



City of Norfolk, VA

Community Development Block Grant Program



Issue Date: December 17, 2013

Audit Report Number: 2014-PH-1001

TO: Ronne Leggette, Director, Office of Community Planning and Development,
Richmond Field Office, 3FD
//signed//
FROM: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA
SUBJECT: The City of Norfolk, VA, Generally Failed To Justify Its Community
Development Block Grant 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 Norfolk'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 215-430-6730.



December 17, 2013

The City of Norfolk, VA, Generally Failed To Justify Its Community Development Block Grant Activities

Highlights

Audit Report 2014-PH-1001

What We Audited and Why

We audited the City of Norfolk's Community Development Block Grant program based on our annual audit plan and a risk analysis, which indicated that the City had the most open activities in Virginia. Our objective was to determine whether the City justified its program activities by ensuring that they were properly supported by adequate documentation and met national objectives as required.

What We Recommend

We recommend that the U.S. Department of Housing and Urban Development require the City to (1) provide documentation or evidence to justify unsupported program costs or repay the costs to its program from non-Federal funds, (2) provide a plan to complete extensively delayed program activities, (3) implement policies to improve its record keeping and ensure that program funds are fully supported by adequate documentation, and (4) implement effective planning policies to ensure that program activities are not subjected to long delays.

What We Found

The City could not provide adequate documentation to justify nearly \$2.5 million of about \$4 million it spent on 12 of 16 sample activities reviewed. In addition, 14 of the 16 activities were required to meet a national program objective; however, the City could not demonstrate that the activities met or would meet their designated objectives. Of the 14 activities, 10, associated with about \$4.1 million in program fund draws, were more than 10 years old. Further, the City was unable to provide documentation within a reasonable timeframe to support about \$5 million it had drawn for 15 additional activities in our audit sample. These problems occurred because the City demonstrated poor record keeping and inadequate planning related to its program activities. As a result, many activities reviewed were extensively delayed, and the City could not demonstrate during the audit that it used significant program funds it drew to meet designated program objectives, such as benefiting low- and moderate-income persons and eliminating slums or blight.

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BACKGROUND AND OBJECTIVE

The Community Development Block Grant program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Established in 1974, the program is one of the U.S. Department of Housing and Urban Development's (HUD) longest continuously running programs. The program provides annual grants on a formula basis to 1,209 general units of local government and States. To be eligible for funding, every activity, except program administration and planning, must meet one of the following three national objectives:

- Benefit low- and moderate-income persons,
- Prevent or eliminate slums or blight, and
- Address certain urgent needs in a community because conditions pose an immediate threat to the health or welfare of the community.

The City of Norfolk is governed by the city council and the city manager. The City has been a program grantee for more than 30 years. The City's Budget and Grants Management Division administers its program. The City contracted with its subrecipient, the Norfolk Redevelopment and Housing Authority, to carry out most of its community development activities. During the audit period, the City was awarded about \$92.8 million in grant funds.

The City obtains or draws program funds for activities through HUD's Integrated Disbursement and Information System. This system is the drawdown and reporting system for HUD's formula grant programs, which include the Community Development Block Grant program.

Our objective was to determine whether the City justified its program activities by ensuring that they were properly supported by adequate documentation and met national objectives as required.

RESULTS OF AUDIT

Finding: The City of Norfolk Generally Failed To Justify Its Program Activities

The City could not provide adequate documentation to justify nearly \$2.5 million of about \$4 million it drew for 12 of 16 sample activities reviewed. Also, 14 of the 16 activities were required to meet a national program objective; however, the City could not demonstrate that the activities met or would meet their designated objectives. Of the 14 activities, 10 associated with about \$4.1 million in program fund draws were more than 10 years old.¹ Further, the City was unable to provide documentation within a reasonable timeframe to support about \$5 million it had drawn for 15 additional sample activities. These problems occurred because the City demonstrated poor record keeping and inadequate planning related to its program activities. As a result, \$9.1 million in program funds the City drew was unsupported, and many projects reviewed were extensively delayed and did not meet designated program objectives, such as benefiting low- and moderate-income persons and eliminating slums or blight.

The City Could Not Justify \$2.5 Million in Program Funds Drawn

The City failed to justify about \$2.5 million in program funds it drew for activities. According to program regulations at 2 CFR (Code of Federal Regulations) Part 225,² each program activity must be adequately documented. Also, regulations at 24 CFR 570.506(a) state that grantees must provide a full description of each activity assisted with program funds, including its location. We requested and reviewed documentation for a sample of 16 of the City's program activities. The City drew about \$6.5 million in program funds for these activities. The activities mainly entailed property or lot acquisitions for development but also included some code enforcement and grant administration or support activities. Contrary to program regulations, the City was unable to provide adequate documentation to justify nearly \$2.5 million of about \$4 million it drew for 12 of the 16 activities. The missing documentation included key documents to support transactions associated with property acquisitions, such as complete deeds and settlement documents, invoices to support payments to contractors, and supporting employee time records for administrative expenses. Table 1 below provides a breakdown of the 12 activities and related funding information.

¹ Of the 10 activities, 9 were included in the 12 for which the City could not provide adequate documentation.

² Appendix A, section C(1)(j)

Table 1

Count	Activity type	ID #	Amount drawn	Supported	Unsupported
1	Code enforcement	998	\$ 500,000	\$ 0	\$ 500,000
2	Acquisition	924	521,981	106,686	415,295
3	Acquisition	1389	355,289	0	355,289
4	Code enforcement	1249	253,860	0	253,860
5	Acquisition	1844	496,696	247,734	248,962
6	Acquisition	480	437,815	199,186	238,629
7	Acquisition	923	323,785	119,304	204,481
8	Acquisition	1898	330,437	143,598	186,839
9	Administration	4274	146,255	110,423	35,832
10	Administration	4387	182,236	169,769	12,467
11	Acquisition	1897	400,134	397,052	3,082
12	Administration	4438	77,393	76,967	426
Totals			\$4,025,881	\$1,570,719	\$2,455,162

The City partially attributed its deficient record keeping to changes in its administration process. It stated that its administration process had changed departments at least three times since 1997 and its system of record keeping had improved. The City needs to provide the required documentation to justify the approximately \$2.5 million it drew to fund the activities in table 1.

Activities Did Not Meet Their Designated National Objectives

According to program regulations at 24 CFR 570.200(a)(2), grantees must maintain evidence that each program activity meets a national objective. In addition, regulations at 24 CFR 570.208 provide the criteria for determining compliance with the national objective requirement. However, of the 16 sample activities reviewed, 14 that were required to meet a national objective were incomplete and had not met the requirement. The designated national objectives for the activities included benefiting low- and moderate-income persons and eliminating slums or blight. City officials stated that it was unlikely that any of the activities would meet their designated objectives in 2013.

Of the 14 activities that did not meet their designated national objectives, 10 were more than 10 years old with funding or start dates ranging from 1997 to 2002, and the City had drawn about \$4.1 million in program funds related to the activities as shown in table 2 below.

Table 2

Count	Activity type	ID #	Start date	Amount drawn
1	Acquisition	480	1997	\$ 437,815
2	Code enforcement	998	1998	500,000
3	Acquisition	923	1998	323,785
4	Acquisition	924	1998	521,981
5	Code enforcement	1249	1999	253,860
6	Acquisition	1389	1999	355,289
7	Acquisition	1844	2001	496,696
8	Acquisition	1897	2001	400,134
9	Acquisition	1898	2001	330,437
10	Acquisition	2066	2002	458,944
Total				\$4,078,941

The City could not demonstrate that any of the activities in table 2 had benefited low- and moderate-income persons or eliminated slums or blight. Although program regulations do not impose a timeframe for completing activities, extended delays adversely impact potential program beneficiaries. Therefore, grantees should take necessary precautions and plan properly to avoid extended project delays.

According to the City, the primary reason for the incomplete activities was changes in City divisions responsible for program oversight. Also, the City's subrecipient provided the following reasons for activity delays: (1) it assembled developments over time, (2) the City had restrictions regarding home construction size, (3) some lots were between homes and difficult to build on, and (4) some lots were next to market rate homes. The subrecipient stated that it expected to clear all outstanding national objective activities within 36 months through buyouts, lot or property development, and inventory reduction. The reasons cited by the City and its subrecipient reflect a lack of focus on completing activities in a reasonable and timely manner and inadequate planning regarding program activities. The subrecipient's concerns largely represent examples of issues that should have been considered before activities were started. Because the City and its subrecipient failed to properly plan for activities by considering contingencies or challenges and determining appropriate solutions, activities were extensively delayed, and the City could not demonstrate that it met its designated objectives to benefit low- and moderate-income persons or eliminate slums or blight.

The City Could Not Readily Provide Documentation To Justify \$5 Million Drawn for 15 Sample Activities

The City could not provide supporting documentation within a reasonable timeframe to support approximately \$5 million in program funds it drew for 15 activities. At the beginning of the audit, we identified and selected 31 of the City's program activities for review. We initially reviewed 16 of the activities as discussed above. Because the City generally lacked adequate documentation to justify the program funds it drew for the activities, we asked it to provide documentation for the remaining 15 sample activities. We requested the documentation on March 6, 2013, and asked the City to provide the documents by March 25, 2013. On March 15, 2013, City officials stated that the earliest they could provide the documents would be May 1, 2013, because the City was focused on preparing its budget. We believed that the deadline provided was reasonable because it allowed 19 days for the City to gather the information requested. However, in consideration for the City's needs and due to the constraints an extension would have imposed on the audit process, we informed the City that it could provide the documents for HUD review after the audit. The City needs to provide adequate documentation to justify the approximately \$5 million it drew for the 15 activities (see appendix C for breakdown).

The City Needs To Improve Its Record Keeping and Implement Planning Policies

As evidenced by the amount of program funds the City could not justify with documentation and the extensively delayed program activities, the City needs to implement policies to improve its record keeping and planning regarding program activities. The City should coordinate with HUD and implement policies regarding specific documentation required to support each type of program activity.

Regarding its delayed activities, the City stated that it was assembling a committee to address the issue. Part of the committee's functions should be to (1) reevaluate the City's planning goals regarding program activities, (2) develop and implement planning policies that include considering contingencies or challenges related to potential activities, and (3) determine appropriate solutions to prevent prolonged delays. This measure will help to ensure that activities undertaken are completed and benefit intended program beneficiaries within a reasonable timeframe.

The City Should Provide a Plan for Delayed Activities as Required by HUD

HUD recently issued updated instructions³ regarding program activities and related funding to grantees. According to the instructions, HUD's Integrated Disbursement and Information System has been updated to flag, among other things, program activities that have 80 percent of their funding amount disbursed with no accomplishments. Grantees with such activities are required to provide to HUD (1) an explanation of the reasons for activity delays; (2) an action plan for resolving the delays; and (3) a date, within 6 months, by which the action plan will be executed. This information collectively constitutes a remediation plan.

As discussed above, the City had 10 activities that were more than 10 years old. The approximately \$4.1 million it had drawn for the activities represented all of its available funding. Therefore, in accordance with HUD instructions, the City should provide to HUD a remediation plan for its 10 extensively delayed activities.

Conclusion

The City could not justify or adequately support \$9.1 million in program funds it drew mainly because of poor record keeping and a failure to properly plan for its program activities. It could not provide records to support transactions associated with its program activities, and most activities reviewed were extensively delayed and did not meet designated national objectives to benefit low- and moderate-income persons and eliminate slums or blight. The City needs to justify and support the \$9.1 million in program funds it drew and provide HUD a remediation plan for its 10 delayed activities. It should also implement policies to improve its record keeping and planning regarding its program activities. Doing so will help prevent potential misuse of program funds.

Recommendations

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

- 1A. Provide documentation to support the \$2,455,162 in unsupported funds drawn for 12 activities or repay the amount to its program from non-Federal funds.

³ CDBG [Community Development Block Grant] Changes in IDIS [Integrated Disbursement and Information System] Instructions for Grantees - IDIS Release 11.4

- 1B. Provide to HUD a remediation plan for the 10 delayed activities and demonstrate that national objectives have been met as required to support \$4,078,941 in program funds drawn for the activities.⁴
- 1C. Provide for HUD review documentation to support \$5,014,403 drawn for the additional 15 activities.
- 1D. Develop and implement improved record-keeping policies to ensure that all draws of program funds are fully supported by adequate documentation.
- 1E. Develop and implement effective planning policies regarding program activities to ensure that activities are not subjected to long delays.

⁴ Of the 10 delayed activities, 9 were included in the 12 activities addressed in recommendation 1A. The unsupported program funds drawn for these 9 overlapping activities totaled about \$2.4 million. Therefore, we made an adjustment to our calculation of total questioned costs to avoid double counting (see Scope and Methodology section of report).

SCOPE AND METHODOLOGY

We conducted the audit from December 2012 to July 2013 at the City's and its subrecipient's offices in Norfolk, VA, and our Richmond, VA, field office. The audit covered the period July 1, 1996, through December 31, 2012. We relied in part on computer-processed data in HUD's Integrated Disbursement and Information System. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing entailed matching information obtained from HUD's system to hardcopy documents provided by the City and its subrecipient.

To accomplish our objective, we reviewed

- Relevant background information and applicable regulations,
- Program requirements,
- Reports from HUD's Integrated Disbursement and Information System, and
- Documents supporting the City's and its subrecipient's fund draws for program activities.

We interviewed staff from the City and its subrecipient and HUD program staff in Richmond, VA.

We obtained the City's universe of funded incomplete (open) activities from HUD's Integrated Disbursement and Information System. The universe included 180 open activities funded between 1996 and 2012. We nonstatistically selected 31 activities by filtering the universe for activities funded for \$250,000 or more and eliminating two activities that were less than a year old. The City had drawn down a total of \$11.5 million for the 31 activities. We selected a sample of 16 activities associated with about \$6.5 million in draws for initial (survey) review by selecting the 10 oldest activities and 6 others with the largest overall amount of funds available for drawdown. We then requested documents from the City and its subrecipient to support the \$6.5 million and determine whether the activities met program national objectives as required. Because the City could not fully justify its draws related to the activities in our survey review, we requested documentation to support \$5 million that the City had drawn for the remaining 15 activities in our sample. Drawdowns related to the 31 sample activities were as of November 2012.

The 12 activities for which the City could not provide adequate documentation included 9 of the 10 old activities. The unsupported drawn amount for the 9 overlapping activities was about \$2.4 million. Therefore, to avoid double counting questioned costs, we made an adjustment for this amount, which resulted in an adjusted total of \$9.1 million in unsupported costs as shown: \$11.5 million (total unsupported costs from appendix A) minus \$2.4 million (total unsupported costs related to 9 overlapping activities) = \$ 9.1 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

objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that the program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data obtained, maintained, and fairly disclosed in reports for the program.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program participants comply with program laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The City lacked adequate control policies and procedures to ensure that all funds it drew for program activities were adequately supported.
- The City lacked adequate control policies and procedures to ensure that program-funded activities it undertook were accomplished within a reasonable timeframe.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$ 2,455,162
1B	4,078,941
1C	5,014,403
Total	\$11,548,506⁵

- 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.

⁵ As stated in footnote 4 and described in the Scope and Methodology section of the report, we adjusted the total questioned costs to avoid double counting.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

<div data-bbox="470 613 777 663"> NORFOLK</div> <div data-bbox="496 690 751 730"><i>Office of Budget and Grants Management, Division of Grants Management</i></div> <div data-bbox="488 747 638 772"><p>September 18, 2013</p></div> <div data-bbox="488 812 852 917"><p>Mr. John Buck Regional Inspector General for Audit Office of Audit Region 3 The Wanamaker Building, Suite 10205 100 Penn Square East, Philadelphia, PA 19017-3380</p></div> <div data-bbox="488 955 597 978"><p>Dear Mr. Buck,</p></div> <div data-bbox="483 997 1271 1148"><p>The City of Norfolk is in receipt of the Department of Housing and Urban Development's Office of the Inspector General's (OIG) draft audit report of the city's open Community Development Block Grant (CDBG) activities. The OIG's report identifies some programmatic and administrative criticism, but it also includes several opinions that the city considers misleading regarding its administration of its CDBG program. While we take issue with some of the findings that characterized CDBG funds drawn as "unsupported," it is important to note that the report does not conclude there were any instances of misuse or abuse of funds in Norfolk's CDBG program. In this response, the city offers some general observations and provides specific comments addressing:</p></div> <div data-bbox="566 1165 969 1274"><ul style="list-style-type: none">• The OIG's scope and methodology• An overstatement of unsupported costs• Meeting a designated broad national objective (BNO)• A reference to activities OIG did not review• Improved Recordkeeping and Planning.</div> <div data-bbox="495 1308 768 1331"><p>General Observations and Background</p></div> <div data-bbox="479 1348 1261 1520"><p>The City of Norfolk has been a recipient of Community Development Block Grant (CDBG) funds for more than 30 years and has maintained a collaborative relationship with the U.S. Department of Housing and Urban Development (HUD) to achieve identified goals. In partnership with the Norfolk Redevelopment and Housing Authority (NRHA), the city has used CDBG funds to revitalize neighborhoods, rehabilitate aging properties for income eligible homeowners and support a host of public services such as reading and tutoring programs for youth, initiatives to support the elimination of homelessness and a dental clinic to assist unemployed and underemployed individuals. Overall the city has effectively used CDBG funds to improve the quality of life for Norfolk residents while adhering to CDBG program regulations.</p></div> <div data-bbox="477 1526 1255 1619"><p>The city has been through countless audits and monitoring visits. For example, the federal Office of Budget and Management requires an annual A-133 audit, for states, local governments and non-profit organizations who receive \$500,000 or more in federal funds. Until two years ago, the CDBG program was subject to an annual A-133 audit every year. However, because there were no findings in FY 2010, the CDBG program has been</p></div> <div data-bbox="711 1617 1026 1659"><p>810 Union Street, Room 607 • Norfolk, VA 23510 Phone: 757-664-4283 • Fax: 757-441-2234</p></div>
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exempted by the city's external audit firm for fiscal years 2011 through 2013. The CDBG program will be audited again in FY 2014 for which the city anticipates a clean CDBG audit report.

The city has achieved program improvements resulting from the implementation of annual A-133 audit recommendations, HUD monitoring visits, and its own assessments. For example, the city previously recognized the difficulty in promptly meeting a BNO for acquisition activities. Since acquisition projects make up the bulk of the city's aged open activities, in 2010, the city made the decision to discontinue using CDBG funds for property acquisitions. This practice has allowed the city to refocus its CDBG funding towards activities that can be achieved quickly. Unfortunately, this report does not reflect these types of procedural improvements since it focuses on decade-old deficiencies that have long since been addressed by the city and NRHA.

In FY 2004 the city created, what is today, the Division of Grants Management (DGM). Since that time DGM staff has initiated improvements to CDBG program administration to include:

- Strengthening of subrecipient agreements to align with CDBG record retention requirements
- Implementation of an electronic records management solution
- Utilization of a risk based model for subrecipient monitoring
- CDBG certification for all DGM staff
- Quarterly Meetings with NRHA to ensure effective planning for CDBG resources
- Mandatory subrecipient training for all sub-grantees
- Expanded pre-award project requirements to ensure CDBG funded activities are 'shovel ready'

Given the improvements outlined above some of the conclusions made in this audit are outdated and falsely portray an organization that currently lacks direction and fails to effectively manage its resources. On the contrary, the city is a responsible steward of public funds and has processes in place to eliminate duplication and inefficiency throughout its operations. Additionally, one of Norfolk's six identified priorities 'having a well-managed government' specifically addresses accountability as well as effectively and efficiently utilizing the resources entrusted to the city by the public. The OIG's methodology of focusing on activities between 11 and 15 years old inequitably targets projects for which it is most difficult to meet a BNO. This report is neither an accurate reflection of the process improvements discussed above nor a reflection of the city's current operations.

Following the launch of a nationwide audit of open CDBG activities by the OIG in Washington, DC, the city has spent the last year working with the HUD Richmond Field Office to address open CDBG activities funded between 2000 and 2005. The process involved a detailed review, and an assessment of current local needs which ultimately resulted in an approved remediation plan that addresses those open activities. When this audit began the OIG was advised that their selected activities were duplicative of activities already involved in a separate IG audit. By not revising their audit sample, the OIG imposed 'double-jeopardy' by reviewing and deeming unsupported, costs that have already been resolved.

Scope and Methodology

City Response:

The OIG states in the Highlights section of the audit report "We audited the City of Norfolk's Community Development Block Grant program based on our annual audit plan and a risk analysis that indicated the City had the most open activities in Virginia." The City of Norfolk has historically been one of the largest CDBG recipients,

Comment 2

Comment 3

Comment 4

in terms of funding dollars, in the Commonwealth of Virginia. Therefore, it is to be expected that the city would have a greater number of open activities than other jurisdictions in the state.

OIG Comment: "The City could not justify \$2.9 million in program fund draws."

City Response:

The city disputes the OIG comment that it has unsupported costs to the extent of \$2.9 million in program funds. The audit team reviewed 16 activities totaling \$6,408,454 in funding drawn. Ten of these activities were between 11 and 15 years old while only six of these activities began within the last four years. 98.3 percent of the \$2.9 million in unsupported costs are related to the 10 oldest activities reviewed. Because of the age of the 10 oldest activities, the city had difficulty producing the documentation the OIG required to support all of the costs. However, the documentation to support much of the \$2.9 million is available and the city looks forward to working with the HUD Richmond Field Office to answer any questions.

As a result of the process improvements discussed earlier, the city had no unsupported expenses related to records retention for the six activities that began in the last four years. These six activities are shown in Table 1. CDBG funds expended for these activities totaled \$2,329,513. The OIG supported 97.9 percent of these expenses. This is evidence that the city and NRHA's improved record retention policies are working as intended.

Table 1 CDBG Activities that Began in the last 4 Years

Year	Activity Type	Activity #	Amount Drawn	Supported	Unsupported	Percent Supported
2010	Administration	4274	\$146,255	\$110,423	\$35,832 ¹	75.5%
2010	Rehabilitation	4255	\$151,937	\$151,937	\$0	100%
2010	Infrastructure Improvements	4486	\$1,197,372	\$1,197,372	\$0	100%
2011	Administration	4387	\$182,236	\$169,769	\$12,467 ^{1,2}	93.2%
2011	Administration	4434	\$574,320	\$574,320	\$0	100%
2011	Administration	4438	\$77,393	\$76,967	\$426 ¹	99.4%
Total			\$2,329,513	\$2,280,788	\$48,725	97.9%

¹The city believes these expenses are properly classified as administration.

²\$10,354.52 of Emergency Solutions Grant expenses were incorrectly charged to CDBG. These funds were returned to HUD on September 9, 2013 and the expenses have been charged to the ESG grant.

Discussed below are aspects of the audit that demonstrate the difficulty experienced while providing support for expenses that was sufficient for this audit.

Lack of communication between audit team members

The audit team consisted of an Auditor in Charge and a Senior Auditor. As the city worked to document program expenses it became clear that each auditor was assigned to work on specific activities. To cite a specific example; initially, the city worked exclusively with the senior auditor to document expenses for ID# 4255. After the Senior Auditor's preliminary review, additional information was requested with respect to a substantial payment to a building contractor. City staff assembled the information and shared it with the Senior Auditor and was subsequently notified that the expenses were supported.

Comment 5

Comment 6

Comment 6

Months later, after the Senior Auditor had departed the audit team to work on a new engagement, the city was notified by the Auditor in Charge that the expense had not been supported. City staff then had to ascertain what additional information was needed to support the expense and share it with the OIG. The information requested was the same information that was originally sent to the Senior Auditor.

Comment 7

Documentation sufficient to support expenses was not reviewed by auditors

In the review of acquisition activities the auditors were given drawdown vouchers, acquisition files, and access to Norfolk Redevelopment and Housing Authority (NRHA) staff for assistance as needed. The standard the OIG used to support the acquisition of property was a deed identifying the address and sales price of property or a Real Estate Settlement Record and an Acquisition Worksheet signed by the seller.

During its review, the OIG determined that acquisition costs were unsupported even though the appropriate records were included in the project files reviewed. In a follow-up examination of several acquisition files city staff was able to locate sufficient documentation to support numerous acquisition transactions conducted by NRHA. To cite a specific example; IDIS activity 924 contains an acquisition transaction processed in voucher 327827 for the purchase of a property identified as Block 26 Parcel 10 in the voucher. The acquisition file contained a Real Estate Settlement Record and an Acquisition Worksheet signed by the seller. Both documents referenced the Block and Parcel number as identified in the voucher. City staff was able to locate support documentation for numerous other property acquisitions in the same manner. As such, it appears the OIG missed documentation in several similar instances. As a result, the city believes the amount of unsupported costs is overstated.

Comment 8

The OIG did not support expenses for locally leveraged acquisitions because it could not examine all funding sources

As a common practice, the city uses multiple funding sources to finance various projects, including the acquisition of real property. Many of the acquisition activities reviewed in this audit leveraged CDBG funds with other local sources to purchase real property. However, despite the fact that CDBG regulations allow this type of leveraging, the OIG did not support the CDBG expenses in these locally leveraged transactions because it could not examine all funding sources. The city believes this is an unnecessary demand by the OIG as the financial records related to non-federal funding are only required to be retained for three years after the annual audit. Moreover, CDBG regulation 570.606(a), regarding the records to be maintained, only requires the retention of CDBG records. The city contends that the documentation required to support CDBG expenses was sufficient and these costs should not have been deemed unsupported by the OIG.

Comment 9

The OIG requested manual recalculation of payroll costs for every relevant pay period

The city employs a payroll management system that automates the calculations for payroll taxes and fringe benefits. To support administrative expenses related to staff salary and benefit costs the OIG requested a manual recalculation of every cost for every relevant pay period. It is typical to verify payroll expenses and calculations by recalculating a sample of the transactions. However, to satisfy the demands of this audit, the city and NRHA were required to recalculate every payroll expense. This required a massive commitment of staff hours. This is time that could have been better spent addressing the more material concerns of the audit or providing services to the citizens of Norfolk.

The OIG did not accept attorney's invoices as support for legal fees

Comment 10

The bulk of the OIG audit focused on acquisition activities. In the course of acquiring real property substantial legal expenses were incurred. The OIG was unwilling to support expenses for legal fees billed on an hourly basis without a contract that outlined agreed upon hourly rates. Most of the acquisition activities audited began more than 10 years ago and as such contractual records could not be located within the time period of this audit. However, invoices for legal fees were available for review, but deemed as insufficient documentation.

OIG comment: "Activities Did Not Meet Their Designated National Objectives"

City Response:

Comment 11

CDBG regulations contain no time frame requirement for meeting a BNO or completing an activity. In the audit report the OIG has declared \$4.1 million in expenses as un-supported on the grounds that the associated activities have not met a BNO and remain open after more than 10 years. No basis for this declaration exists in the Code of Federal Regulations.

Comment 12

Table 2 in the OIG's Audit Report outlines 10 activities that are more than 10 years old and have not met a Broad National Objective. Two of these open activities are Code Enforcement Emergency Grant projects administered by the city. Both of these activities began over 14 years ago and the last draw of funds was in April of 2001, 11 years ago. The city accepts responsibility for the records retention deficiencies that have led to these projects remaining open, but maintains it was able to demonstrate to the OIG that funds were not abused or misused. During the audit process the city provided the OIG with a documentation that included the contractor's invoice, a copy of the city's payment and the lien release signed by the contractor for numerous properties that were rehabilitated, under the now discontinued, Code Enforcement program. The city believes sufficient documentation was provided during the audit to support a portion of the code enforcement expenses.

Comment 13

The remaining eight activities are over 10 year old acquisition projects which remain open because they contain one or more acquired parcels that are not developable. Typical methods of disposing of such properties are not available because, having been purchased with CDBG funds, the disposition of the properties must meet a BNO of either benefitting a low to moderate income person or removing slum or blight. These activities cannot be completed in IDIS until all acquired property within the activity has been properly disposed of. Again, CDBG regulations do not stipulate a deadline for meeting a BNO. Therefore, the city is not out of compliance based simply on the age of the activities. The city requests any expenses considered unsupported based solely on the age of the activity be removed from the audit report.

IDIS No. 923: The OIG report, Table 2, identifies that NRHA drew \$323,785 for this IDIS activity from program year 1998 and concludes "the City could not demonstrate that any of the activities in Table 2 had benefited low- and moderate-income persons or eliminated slums or blight." The funds drawn involved the acquisition of 19 parcels that were subsequently assembled and subdivided into 14 parcels for the development of new homes for low to moderate income families. Disposition of 13 of these parcels has been completed, which met the low/mod housing BNO. One parcel remains and it will not be developed due to noise and stormwater management issues. Funds drawn in IDIS for the property that will not be developed total less than \$5,000.

IDIS No. 2066: The OIG report, Table 2, identifies that NRHA drew \$458,944 from program year 2002 and concludes that "the City could not demonstrate that any of the activities in Table 2 had benefited low- and

Comment 13

moderate-income persons or eliminated slums or blight." The funds drawn involved the acquisition of 17 parcels that were subsequently assembled and subdivided into seven parcels for the development of new homes for low to moderate income families. Disposition of six of these parcels has been completed, which meet the low/mod housing BNO. One parcel remains to be developed due to clearly articulated neighborhood opposition to residential development on the site in question. Efforts continue to develop the property in a manner that meets community development objectives and is sensitive to the needs of this predominantly low income neighborhood. Funds drawn in IDIS for the remaining parcel total \$108,378.

Comment 14

The city and the HUD Richmond Field Office have collaborated to establish a remediation plan for all 10 activities in table 2 of the audit report. The remediation plans include strategies such as changing the BNO for some activities to Slum/Blight Area or repaying HUD with non-federal funds for acquired properties that cannot be developed. The city looks forward to working with the field office to complete the activities.

OIG comment: "The city could not readily provide documentation to justify \$5 Million drawn for 16 sample activities."

City Response:

The OIG communicated to the city that these additional 15 activities would not be considered as part of the audit. The OIG informed the city that it could provide the documents for HUD review after the audit. The city made a point to clarify, in writing, our understanding that these activities would be excluded from the review. Below is an excerpt of the email correspondence between the city and the OIG that is provided as Exhibit A.

Comment 15

From city to OIG: "The HUD IG's report will be based on the 16 activities identified and reviewed during the audit survey phase."

From OIG to city: "This is correct."

During the exit conference, OIG staff said the city misunderstood the decision; however, the OIG's clear response of "This is correct" is difficult to misinterpret. As a result, the city anticipated working with the HUD Richmond Field Office, at its direction, on these 15 activities.

OIG comment: "The city needs to improve its record keeping and improve planning policies."

City Response:

In FY 2004 the city created an office dedicated to grants management. From the time of its creation, DGM has utilized a network-based records management system as its primary document archive solution. This repository allows for the electronic storage of critical grant-related content that is easily retrievable.

About 10 years ago, the city identified deficiencies in the management of its CDBG programs. The city and NRHA's record retention practice, in the past, had been to keep records for the required three years after a successful A-133 single audit. This practice was in conflict with the CDBG regulations which require records to be kept for four years after the submission of the CAPER in which the activity is reported for the last time. This

Comment 2

practice along with the city's CDBG administrative responsibilities changing homes three times since 1997 has led to difficulty in producing all of the documentation required to support certain expenses reviewed by the OIG.

It has been over 10 years since the city improved its record retention policies and practices, adhering to both federal and state record retention requirements. Documents, to include contracts, financial records, and programmatic files are maintained electronically, and original documents are stored off-site at a document management facility. Additionally, the city has revised its subrecipient agreements with NRHA to require that the appropriate documentation to support expenses and program actions be included with all requests for reimbursement.

Comment 16

The OIG is correct that the city needs to implement planning policies. As a result of this audit, the city identified and is currently implementing procedural improvements to properly vet all potential projects before funding is awarded. For all project requests, applicants are required to provide an implementation timeline, provide evidence of community/neighborhood support, demonstrate consistency with both the HUD-approved Consolidated Plan and the city's General Plan and finally secure any necessary approvals from the appropriate city board or commission and/or City Council.

Implementing these procedures ensures that projects are completed in a timely manner. In fairness however, the OIG's report should have acknowledged that the planning deficiencies outlined in this report, are attributed primarily to acquisition activities which cannot meet a broad national objective (BNO) until property disposition has occurred. As mentioned earlier, the city has not included funding for acquisition under the CDBG program since FY 2010, more than four years ago. This alone significantly reduces the likelihood the city will encounter any substantial project delays in the future.

OIG Comment: The city should provide a Plan for Delays/Admissions Required by HUD

City Response:

Comment 14

In October 2012 the HUD IG in Washington, DC commenced a nationwide audit of open CDBG activities from program years (PY) 2000 to 2005. The city has worked closely with the Richmond Field Office to establish remediation plans to either complete, repay HUD, or reimburse the CDBG Program for those activities. This effort was undertaken with the HUD Richmond Field Office in a spirit of cooperation with clearly identified goals and objectives benefitting all stakeholders. The OIG on the other hand, in this report, has duplicated these efforts and consequently overstated the amount of unsupported costs related to the four activities already in the resolution phase with HUD Richmond Field Office.

Comment 4

Comment 17

These four activities, all designated as acquisition, total \$868,417 in unsupported costs that should not be included in this audit. At the outset, city staff advised the Auditor in Charge that these activities were already part of on-going national IG audit. OIG staff responded that they were not involved or aware of that audit and it played no role in Region III's review. The OIG's stance to not consider an on-going review was an inefficient use of the city's staffing resources.

Conclusion

Comment 1

While the city fully supports the need to protect taxpayer dollars and prevent wasteful spending, it disagrees with the extreme practices of review under which this audit was performed. Again, the city maintains there was no misuse or abuse of CDBG funds. The city is always eager to accept constructive criticism and works tirelessly in an effort to continually improve and evolve in all facets of its operation.

Comment 15

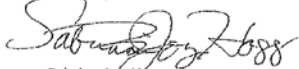
After what the city interpreted as clear direction in writing from the OIG, the city was surprised to read in both the Draft Finding Outline and the Draft Audit Report, a subfinding indicating that the city could not justify roughly \$5 million in program fund draws for 15 additional activities. As explained earlier, it was the city's interpretation these activities would be reviewed at a later date. The city disagrees with the OIG's conclusion that the expenses associated with these 15 un-reviewed activities are unsupported.

Comment 13
Comment 14

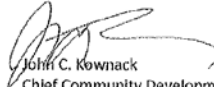
The city also disagrees with the OIG's conclusion that the roughly \$4.1 million in expenses associated with the 10 activities over 10 years old are unsupported. As discussed earlier, no basis for this determination exists in the CDBG regulations, specifically 24 CFR 570. As mentioned above, in collaboration with the Richmond Field Office, the city and NRHA have developed remediation plans for each of these 10 activities.

The city and NRHA accept responsibility for the record retention practices both entities had in place in the past. These policies were changed in 2004 and are now in compliance with all federal and state financial, programmatic and general regulations. We look forward to working with the HUD Richmond Field Office to remediate aging open CDBG activities and to address any other legitimate deficiencies contained within this audit report. We are proud of our successful relationship with HUD and look forward to our continued partnership.

Sincerely,



Sabrina Joy Hogg,
Assistant City Manager and
Acting Director of Budget and Grants Management



John C. Kownack
Chief Community Development Officer, NRHA

CC: Marcus D. Jones, City Manager
Shurl R. Montgomery, Executive Director, NRHA

Comment 15

Exhibit A

[REDACTED]

From: [REDACTED]
Sent: Tuesday, March 26, 2013 8:00 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Norfolk CDBG Program_CDBG Program

This is correct.

To expand on the last bullet, you will be provided a finding outline for review/comment before we give you the draft audit report. The finding outline will reflect the finding as will be presented in the audit report if no additional information/documentation is provided to change our findings(s). Therefore, when you receive the finding outline, you should provide any other additional documentation or information you may have to mitigate or change the finding(s). When we give you the draft audit report, you will have a final opportunity to clear or resolve any outstanding issues. We typically provide up to 2 weeks for a response to the draft report.

Thanks for this recap.

[REDACTED]

From: [REDACTED]
Sent: Monday, March 25, 2013 5:12 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: Norfolk CDBG Program_CDBG Program

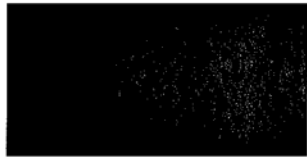
Good afternoon [REDACTED],

Thank you for taking my call earlier today on behalf our City Manager [REDACTED]. I appreciate your time. I wanted to outline what we discussed earlier for the benefit of my City and NRHA colleagues. Please review and confirm that I have an accurate understanding of how the audit process will move forward:

- The HUD IG's report will be based on the 16 activities identified and reviewed during the audit survey phase.
- The city and NRHA will continue to make additional information available to [REDACTED] throughout this week.
- By the opening of business on April 8, 2013 all remaining support documentation should be available for review, either in hard copy or uploaded in Egnyte.

Exhibit A

- City and NRHA staff will be available for interview and a guided tour of identified activities. [REDACTED] has indicated that he will provide the list of properties to be viewed tomorrow, March 26th.
- Even as the audit report is finalized, there will be an opportunity to provide related documentation for unsupported costs.
- The city and NRHA will have an opportunity to address findings identified in the audit report before it is finalized.



"Life is not measured by the number of breaths we take, but by the moments that take our breath away." ~ Maya Angelou

OIG Evaluation of Auditee Comments

- Comment 1** Our audit conclusions are supported by work performed in accordance with generally accepted government auditing standards. We conducted interviews and requested relevant information and documentation several times throughout the audit. All statements and conclusions in the report are properly documented in the audit workpapers.
- Comment 2** During the audit, the City spoke in generalities without specifics and did not provide the audit staff any detailed documents regarding these asserted improvements. The audit focused strictly on the City's open activities that were funded with at least \$250,000 in program funds, as described in the Scope and Methodology section, and disclosed that the City could not provide adequate documents to justify \$9.1 million in program funds it drew for activities.
- Comment 3** We did not focus on activities between 11 and 15 years old. Rather, as described in the Scope and Methodology section, we began with the City's universe of 180 open activities and selected a sample primarily by identifying activities with \$250,000 or more in funding. The City's assertion that it is harder for older projects to meet a broad national objective may be a reflection of its inability to properly plan for activities by considering contingencies or challenges and determining appropriate solutions.
- Comment 4** There were four activities in the audit sample that were included in the prior Office of Inspector General (OIG) nationwide audit the City referenced. The review of these four activities was not duplicative because the nationwide audit identified only open activities, while this audit additionally included determining whether drawdowns associated with the activities were adequately supported, why activities had not met national objectives, and related resolution plans. Contrary to its assertions, the City failed to provide evidence the audit staff repeatedly requested to determine whether it had an approved remediation plan for all of its open activities. Also, Office of Community Planning and Development officials in HUD's Richmond, VA, field office told the audit staff that the City did not yet have a HUD-approved remediation plan.
- Comment 5** Based on HUD regulations at 24 CFR 570.490(d), adequate documentation must be kept for program activities until they are closed. Therefore, the age of the activities is not a valid justification for the City's not having the appropriate supporting documentation. From January 2013, when the audit was started, until August 2013, when the draft report was issued, audit staff attempted to obtain documentation from the City and its subrecipient to support the questioned activities. A subrecipient staff member repeatedly attempted to research and obtain documentation to support transactions and finally admitted that the information was unavailable. The City now says it has documents to support much of the reported unsupported costs. These documents will be subject to

review to determine whether they represent adequate supporting documentation for the questioned costs. We adjusted the unsupported amount of \$2.9 million reflected in the draft report down to \$2.5 million as a result of our final reporting review procedures.

- Comment 6** The City states that there was a lack of communication between audit staff members and provides as an example an incident that occurred during the audit in which the senior auditor initially said an activity was supported and the auditor in charge later had follow-up questions. The incident described reflects our adherence to professional auditing standards rather than a lack of communication. In accordance with generally accepted government auditing standards, the audit work was subject to different levels of review. The auditor in charge determined that additional information was needed after reviewing the senior auditor's work. The auditor in charge requested the additional information before the draft report was issued, and the activity was never officially considered unsupported. Also, the information provided to the auditor in charge was not the same information provided to the senior auditor. The City initially provided information on program funds used for the activity. However, the auditor in charge determined that the invoice supporting the activity cost was more than the amount drawn. Therefore, the auditor in charge requested that the City identify the source of all funds used for the project to properly reconcile the funds drawn to the invoice.
- Comment 7** The City said it provided the auditors with drawdown vouchers, acquisition files, and access to the subrecipient staff for assistance as needed and that the standard OIG used to support the acquisition of property was a deed identifying the address and sales price of the property or a real estate settlement record and an acquisition worksheet signed by the seller. It is true that the City provided the above documents; however, it did not do so until about 3 months after the audit staff requested the documents. Also, the standard it referred to was proposed by its subrecipient's attorney. We agreed that the documents proposed would constitute acceptable documentation to support a sale of land transaction. In all instances in which the agreed-upon documents were provided, the audit staff considered the related transactions supported. For the activity the City referenced as an example, the supporting documents the subrecipient provided did not include a signed acquisition worksheet. In an effort to obtain the acquisition worksheet and other documents, the audit staff contacted the designated subrecipient staff member several times via phone calls and e-mails. However, the staff member, after an exhaustive search, stated that the documents were unavailable.
- Comment 8** We do not dispute that the City may use multiple sources of funding to finance projects. The City stated that OIG would not support program expenses when it could not examine all funding sources. This is incorrect. As in the case of the example addressed in comment 6, there were instances in which the invoice supporting an activity cost was more than the amount drawn. Therefore, to properly reconcile the amounts drawn to the invoices, the audit staff requested that the City identify all applicable sources of funds. The audit staff did not ask to

examine all funding sources. In many such cases in which the City identified funding sources as appropriate, the audit staff considered the transactions supported.

Comment 9 The City said OIG requested a manual recalculation of payroll costs for every relevant pay period. This is incorrect. The audit staff requested documentation to support drawdowns associated with administrative activities in the audit sample. The subrecipient first provided canceled checks and printouts of salary expenses without timesheets or personnel action forms identifying rates of pay or the basis for fringe benefits. Also, the subrecipient initially did not provide an allocation plan or a basis for management fees it charged to the Community Development Block Grant program.

It is not clear why the City and its subrecipient believed that they had to manually recalculate their payroll when all they needed to do was provide timesheets, personnel action forms identifying rates of pay and a description of fringe benefits, and a list of employees that charged time to the Community Development Block Grant program. Also, all of the drawdowns in question occurred in 2011 and 2012; therefore, there was a reasonable expectation that the supporting information would be readily available in the automated payroll system and not require a massive commitment of staff hours to obtain. In response to our requests, the City provided copies of payroll sheets, Federal Insurance Contributions Act tax and fringe benefit calculations, and the percentage of time devoted to the Community Development Block Grant program for its three applicable employees. We also received documentation for seven subrecipient employees. The documents provided do not support the City's assertion that it manually recalculated payroll costs or that massive staff hours were necessary to obtain the documentation.

Comment 10 The City stated that OIG was unwilling to support expenses for legal fees billed on an hourly basis without a contract that outlined agreed-upon hourly rates. The audit staff requested the contracts related to the legal fees to verify the billed hourly rates. This is a normal audit procedure. The City also stated that it could not locate contractual records because the acquisition activities in question were more than 10 years old. However, as stated in comment 5, based on HUD regulations at 24 CFR 570.490(d), adequate documentation must be kept for program activities until they are closed. Finally, contrary to the City's assertion that available invoices for legal fees were deemed insufficient documentation, the only legal fees considered unsupported by the audit staff were in those instances in which no invoices existed or instances in which invoices were incomplete..

Comment 11 The City said that program regulations contain no timeframe requirement for meeting national objectives or completing an activity. We acknowledged this fact in the report. However, as stated in the report, extended delays adversely impact potential program beneficiaries. Also, as stated in HUD's October 2012 letter to the City, although program regulations regarding national objectives and

recordkeeping do not specify a time period for compliance with national objectives, this does not mean that grantees have unlimited time to meet program requirements. HUD stated, "It is difficult for a grantee to argue that, after failure to achieve compliance (or have records documenting compliance) over several years or more, it is reasonable to allow still more time to demonstrate compliance." HUD added that many of the City's activities it reviewed had gone beyond a reasonable time period for demonstrating compliance with a national objective.

The City has drawn approximately \$4.1 million, which represents 100 percent of the funding available for the 10 activities in question. The recommendation that the City provide a remediation plan for the activities is in line with HUD's new instructions for long-standing open activities. The new instructions require grantees to provide remediation plans for activities when 80 percent of related program funds have been disbursed with no accomplishments. Also the \$4.1 million is appropriately classified as unsupported consistent with the explanation of unsupported costs in appendix A since we cannot determine eligibility until the City demonstrates that the related activities have met required national objectives.

Comment 12 The City referred to two Code Enforcement Emergency Grant projects and accepted responsibility for the activities remaining open but claimed it was able to demonstrate to OIG that funds were not abused or misused. During the audit, audit staff requested financial information, a description of the City's Code Enforcement Program, and a list of properties serviced and individuals assisted under the program. The City first reported that it had no information available to support the draws for the two activities; however, many weeks later, it provided some contracts and names of people that it said it assisted with program funds. The audit staff could not directly associate the information provided with the draws. Also, the documentation did not support the amount drawn. As stated above, the City should have maintained adequate documentation for open activities regardless of age.

Comment 13 The City stated that eight activities remain open because they contain one or more undevelopable acquired parcels. During the audit, the City and its subrecipient provided general explanations for why activities were delayed as outlined in the audit finding. The City did not provide information or documentation on the breakdown and costs of acquired parcels. The information the City now presents, along with related supporting documents, will be subject to review to determine whether any of the questioned costs are now adequately supported.

Some of the City's comments suggest that it believes we questioned activities only because of their age. None of the activities questioned were considered unsupported solely because of their age. Rather, as explained in the report, the questioned activities were considered unsupported because the City did not provide adequate documents or evidence during the audit to justify related funds drawn by demonstrating that the activities had met required national objectives.

Comment 14 The City asserts that it collaborated with HUD's Richmond, VA, field office to establish a remediation plan for all 10 activities in table 2 of the report. However, as stated in comment 4, the City failed to provide evidence we repeatedly requested to determine whether it had an approved remediation plan for all of its open activities. However, we are encouraged that the City plans to work with HUD to resolve its longstanding open activities.

Comment 15 The City provided an e-mail it received from the audit manager as evidence that OIG said the 15 activities in question would not be considered as part of the audit. However, OIG did not say that there would be absolutely no mention of the activities in the report. Rather, in the finding outline we provided to the City on July 9, 2013, in an e-mail on August 26, 2013, and at the exit conference on September 11, 2013, we explained that the report would generally be based on the 16 activities reviewed but that we would also report on the remaining 15 sample activities we could not review.

The audit finding primarily focuses on the 16 activities we reviewed; however, these activities were part of an audit sample of 31 activities. Generally accepted government auditing standards require that we communicate the results of the audit. Accordingly, the report discusses the audit findings and recommendations related to the entire sample. In the Scope and Methodology section, we explained how we selected the sample of 31 activities and how we identified the 16 for initial review. We also explained why we requested the documentation related to the remaining 15 sample activities. In addition, the report discussed why the City could not readily provide the additional requested documents, our position, and the need for the City to provide the documents for HUD review. During the exit conference, after expressing the City's concerns, the assistant city manager accepted that OIG would report on the 15 additional sample activities. However, she requested that the OIG consider revising language in the draft report highlights to avoid misinterpretation by the media. We considered the City's requests and made changes to the report highlights.

Comment 16 We are encouraged by the City's acknowledgement that it needs to implement planning policies and its planned actions that were triggered by the audit.

Comment 17 The City claims that OIG staff said it was not aware of OIG's prior nationwide audit and that it played no role in the current review. This is incorrect. The auditor in charge told the City that OIG would review the four activities in question and any related remediation plans and give the City credit for taking the necessary steps to close the activities. However, as stated in comments 4 and 14, the City failed to provide evidence the audit staff repeatedly requested to determine whether it had remediation plans for all of the questioned activities.

Appendix C

BREAKDOWN OF ACTIVITIES FOR HUD REVIEW

Count	Activity type	ID #	Start date	Funded amount	Amount drawn
1	Fiscal year 2009 rehabilitation services	3808	2008	\$ 470,167	\$ 429,254
2	Rehabilitation services-administration	4157	2009	439,216	425,427
3	Acquisition	2254	2002	363,151	363,151
4	Acquisition	2809	2004	358,700	357,735
5	Acquisition	2497	2002	355,061	355,061
6	City grant administration fiscal year 2009	3752	2008	351,580	343,056
7	Acquisition	2626	2003	366,987	339,153
8	City grant administration fiscal year 2008	3463	2007	360,000	337,489
9	City grant administration	3191	2006	360,000	328,379
10	City grant administration fiscal year 2010	3977	2009	370,380	317,503
11	City grant administration fiscal year 2011	4219	2010	371,580	317,357
12	Acquisition	2567	2003	297,861	291,385
13	Acquisition	2154	2002	281,501	281,501
14	Acquisition	2554	2003	274,904	274,904
15	Disposition and disposition support	4075	2009	300,000	253,048
Total				\$5,321,088	\$5,014,403