



# County of Riverside, CA

## Community Development Block Grant Program



**To:** William G. Vasquez, Director, Office of Community Planning and Development,  
Los Angeles, 9DD

**//SIGNED//**

**From:** Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

**Subject:** The County of Riverside, CA, Did Not Always Support the Eligibility of Its  
Community Development Block Grant Program Expenses

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 County of Riverside'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 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 213-534-2471.



**Audit Report Number: 2016-LA-1002**

**Date: February 18, 2016**

**The County of Riverside, CA, Did Not Always Support the Eligibility of Its Community Development Block Grant Program Expenses**

## Highlights

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### What We Audited and Why

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We audited the County of Riverside's Community Development Block Grant program due to the delayed expenditure of funds for fiscal year 2014 and previous audit findings regarding policies and procedures. The Office of Inspector General had conducted a review of the County and identified issues with its program-specific policies and procedures, which were addressed (audit report number 2010-LA-1004). Our objective was to determine whether the County administered its program in accordance with U.S. Department of Housing and Urban Development (HUD) rules and requirements.

### What We Found

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The County did not always administer its program in accordance with HUD rules and requirements. It incurred \$761,744 in program expenses without supporting that these expenses met program eligibility requirements. This condition occurred because the County did not always follow its own policies and procedures in managing its program funds and source documentation to ensure compliance with HUD rules and requirements. As a result, it spent \$761,744 in program funds on unsupported costs and placed its projects at risk of not meeting HUD's national objectives for the program. After we completed our fieldwork, the County provided additional documentation to support \$717,439 of the questioned program expenses. However, it was not able to provide documentation for the remaining \$44,305 in questioned costs.

### What We Recommend

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We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the County to (1) support the \$44,305 in questioned costs and (2) fully implement its program internal policies and procedures to comply with HUD rules and requirements.

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# Background and Objective

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The Community Development Block Grant (CDBG) entitlement program is authorized under Title 1 of the Housing and Community Development Act of 1974, Public Law 93-383, as amended, 42 U.S.C.(United States Code) 530.1 et seq. The program allocates annual grants to larger cities and counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low- and moderate-income persons. To achieve these goals, program-funded projects must satisfy one of three U.S. Department of Housing and Urban Development (HUD) national program objectives required in 24 CFR (Code of Federal Regulations) 570.208: provide a benefit to low- and moderate-income persons, prevent or eliminate slums or blight, or meet other urgent community development needs due to disasters or other emergencies.

HUD provides the County of Riverside, CA, an annual allocation of funds to meet the goal of developing viable communities. The County's Economic Development Agency administers the program for low- and moderate-income residents of Riverside County. The County uses program funds for many activities, including senior programs, after-school activities, food pantries, youth programs, public facilities, street improvements, parks and playgrounds, community centers, libraries, and homeless shelters. The County received the following program funds from fiscal years 2011 to 2014.

Fiscal year	Allocated amount
2011	\$8,044,912
2012	\$6,836,580
2013	\$7,562,655
2014	\$7,442,595
<b>Total</b>	<b>\$29,886,742</b>

Our objective was to determine whether the County administered its program in accordance with applicable HUD rules and requirements.

# Results of Audit

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## **Finding: The County Did Not Always Support the Eligibility of Its Program Expenses**

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The County did not always administer program funds according to HUD rules and requirements. It used \$761,744 in program funds for expenses without supporting that these expenses met program eligibility requirements and placed its program at risk of not meeting HUD’s national objectives for the program. This condition occurred because the County did not always follow its own policies and procedures in managing its program funds and did not ensure that source documentation was used to support program expenses as required by HUD rules and requirements. After we completed our fieldwork, the County provided additional documentation to support \$717,439 of the questioned expenses. As a result, we reduced the questioned expenses to \$44,305 in unsupported costs.

### **The County Did Not Support Program Expenses**

We reviewed more than \$5.1 million in total project expenditures for 16 projects. The County spent \$761,744 in program funds, which was not supported in accordance with 24 CFR 85.20(b)(6), 24 CFR 570.506, and HUD Office of Community Planning and Development publication, HUD-2005-05-CPD (appendix C).

<b>Project</b>	<b>Unsupported</b>
Home Gardens Elementary School park and playground improvement	\$600,000
James Venable Community Services Program	\$363
Home improvement - A	\$6,297
Home improvement - B	\$19,539
Good Hope Elementary School sidewalk	\$114,232
Mountain Community Library project	\$21,313
<b>Total</b>	<b>\$761,744</b>

The County used \$600,000 in program funds for the construction of playground and park improvements for the Home Gardens Elementary school. These costs included construction and material expenses. Further, it reimbursed the James Venable Community Services Program \$363 in program funds for incurred utility expenses. The County did not obtain canceled checks or bank statements as support for these expenditures, as required by 24 CFR 85.20.b(6), 24 CFR 570.506(h), and HUD-2005-05-CPD, to support these program costs. The County’s own CDBG subrecipient training presentation stated that files must include original source documentation for all financial records, including canceled checks or bank statements. Instead, the County obtained

only invoices as supporting evidence and did not ensure that the subrecipients had incurred the claimed expenditures.

The County spent \$25,836 in program funds for home improvement repair projects. Of this amount, it spent \$6,297 and \$19,539 on home improvement repair projects that benefited two low- and moderate-income households, respectively. Regulations at 24 CFR 570.506(b)(4)(iii) require that the size and income of the household be obtained for the use of program funds used for home improvement repairs. In addition, the County’s own internal procedures require proof of income from the participants to meet program eligibility. However, the County did not obtain proof of income from the participants to ensure eligibility for all residents in the households. The first household was required to submit all household income and copies of recent bank statements, yet the County did not obtain these required documents for all household members. The second household was required to submit completed, signed, and dated Federal tax returns that included schedules and Internal Revenue Service Forms W-2. The tax documents in the file, used to determine eligibility, were incomplete. As a result, the County did not obtain the required supporting documentation to show that the participants for both households were eligible for the program.

The County incurred \$114,232 in labor expenses during the construction of sidewalks and curbs at the Good Hope Elementary School. It also incurred \$21,313 in labor expenses during the construction of the Mountain Community Library. These expenses were not supported by employee time and attendance records as required by 24 CFR 85.20(b)(6), 24 CFR 570.506, and HUD-2005-05-CPD. Instead, the County maintained only invoices and general journal entries as support for these labor expenses. As a result, it incurred a total of \$135,545 in unsupported labor expenses under the program.

**The County Provided Support for Questioned Expenses**

In January 2016, the County provided documentation to support the questioned expenses identified in this report. It provided this documentation after we had completed our fieldwork and issued the finding outline in December 2015. Specifically, the County provided documentation that supported \$717,439 of the \$761,744 in questioned expenses. As a result, we revised the questioned expenses to \$44,305 that the County could not support in accordance with 24 CFR 85.20(b)(6), 24 CFR 570.506, and HUD-2005-05-CPD.

Project	Unsupported
Home improvement - B	\$19,539
Good Hope Elementary School sidewalk	\$24,766
<b>Total</b>	<b>\$44,305</b>

Of the \$44,305, the County spent \$19,539 in program funds for a home improvement repair project that benefited a low- and moderate-income household. It incurred \$24,766 in labor expenses during the construction of sidewalks and curbs at the Good Hope Elementary School.

The County did not have the required documentation for either project to ensure program eligibility.

### **Conclusion**

The County did not always administer program funds according to HUD rules and requirements and its own policies and procedures because it did not follow its own internal procedures for managing program funds and source documentation. As a result, it spent \$44,305 in program funds for expenses that it could not support and placed its projects at risk of not meeting HUD's national objectives for the program.

### **Recommendations**

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the County to

- 1A. Support the eligibility of the \$44,305 in questioned costs or repay the U.S. Treasury using non-Federal funds.
- 1B. Fully implement its program internal policies and procedures to comply with HUD rules and requirements.

# Scope and Methodology

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We performed our audit work at the County's offices in Riverside, CA, from September 8 to December 23, 2015. Our review covered the period October 1, 2010, to September 30, 2014, and was expanded as necessary.

To accomplish our objective, we

- Reviewed relevant background information, including prior Office of Inspector General (OIG) audit reports;
- Reviewed and analyzed the County's policies, procedures, and internal controls relating to its program;
- Reviewed applicable HUD regulations and requirements;
- Reviewed HUD monitoring reports, annual progress reports, the County's action plan, and program funding agreements;
- Reviewed the County's audited financial statements for fiscal years 2012, 2013, and 2014; and
- Reviewed project files for sampled program expenses.

We relied on data maintained by the County. Specifically, we relied on the accuracy of data extracted from HUD's Integrated Disbursement and Information System<sup>1</sup> for the period July 1, 2011, through June 30, 2015. We performed a data reliability assessment and determined that the data were sufficiently reliable for our audit objective. Specifically, we compared the total spent program funds in the data with the County's audited single audit reports and Consolidated Annual Performance and Evaluation Reports.

The audit universe consisted of 429 projects totaling nearly \$30.3 million in expenditures for the period July 1, 2011, through June 30, 2015, and more than \$45.5 million in project expenditures. For our review, using ACL<sup>2</sup> software's random generator, we selected 16 transactions totaling more than \$4.6 million in project expenditures for the period and more than \$5.1 million in total project expenditures. Overall, our sample represented 15 percent of the expenditures for the period and 11 percent of the total expenditures. Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objective.

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<sup>1</sup> The Integrated Disbursement and Information System provides HUD with current information regarding the program activities underway across the Nation, including funding data.

<sup>2</sup> ACL software provides data analytics and sampling of computerized information.

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

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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:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to support eligible program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure that the monitoring of and expenditures for program activities comply with applicable HUD rules and requirements.

We assessed the relevant controls identified above.

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

## Significant Deficiency

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

- The County did not follow its own policies and procedures to ensure that program funds were used in compliance with HUD rules and requirements (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
1A	\$44,305
<b>Totals</b>	<b>\$44,305</b>

- 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.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

### Comment 1



February 8, 2016

Tanya E. Schulze, Regional Inspector General for Audit  
Office of Audit (Region 9)  
611 West Sixth Street, Suite 1160  
Los Angeles, CA 90017

**RE: Response to Draft Audit Report**

Dear Ms. Schulze:

We would like to thank the HUD Office of Inspector General (OIG) staff for their review and audit of our Urban County CDBG program. Although very focused, this was arguably the most thorough and detailed examination ever experienced by our program.

The OIG review did identify certain areas of our CDBG program in need of improvement especially pertaining to the financial management standards expected for internally-managed activities (e.g., County Department of Transportation). However, the OIG review found no evidence or suggestion of any misuse, waste, fraud, or abuse in the administration of our CDBG program.

We have already implemented measures to strengthen and enhance our review of reimbursement requests and payments, together with improved recordkeeping. Additional management systems will also be implemented to ensure effective compliance with applicable CDBG rules and requirements.

Further, it is our intention to provide HUD with the remaining supporting documentation for the questioned costs identified by OIG in their audit report

Sincerely,

John Thurman  
EDA Development Manager – CDG/ESG Programs

P.O. Box 1180 • Riverside, California • 92502 • T: 951.955.8916 • F: 951.955.6686 [www.rivcoeda.org](http://www.rivcoeda.org)

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Updated 07/2013

## **OIG Evaluation of Auditee Comments**

Comment 1 We appreciate and commend the County for taking action to ensure that CDBG funds are used for eligible program expenses. In addition, we appreciate the County's initiative to take corrective actions to strengthen its recordkeeping system and ensure that all program expenses are eligible and supported.

## Appendix C

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### Criteria

The following sections of 24 CFR Part 85, 2 CFR Part 225, 24 CFR Part 570, and HUD-2005-05-CPD were relevant to our audit of the County's administration of program funds.

24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments

.20. Standards for financial management systems

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that is used solely for authorized purposes.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget Circular A-87)

Appendix A to Part 225 – General Principles for Determining Allowable Costs

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

j. Be adequately documented.

24 CFR Part 570, Community Development Block Grants

Subpart J - Grant Administration

570.506. Records to be maintained

Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. At a minimum, the following records are needed:

(b)(4)(iii) For each unit occupied by a low and moderate income household, the size and income of the household.

(h) Financial records, in accordance with the applicable requirements listed in section 570.502, including source documentation for entities not subject to parts 84 and 85 of this title. Grantees shall maintain evidence to support how the CDBG funds provided to such

entities are expended. Such documentation must include, to the extent applicable, invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties (e.g., general contractor and/or a project architect), and/or other documentation appropriate to the nature of the activity.

HUD-2005-05-CPD, Playing by the Rules – A Handbook for CDBG Subrecipients on Administrative Systems, March 2005

2.5. Source Documentation

The general standard is that all accounting records must be supported by source documentation (see 24 CFR 85.20(b)(6) and 84.21(b)(7)). Supporting documentation is necessary to show that the costs charged against CDBG funds were incurred during the effective period of the subrecipient's agreement with the grantee, were actually paid out (or properly accrued), were expended on allowable items, and had been approved by the responsible official(s) in the subrecipient organization.

The source documentation must explain the basis of the costs incurred as well as show the actual date and amount of expenditures. For example:

- With respect to payrolls, source documentation should include employment letters and all authorizations for rates of pay, benefits, and employee withholdings. Such documentation might include union agreements or minutes from board of directors' meetings where salary schedules and benefit packages are established, copies of written personnel policies, [Internal Revenue Service] W-4 forms, etc. For staff time charged to the CDBG program activity, time and attendance records should be available. If an employee's time is split between CDBG and another funding source, there must be time distribution records supporting the allocation of charges among the sources. Canceled checks from the employees, insurance provider, etc., or evidence of direct deposits will document the actual outlay of funds.