding could be made available for another purpose, we would like to use it for brownfield cleanup. Many of these Brownfield Sites are currently located in CDBG-eligible low to moderate income areas. The City can provide further detail on efforts to date, and more specifics on proposed use of funds.

- 1B. Establish and implement controls to ensure that all CDBG program income and disbursements are accounted for properly. Specifically, City officials should perform regular CDBG program income reconciliations between data in IDIS, City bank accounts, and the City's internal accounting system, as well as maintain more adequate documentation to track CDBG program income receipts and expenditures.

The City will do a quarterly reconciliation between data in IDIS, City bank accounts and the City's internal accounting system (MUNIS).

For documentation of receipts, the City posts payments to each loan, breaking out principal, interest and total, in an AS400 system. In addition, loan coupons that are provided with each payment are filed by loan and maintained in the Comptroller's Office.

For documentation of expenditures, the City can provide reports out of the financial software, MUNIS, showing expenditures for any month or longer timeframe of a respective fiscal year. For each expenditure, a purchase order or claim form is generated, and the invoice or other back-up documentation is provided. Staff follows the City's purchasing / procurement guidelines, attached for review.

- 1C. Develop procedures that will ensure that program income is disbursed before drawing down funds from the U.S. Treasury and not draw down funds for expenses that were already paid for with program income funds.

The City will set up a separate account for program income (revolving loan fund income). This will allow for tracking of program income separate from wires/drawdowns received from the US Treasury, such that program income will be disbursed first.

- 1D. Provide documentation to justify the \$177,923 unsupported difference between the City's CDBG program income balance in IDIS and the bank account balances as of June 30, 2013. Any portion of the unsupported difference determined to be ineligible should be reimbursed from non-Federal funds.

Comment 6

Comment 7

Comment 8

Ref to OIG Evaluation

Auditee Comments

Mr. Edgar Moore
September 11, 2013
Page 4

The program income balances in IDIS are a culmination of reporting and drawdowns since the City went "live" in IDIS in 1997. In fact, whatever balance of program income in IDIS includes whatever balances was "dumped" into IDIS from LOCCS or other HUD reporting system at the time the City went live in IDIS, as the RLF accounts pre-date IDIS. Similarly, the bank accounts have handled CDBG related transactions over multiple years.

The IDIS transactions are overseen by staff in the Office of Planning and Economic Development, where there has been turnover in key staff positions, with a vacancy currently. The bank accounts are overseen by the Finance Department, which has seen the departure of a long-time Comptroller three years ago, two Comptrollers since then, and a vacancy currently. This has created a difficult situation for reconciliation of records.

City staff proposes a review of financial records over the timeframes discussed above, or a shorter agreed upon timeframe (ie. the past 5 program years), with a mutually agreed upon deadline. Please note that the auditor reviewed the past two (2) program years and was unable to find a discrepancy in that timeframe.

- 1E. Develop a comprehensive overall CDBG policies and procedures manual to ensure that City officials are adequately administering the City's CDBG program in accordance with HUD regulations. Specifically, ensure that program income is accurately accounted for and reported to HUD in a timely manner.

City staff have started research on a policies and procedures manual and will develop such manual with a mutually agreed upon deadline.

Finding 2: City Officials Did Not Always Ensure That CDBG Funded Activities Were Meeting Program Objectives

In the section entitled "Insufficient Supporting Documentation Maintained" on page 11, there was discussion around three economic development loans and the need for additional documentation in the files: Currier Plastics, Inc., Downtown Deli and Columbus Center Development, LLC. In the exit conference, City staff expressed concern about Currier Plastics being part of this section of the report because the loan had closed in January 2013, less than a month before the HUD OIG auditor started the review of the City's CDBG Program. The report also stated that, for the additional documentation that was obtained for the Columbus Center loan, "these documents did not provide sufficient support that program objectives were being met." Additional documentation was also received for the Chronic Offenders Rehabilitation Program discussed on page 12. The City has provided a detailed response to these items under Recommendation 2A below.

Comment 9

Comment 10

Ref to OIG Evaluation

Auditee Comments

Comment 11

Mr. Edgar Moore
September 11, 2013
Page 5

On page 12, it is important to note that the way in which the City utilizes the services of Homsite Fund, Inc. is different than the typical subrecipient. The Home Repair Assistance Program (HRAP) is the City's program, not Homsite's. The rehabilitation is provided at the customer's house, which City Code Enforcement officials inspect and sign off, and the project files are returned to the City to be maintained with the application and underwriting information.

Comment 12

There was also discussion in the report on page 13 about the need for a written contract extension for the Chronic Offenders Rehabilitation Program. As also stated in the response for Recommendation 2A, this written contract extension was obtained and is now on file.

The City's responses to the recommendations in the Draft Audit Report related to this finding follow:

- 2A. Provide documentation to justify \$949,064 in unsupported costs charged to the CDBG Program. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.

Comment 13

City staff has gathered job creation and eligible expenditure documentation for Currier Plastics, Inc., Downtown Deli and Columbus Center Development, LLC for review by the HUD OIG. This documentation was provided to the auditor at the exit conference for review. The City acknowledges that the draft report states that the Columbus Center documentation did not provide sufficient support that program objectives were being met. The report does not, however, explain why the documentation is insufficient so that City staff can work with the company to provide additional information. In the exit conference, the auditor explained that the job creation documentation showed 30% of the new employees were over the HUD income guidelines, and that was the reason for the comment regarding insufficient documentation. The report itself states, however, "that at least 51 percent of the jobs will be held by, or will be available to, low- and moderate-income persons..." (p. 11). The Columbus Center documentation shows, therefore, that 70% of the jobs created to date are held by persons of low or moderate income at their date of hire.

City staff gathered income documentation for the ten unduplicated youth clients that were enrolled in the 2008-2009 Partnership for Results Chronic Offenders Rehabilitation program. Seven of the ten clients have income certification forms that verify they are low to moderate income. Therefore 70% of the participants in the Chronic Offender Rehabilitation program were of low to moderate income individuals. However, three of

Ref to OIG Evaluation

Auditee Comments

Mr. Edgar Moore
September 11, 2013
Page 6

the ten clients did not have income documentation since they were experiencing episodes of homelessness or couch surfing before and during their treatment in the program. Documentation was requested of these individuals but due to the unhealthy relationship between the clients (youth) and their parents, as well as their episodes of homelessness, it was not obtained. In addition, a written contract extension for this program was obtained and executed.

Comment 14

- 2B. Develop procedures to ensure that funded activities are in compliance with program objectives and that the activities are sufficiently monitored.

As stated in 1E above, City staff have started research on a policies and procedures manual and will develop such manual with a mutually agreed upon deadline.

- 2C. Review the City's current utilization of available program administration funds and determine if the staffing is appropriate and if existing funds should be reallocated to program administration in order to more effectively administer the City's CDBG Program.

The City's current utilization of available program administration funds clearly indicate that staffing is below the appropriate level to effectively administer the City's CDBG Program. The main reason this situation exists is the budget cuts sustained by the Office of Planning and Economic Development since the 2011-2012 budget year. At that time, the office had 8 full-time staff, the majority of which were involved at some level with program delivery and/or administration of the CDBG Program. The 2012-2013 Budget cut 2.5 positions at the beginning of the budget year, and another half position within the first quarter of the budget year. This has had a significant impact on the delivery and administration of the CDBG Program, especially because the office is multi-function, including Planning, Economic Development, Capital Projects and oversight of Code Enforcement.

Comment 15

In addition, one of the remaining positions is currently vacant, and the department's efforts to hire the position have been delayed because of personnel issues in another City department. At this point, the Office of Planning and Economic Development is operating with four (4) full-time positions and one part-time position. If the vacant position is filled, some capacity will be restored.

The City is also utilizing program administration funds to reimburse work done by the Engineering Department and the Department of Public Works specifically for the CDBG Program.

Ref to OIG Evaluation

Auditee Comments

Mr. Edgar Moore
September 11, 2013
Page 7

The City of Auburn looks forward to working with the HUD OIG toward the successful resolution of these findings, and the continuation of our effective and impactful work in the community utilizing CDBG funding. If you have any questions or need further information, please do not hesitate to contact me at (315) 255-4114 or jhaines@auburnny.gov.

Sincerely,


Jennifer L. Haines
Director

cc: Douglas A. Selby, City Manager
Joseph Vizer, Assistant Regional Inspector General for Audit, HUD OIG
Justin Grzyb, Auditor, HUD OIG

OIG Evaluation of Auditee Comments

- Comment 1** City officials requested that their comments be included in the body of the report rather than in an appendix. We determined that a presentation of the auditee comments in the body of the report was not necessary, as all of the City's responses are addressed in this appendix B.
- Comment 2** City officials stated that they were unaware that a plan to expend the City's revolving loan fund balance was to be developed before the end of our review and that after learning of this finding, they contacted HUD Buffalo Office of Community Planning and Development (CPD) staff with a tentative plan for the funds. During a discussion on February 25, 2013, HUD Buffalo CPD officials informed us that the City would be required to develop a plan. We were not aware of a deadline for this plan, but as of the end of our review, nothing had been developed. City officials were responsive in their development of a tentative planned use for these funds after learning of this finding. However, a final determination will be made as to the eligibility of the proposed planned activities by HUD officials during the audit resolution process.
- Comment 3** City officials requested a definition of the term "substantially disbursed" as used in the HUD regulations regarding the use of revolving loan funds before funds are drawn from the U.S. Treasury for the same activity. "Substantially disbursed" does not mean that the City should have an amount of program income equal to three times its entitlement funding as reported since this could impact whether the City will meet its 1.5 timeliness test. However, City officials should request guidance from HUD officials regarding this matter as part of the audit resolution process.
- Comment 4** City officials indicated that they were unaware of the practice of expending revolving loan funds and later reimbursing them through draws from the U.S. Treasury. However, City officials outlined their plan to address this issue in their comments regarding recommendations 1B and 1C, which were responsive to our recommendations.
- Comment 5** City officials developed a tentative plan for the excess program income to be expended for CDBG remediation activities related to the cleanup of brownfield properties. Although officials' actions were responsive to our recommendation to develop a planned use of these funds, the plan would have to be reviewed and approved by HUD officials during the audit resolution process.
- Comment 6** City officials were responsive to our recommendation in that they will perform quarterly reconciliations for the City's revolving loan fund. However, these procedures will have to be tested and approved by HUD officials during the audit resolution process.

- Comment 7** City officials' actions were responsive to our recommendation in that they will set up a separate bank account for the City's program income.
- Comment 8** City officials attributed the unexplained difference between the revolving loan fund balances in IDIS and the City's bank accounts to the turnover in key staff at the City. However, officials' actions were responsive to our recommendation in that they proposed a review of the financial records to identify the cause of the difference.
- Comment 9** City officials' planned actions were responsive to our recommendation in that they had started researching information related to developing CDBG policies and procedures manuals.
- Comment 10** City officials expressed concern over the inclusion of the economic development loan awarded to Currier Plastics, Inc., in our finding as it had just closed in January 2013. However, the documentation related to this loan was reviewed in May 2013, and City officials informed us in July 2013 that no monitoring had been performed on this loan. Based on the Office of Planning and Economic Development's lack of an economic development program manager and the lack of documentation in previous economic development loan files reviewed, this loan was considered unsupported. City officials should provide the documentation to the HUD Buffalo office as part of the audit resolution process. For the evaluation of the comments regarding "Chronic Offenders" public service activity and "Columbus Center" loan, see comments 12 and 13 below.
- Comment 11** City officials stated that the City's relationship with Homsite Fund, Inc., was different from that of a "typical subrecipient." However, Homsite Fund, Inc., was provided CDBG funds for program delivery costs during the period; thus, an executed, written agreement needed to be in place.
- Comment 12** City officials stated that a written contract extension for the Chronic Offenders Rehabilitation Program was obtained. This contract extension was provided to us during the exit conference. However, the contract extension was dated July 22, 2013, which was well after the CDBG funds were disbursed to the subrecipient, Partnership for Results, Inc. Therefore, these funds were disbursed without a valid written contract in place, which would have made it difficult to enforce compliance with program requirements.
- Comment 13** City officials questioned the section of the report stating that the documents provided for the economic development loan awarded to Columbus Center Development, LLC, were insufficient. The documentation provided to support job creation related to this loan included several employees who were hired before the awarding of the loan and also a significant number of employees who exceeded the HUD income limits. The documentation provided to support the expenditures made with these loan funds was a list and, thus, did not include invoices or copies of checks. Based on the documentation received and lack of

monitoring before our request for this documentation, the costs associated with this loan were considered unsupported. City officials provided additional documentation at the exit conference for the other unsupported costs included in this finding. However, this information will have to be reviewed by HUD Buffalo officials as part of the audit resolution process.

Comment 14 City officials' actions were responsive to our recommendation in that they had started researching information related to developing a CDBG policies and procedures manuals. A final determination will be made as to the adequacy of the City's CDBG policies and procedures manual by HUD officials during the audit resolution process.

Comment 15 City officials' actions were responsive to our recommendation in that they acknowledged that the Office of Planning and Economic Development was understaffed, which significantly impacted the delivery and administration of the City's CDBG program. They were attempting to fill some of the vacancies in the department to restore capacity.