



The City of Colorado Springs, CO

HOME Investment Partnerships Program



To: Renee Ryles, Acting Director, Office of Community Planning and Development,
DOF

//signed//

From: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

Subject: The City Of Colorado Springs Did Not Always Administer Its HOME Program in
Accordance With Applicable Requirements

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 Colorado Springs, CO's HOME Investment Partnerships 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 913-551-5870.



Audit Report Number: 2015-DE-1003

Date: June 30, 2015

The City Of Colorado Springs Did Not Always Administer Its HOME Program in Accordance With Applicable Requirements

Highlights

What We Audited and Why

We audited the City of Colorado Springs' Community Initiatives and Economic Vitality Division based upon findings identified in U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, memorandum number 2014-DE-1802. The objectives of our audit were to determine whether the City properly committed its HOME Investment Partnerships Program funds and monitored its subrecipients' use of tenant-based rental assistance administrative funds.

What We Found

The City committed HOME grant funds without having properly executed contracts or environmental reviews. Specifically, it (1) committed funds for 5 Affordable Housing projects that lacked contracts or environmental reviews at the time of the commitment, (2) committed funds for 6 Affordable Housing and 26 Residential Rehabilitation projects that had a complete contract or environmental review but did not have the required signatures or dates, and (3) increased the original commitment amounts for 15 Residential Rehabilitation projects without having an amendment to the contract or a change order. Additionally, the City did not monitor how its subrecipient spent tenant-based rental assistance administration funds.

What We Recommend

We recommend that the Director of HUD's Denver Office of Community Planning and Development (1) recapture \$1.925 million of the City's HOME grant, (2) require the City to provide support for \$2.1 million in HOME grant expenses, (3) require the City to provide support for \$36,090 in increased commitments, (4) require the City to develop and implement detailed policies and procedures to ensure better managerial oversight, (5) monitor the Authority's use of the tenant-based rental assistance funds allocated to it from 2009 to 2014 to ensure that they were used for eligible administration costs, and (6) require the City to develop and implement detailed policies and procedures for monitoring its subrecipients to ensure that all HUD funds are spent for eligible program activities.

Table of Contents

Background and Objectives	3
Results of Audit	4
Finding 1: The City Committed HOME Grant Funds Without Properly Executed Contracts or Environmental Reviews	4
Finding 2: The City Did Not Monitor Its Subrecipient	9
Scope and Methodology	10
Internal Controls.....	11
Appendixes.....	12
A. Schedule of Questioned Costs	12
B. Auditee Comments and OIG’s Evaluation	13

Background and Objectives

The City of Colorado Springs' Housing Development Division administers the City's Affordable Housing, Capital Improvement, Housing Rehabilitation, and Human Service Funding programs. Its mission is to provide oversight and administration of Federal and local programs by developing partnerships, preserving neighborhoods, developing and preserving affordable housing, and stimulating economic revitalization. The City's main offices are located at 30 South Nevada Avenue, Suite 604, Colorado Springs, CO. The Housing Development Division reports to the Economic Vitality Division within the City's mayor's office.

For grant years 2009 through 2013, the U.S. Department of Housing and Urban Development (HUD) awarded the City more than \$6.8 million in HOME Investment Partnerships Program funding. HOME funds are awarded annually as formula grants to participating jurisdictions. The program's flexibility allows States and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, or rental assistance or security deposits.

In administering its Federal grants, the City must follow Federal regulations, including those in the Code of Federal Regulations, Office of Management and Budget circulars, HUD handbooks, and the City's policies and procedures.

On September 30, 2014, the Office of Inspector General (OIG) issued memorandum number 2014-DE-1802, which substantiated complaint allegations related to the City's HOME and Community Development Block Grant programs. Specifically, the memorandum substantiated allegations related to the commitment of HOME funds without written agreements. The City fabricated a contract to avoid deobligation of more than \$68,000 in HOME funding. In addition, it committed \$1.625 million in HOME funds for four projects without written agreements.

The objectives of our audit were to determine whether the City properly committed its HOME funds and monitored its subrecipients' use of tenant-based rental assistance administrative funds.

Results of Audit

Finding 1: The City Committed HOME Grant Funds Without Properly Executed Contracts or Environmental Reviews

The City committed HOME grant funds without having properly executed contracts or environmental reviews. This condition occurred because the City did not want to lose funds by not meeting its commitment deadline and did not have written policies and procedures for proper managerial oversight of its HOME programs. As a result, HUD lacked assurance that the intended program benefits were realized for more than \$4 million of the City's HOME program grant funds.

Overview of HOME Grant Fund Discrepancies

The City committed HOME grant funds without properly executed contracts or environmental reviews. It

- Committed funds for 5 Affordable Housing projects that lacked contracts or environmental reviews at the time of the commitment,
- Committed funds for 6 Affordable Housing and 26 Residential Rehabilitation projects that had a complete contract or environmental review but did not have the required signatures or dates, and
- Increased the original commitment amounts for 15 Residential Rehabilitation projects without having an amendment to the contract or a change order.

The City Had Commitments Without Contracts or Environmental Reviews

The City did not have contracts in place or environmental reviews completed at the time it committed its HOME funds for five projects. Regulations at 24 CFR (Code of Federal Regulations) 92.2(1) required that a commitment take place only when the City had executed a legally binding agreement with a State recipient, subrecipient, or contractor.

The City had no contracts, requests for bids, or environmental reviews in the project files before committing grant funds for the Englewood, Christian Church, Austin Bluffs, and Bentley Commons projects. For the Monument Street project, the City had a contract but no environmental review or other required project documents before committing the grant funds.

Table 1 illustrates the project Integrated Disbursement and Information System (IDIS) number, the project name, the date on which the City committed the funds, and the amount of HOME funds the City committed to the five 2013 Affordable Housing projects.

Table 1

IDIS #	Project name	Commitment date	Commitment amount
2002	Englewood Development Village Springs	5/23/2013	\$700,000
2003	Christian Church Homes-Hatler-May Village	5/23/2013	\$300,000
2008	RMCLT-2709 East Monument Street	6/27/2013	\$300,000
2009	Austin Bluffs Redevelopment	6/27/2013	\$325,000
2010	Bentley Commons Expansion	6/27/2013	\$300,000
Total commitments without contracts or environmental reviews:			\$1,925,000

The City Had Commitments Without Required Signatures or Dates

The City committed funds for 6 Affordable Housing and 26 Residential Rehabilitation projects that had a complete contract or environmental review but did not have the required signatures or dates.

Affordable Housing

The City did not have signed contracts or environmental reviews completed before it committed its HOME grant funds for six Affordable Housing projects from 2009 to 2012. Of the six projects, two did not have signed contracts at the time funds were committed, three did not have environmental reviews completed before to the funds were committed, and one did not have signed contracts or environmental reviews completed before the funds were committed.

Table 2 shows the IDIS project number, the project name, the committed amount, and whether the project had the contract or environmental review signed before the commitment date.

Table 2

IDIS project number	Project name	Committed amount	Contract not signed before commit date	Environmental review not completed before commit date
1810	RMCLT-ACQUISITION	\$ 175,000		x
1813	PIKES PEAK SENIOR APTS	\$ 295,251	x	
1870	RMCLT-ACQUISITION - scattered site	\$ 141,040	x	
1746	RMCLT-ACQUISITION	\$ 98,280		x
1867	RMCLT-HABITAT	\$ 139,450	x	x
1952	RMCLT ACQUISITION - scattered site	\$ 187,610		x
Total commitments:		\$ 1,036,631		

Residential Rehabilitation

The City did not have properly signed contracts or environmental reviews for 26 projects.

Table 3 shows the project IDIS number, the committed amount, whether the City signed a contract or environmental review before the commitment date, and whether the contractor or homeowner signed and dated the contract before the commitment date.

Table 3

IDIS project number	Committed amount (rounded to nearest dollar)	Contract not signed before commitment date	Environmental review not complete before commitment date	No contractor or homeowner signature or date
1723	\$21,424	x		
1800	\$30,289	x		
1811	\$339,359		x	
1815	\$8,145	x		
1883	\$5,137	x		
1887	\$18,148	x		
1941	\$8,537	x		
1942	\$29,542	x		
1943	\$26,281	x		
1944	\$11,389	x		
1945	\$13,409	x		
1950	\$21,862	x		
1951	\$24,136	x		
1953	\$28,085	x		
1954	\$15,828	x		
1955	\$24,533	x		
2011	\$115,315	x		
2015	\$26,924	x		
2018	\$22,507	x		
2026	\$19,152			x
2029	\$34,812	x		
2040	\$12,867	x		
2044	\$38,493			
2048	\$26,734			x
2050	\$28,964			x
2052	\$58,646	x		
Total commitments:	\$1,010,518			

The City Increased Commitments Without Contract Amendments or Change Orders

The City increased commitment amounts without an amendment to the contract or a change order for 15 Residential Rehabilitation projects.

Table 4 shows the project IDIS number and the increased commitment amounts for the 15 projects.

Table 4

IDIS project number	Increased amount	IDIS project number	Increased amount
1887	\$ 1,239	2014	\$1,076
1941	\$ 1,549	2015	\$1,366
1942	\$ 1,482	2017	\$4,517
1951	\$ 3,155	2029	\$3,917
1953	\$ 5,708	2044	\$1,528
1954	\$ 2,885	2049	\$2,476
1955	\$ 1,803	2052	\$1,155
2011	\$ 2,232		
Total: \$36,088			

The City Did Not Want to Lose Funds and Did Not Have Written Policies and Procedures

The condition described above occurred because the City did not want to lose funds by not meeting its commitment deadline and did not have written policies and procedures for proper managerial oversight of its HOME programs. A City official stated that the City committed the funds in HUD's system without contracts to ensure that it would not lose the funding by missing its commitment deadline.

HUD Lacked Assurance That Intended Program Benefits Were Realized

As a result of the City's noncompliance, HUD lacked assurance that the intended program benefits were realized for more than \$4 million of the City's HOME program grant funds. More than \$1.9 million of the City's HOME program grant funds remained committed and unspent in HUD's system and were not available for intended program participants. Additionally, HUD lacked assurance that the intended program benefits were realized for the more than \$2 million spent without the required signatures or dates in place at the time of the commitment or the more than \$36,000 spent without amendments or change orders.

Conclusion

Overall, HUD lacked assurance that the intended program benefits were realized for more than \$4 million of the City's HOME program grant funds. This condition resulted from the City's not wanting to lose funds by not meeting its commitment deadline and not having written policies and procedures for proper managerial oversight of its HOME programs. More than \$1.9 million in HOME funds remained committed and unspent in HUD's system without contracts. As a result, the City missed its commitment deadline, and HUD needs to recapture the funds. The

remaining funds, more than \$2 million, had been spent. The City needs to provide documentation to HUD showing that these funds met the intended program benefits or repay the funds from non-Federal sources.

Recommendations

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

- 1A. Recapture \$1,925,000 of the City's HOME grant for the commitments made without contracts or environmental reviews.
- 1B. Require the City to provide support for the \$2,047,149 in HOME grant expenses committed without proper signatures or dates and reimburse from non-Federal funds any amount that it cannot support.
- 1C. Require the City to provide support for the \$36,088 in increased commitments and reimburse from non-Federal funds any amount that it cannot support.
- 1D. Require the City to develop and implement detailed policies and procedures to ensure better managerial oversight of its HOME program grant funds.

Finding 2: The City Did Not Monitor Its Subrecipient

The City did not monitor how its subrecipient spent tenant-based rental assistance administration funds. This condition occurred because the City did not have policies and procedures for monitoring subrecipients. As a result, HUD and the City lacked assurance that the City's subrecipient used its administration funds for eligible program costs.

The City Did Not Monitor Its Subrecipient

The City did not monitor how its subrecipient spent tenant-based (rental assistance) administration funds. The City uses the Colorado Springs Housing Authority to administer its rental assistance HOME grant funds. Regulations at 24 CFR 92.207 and Part 209 state that entities must use rental assistance funds on eligible administrative costs. During our audit period, the City did not monitor the Authority to ensure that its funds were spent on eligible administrative costs. A City official stated that the City did not monitor the Authority during this time to ensure that its funds were spent on eligible administrative costs.

The City Did Not Have Policies and Procedures for Monitoring

The City did not have policies and procedures for monitoring subrecipients. A City official stated that because the City had new management and a high employee turnover rate, it had not reviewed the policies and procedures for administering its rental assistance funds. The official stated that the City reviewed only whether the administrative funds were disbursed to the subrecipient, not how the subrecipient spent the funds. Finally, this official stated that the City would need to rewrite its policies and procedures to include monitoring how subrecipients spend administration funds.

HUD and the City Lacked Assurance That Funds Were Spent for Eligible Costs

As a result of the condition described above, HUD and the City lacked assurance that the City's subrecipient used its administration funds for eligible program costs.

Recommendations

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

- 2A. Monitor the Authority's use of the tenant-based rental assistance funds allocated to it from 2009 to 2014 to ensure that they were used for eligible administration costs. For any costs identified as ineligible, the City should reimburse HUD from non-Federal funds.
- 2B. Develop and implement detailed policies and procedures for monitoring its subrecipients to ensure that all HUD funds are spent on eligible program activities.

Scope and Methodology

Our audit covered the period January 1, 2009, through December 31, 2014. We performed our work between October and December of 2014 at the City's office located at 30 South Nevada Avenue, Suite 604, Colorado Springs, CO.

We issued memorandum report 2014-DE-1802 on September 30, 2014 to address allegations made in a citizen's complaint. In that memorandum we made three recommendations to address issues identified during that review. We did not include any items addressed in those recommendations as part of our testing or results for this review.

To accomplish our objectives, we

- Reviewed applicable laws and regulations,
- Reviewed applicable City policies and procedures,
- Reviewed the City's HOME Affordable Housing and Residential Rehabilitation project files,
- Reviewed the City's HOME program administration cost files,
- Reviewed the City's tenant-based rental assistance administration cost files, and
- Interviewed HUD and City staff.

We selected and reviewed all 85 Affordable Housing, Residential Rehabilitation, and tenant-based rental assistance administration cost project files associated with the City's HOME grant funds. We reviewed all of the City's HOME grants from 2009 to 2014. We extended our review to 2008 for the City's tenant-based rental assistance costs because the program director informed us that there were additional program deficiencies for this year. During our grant years, the City funded more than \$6.8 million in HOME projects.

We did not rely on computer-generated data as audit evidence or to support our audit conclusions. We used source documentation obtained from HUD and the auditee for background information purposes. We based all of our conclusions on source documentation reviewed during the audit.

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 objectives.

Internal Controls

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

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

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

Relevant Internal Controls

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

- Controls to ensure compliance with HUD regulations pertaining to committing and spending HOME grant funds.
- Controls to ensure oversight of how subrecipients spend HOME grant funds.

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 detailed policies and procedures for proper managerial oversight of its HOME programs (finding 1).
- The City lacked policies and procedures for monitoring its subrecipients (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$1,925,000	
1B		\$2,047,149
1C		\$36,090
Totals	\$1,925,000	\$2,083,239


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



CITY OF COLORADO SPRINGS

HOUSING AND COMMUNITY INITIATIVES

June 19, 2015

Ronald J. Hosking, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit Region 8
1670 Broadway, 24th Floor
Denver, CO 80202

RE: The City of Colorado Springs, CO – HOME Investment Partnerships Program

Dear Mr. Hosking,

I have reviewed the Discussion Draft Audit Report: *The City of Colorado Springs, CO – HOME Investment Partnerships Program* prepared by the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) and submit the following comments on behalf of the City:

General Comments

The audit report covers the time period of January 1, 2009 through December 31, 2013. The City made significant management changes in the Housing and Community Initiatives Division in September 2013, following the initial findings of an internal audit, and began implementing many of the recommendations identified in this OIG audit report in fiscal year 2014. The City has also taken a proactive approach to developing a pipeline of affordable housing projects, and we are confident we will be able to commit funds for eligible projects in a timely manner going forward.

HOME Finding 1: The City Committed HOME Grant Funds Without Properly Executed Contracts or Environmental Reviews

1A. Commitments Without Contracts or Environmental Reviews

The City concurs with the OIG findings regarding four of the five identified projects. However, a review of our records indicates the City completed an environmental review for the Monument Street project before committing grant funds, and therefore, the \$300,000 contract cost should be considered "unsupported" not "ineligible". We look forward to working directly with the Director of the Denver Office of Community Planning and Development to resolve this issue as quickly as possible.

30 South Nevada Avenue, Suite 604 • TEL 719-385-5912 • FAX 719-385-5475
Mailing Address: Post Office Box 1575, MC 640• Colorado Springs, Colorado
80901www.coloradosprings.gov

Comment 1

Comment 2

1B. Commitments Without Required Signatures or Dates

Internal controls are now in place to ensure that agreements are executed and funds committed in the appropriate sequence, as well as being properly categorized in the Integrated Disbursement and Information System (IDIS). Access to IDIS has been limited to qualified staff with IDIS training, and a senior staff member has been assigned to oversee the environmental review process.

1C. Increased Commitments Without Contract Amendments or Change Orders

A review of project files indicates that the amounts in Table 4 correspond to eligible costs for hazardous materials testing and loan closing costs. These types of costs typically are not part of the construction contract. The City will provide additional documentation to support these costs.

1D. No Written Policies and Procedures

The Housing and Community Initiatives Division is updating all of its policies and procedures and coordinating with key City Departments to ensure adequate internal controls for oversight of the City's entitlement funds.

HOME Finding 2: The City Did Not Monitor Its Subrecipient

2A. City Did Not Monitor Its Subrecipient

The City would like to clarify that prior to the HUD OIG audit, the current Division Manager identified ineligible uses of HOME funds from 2008 to 2014 for Colorado Springs Housing Authority administrative costs, prepared a spreadsheet of the expenditures, notified the Colorado Springs Housing Authority Executive Director, notified the HUD Region 8 representative, took immediate corrective action to ensure only eligible expenses were reimbursed in 2014, and reported the issue and the corrective action to the HUD OIG during the audit. As recommended by the OIG, the City will conduct a formal monitoring of the subrecipient's use of tenant based rental assistance funds from 2009-2014 and report the results to the HUD Region 8 Office of Community Planning and Development.

2B. No Policies and Procedures for Monitoring

The City engaged a consultant earlier this year to prepare detailed monitoring plans for each entitlement program. The City believes it is now in compliance with this recommendation.

Thank you for the opportunity to respond to the Discussion Draft Audit Report. We look forward to working directly with the Director of the Denver Office of Community Planning and

Comment 3

Development to resolve outstanding issues as quickly as possible. Please contact me at aicox@springsgov.com or 719.385.6609 if you have any questions.

Best regards,



Aimee Cox
Manager, Housing and Community Initiatives
30 South Nevada Avenue, Suite 604
Colorado Springs, CO 80903
Phone: 719-385-6609
aicox@springsgov.com

OIG Evaluation of Auditee Comments

- Comment 1 The City did not provide an environmental review for the Monument Street project prior to the commitment of funds. As part of the normal audit resolution process, HUD will work with the City to determine if the recommendations are satisfied.
- Comment 2 We appreciate the proactive attention to our recommendations; however, we did not verify that the corrections satisfy the recommendations. Therefore, HUD will verify whether they adequately meet the intent of the recommendations during the normal audit resolution process.
- Comment 3 We appreciate the proactive attention of the City regarding this issue; however, we did not verify that the corrections satisfy the recommendations. The City will need to work with CPD to ensure the tenant-based rental assistance funds allocated to it from 2009 to 2014 were used for eligible administration costs.