



The City of Memphis, Memphis, TN

Community Planning and Development Housing and Rehabilitation Program



Issue Date: December 30, 2013

Audit Report Number: 2014-AT-1003

TO: Mary Wilson, Director, Office of Community and Planning Development,
Knoxville, TN, 4JD

//signed//

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

SUBJECT: The City of Memphis, TN, Did Not Have Effective Controls To Administer Its
Housing and Rehabilitation Program Activities

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Memphis Housing and Rehabilitation 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 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 404-331-3369.



Date of Issuance: December 30, 2013

The City of Memphis, TN, Did Not Have Effective Controls To Administer Its Housing and Rehabilitation Program Activities

Highlights

Audit Report 2014-AT-1003

What We Audited and Why

We audited the City of Memphis' Community Development Block Grant (CDBG) and HOME Investment Partnerships Program-funded Housing and Rehabilitation Program (HARP) as part of the activities in our 2013 fiscal year annual audit plan. We selected the City's HARP activities based on a referral from the Office of Inspector General's Office of Investigation. Our audit objective was to determine whether the City used its CDBG and HOME funds for eligible activities and complied with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements when administering its HARP activities.

What We Found

The City's administration of its HARP activities for performing home repairs and resolving code violations, as related to its policies and procedures, was not effective. Specifically, inspectors approved payments for home repairs that did not meet rehabilitation standards or were not properly repaired as contracted. These conditions occurred because the City did not properly write its rehabilitation specifications for contractors and perform inspections as required. In addition, the City did not follow its policies and procedures to ensure that the contractors performed acceptable repairs. Consequently, it permitted more than \$400,000 in CDBG and HOME funds to be used contrary to program requirements for 61 rehabilitation contracts for work that was either not completed or not completed correctly and placed undue hardships on the property owners.

What We Recommend

We recommend that the Director of HUD's Knoxville Office of Community Planning and Development require the City to (1) correct the deficiencies or reimburse the more than \$400,000 to the City's CBDG or HOME program line of credit accounts from non-Federal funds for the repairs not completed or corrected and refrain from awarding future contracts. Also, we recommend that the Director reinspect the homes to ensure that all deficiencies have been corrected.

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BACKGROUND AND OBJECTIVE

The City of Memphis, Division of Housing and Community Development, was established in 1977 to address slums, blight, and deterioration in Memphis communities. It administers the City's Housing and Rehabilitation Program (HARP). HARP is a federally funded program offering financial assistance to low- to moderate-income individuals and families with critical needs and code violations and home repairs in the form of deferred-payment loans. HARP assistance requires a lien on the homeowner's property upon completion of the repairs for a period of up to 15 years, secured by a note and deed of trust. The City solicits bids from licensed general contractors for the HARP repairs and receives Community Development Block Grant (CDBG) and HOME Investment Partnerships Program funds provided by the U.S. Department of Housing and Urban Development (HUD).

The City started or completed 153 HARP contracts totaling more than \$3.9 million in CDBG and HOME funds between January 1, 2010, and December 31, 2012. We reviewed 65 of the 153 contracts totaling more than \$1.6 million. HUD provided the following funds to the City.

Year	CDBG funds	HOME funds
2010	\$8,768,683	\$4,921,520
2011	\$7,320,374	\$4,342,245
2012	\$6,589,508	\$2,800,852
Total¹	\$22,678,565	\$12,064,617

HUD's Tennessee State Office of Community Planning and Development in Knoxville, TN, is responsible for overseeing the City's program.

Our audit objective was to determine whether the City's Housing and Community Development Division used its CDBG and HOME funds for eligible activities and complied with HUD's (CDBG and HOME) and its own requirements when administering its HARP activities.

¹The City's HARP activities accounted for only \$3,948,733 of the total funding received from HUD.

RESULTS OF AUDIT

Finding: The City's Administration of Its HARP Activities Was Not Effective

The City's administration of its HARP activities for performing home repairs and resolving code violations, as related to its policies and procedures, was not effective. Specifically, inspectors approved payments for home repairs that did not meet rehabilitation standards or were not completed as contracted for 61 rehabilitation properties that were inspected. These conditions occurred because the City did not properly write its rehabilitation specifications for contractors and perform inspections as required. In addition, the City did not follow its policies and procedures to ensure that the contractors performed the required repairs. Consequently, the City paid contractors more than \$19,000 in ineligible costs for work that was not completed and more than \$381,000 in unsupported costs for work that was not properly repaired as contracted and placed undue hardships on property owners.

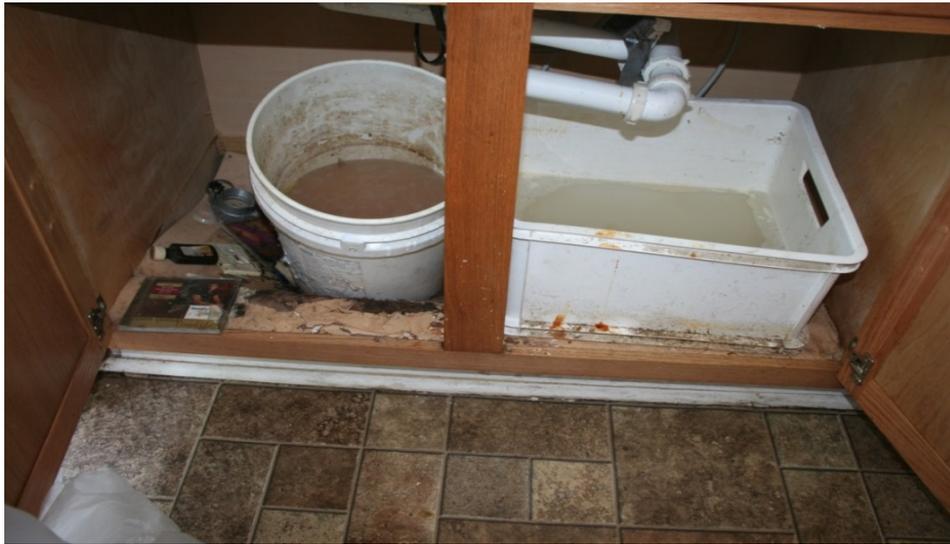
Rehabilitation Work Did Not Meet Contract Requirements

City inspectors did not ensure that HARP home repairs met HOME program rehabilitation code standards and local county requirements, or that rehabilitation work was completed before contractors were paid. Of the 65 properties statistically selected for inspection, 61 had instances of incomplete home repairs or poor workmanship. The City paid more than \$19,000 in ineligible costs from CDBG and HOME funds to contractors for repairs that were not completed. For example, the rehabilitation contract for property 4 required shoe molding that was not installed, property 22 required baseboards and shoe molding that was not installed, and property 36 required new flooring and paving that was not completed. Also, the City paid more than \$381,000 in unsupported costs from CDBG and HOME funds to contractors for work that was not properly repaired as contracted. For example, property 1 continued to have a severe sink leak after repairs were made, property 50 had an electrical service panel that was not properly secured, and for property 59 the living door frame was termite infested after being replaced (see appendix C).

The City required liens to be placed on the homes of program participants for an affordability period of up to 15 years. Due to the improper home repairs and the City's policies, the City placed undue hardships on the 61 property owners with excessive amounts from the liens placed against their properties. Hence, the liens on the properties with unfinished work should be adjusted for the actual amount of the work completed on the property.

We identified home repairs that did not meet HOME program rehabilitation code standards or were not completed as required by 24 CFR (Code of Federal Regulations) 92.251(a)(1)² for work items such as (1) plumbing; (2) electric services; (3) water heaters; (4) toilet repairs; (5) vinyl siding; (6) molding; (7) doors; (8) kitchen cabinets; (9) flooring; (10) heating, venting, and air conditioning (HVAC) systems; (11) roofing; (12) drywall and painting; (13) cut tree limbs; (14) gutters; (15) door framing; (16) bathroom sinks/walls; (17) windows and (18) other (see appendix D). Also, the home repairs were not properly completed or did not meet the City’s local county rehabilitation code standards³. Examples of the repair deficiencies and violations are shown below.

Work Was Not Properly Repaired As Contracted



Property number 1 – The sink had a severe leak that damaged the wood in the cabinet.

² 24 CFR 92.251(a)(1) states, “Housing that is constructed or rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion, except as provided in paragraph (b) of this section. The participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary.”

³ The City is required to meet Shelby County Building Codes in order to conform to its local zoning regulations and safety standards.



Property number 50 – The electrical service panel was not properly secured by screws to the house studs. The panel was being held in place by duct tape.



Property number 40 – Drywall was removed to access the water heater; however, after reinstallation of the water heater, the contractor did not repair the damaged exposed wall.



Property number 59 – The living room door frame was replaced with a termite infested door frame.



Property number 65 – The roof still leaked after being replaced.



Property number 36 – The double deadbolt lock was a violation.

Memphis Housing Code, article 4, section 14-4-52 (I), requires that every door available as an exit be capable of being opened from the inside, easily and without the use of a key. City officials stated that they allowed the contractors to install security doors with the double deadbolt lock because they were unaware of the code violation.



Property number 54 – The new bathroom vanity sink cabinet with double doors did not allow wheelchair access.

The City executed two HARP contracts for homeowners with accessibility requirements for people with disabilities. The repairs were required to comply with 24 CFR Part 8, which implements Section 504 of the Rehabilitation Act of 1973. However, repairs were not completed to meet the required Section 504 standards. Property owner 54 required wheelchair accessibility and the bathroom repairs did not meet the Section 504 standards for a disabled individual in a wheelchair. The original contract specifications required the contractor to reframe the half bathroom door to make it wheelchair accessible; however, the work item was deleted from the contract, and the homeowner was not able to access

the bathroom in her wheelchair. The double doors blocked the use of the sink and the water valves.

Work Was Not Completed



Property number 4 – The shoe molding was not installed.



Property number 22 – The baseboard and shoe molding had not been installed.

City officials accompanied us on 46 of the 65 inspections. We provided the City copies of our inspection results on August 19 and 20, 2013, to ensure that they were aware of the repair deficiencies identified. The City began taking corrective action; however, since the corrections were completed after our inspections, we were unable to verify that the repairs had been properly completed.

Specifications Were Poorly Written

The City's rehabilitation specifications were poorly written and did not include the product pricing, materials or models to be used to ensure price consistency and quality products as required by its contractor's policies and procedures.⁴ Due to the poorly written specifications, we had difficulty determining the repairs to be performed for some work items and the quality of materials. For example, the specifications for the HVAC systems did not specify the unit size. The specification stated that units must be sized to efficiently heat and cool the structure. We identified problems with the HVAC systems installed in 14 homes because they were not properly sized to cool the units. For example, during one inspection, the air conditioner was on but was not cooling the house. The interior was 95 degrees, and the exterior was 100 degrees. We encountered this situation on 14 of our inspections. We informed the construction manager of the homes requiring air conditioning repairs, and instructed that he request the contractors perform service calls immediately. Another contract had a specification addendum that stated, "bring electrical up to code." The requirements were not specific since they did not reference which year's code to use, the work to be performed, or the location of the work.

The City's construction manager used a project management software program named RSMeans, which was created specifically for housing rehabilitation projects. The program has the ability to create written specifications and cost estimates, manage bids and contracts, track construction draws and change orders, and generate reports for each step of the rehabilitation project. However, the City's construction manager stated that he did not use the program's main features, which provided a guideline for job cost pricing per each job category and total contract calculation costs. He stated that he used a combination of the RSMeans software⁵ and manuals, Internet pricing, and his own working knowledge for the specifications. He also stated that he was not concerned with the category item pricing from the contractor as long as the bids were within the City's total contract estimates. As a result, the City did not pay consistent costs per category item for the repairs or have knowledge of the price changes per category item. For example, one contractor charged \$400 to repair a security door, while another charged only \$200 for the same work item.

Inspections Were Not Performed as Required

City inspectors did not perform HARP inspections as required for 65 of the 65 homes inspected (see appendix E). The City's HARP policies and procedures manual states that

⁴ Construction and Rehabilitation Specifications- H.A.R.P. Department, Division of Housing and Community Development, Memphis, TN

⁵ RSMeans software is a web-based service that provides accurate and up-to-date cost information to help build competitive estimates.

HARP inspectors will perform inspections at least three times weekly to ensure that the work performed meets HARP quality workmanship standards. Inspectors must update an action sheet after each visit and notate the work in progress and any issues identified with a resolution. Also, a final inspection is required once all work outlined in the work writeups and change orders are completed and all equipment manuals and training have been provided to homeowners.

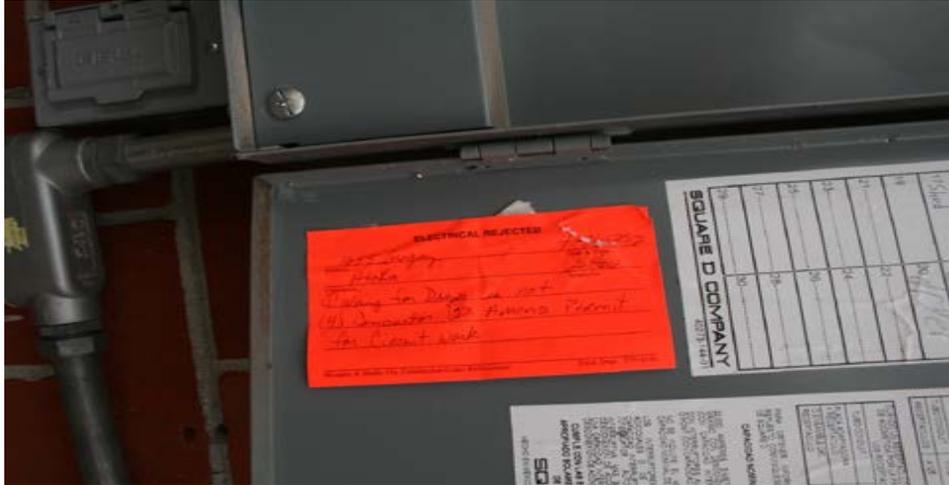
For one of the rehabilitated properties which required Section 504 standards repairs, the work was conducted from February 2011 through January 2012, totaling 47 weeks, and the file documented only six inspection field reports. The inspections were conducted during March, April, and May 2011. For another rehabilitation contract, the repairs were completed from July 2012 through February 2013, totaling 32 weeks, and the file documented only five inspection field reports. The inspections were conducted during September, October, and November 2012. City officials stated that due to the weather, inspectors may not have performed the required inspections but they should have prepared field inspection reports documenting the reasons. The construction files did not document reasons for not performing the required inspections.

In addition, for another rehabilitation contract, the repairs were performed from October 8, 2012, through May 13, 2013, totaling 31 weeks, and the file documented only seven inspection field reports. The inspections were conducted between January and May 2013. Although the City terminated its contract with the contractor on June 25, 2013, for failure to substantially perform the obligations established in the contract, the City paid the contractor for 50 percent of the contract amount without an invoice. Because the City failed to obtain invoices, we could not determine the work completed when we inspected the home.

As a result of the final inspections not having been performed as required, the City paid contractors in full, although they had not finalized the required electrical permits with the County.

In one home, several outlets did not work, and there were rooms with no electricity. Since the contractor did not come back to repair the electrical problems, the homeowner hired an electrician. A signed letter from the electrician, dated December 12, 2012, stated that the electrical work completed in the home was a fire hazard and dangerous.

In another home, a contractor was paid to install a new wiring system. The system was installed but failed to pass inspection. The certificate of completion, signed by the City inspector, certified that the work had been completed and conformed to generally accepted standards of workmanship quality and that the installed equipment and components operated and functioned properly. However, the City code enforcement building inspector placed a failed red sticker on the electrical box to show that the electrical work in the house was not up to code as shown below.



Property number 18 – The electrical rejection tag was placed on the box by the building inspector.

The City's HARP contractors' policies and procedures stated that at the final inspection, copies of the final City code enforcement signed permits were required. Also, the City contractor's policies and procedures for work standards state that the finished product must be an example of good workmanship. The City construction manager stated that because of his workload, he did not follow up to ensure that the inspectors obtained the final permits.

The City's construction department staff was not sufficient to perform the required inspections. As of June 2013, the City had no inspectors, and the construction manager performed all HARP inspections. The construction manager was responsible for managing all of the City's housing construction programs (HARP; HUD's Neighborhood Stabilization Program; and downpayment assistance, lead-based paint, and tenant-based rental assistance programs). City officials stated that the City did not plan to hire new inspectors. The City had 18 HARP contracts ready for bidding with no inspectors to oversee the rehabilitation work.

The City Failed To Impose Liquidated Damages

The City did not enforce its policies and procedures for imposing liquidated damages on contractors for failing to complete the repairs by the executed completion date. Contractors missed their contract completion dates for 46 of the 65 contracts reviewed. The number of days beyond the executed contract dates ranged from 3 to 273. The delayed timeframes placed undue hardships on the homeowners.

The City's HARP contractors' policies and procedures stated that upon acceptance of the contract, the contractor agreed to pay the City \$100 per day for liquidated damages for every calendar day that the work remained incomplete beyond the required completion date. However, the City did not include the clause in its contracts. City officials stated that they did not enforce the liquidated damages policy because they did not want to place a financial burden on the small business contractors. However, the missed completion

dates placed burdens on the property owners. Because of the missed completion dates, a homeowner did not have access to the only bathroom with shower facilities for 8 months, which was a health and safety violation. The contractor took an extra 240 days to complete the contracted repairs. Another homeowner had to endure sewage backing up in the tub for more than a month because the contractor took an extra 50 days to complete the contracted repairs.

Projections

In projecting the 61 HARP contracts with repair deficiencies to the universe of 153 HARP contracts, we estimate that the City spent at least \$801,000 in CDBG and HOME funds without adequate support to show whether the rehabilitation repairs were provided for eligible work and according to HUD and City regulations. Specifically, for 24 of the 61 rehabilitation contracts with disbursements for work not completed, in projecting these to the universe of 153 contracts, we estimate a deficiency in at least 47 rehabilitation contracts for at least \$28,000 in CDBG and HOME funds. For 56 of the 61 rehabilitation contracts with disbursements for poor workmanship, in projecting these to the universe of 153 contracts, we estimate a deficiency in at least 132 rehabilitation contracts for at least \$773,000 in CDBG and HOME funds.⁶

Conclusion

The City did not follow Federal regulations and its own requirements to ensure that its HARP contractors performed required repairs. Consequently, it permitted CDBG and HOME funds to be used contrary to program requirements for 61 rehabilitation contracts. The City paid contractors more than \$19,864 in ineligible costs and more than \$381,855 in unsupported costs for improper repairs and placed undue hardships on the 61 property owners with excessive amounts from the liens placed against their properties for the improper home repairs.

Recommendations

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

- 1A. Reimburse \$9,293 in CDBG funds and \$10,571 in HOME funds, totaling \$19,864, to its program line of credit accounts from non-Federal funds for the ineligible costs of repairs not completed.

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

- 1B. Correct all deficiencies identified from non-Federal funds or reimburse \$160,051 in CDBG funds and \$221,804 in HOME funds, totaling \$381,855, to program line of credit accounts from non-Federal funds.
- 1C. Adjust program participants' lien amounts for items not completed or corrected in recommendations 1A and 1B.
- 1D. Review the remaining 88 HARP contracts that were not part of our sample to ensure that the City paid contractors for contracted repairs according to HUD and City regulations. For any contract with ineligible or unsupported costs, the City should include the contract amounts in recommendation 1A or 1B for reimbursement.
- 1E. Implement its policies and procedures for writing specifications, performing inspections, obtaining signed final permits, and imposing liquidated damages.
- 1F. Refrain from awarding any future HARP contracts until it has adequate personnel to monitor rehabilitation work and ensure that federal funds are properly expended.

We also recommend that the Director of HUD's Knoxville Office of Community Planning and Development

- 1G. Reinspect the homes to ensure that identified deficiencies have been properly corrected.

SCOPE AND METHODOLOGY

We performed the review from April through August 2013 at the City's Housing and Community Development Department and at HARP-assisted properties in Memphis, TN. Our review generally covered the period January 1, 2010, through December 31, 2012, and was extended as necessary to accomplish our objective.

To accomplish our objective, we

- Reviewed applicable laws, HUD regulations, the Code of Federal Regulations, and other program requirements.
- Reviewed applicable City controls and policies and procedures used to administer HARP activities.
- Interviewed HUD officials, City and county personnel, and HARP recipients.
- Reviewed monitoring, independent public accountant, and HUD information system reports.
- Reviewed the City's rehabilitation contract files and records, including construction and financial files.
- Traced information reported in HUD's information system to City records.
- Performed physical inspections of the selected rehabilitation repairs.

The City received more than \$22.6 million in CDBG funds and \$12 million in HOME funds from January 1, 2010, through December 31, 2012. We statistically selected 65 of the 153 HARP contracts, 42 percent, that were either started or completed from January 1, 2010, through December 31, 2012. Twelve of the original 65 contracts which were selected for review were replaced with other contracts in the universe due to scheduling conflicts with the homeowners. These additional contracts were selected using a stratified random sample and were used to meet our statistical sample size of 65. During April, May and June 2013, we inspected the rehabilitation repairs of the 65 properties to determine whether the City complied with Federal regulations and its own policies in its use of CDBG and HOME funds for HARP repairs. The City's staff accompanied us on 46 of the 65 inspections.

The 65 contracts totaled more than \$1.6 million in CDBG and HOME program funds. The results of our modeling efforts indicated that a stratified random sample was the most effective method to sample the data. A stratified random sample of 65 rehabilitation contracts was determined to be more than sufficient for auditing among the audit universe of 153. The data were sampled using a computer program written in SAS^{®7} using the survey select procedure with a random-number seed value of 7.

The sample design table details the breakdown of audited rehabilitation contracts by strata as it compares to the original sample design for this audit.

⁷ 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.

Sample Design					
Strata Name	Quantity in Universe	Quantity in Original Sample	Amount Range for Strata	Quantity Used for Projections by Strata	Sampling Weights Used for Projections
dom1_1	27	12	\$0 - \$17,215	12	2.250
dom1_2	24	10	\$17,216 - \$23,377	8	3.000
dom1_3	24	10	\$23,378 - \$31,871	9	2.667
dom1_4	26	11	\$31,872 - \$49,394	11	2.364
dom2_1	17	7	\$0 - \$26,621	7	2.429
dom2_2	17	7	\$26,622 - \$33,089	7	2.429
dom2_3	18	8	\$33,090 - \$51,532	7	2.571
Total	153	65	N/A	61	N/A

The measures provided in this report were projected based on traditional means or proportions and their standard errors, and we used the survey means and survey frequency procedures provided by SAS®. A traditional Taylor series⁸ was used to estimate the variance. For stratification purposes, we split the 153 contracts into two groups – 101 contracts that had HOME funds and 52 contracts that had CDBG funds. The group with HOME funds was separated into four strata, and the group with CDBG funds was separated into three strata, yielding a total of seven strata. We reduced the average amount of unsupported or ineligible rehabilitation expense by the margin of error (that is, the standard error) associated with this sample design and then extended that to the 153 audit universe.

In regard to our projection, we determined that 24 of the 61 statistically selected rehabilitation contracts with deficiencies had ineligible rehabilitation funds disbursed. This amounts to an average of \$306 per contract. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state, with a one-sided confidence interval of 95 percent, that the average amount per contract was \$187. Projecting this amount to the 153 audit universe, we can state that at least \$28,000 in funds was paid on contracts for ineligible rehabilitation expenses. Additionally, this defect was found across many rehabilitation contracts, and we can also say, with a one-sided confidence interval of 95 percent, that at least 47 contracts in our universe were affected.

Also in regard to our projection, we determined that 56 of the 61 statistically selected rehabilitation contracts with deficiencies had insufficient supporting documentation for the rehabilitation funds disbursed. This amounts to an average of \$5,980 per contract. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state, with a one-sided confidence interval of 95 percent, that the average amount per contract was \$5,056. Projecting this to the 153 audit universe, we can state that at least \$773,000 in funds was paid on contracts with insufficient supporting documentation, and it could be more. Additionally, this defect was found across many rehabilitation contracts, and we can also say, with a one-sided confidence interval of 95 percent, that at least 132 activities in our universe were affected.

⁸ The Taylor Series method obtains a linear approximation for the estimator and then uses the variance estimate for this approximation to estimate the variance of the estimate itself.

We relied in part on data maintained by the City for HARP 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. Testing for reliability included the comparison of computer-processed data to payment requests and other supporting documentation.

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

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation 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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The City did not follow Federal regulations and its own requirements to ensure that its HARP contractors performed acceptable repairs (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A	\$19,864	
1B		\$381,855

- 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. In this case, the City needs to support that the contractors corrected the repairs as contracted.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



**City of
Memphis**

TENNESSEE

A C WHARTON, JR. - Mayor
GEORGE M. LITTLE - Chief Administrative Officer

DIVISION OF HOUSING & COMMUNITY DEVELOPMENT
ROBERT LIPSCOMB - Director

December 10, 2013

Ms. Sonya D. Lucas
Assistant Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
75 Spring Street SW, Room 330
Atlanta, GA 30303

Subject: Review of the City of Memphis, Housing and Rehabilitation Program (HARP)

Dear Ms. Lucas:

We concur with the findings and recommendations presented in this report. Additionally, we would like to acknowledge that we began identifying issues and concerns in the HARP Department and informed our representatives with U.S. Department of Housing and Urban Development, Office of Community Development of Planning (CPD) on May 1, 2012. In addition, we informed the HUD, Office of Inspector General (OIG) through conversations with our Internal Affairs Office.

The findings are consistent with concerns and observations noted during our internal reviews conducted by the Internal Audit Department prior to the HUD OIG audit. The City of Memphis, Division of Housing and Community Development (HCD) Management reported to the HUD CPD Office in Knoxville through several correspondences and also shared with the HUD OIG before the OIG audit began. Corrective actions included the following:

- Revised policies and procedures were implemented in the HARP department and employees were instructed to follow the new protocols.
- The previous HARP Department inspectors were disciplined and are no longer with the Department and or City.
- New contractor guidelines were implemented and some contractors were discharged from doing business with HCD.
- HARP Department stopped taking new applications on May 31, 2012, due to discovery by new management concerns for workmanship and complaints from Homeowners.
- All cases approved before May 31, 2012, were reevaluated by an independent third-party to determine if all code issues were addressed. Additionally, in cases where extra work was identified, separate contracts were executed to correct work.
- Created an independent monitoring/inspection department to ensure all programs are monitored and inspections are performed independent of the program department.

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- HCD engaged assistance from Internal Affairs to initiate investigations of complaints. This office will continue to address complaints in an independent and objective manner.
- HCD Division implemented a Customer Service Department to ensure quality control customer service satisfaction for all programs administered. This department implemented policy and procedures to assist quality assurance with HARP clients via phone surveys. All the new procedures provided follow up opportunities to address concerns via the homeowners. In addition, the new procedures will involve random inspections and follow up through our Monitoring/Inspection department.

An exit conference was held in Memphis Tennessee on December 4, 2013 with Sonya Lucas, Assistant Regional Inspector General for Audit and Daryl James, Auditor, HUD CPD staff; Mary Wilson, Director HUD CPD Knoxville, Erik Hoglund, Program Manager CPD, John Baldwin, Senior CPD Representative, and pertinent HCD staff. During the conference we discussed the format and timing for HCD's response to the draft audit report, as well as the next steps in the process which will include working with Mary Wilson, Director of Region IV Community Planning and Development, on any recommendations or management decisions made relative to the report.

Recommendations from HUD OIG	HCD Response / Corrective Actions
<p>1A. Reimburse \$9,043 in CDBG funds and \$10,821 in HOME funds, totaling \$19,864 to its program line of credit accounts from non-federal funds for the ineligible costs of repairs not completed.</p>	<p>We concur with the recommendations and will work with the HUD CPD staff on the reimbursement of \$19,864 with non-federal funds.</p>
<p>1B. Correct all deficiencies identified from non-federal funds or reimburse \$156,851 in CDBG funds and \$225,004 in HOME funds, totaling \$381,855, to program line of credit accounts from non-federal funds.</p>	<p>We concur with the recommendation and are in the process of correcting deficiencies with non-federal funds.</p>
<p>1C. Adjust program participant's lien amounts for items not completed or corrected in recommendations 1A and 1B.</p>	<p>We concur with the recommendations and will correct participants escrowed lien's to reflect accurate amount.</p>
<p>1D. Review the remaining 88 HARP contracts that were not part of our sample to ensure that the City paid contractors for contracted repairs according to HUD and City regulations. For any contract with ineligible or unsupported costs, the City should include the contract amount in recommendation 1A and 1B for reimbursement.</p>	<p>We had begun the process of reinspecting all cases that were completed before May 31, 2013 before the OIG audit began. We have corrected some deficiencies and will continue to work with HUD CPD to correct the final 88 cases on the HUD OIG list.</p>

Comment 2

1E Implement its policies and procedures for writing specifications, performing inspections, obtaining signed final permits, and imposing liquidated damages.	General Requirements have been added for each division and have been implemented.
1F.Refrain from awarding any future HARP contracts until it has adequate personnel to monitor rehabilitation work and ensure that federal funds are properly expended.	As discuss in the exit conference all current cases to receive program assistance will be cancelled and participants must reapply and meet requirements under the new program.
1G. Re-inspect the homes to ensure that identified deficiencies have been properly corrected.	As discussed, we shall inform HUD CPD when repairs are completed and HUD CPD shall inspect to verify that all corrections were completed to meet proper standards.

As per your request on December 4, 2013, please accept this as HCD's comments to the draft audit report on HARP Department prepared as a result of the field work performed by you and your staff relative to activities funded by the HUD HOME Partnership Grant and Community Development Block Grant.

We at HCD appreciate your assistance in confirming our initial assessment of the program and providing guidance in addressing our joint concerns in this matter. The City of Memphis assures you that we will continue to be committed to the highest level of regulatory compliance with HUD regulations, State, and Local guidelines.

If you have any questions or need additional information relative to HCD's response, please do not hesitate to contact me at (901) 576-7308 or Patrick Smith at (901) 576-7430.

Sincerely,

Robert Lipscomb
Director

- cc: A C Wharton, Jr., Mayor, City of Memphis
Mary Wilson, Director, HUD Community Planning and Development
John Baldwin, Senior Community Planning Development Representative
Joe Brown, HCD Committee Chairman, Memphis City Council
Patrick Smith, Lead Divisional Auditor, HCD
Marcus Ward, Senior Assistant City Attorney, HCD
Debbie Singleton, Administrator, HCD
Verna Lambert, Administrator, HCD
Harry Green, Administrator, HCD
Edmund Warford, Manager, HCD
Juanita Hamilton, Manager, HCD

OIG Evaluation of Auditee Comments

- Comment 1** The City's comments state that it is in complete agreement with the audit report and is fully committed to strengthening its policies and procedures to come into full compliance with the HARP regulations. We commend the City for its commitment to strengthening its HARP activities. In addition, the City must implement corrective actions to clear all the report recommendations. The Knoxville Office of Community Planning and Development will be responsible for reviewing and approving these corrective actions.
- Comment 2** We agree with the City's comment to cancel all current cases to receive program assistance and have them reapply and meet requirements under the new program. However, the City should refrain from awarding any future HARP contracts until it has adequate personnel to monitor rehabilitation work and ensure that federal funds are properly expended.

Appendix C

SCHEDULE OF INELIGIBLE AND UNSUPPORTED COSTS

Property number	Type of funds	Funding amount ⁹	Ineligible amount	Unsupported amount
1	CDBG	\$30,385	\$0	\$18,535
2	HOME	\$18,152	\$0	\$5,960
3	HOME	\$24,400	\$0	\$3,956
4	HOME	\$23,680	\$400	\$1,735
5	HOME	\$25,145	\$350	\$6,175
6	CDBG	\$19,710	\$0	\$6,615
7	HOME	\$15,505	\$0	\$350
8	HOME	\$28,465	\$720	\$2,400
9	HOME	\$32,005	\$0	\$6,900
11	CDBG	\$35,000	\$250	\$7,725
12	HOME	\$30,396	\$0	\$10,840
14	HOME	\$18,433	\$0	\$4,525
15	HOME	\$15,945	\$0	\$125
16	HOME	\$18,530	\$500	\$12,200
17	CDBG	\$33,740	\$50	\$0
18	HOME	\$29,902	\$0	\$4,600
19	HOME	\$15,176	\$450	\$480
20	HOME	\$15,850	\$900	\$5,530
21	HOME	\$14,700	\$2,000	\$9,100
22	CDBG	\$34,316	\$3,264	\$9,680
23	HOME	\$10,329	\$0	\$1,665
24	HOME	\$16,900	\$200	\$6,350
25	HOME	\$13,813	\$404	\$7,154
27	HOME	\$16,454	\$0	\$11,995
28	CDBG	\$11,012	\$0	\$11,012
29	CDBG	\$7,770	\$0	\$375
30	CDBG	\$24,545	\$0	\$300
31	CDBG	\$12,665	\$0	\$1,575
32	CDBG	\$23,006	\$0	\$2,094
33	HOME	\$15,555	\$0	\$6,780
34	HOME	\$14,465	\$0	\$1,783
35	HOME	\$25,920	\$150	\$8,135
36	CDBG	\$27,234	\$3,784	\$11,450

⁹ The Funding Amount column is calculated using the amounts of the rehabilitation costs shown in the IDIS reports. Soft costs were not included in the amounts.

37	HOME	\$18,060	\$0	\$2,000
Property number	Type of funds	Funding amount	Ineligible amount	Unsupported amount
38	CDBG	\$31,345	\$150	\$10,650
39	HOME	\$11,610	\$400	\$400
40	HOME	\$20,308	\$0	\$2,155
42	HOME	\$19,325	\$0	\$4,400
43	CDBG	\$32,965	\$0	\$10,600
44	CDBG	\$13,200	\$0	\$6,800
45	CDBG	\$30,744	\$0	\$7,540
46	HOME	\$35,475	\$0	\$675
47	CDBG	\$21,010	\$800	\$2,100
48	CDBG	\$28,040	\$0	\$1,725
49	HOME	\$23,065	\$0	\$10,165
50	CDBG	\$17,080	\$570	\$8,975
51	HOME	\$22,075	\$0	\$13,175
53	HOME	\$32,352	\$400	\$442
54	HOME	\$32,356	\$1,897	\$20,374
55	HOME	\$34,370	\$400	\$16,650
56	CDBG	\$36,335	\$300	\$200
57	HOME	\$35,000	\$0	\$9,200
58	HOME	\$31,525	\$0	\$5,000
59	HOME	\$35,000	\$800	\$5,600
60	HOME	\$34,175	\$0	\$4,080
61	CDBG	\$34,217	\$0	\$5,600
62	CDBG	\$36,900	\$0	\$9,450
63	HOME	\$22,446	\$0	\$2,050
64	HOME	\$32,550	\$600	\$6,700
65	CDBG	<u>\$39,017</u>	<u>\$125</u>	<u>\$27,050</u>
	Total	<u>\$1,459,648</u>	<u>\$19,864</u>	<u>\$381,855</u>

Note: CDBG funds for questioned costs totaled \$165,894 (\$9,293 ineligible, \$160,051 unsupported).
HOME funds used for questioned costs totaled \$235,825 (\$10,571 ineligible, \$221,804 unsupported).

Appendix D

CHART OF REPAIR VIOLATIONS

Property Number	Plumbing	Electrical services	Water heaters	Toilet repairs	Vinyl siding	Molding	Doors	Kitchen cabinets	Flooring	Heating, venting, and HVAC	Roofing	Drywall and painting	Cut tree limbs	Gutters	Door framing	Bathroom sinks/walls	Windows	Other ¹⁰	Total
1	1	2		1			3	1	1	1	1	14				2			27
2		1								1									2
3									4			2							6
4		3				2	2		1										8
5	1			1						1									3
6		1		1	1		1												4
7																1			1
8		2					1												3
9		1								1									2
11		2					1			1		1							5
12		1		1	1												1		4
13		1						1			1								3
14										1								1	2
15							1												1
16		1			1	1		1	6									1	11
17												1							1
18	1	3					1												5
19										1							1	1	3
20							2				1	1						1	5
21										1	1	1		1					4
22		1			1	6		1	6	1	1	1							18
23	2						2				1	1						1	7
24		1							1	1		1							4
25	1	1			1	3				1									7
27	1								1		1								3
28																		1	1
29																	1		1
30							1												1
31	1	1																	2
32	1							1	1			2							5
33								1			1	1							3

¹⁰ Other violations consist of an extermination, final clean-up, a set of folding attic stairs, permits, warranty and a doorbell.

Property Number	Plumbing	Electrical services	Water heaters	Toilet repairs	Vinyl siding	Molding	Doors	Kitchen cabinets	Flooring	Heating, venting, and HVAC	Roofing	Drywall and painting	Cut tree limbs	Gutters	Door framing	Bathroom sinks/walls	Windows	Other	Total
34		1			1			1				1							4
35	1				1								1						3
36							2	1	4	1	3					1	1		13
37										1									1
38							2		1		1	2							6
39		1		2															3
40		1								1		1			1				4
42					1					1						1			3
43						1	3										1		5
44		1						1			1						1		4
45										1									1
46	1						1												2
47		1					1		1					1				1	5
48		2																	2
49	1	1		1			1	1	1	1		2				2	1	1	13
50		1					1			1		4							7
51		1	2				2	1	2	1	2	2					1		14
53						2	1		1						2	1			7
54		2					1	2	5	1		1			4	3			19
55		1	1		1		2			1	1	1				1		1	10
56		1										2							3
57										1	1								2
58					1														1
59	1	2	1				1		1									1	7
60				1							1								2
61 ¹¹											1								1
62		2								1		3							6
63	1							1	1			2							5
64										1		3				2			6
65		3	1							2	1	5							12
	14	43	5	8	10	15	33	14	38	26	20	55	1	2	7	14	8	10	323

¹¹ The homeowner restricted our inspection. Therefore, we were not able to determine if the City properly completed all required work items for the property. There may have been additional deficiencies for this property.

Appendix E

NUMBER OF INSPECTIONS NOT PERFORMED

Property number	Length of rehabilitation in weeks	Number of ¹² required inspections	Number of inspections performed
1	18	54	11
2	10	30	2
3	18	54	0
4	7	21	1
5	7	21	5
6	12	36	1
7	20	60	0
8	16	48	2
9	6	18	0
10	27	81	11
11	12	36	9
12	28	84	3
13	27	81	3
14	21	63	4
15	7	21	1
16	31	93	4
17	10	30	2
18	11	33	3
19	5	15	11
20	9	27	4
21	4	12	3
22	56	168	6
23	4	12	0
24	8	24	5
25	32	96	5
26	3	9	1
27	15	45	1
28	35	105	7
29	7	21	2
30	5	15	6
31	4	12	6
32	6	18	8
33	8	24	6
34	5	15	3

¹² The length of rehabilitation weeks multiplied by 3 equals the number of required inspections. Three is the number of inspections that the City should have conducted each week according to its policy.

Property number	Length of rehabilitation in weeks	Number of required inspections	Number of inspections performed
35	23	69	11
36	52	156	9
37	12	36	3
38	26	78	8
39	4	12	0
40	5	15	3
41	4	12	3
42	3	9	0
43	16	48	7
44	13	39	3
45	5	15	8
46	70	210	3
47	6	18	10
48	10	30	5
49	20	60	3
50	2	6	0
51	35	105	10
52	65	195	2
53	6	18	15
54	47	141	13
55	12	36	6
56	9	27	6
57	23	69	0
58	8	24	0
59	12	36	4
60	18	54	19
61	10	30	3
62	25	75	1
63	39	117	8
64	26	78	31
65	51	153	0