



City of Huntington Park, CA

Community Development Block Grant Program

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2017-LA-1005
June 16, 2017**



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

//SIGNED//

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

Subject: The City of Huntington Park, CA, Did Not Administer Its Community Development Block Grant Program in Accordance With 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 Huntington Park'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 website. 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: 2017-LA-1005
Date: June 16, 2017

The City of Huntington Park, CA, Did Not Administer Its Community Development Block Grant Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the City of Huntington Park's Community Development Block Grant (CDBG) program. We selected the City based on the high risk assessment score and prior findings identified by the U.S. Department of Housing and Urban Development (HUD). The objective of the audit was to determine whether the City administered its CDBG funds in accordance with HUD requirements, focusing on grant expenditures and procurement.

What We Found

The City did not administer its program in accordance with HUD requirements. Specifically, it (1) did not meet HUD's code enforcement requirements, (2) did not follow its own or HUD procurement procedures, (3) did not properly support its cost allocations, and (4) did not ensure that one project met the CDBG national objective. This condition occurred because the City lacked adequate procedures and controls and disregarded HUD requirements and its staff was not always aware of program requirements. Overall, this activity resulted in the City's spending \$7,323 on ineligible costs, not being able to support its use of \$813,919, and putting another \$328,918 in CDBG funds at risk for similar questionable use.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to (1) repay the program \$7,323 from non-Federal funds, (2) support the eligibility of \$813,919 in CDBG costs, (3) implement policies and procedures to ensure that \$328,918 in CDBG funds is used in accordance with program requirements, and (4) provide training or obtain technical assistance on CDBG program requirements.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding 1: The City of Huntington Park Did Not Administer Its Community Development Block Grant Program in Accordance With Requirements	4
Scope and Methodology	8
Internal Controls	10
Appendixes.....	11
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	11
B. Auditee Comments and OIG’s Evaluation	12
C. Criteria.....	17
D. Breakdown of Questioned Costs	23

Background and Objective

The City of Huntington Park receives annual Community Development Block Grant (CDBG) entitlement allocation funds from the U.S. Department of Housing and Urban Development (HUD). These funds are allocated to carry out HUD's goal of developing 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 HUD national program objectives at 24 CFR (Code of Federal Regulations) 570.208 to benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet other urgent community development needs due to disasters or other emergencies.

The City's Housing and Community Development division is responsible for the administration and oversight of the CDBG program, and its aim is to address the priority needs of low- and moderate-income households through community development, economic development, housing, and public services. The City received the following CDBG program funds for fiscal years 2013 to 2015:

Fiscal year	Amount
July 1, 2013 – June 30, 2014	\$1,319,058
July 1, 2014 – June 30, 2015	1,308,812
July 1, 2015 – June 30, 2016	1,273,451
	3,901,321

The objective of the audit was to determine whether the City administered its CDBG funds in accordance with HUD requirements, focusing on grant expenditures and procurement.

Results of Audit

Finding 1: The City of Huntington Park Did Not Administer Its Community Development Block Grant Program in Accordance With Requirements

The City did not use CDBG funds in accordance with HUD requirements. Specifically, it did not (1) meet code enforcement requirements, (2) ensure that it followed HUD procurement requirements, (3) properly support its cost allocations, and (4) ensure that one project met the CDBG national objective. This condition occurred because the City lacked adequate procedures and controls and disregarded HUD requirements and its staff was not always aware of program requirements. As a result, the City spent \$7,323 on ineligible costs, spent \$813,919 on unsupported costs, and put the remaining funds of \$328,918 at risk of similar questionable activity.

The City's Code Enforcement Activity Did Not Meet HUD Requirements

HUD regulations at 24 CFR 570.202(c) state that CDBG funds may be used for code enforcement for costs incurred for inspection for code violations and enforcement of codes in deteriorating or deteriorated areas when such enforcement, together with public or private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area, and 24 CFR 570(a)(2) prohibits their use for general government expenses (appendix C). The City drew down \$584,320 in CDBG funds for the City's code enforcement from July 1, 2014, to June 30, 2016, and as of January 2017 had \$328,918 in undrawn CDBG funding remaining budgeted for code enforcement activities. However, the City did not distinguish between its CDBG code enforcement funding and its regular responsibilities as a unit of general local government. Specifically, the City

- Spent \$7,323 on public relations type activities in violation of 24 CFR 200.421 (appendix C) for items such as banners, decorations, awards, gift cards, glow sticks, table covers, buttons, outdoor movie viewings, food, tent rentals, and helium gas (appendix D).
- Did not limit its code enforcement activities to its defined CDBG code enforcement areas.
- Had an outdated CDBG Code Enforcement strategy that its staff were not utilizing.
- It did not have a way to measure the impact of the code enforcement activities.
- Did not designate areas as deteriorated for conducting code enforcement activities but, rather, conducted citywide code enforcement with HUD funding.
- Used CDBG as its primary source funding for code enforcement (more than 60 percent).

The City had a code enforcement plan/strategy that was inadequate. The plan had not been updated since 2009 despite HUD's subsequent code enforcement clarifications in Office of Community Planning and Development (CPD) notice CPD-14-016 (appendix C). The plan did not specify which areas were considered deteriorated. The City thought that any CDBG-eligible

area, based on low- to moderate-income levels, would be eligible so the strategy was city-wide. However, without identifying which properties or specific areas were considered deteriorated it could not obtain measurable results. As a result, the City could not show that it used CDBG code enforcement funds to arrest the decline in deteriorating or deteriorated areas. Instead, it used the funds to supplement its code enforcement activities, which were the same as its regular responsibilities as a unit of general local government. In addition, the City's code enforcement staff responsible for the plan's implementation were unaware that a plan was in place. Therefore, of the \$584,320 drawn for code enforcement, \$7,323 was ineligible, and the City could not support that the remaining \$576,997 met program requirements (appendix D). The \$328,918 in unspent CDBG funds budgeted for code enforcement were at risk of being used in a similar questionable manner.

The City Did Not Ensure That It Met Procurement Requirements

Although the City had policies and procedures for its procurement and contracting, it disregarded program requirements and did not adequately support its contractor selection for the After School program pool maintenance (appendix D).

The City allocated CDBG funds to the After School program through its Park and Recreation department for program year 2014. As part of this project, the department entered into a \$20,901 contract¹ with USA Pools for pool management and maintenance. However, the department failed to document its method of procurement. The City did not have written documentation showing the price of the other prospective vendors or the rationale for vendor selection.

As a result of the City's failure to follow both its own and HUD's procurement requirements, the reasonableness of the contract amount of \$20,901 charged to the CDBG program for the After School programs was not supported.

The City Did Not Properly Support Its Cost Allocations

Contrary to program requirements under 2 CFR 200.405 and 2 CFR 200.430(i), the City did not properly support the basis of its cost allocation methodologies for its project activities (appendix C). Specifically, the City

- Allocated approximately 20 percent of the Graffiti Removal program (activity numbers 504 and 520) contract costs to the CDBG program for program years 2014 and 2015. The remaining costs were charged to the general fund. The City failed to provide proper supporting documentation to show how it determined that the CDBG percentage was reasonable and appropriate. The City used a total of \$110,000 in CDBG funds on the two activities.
- Used \$244,690 in CDBG funds for administrative expenses under activity 522 in program year 2015. Its personnel and operating costs were charged to CDBG based on

¹ The \$20,901 contract amount was also questioned below as part of the \$31,186 national objective issue.

allocation percentages. According to the City, it developed its allocation percentages based on its Community Development department's budget, rather than actual or a reasonable allocation methodology for indirect costs. In addition, the City failed to consistently use the allocation percentage it developed as it charged different percentages throughout the year without explanation. Therefore, the eligibility of personnel expenditures of \$92,259 and operating expenses of \$3,477 (total of \$95,736) was unsupported.

- Charged \$584,320 for code enforcement² to activities 499, 512, and 531, using inappropriate allocation methodologies (appendix D). The City charged the direct personnel costs to CDBG using allocation percentages instead of tracking and charging based on actual time worked on the program. The City also charged code enforcement operating expenses exclusively to CDBG, although the costs also supported the City's non-CDBG activity.

The City Did Not Ensure That a Project Met a National Objective

The City's Parks and Recreation department did not maintain support showing that its After School program's swimming pool activities met the CDBG limited clientele national objective for program year 2014. According to 24 CFR 570.208(a), an activity that benefits a limited clientele requires at least 51 percent of participants served to be low- or moderate-income persons (appendix C). The City failed to obtain income verification from the participants, which at minimum, should include self-certifications documenting income. The City was unaware that it needed to collect the income information showing that it met the national objective. As a result, the eligibility of the \$31,186 spent for the swimming pool activities³ was unsupported (appendix D).

Conclusion

The City did not administer its CDBG funds in accordance with HUD requirements. It failed to follow code enforcement, procurement, allocation, and national objective requirements to support the eligibility of costs charged to the program. The City lack sufficient procedures and controls and disregarded requirements, and its staff was not always knowledgeable of the program requirements. As a result, the City spent \$7,323 on ineligible costs, and HUD did not have adequate assurance that \$813,919 in grant funds was used for eligible purposes. The City also put the remaining unspent grant funds of \$328,918 budgeted for code enforcement at risk of being used in a questionable manner.

² These code enforcement costs were also questioned above.

³ Of the \$31,186, \$20,901 was also questioned above under procurement.

Recommendations

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

- 1A. Repay the program \$7,323 from non-Federal funds for ineligible code enforcement costs.
- 1B. Support the \$576,997 in code enforcement costs (activities 499, 512, and 531), including meeting code enforcement and cost allocation requirements, or repay the program from non-Federal funds.
- 1C. Implement revised code enforcement program policies and procedures to meet CDBG requirements. This will help ensure that the remaining \$328,918 budgeted for code enforcement activity 531 is put to better use.
- 1D. Support the reasonableness of the \$110,000 Graffiti Removal program (activities 504 and 520) cost allocations or repay the program from non-Federal funds.
- 1E. Support the \$31,186 After School program (activity 501) costs, including the reasonableness of the contract costs and meeting the limited clientele national objective, or repay the program from non-Federal funds.
- 1F. Support the reasonableness of the \$95,736 in cost allocations charged as CDBG administrative (activity 522) costs or repay the costs from non-Federal funds.
- 1G. Implement additional policies and procedures to ensure that salaries and wages and cost allocations are charged in compliance with HUD requirements.
- 1H. Implement additional procedures and controls to ensure that documentation is obtained to support that the limited clientele national objective was met.
- 1I. Obtain training or technical assistance on CDBG program requirements.

Scope and Methodology

We performed our onsite audit work at the City's office at 6550 Miles Avenue, Huntington Park, CA, from September 26, 2016, to March 30, 2017. Our review generally covered the period July 1, 2014, to June 30, 2016, and was expanded as necessary.

To accomplish our objective, we performed the following:

- Reviewed HUD regulations and requirements.
- Interviewed appropriate City staff personnel.
- Reviewed relevant City policies, procedures, and controls over the program.
- Reviewed HUD monitoring reports.
- Reviewed the City's consolidated plans, consolidated annual performance and evaluation reports, action plan, and program funding agreements.
- Reviewed reports from HUD's Integrated Disbursement and Information System (IDIS) to obtain CDBG disbursements for the audit period. Our assessment of the reliability of IDIS was limited to the data sampled, and the data were reconciled with data in City's records. Therefore, we judged the data sampled to be sufficiently reliable for the audit conclusion; however, we did not assess the reliability of the systems that generated the data.
- Reviewed project files and supporting documentation for sampled program expenses.
- Reviewed the City's audited financial statements for fiscal years 2013, 2014, and 2015.
- Performed a site visit to a project activity location.

The audit universe consisted of 36 projects totaling more than \$3.4 million in expenditures for the period July 1, 2013, through September 9, 2016. For our review, we used nonstatistical sample selection. We did not conduct statistical sampling. As result, our audit results were limited to the projects in our sample and cannot be projected to the universe. Overall, we selected 10 projects for review. For the survey phase of the audit, we selected six projects to review for a total of \$825,153, focusing on projects for which the majority of funds had been drawn and selecting the largest activities (2016 funds had not been spent). For the audit phase, we selected an additional four projects to review for a total of \$421,396 in expenditures, focusing on areas of concern identified in the survey (code enforcement, grant expenditures, and procurement).

For personnel expenditures, we obtained a nonstatistical subsample of the payroll information and selected the second pay period for each employee who charged time to the program quarterly. Based on the consistent issues identified in our sample, employee interviews, and the auditee's policies and procedures, we determined that there was a systematic issue with all payroll associated with code enforcement and administrative cost for our audit period.

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:

- Effectiveness and efficiency of program operations – Implementing policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementing policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementing policies and procedures to ensure that monitoring, onsite inspections, and expenditures 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 City lacked adequate procedures and controls to ensure that CDBG funds were used in accordance with HUD requirements (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$7,323		
1B		\$576,997	
1C			\$328,918
1D		110,000	
1E		31,186	
1F		95,736	
Totals	7,323	813,919	328,918

- 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, since the City had spent only \$108,019 of its \$436,937 program year 2016 code enforcement budget as of January 17, 2017, implementing additional policies and procedures would help to ensure that the remaining \$328,918 is used in accordance with HUD requirements.

Appendix B


Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



Office of the City Manager

May 22, 2017

Ms. Tanya E. Schulze
Regional Inspector General for Audit
300 N. Los Angeles Street, Suite 4070
Los Angeles, CA 90012

Re: OIG Audit of Huntington Park CDBG - Response

Dear Ms. Schulze,

We appreciate your time in meeting with us to discuss the draft audit report, and the opportunity to review and provide comments to the findings and recommendations. As we discussed, the City was able to collect additional supporting documentation, which was provided for review to Mr. [REDACTED] and Ms. [REDACTED]. The City of Huntington Park respectfully submits the following responses to the draft audit report:

The City's Code Enforcement Program Did not Meet HUD Requirements FY 2014-15 & FY 15-16

Code Enforcement Strategy

The City provided additional supporting documentation, which addresses concerns raised in the draft report. On November 16, 2009, the City of Huntington Park City Council approved a Code Enforcement/Scope of Services and Code Enforcement Strategy Area (Strategy) for the CDBG-funded Community Development Block Grant Code Enforcement Program. The City's intent was to conform code enforcement activities to the meaning under 24 CFR 570.202(c): that of enforcing codes "in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area." To that end, the Strategy defined the term "deteriorated area" using various adverse physical and economic factors that were observed during the development of this strategy, and from that definition, made a determination that the entire City met the national objective of benefitting a low and moderate income area (LMA). The Strategy also described quantifiable measurements to determine the effectiveness of the program, most significantly by making a concerted effort to make referrals to the other programs working in conjunction with Code Enforcement to arrest deterioration; and outlined the various other programs, that together with Code Enforcement, could be expected to arrest the decline of the area.

The City of Huntington Park ensures compliance with CDBG regulations and CPD Notice 14-016. It has made a concerted effort to demonstrate via the Code Enforcement Strategy how it has met the regulations and ultimately met a national objective of benefitting a low and moderate income area. Additionally, in order to manage the Code Enforcement Program more efficiently and effectively, in January 2016, the City transferred the Code Enforcement from Police Department

6550 Miles Avenue | Huntington Park, CA 90255 | (323) 584-6222 | ecisneros@hpcg.gov | www.hpcg.gov

* Names removed for privacy.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Ms. Tanya E. Schulze
Re: OIG Audit of Huntington Park CDBG - Response
May 22, 2017
Page 2



to the direct oversight of the Community Development Department. We are confident that this Code Enforcement Strategy addresses the draft findings. Nonetheless, the City recognizes that the following next steps would be beneficial to the City's Code Enforcement Program.

1. Update the Code Enforcement Strategy at least every five years along the same cycle as the Consolidated Plan. Updating the Strategy would provide an opportunity to take a closer and more frequent look at areas in the City that should be more intensely targeted for code enforcement activities.
2. Update the City's quarterly Subrecipient Performance Report for the Code Enforcement Program to request additional documentation and statistics on measurable data described in the Strategy.
3. Provide additional training to Code Enforcement staff on CDBG regulations and expectations outlined in the Strategy.
4. Work with Finance and Code Enforcement staff to develop methods to manage and document direct staff costs associated with the CDBG-funded activities

Ineligible Expenditures

The City will repay \$7,323 in ineligible CDBG expenditures from non-federal sources.

The City Did not Ensure that it Met Procurement Requirements

Graffiti Removal Program

The City provided additional supporting documentation (memorandum from Public Works and video of City Council meeting held on April 5th) justifying contractor selection for program year 2015. The City also provided copies of proof of publications demonstrating that the bidding process was conducted in a manner that ensured full and open competition. The City is working to obtain information on the justification for the contract awarded in 2008 and will provide the information to HUD.

Commercial Rehabilitation Project

The City provided additional supporting documentation (memorandum and contractor evaluation matrix) showing justification for contractor selection for the properties located on Pacific Boulevard for program year 2014. The documentation demonstrates that the contractor selection was based on pricing, availability to start work and experience with Davis Bacon compliance requirements.

After School Program

The City provided additional supporting documentation (memorandum from Parks & Recreation Department and copies of proposals) summarizing the procurement process and a copy of the two quotes received. City staff selected USA Pools based on their price and availability to implement the program.

Comment 4

Comment 5

Comment 6

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 7

Comment 8

Comment 9

Comment 10



Ms. Tanya E. Schulze
Re: OIG Audit of Huntington Park CDBG - Response
May 22, 2017
Page 3

The City Did Not Properly Support Its Cost Allocations

Graffiti Removal

The City provided explanation for allocating expenditures for Graffiti removal services. City staff pro-rated each vendor invoice based on the CDBG funding allocated for the fiscal year and divided the CDBG funding over a 12 month period.

CDBG Admin

The City provided additional supporting documentation showing that Personnel costs applied to the CDBG Program Administration account were consistent with the general management, oversight and coordination of the City's CDBG program per 24 CFR 570.20. Additionally, City staff provided copies of timesheets demonstrating that the time charged for administrative activities was based on actual hours worked by staff.

Code Enforcement

The City will work with its Finance and Community Development Departments to develop a system to properly support the basis for cost allocation methodologies for project activities, including Code Enforcement.


The City Did Not Ensure That a Project Met a National Objective

After School Program

The City provided self-certification forms from participants that benefited from the program. This information demonstrates that the City met the national objective for the After School Swim Program.

The City of Huntington Park strives to implement its HUD programs and projects professionally and in complete accordance with all Federal requirements. However, the recent recession and employee layoffs, had significant impacts on City services and programs, including HOME and CDBG programs. In spite of these challenges, the City is committed to maintaining compliance through the corrective actions provided in the report. If you have any questions, please contact Mr. Sergio Infanzon, Community Development Director at (323) 584-6318. Thank you.

Sincerely,


Edgar P. Cisneros
City Manager

OIG Evaluation of Auditee Comments

- Comment 1 We reviewed the code enforcement strategy that was drafted on November 9, 2009, and determined that it was inadequate. The strategy was not provided to us during our audit fieldwork because the code enforcement supervisor was not aware of the policy. As a result, we have adjusted the report statements concerning the strategy and the definition of “deteriorated.”
- The strategy did not comply with CPD Notice 14-016, which states that CDBG code enforcement should be used in targeted areas and advance CDBG goals. (See appendix C.) The City failed to provide documentation to demonstrate that the whole City was deteriorated as of 2009. As a result, the City cannot measure quantifiable results to show the effectiveness of the program. For example, if the City cannot identify that a specific property that was deteriorated (according to its definition of deteriorated), it cannot show that code enforcement efforts in that area improved the area.
- In addition, it appears that the code enforcement strategy was not complete, according to the document drafted in November 2009, the strategy was in phase I. Based on the documents provided by the City, Phases II and III would be performed sometime in the future, but due to budgets constraints the other phases were not completed. The City’s consolidated annual performance and evaluation reports for 2012 – 2015 confirmed that the strategy was not completed due to budget constraints.
- Comment 2 We did not question the income eligibility of the areas where code enforcement was conducted. We questioned the lack of support and the inadequacy of the strategy plan. In addition, the strategy could not have been effective if the code enforcement officers were unaware of the City’s strategy.
- Comment 3 We acknowledge the City’s commitment in taking the steps necessary to address the issues identified in the report and the overall improvement of the management of the CDBG Code Enforcement at the City. The City will have the opportunity to implement the planned changes and resolve the finding recommendations with HUD as part of the audit resolution process.
- Comment 4 The City provided additional graffiti removal procurement documentation that had not been provided to us during our audit fieldwork. We reviewed the new support and agree that the procurement was sufficiently supported. We have, therefore, removed discussion of the procurement from the body of the report. However, the \$110,000 remains unsupported due to the lack of support showing that the allocation methodology was reasonable.
- Comment 5 The City provided additional documentation on the Commercial Rehabilitation project that had not been provided to us during our audit fieldwork. We reviewed the new supporting documentation provided by the City and agree that the

procurement was sufficiently supported. We have, therefore, removed discussion of the procurement and the associated questioned costs and recommendation from the report.

- Comment 6 We reviewed the new documentation provided on May 11, 2017, regarding the After School program. The City provided a memorandum describing the procurement process of potential vendors for the City's swim program. However, the memorandum was dated April 17, 2017, 2 weeks after we ended our fieldwork on March 30, 2017. The procurement process should have been documented before the services were provided in calendar year 2014 and maintained by the City. Therefore, the procurement of the vendors for the swim program remains an open issue.
- Comment 7 The City did not provide an explanation of and support for the percentages used. Therefore, this remains as an open issue.
- Comment 8 In the City's written response, it contends that the personnel costs applied to the CDBG administrative expenses were based on actual hours worked. This contention conflicts with the information provided by the City's management on many occasions throughout the course of our audit fieldwork, including discussions with the two staff members in question. In particular, one of the staff members typically charged the same number of hours to all programs daily throughout the pay period. As a result, this issue remains open. However, based on additional documentation provided to support a \$370 operating expense (invoice B2861079), we readjusted the unsupported amount from \$96,106 to \$95,736 (appendix D).
- Comment 9 We acknowledge the City's commitment to develop a system to properly support the basis for cost allocation. The City will have the opportunity to resolve the finding recommendation with HUD during the audit resolution process.
- Comment 10 We reviewed the new documentation provided on May 11, 2017, regarding the After School program. The City provided certifications and sign-in sheets as support for 23 clients to show that the participants in the program were income eligible. It appears that the sign-in sheets were from 2014, but all certifications were signed on April 15, 2017.

In addition, there were discrepancies between the total number of clients served and the number reported to HUD. HUD's IDIS reports and the City's internal subrecipient performance reports showed that 204 persons were assisted; however, the City's internal monitoring showed 1,441 clients. Due to these discrepancies, the reliability of the documentation on the total number of clients is questionable. However, even if the lower total number of clients served was accurate, the City still needs to provide documentation showing that at least 51 percent were income eligible ($204 \times 51\% = 104.04$). The City provided documentation for only 23 clients.

Appendix C

Criteria

2 CFR Part 200, Uniform administrative requirements, cost principles, and audit requirements for Federal awards

2 CFR 200.318, General procurement standards

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale or the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

2 CFR 200.319, Competition

(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements work, and invitations for bids or requests for proposals must be excluded from competing for such procurements.

2 CFR 200.403, Factors affecting allowability of costs

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

2 CFR 200.405, Allocable Costs

(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

(b) All activities which benefit from the non-Federal entity's indirect (F&A [facilities and administrative]) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§ 200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.

24 CFR 200.421, Advertising and public relations

(e) Unallowable advertising and public relations costs include the following:

- (1) All advertising and public relations costs other than as specified in paragraphs (b) and (d) of this section;
- (2) Costs of meetings, conventions, convocations, or other events related to other activities of the entity (see also § 200.432 Conferences), including:
 - (i) Costs of displays, demonstrations, and exhibits;
 - (ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and
 - (iii) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;
- (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;
- (4) Costs of advertising and public relations designed solely to promote the non-Federal entity.

2 CFR 200.430, Compensation-personal services

(i) *Standards for Documentation of Personnel Expenses*

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must...

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated...

(8) For a non-Federal entity where the records do not meet the standards described in this section, the Federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.

24 CFR 85.36(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(4) Grantees and subgrantees will ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, grantees and subgrantees will not preclude potential bidders from qualifying during the solicitation period.

24 CFR Part 570, Community Development Block Grants

24 CFR 570.202(c), Code enforcement

Costs incurred for inspection for code violations and enforcement of codes (e.g., salaries and related expenses of code enforcement inspectors and legal proceedings, but not including the cost of correcting the violations) in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area.

24 CFR 570.206, Program administrative costs

Payment of reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with funds provided under this part and, where applicable, housing activities (described in paragraph (g) of this section) covered in the recipient's housing assistance plan. This does not include staff and overhead costs directly related to carrying out activities eligible under § 570.201 through § 570.204, since those costs are eligible as part of such activities.

(a) *General management, oversight and coordination.* Reasonable costs of overall program management, coordination, monitoring, and evaluation. Such costs include, but are not necessarily limited to, necessary expenditures for the following:

(1) Salaries, wages, and related costs of the recipient's staff, the staff of local public agencies, or other staff engaged in program administration. In charging costs to this category the recipient may either include the entire salary, wages, and related costs allocable to the program of each person whose *primary* responsibilities with regard to the program involve program administration assignments, or the pro rata share of the salary, wages, and related costs of each person whose job includes *any* program administration assignments. The recipient may use only one of these methods during the program year (or the grant period for grants under subpart F).

24 CFR 570.207, Ineligible activities

(a)(2): The following activities may not be assisted with CDBG funds: General government expenses. Expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

24 CFR 570.208, Criteria for national objectives

(a)(2) *Limited clientele activities.* (i) An activity which benefits a limited clientele, at least 51 percent of whom are low- or moderate-income persons. (The following kinds of activities may not qualify under paragraph (a)(2) of this section: activities, the benefits of which are available to all the residents of an area; activities involving the acquisition, construction or rehabilitation of property for housing; or activities where the benefit to low- and moderate-income persons to be considered is the creation or retention of jobs, except as provided in paragraph (a)(2)(iv) of this section.) To qualify under paragraph (a)(2) of this section, the activity must meet one of the following tests:

(A) Benefit a clientele who are generally presumed to be principally low and moderate income persons. Activities that exclusively serve a group of persons in any one or a

combination of the following categories may be presumed to benefit persons, 51 percent of whom are low- and moderate-income: abused children, battered spouses, elderly persons, adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled," homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers; or

(B) Require information on family size and income so that it is evident that at least 51 percent of the clientele are persons whose family income does not exceed the low and moderate income limit; or

(C) Have income eligibility requirements which limit the activity exclusively to low and moderate income persons; or

(D) Be of such nature and be in such location that it may be concluded that the activity's clientele will primarily be low and moderate income persons.

24 CFR 570.506, Records to be maintained

(h) Financial records, in accordance with the applicable requirements listed in § 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.

Notice, CPD-14-016, Use of CDBG Funds for Code Enforcement Activities

Section I. What is Code Enforcement: The CDBG program will expect that localities emphasize health and safety issues in buildings. Ancillary efforts to address violations of codes concerning vacant lots, signs, and motor vehicles are permitted in conjunction with efforts regarding buildings, but should form a minor part of the code enforcement program.

Section IV. Ineligible Code Enforcement Costs: While the cost of correcting the violations is not an eligible code enforcement cost under § 570.202(c), the regulation states that code enforcement must be performed in conjunction with improvements, rehabilitation, or services. The purpose of this requirement is to ensure that the deteriorated or deteriorating areas are being made safe and sanitary for the general public, not to generate revenue via code violation fines.

Grantees may trigger concerns about the eligibility of code enforcement if it appears that the CDBG program is being used for general government expenses... As fiscal stress has put pressure on local budgets, HUD has seen examples of significant increases in CDBG code enforcement budgets, while overall spending on enforcement remains the same. Grantees should use CDBG for code enforcement as appropriate to advance the goals of the CDBG program in areas designated for such activity

Grantees may not use CDBG funds to pay for code enforcement inspections and enforcement in every area or neighborhood or for a grantee's entire jurisdiction (e.g., city- or county-wide) unless the entire jurisdiction is deteriorating.

Section IX. Record Keeping Requirements: Records that grantees should maintain when carrying out CDBG assisted code enforcement activities include:

- The state and local law definitions of deteriorated/deteriorating.
- A description of the conditions of the areas in which CDBG funds are used for code enforcement, demonstrating that these areas meet the state local law definition of deteriorated/deteriorating.
- Identification of other activities to be carried out (whether CDBG-assisted or not) that will arrest the decline of the areas and their funding sources.

HUD's Memorandum for Program Eligibility Determination on Housing Code Enforcement: Explained that CDBG-Eligible areas (low-and-moderate-income area) were not sufficient to comply with the eligibility requirements of §570.202(c) and that the area must be deteriorated or deteriorating. In addition, in order to show compliance the boundaries identified should have a sufficient description of the conditions in each area to support the determination that the area qualifies as deteriorating or deteriorated, a strategy for using code enforcement together with other activities to arrest the decline in each area, and such other information as may be necessary to determine the impact that code enforcement and other activities are having on the decline of the area during the time CDBG-assisted code enforcement was carried out.

Basically CDBG Guidebook

Chapter 13.3.1, Overview

Accurate recordkeeping is crucial to the successful management of CDBG-funded activities. Insufficient documentation is likely to lead to monitoring findings, and these findings will be more difficult to resolve if records are missing, inadequate or inaccurate.

To assess strengths and weaknesses in this area, grantees should think about the following:

- Is there a clearly defined process for acquiring, organizing, storing, retrieving, and reporting information about CDBG-funded activities?
- How can the documentation and reporting systems be strengthened to meet the HUD requirements?
- Who is responsible for the majority of the recordkeeping and reporting tasks, and are they properly trained and supported?
- How can standardized procedures and the removal of duplicative records streamline the recordkeeping and reporting process?
- What types of records and reports could be automated (i.e., computerized) that are not now?

Appendix D

Breakdown of Questioned Costs

Schedule of ineligible expenses

Project	Code enforcement expense description	Ineligible amount
	Operating expense for program year 2014	
499	Invoice # 188452 – banners	\$136
499	Invoice # 189902 – promotional supplies	1,266
499	Invoice # 189814 – food, decorations, and awards	498
499	Invoice # 189968 – awards and signs	512
499	Invoice # 190609 – gift cards for awards	667
499	Invoice # 190116 – decorations	216
499	Invoice # 191563 – decorations	261
Subtotal		3,556
	Operating expense for program year 2015	
512	Invoice # 192626 – clothes for ineligible purpose	117
512	Invoice # 192746 – clothes for ineligible purpose	1,496
512	Invoice # 192157 – viewing of an outdoor movie	709
512	Invoice # 193078 – Christmas decorations awards	414
512	Invoice # 192970 – gift cards	130
512	Invoice # 192728 – tent rentals, ice, and other miscellaneous item for City event	619
512	Invoice # 193082 – food for City event	101
512	Invoice # 191563 – banners, tape, and helium gas for event	163
512	Invoice # 193015 – kitchen utensils for City event	18
Subtotal		3,767
Total		\$7,323

Schedule of unsupported expenses

Project	Expense description	Unsupported amount
	Code enforcement	
499	Personnel and operating expense for program year 2014	\$234,368
512	Personnel and operating expense for program year 2015	234,611
531	Personnel and operating expense for program year 2016	108,019
Subtotal		576,997*
	Graffiti Removal program	
520	Graffiti removal for program year 2015	45,000
504	Graffiti removal for program year 2014	65,000
Subtotal		110,000
	After School program	
501	Check # 187249 – USA Pools, LLC	11,496
501	Check # 187547 – USA Pools, LLC	7,270
501	Check # 187777 – USA Pools, LLC	2,135
501	Check # 187432 – Los Angeles Unified Schools	10,285
Subtotal		31,186
	Cost allocations	
522	Personnel and operating expense for program year	95,736
Total		813,919

* \$1 difference due to rounding