

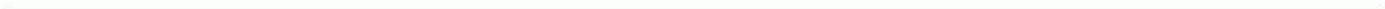


# City of Margate, Margate, FL

## Neighborhood Stabilization Program Grants 1 and 3

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2018-AT-1005  
May 29, 2018**





**To:** Ann D. Chavis, Director of Community Planning and Development, 4DD  
Craig T. Clemmensen, Director of Departmental Enforcement Center, CACB

**From:** *//Signed//*  
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The City of Margate, FL, Did Not Properly Administer Its Neighborhood Stabilization Program Grants 1 and 3 in Compliance With HUD Regulations

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 Margate's administration of its Neighborhood Stabilization Program grants 1 and 3.

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 404-331-3369.



**Audit Report Number: 2018-AT-1005**

**Date: May 29, 2018**

**The City of Margate, FL, Did Not Properly Administer Its Neighborhood Stabilization Program Grants 1 and 3 in Compliance With HUD Regulations**

## Highlights

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### What We Audited and Why

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We audited the City of Margate's Neighborhood Stabilization Program (NSP) grants 1 and 3 in accordance with our audit plan to improve the U.S. Department of Housing and Urban Development's (HUD) execution of and accountability for grant funds. In addition, HUD requested that we review this auditee because a forensic investigation initiated by the City found issues with record keeping, misappropriation of funds, and overages regarding City, State, and Federal funds. Our objective was to determine whether the City (1) administered its NSP1 and NSP3 funds in accordance with HUD requirements and (2) followed appropriate procurement procedures.

### What We Found

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The City did not administer its NSP1 and NSP3 in accordance with program regulations. Specifically, it did not ensure that (1) services were properly procured, (2) a property acquired met the national objective to benefit income eligible households, (3) rehabilitation costs were allowable and supported, and (4) program income and properties were adequately reported in HUD's Disaster Recovery Grant Reporting (DRGR) system. These deficiencies occurred because the City did not provide adequate oversight of the program and lacked sufficient internal controls. In addition, the former grants manager contributed to the overall mismanagement of program funds and allowed its contractors to violate regulations. As a result, it spent \$811,571 on ineligible costs and could not support costs totaling \$8,919.

### What We Recommend

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We recommend that the Director of HUD's Miami, FL Office of Community Planning and Development require the City to (1) repay \$811,571 to the program from non-Federal funds, (2) provide support for the \$8,919 in NSP funds spent on rehabilitation costs, (3) report program income and properties correctly in HUD's DRGR system, and (4) update policies and procedures to ensure that HUD programs are properly administered.

We also recommend that the Director of the Departmental Enforcement Center initiate appropriate administrative actions and debarments against parties who contributed to the mismanagement of program funds.

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# Background and Objective

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On July 30, 2008, Congress authorized, under Section 2301 of Title III of the Housing and Economic Recovery Act of 2008, \$3.92 billion for the Neighborhood Stabilization Program (NSP) to provide grants to States and certain local communities to purchase foreclosed-upon or abandoned homes and rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem the decline in value of neighboring homes. Grantees are required to spend 100 percent of their allocation within 4 years after receiving those funds. This round of funding is known as NSP1.

On July 21, 2010, Congress provided an additional \$1 billion under Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act on a formula basis to continue assisting State and local governments in the redevelopment of abandoned and foreclosed-upon homes. Grantees are required to spend 100 percent of allocated funds within 3 years from the date on which their grant agreement is signed with the U.S. Department of Housing and Urban Development (HUD). This round of funding is known as NSP3. The City of Margate is governed by its grant agreement with HUD.

In January 2009, HUD awarded the City more than \$2.1 million in NSP1 funds, and in March 2011, HUD awarded the City more than \$1.1 million in NSP3 funds. HUD's Disaster Recovery Grant Reporting (DRGR) system is used by grantees to access grant funds and used by HUD staff to monitor program compliance and complete quarterly performance reporting to Congress.

In July 2009, the City Commission approved an external consultant to administer its NSP under the oversight of the city manager. In May 2012, the City brought the administration of NSP in-house by creating the Economic Development Department. This department was overseen by a director responsible for the day-to-day operations, who was accountable to the city manager. The director was also responsible for supervising the grants manager. The former grants manager was also employed by the external consultant who administered NSP before the City created the Economic Development Department. During our review, we determined that the former grants manager handled a majority of the NSP1 and NSP3 funds; however, resigned in September 2015 after the City initiated an investigation regarding the handling of grant funds awarded to the City.

In August 2015, the City initiated an investigation of the former grants manager regarding the mismanagement of grant funds. In August 2017, the former grants manager pled guilty to eight counts, which included bribery, bid tampering, conspiracy, organized scheme to defraud, and official misconduct. Also as a part of the investigation, we reviewed contractor testimonies, which showed inflated invoices for services and collusion with the former grants manager. In March 2018, the City hired a new grants manager under the supervision of the assistant city manager.

Our objective was to determine whether the City (1) administered its NSP1 and NSP3 funds in accordance with HUD requirements to ensure that funds were used for allowable costs and eligible participants and (2) followed appropriate procurement procedures.

# Results of Audit

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## **Finding 1: The City Did Not Properly Administer Its Neighborhood Stabilization Program Grants**

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The City did not administer its NSP1 and NSP3 in accordance with program regulations. Specifically, it did not ensure that (1) services were properly procured, (2) property acquired met a national objective, (3) costs were allowable and supported, and (4) program income and properties were adequately reported in HUD's Disaster Recovery Grant Reporting (DRGR) system. These deficiencies occurred because the City did not provide adequate oversight of the program and lacked sufficient internal controls. In addition, the former grants manager contributed to the overall mismanagement of program funds and allowed its contractors to violate regulations. As a result, it spent \$811,571 on unallowable activities and could not support costs totaling \$8,919.

### **Procurement Activities Were Not Adequately Performed**

#### *Construction Services*

The City did not conduct procurement activities in a manner providing full and open competition<sup>1</sup> as required by 24 CFR (Code of Federal Regulations) 85.36(c). In addition, the construction contracts had change orders or increases from 11 to 116 percent over the initial contract amount. Although the City approved these overages, it did not conduct adequate cost analyses to justify the increase in contract price as required by 24 CFR 85.36(f). Therefore, it used NSP funds to improperly pay a total of \$380,526 for overages as shown in the table on the following page.

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<sup>1</sup> The City did not always inform or request proposals from its prequalified contractors as required by City resolutions 11-651 and 11-874.

Property <sup>2</sup>	Grant	Contract amount	Overages	Total costs	Percentage increase from contract amount
5100	NSP 3	\$84,845	9,600	\$94,445	11%
950	NSP1	91,405	21,004	112,409	23%
1402	NSP3	142,552	32,736	175,288	23%
5816	NSP3	142,552	35,936	178,488	25%
7915	NSP3	82,524	41,250 <sup>3</sup>	123,774	50%
6531	NSP3	70,130	37,166	107,296	53%
6570	NSP3	139,610	78,784	218,394	56%
935	NSP3	82,082	46,089	128,171	56%
2585	NSP1	67,410	77,961	145,371	116%
	<b>Totals</b>	903,110	<b>380,526</b>	1,283,636	

#### *Air Conditioning Equipment and Services*

For air conditioning services, the City did not maintain records to show that it obtained a minimum of three quotes for these services. The City's former grants manager signed the contracts related to the NSP3 properties without the authority to do so.<sup>4</sup> City ordinance, section 2-26, requires that any purchase of supplies, materials, or equipment exceeding \$1,000 needs a minimum of three quotes unless only one source is available. Therefore, \$48,420<sup>5</sup> paid from NSP1 and NSP3 funds for air conditioning services was unallowable.

#### *Engineering Services*

The City did not have a contract for engineering services for two NSP3 properties, although such contracts were required. Because these services were provided without a contract or purchase order, City staff would not be able to ensure that the contractors performed in accordance with agreed-upon terms and conditions. Regulations at 24 CFR 85.36(b)(2) require grantees and subgrantees to maintain a contract administration system to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Therefore, all 12 payments to this contractor totaling \$28,246 were unallowable.

#### **The National Objective Was Not Met**

The City did not sell NSP1 property 1012 because the property was not complete. The contractor walked off the job, and the City's building department failed the contractor on many inspections. There were 126 defects with the work done, and the City's contracted engineer concluded that it may have been more cost and time effective to start over. In addition, the

<sup>2</sup> The property street number was used to identify properties.

<sup>3</sup> The City paid to upgrade this property, which initially had sliding doors, to french doors. According to NSP frequently asked question number 663, luxury items, not considered a basic amenity, are not eligible for reimbursement with NSP funds. This upgrade was inappropriately included as a change order.

<sup>4</sup> According to the City resolution 11-854, only the city manager or his designee is authorized to execute agreements. Based on communication with the City, the former grants manager did not receive this designation.

<sup>5</sup> This amount is limited to the properties reviewed in our sample.

procurement requirements for this project were not followed, and there were construction payments exceeding the initial contract amount by 29 percent. Because this home was not sold and did not benefit an income-eligible household as required by the Housing and Economic Recovery Act of 2008, section 2301(f)(3), and there were discrepancies with the construction and procurement of this property, all NSP funds for this property totaling \$280,979<sup>6</sup> were unallowable.

During our review, we also identified that property 1504 did not meet the national objective but was excluded from the review since the City is returning funds to HUD. As of May 1, 2018, documentation was provided to support the repayment of funds related to this property totaling \$145,125 but this transaction was not recorded in HUD's DRGR system. Therefore, we will recommend the City record this repayment in DRGR.

### **Rehabilitation Costs Were Not Allowable and Adequately Supported**

The City used NSP1 and NSP3 funds for mold and asbestos remediation work; however, the company that performed the work did not have proper licensing to do asbestos removal. In addition, the City did not follow procurement requirements for this contractor. Further, there were instances in which the City paid the contractor for work that was not completed or needed. Therefore, all payments of \$73,400 made to this contractor were unallowable.

For two NSP1 properties, we found unsupported rehabilitation costs of \$8,919. We were unable to obtain an explanation for differences between supporting documentation and expenditure amounts. Regulations at 2 CFR Part 225, appendix A, paragraph (C)(1)(j), require NSP grantees to ensure that all costs incurred are adequately documented.

### **Program Income and Properties Were Not Accurately Reported in HUD's DRGR System**

The City did not maintain accurate and complete records in HUD's DRGR system. Data from this system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress. The City did not report program income for all NSP properties in DRGR. Specifically, the City's general ledger reported \$1,085,128 for program income under NSP 1; however, DRGR reported only \$1,025,067, resulting in a difference of \$60,060. For NSP3, the City's general ledger reported \$977,235 for program income; however, DRGR reported only \$622,951, resulting in a difference of \$354,284. In addition, seven properties were not reported or accurately reported in the system as shown in the table on the following page.

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<sup>6</sup> The City may have incurred additional maintenance costs after our scope period. We questioned only the \$280,979 for our scope period for the NSP funds spent for this property.

	Property	HUD's DRGR		City's general ledger		
		Reported?	Program	Posted?	Program	
1	1012	No	-	Yes	NSP1	This property was not recorded in DRGR under NSP1.
2	1402	Yes	NSP1	Yes	NSP3	The City incorrectly recorded this property in DRGR under NSP1.
3	1504	No	-	Yes	NSP1	This property was not recorded in DRGR under NSP1.
4	2585	No	-	Yes	NSP1	This property was not recorded in DRGR under NSP1.
5	5816	No	-	Yes	NSP3	This property was not recorded in DRGR under NSP3.
6	6570	Yes	NSP1	Yes	NSP3	The City incorrectly recorded this property in DRGR under NSP1
7	935	Yes	Both NSP1 and NSP3	Yes	NSP3	The City incorrectly classified this property in DRGR.

### **The City Did Not Have Adequate Oversight and Internal Controls**

The issues identified occurred because the City did not have adequate oversight of its former grants manager and appropriate internal controls, including policies and procedures, to ensure that NSP funds were properly administered. Specifically, City staff was not adequately supervised, adequate records were not maintained, and there was no separation of duties for NSP-related tasks. In addition, City staff was unable to provide its written policies and procedures in place during the administration of the NSP funds in question.<sup>7</sup>

The City stated that upon learning of the possible mismanagement of funds, it initiated an investigation of its former grants manager. This effort resulted in a guilty plea and incarceration of the former grants manager for organized fraud, bid tampering, and bribery of a public servant. In addition, the City had begun taking steps to ensure that these deficiencies did not continue. For instance, (1) the City staff members involved in this mismanagement of funds no longer worked with the City, (2) the City had hired a new grants manager tasked with reconciling State and Federal funds and updating written policies and procedures, and (3) the new grants manager was to be supervised by the assistant city manager.

### **Conclusion**

The City did not ensure that (1) services were properly procured, (2) property acquired met the national objective, (3) rehabilitation costs were allowable and supported, and (4) program

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<sup>7</sup> The City was unable to confirm that the written policies and procedures provided to the audit team had been implemented by the prior administration. However, the City stated that policies and procedures would be reviewed by the new grants manager before being used by the current administration.

income and properties were adequately reported in HUD's DRGR system. These deficiencies occurred because the City did not provide adequate oversight of the program and its staff and lacked sufficient internal controls. As a result, it spent \$811,571 on unallowable activities and could not support costs totaling \$8,919.

### **Recommendations**

We recommend that the Director of HUD's Miami, FL, Office of Community Planning and Development instruct the City to

- 1A. Repay to the program from non-Federal funds the \$457,192 (\$380,526 + \$48,420 + \$28,246) in NSP funds spent for the construction, air conditioning, and engineering services in instances in which procurement activities were not adequately performed.
- 1B. Repay to the program from non-Federal funds \$280,979 in NSP funds spent for property 1012 and identify and repay any additional costs spent on this property, including maintenance costs and any program income generated.
- 1C. Repay to the program from non-Federal funds the \$73,400 in NSP funds spent for mold and asbestos remediation work.
- 1D. Provide documentation to support the \$8,919 in NSP funds spent on rehabilitation costs or repay to the program from non-Federal funds.
- 1E. Provide documentation to support a reconciliation between financial records and DRGR and report in HUD's DRGR system the appropriate amount of program income generated from all NSP1 and NSP3 funds from the inception of the grants.
- 1F. Provide documentation to support that all NSP properties are properly classified and recorded in HUD's DRGR system.
- 1G. Develop and implement policies and procedures to include but not be limited to oversight, effective internal controls, separation of duties, procurement, and overall administration of the program.
- 1H. Conduct a review of the remaining 10 properties not reviewed during our audit to ensure compliance with HUD requirements and identify and repay costs related to ineligible or unsupported activities (see appendix C).
- 1I. For Property 1504, provide documentation to support the recording in HUD's DRGR system, the repayment of \$144,004 in NSP funds and \$1,120 in program income.

We recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Miami HUD Office of Community Planning and Development,

- 1J. Initiate appropriate administrative actions and debarments against parties, including the former grants manager and contractors, who contributed to the mismanagement of program funds.

# Scope and Methodology

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We audited the City’s Neighborhood Stabilization Program. Our review covered the period January 2009 through July 2017. We performed fieldwork from September 2017 through March 2018 at the City’s office located at 5790 Margate Boulevard, Margate, FL, and our Miami field office.

To accomplish our objective, we

- reviewed applicable NSP laws and regulations;
- reviewed applicable City ordinances, policies, and procedures;
- reviewed monitoring, single audit, and other financial reports;
- reviewed City financial records, property files, procurement records, and other supporting documentation; and
- interviewed HUD and City staff.

In January 2009, HUD awarded the City more than \$2.1 million in NSP1 funds, and in March 2011, it awarded the City more than \$1.1 million in NSP3 funds. The City used NSP1 and NSP3 program and program income funds to acquire and rehabilitate 23 properties. Using a nonstatistical sampling plan, we selected 12 properties, or 52.17 percent of the population, to determine whether the national objective was met and expenditures were eligible and properly supported. We selected the properties with the highest amount of expenditures. These 12 properties had more than \$3 million in expenditures charged to program and program income funds for acquisition and rehabilitation. We did not perform a 100 percent selection. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities. We also conducted a review of the City’s procurement process, and for the NSP properties sold, we reviewed the participants’ eligibility.

**List of properties reviewed<sup>8</sup>**

No.	Property #	Total amount	No.	Property #	Total amount
<b>NSP1</b>			<b>NSP3</b>		
1	2585	\$269,077	6	6570	\$362,800
2	1012	280,979	7	1402	277,422
3	950	226,989	8	5816	266,413
4	610	208,064	9	935	260,257
5	821	198,643	10	6531	248,462
			11	7915	236,577
			12	5100	202,481
<b>Totals</b>		<b>1,183,752</b>	<b>Totals</b>		<b>1,854,412</b>

<sup>8</sup> These amounts are based on the general ledger detail, but total expenditure amounts for each property may not be all inclusive. Totals do not include transactions that were not split by properties or were misclassified. In March 2018, the City hired a new grants manager tasked with reconciling NSP data to ensure accurate reporting in the DRGR system.

Computer-processed data generated by the City were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data.

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:

- controls over program operations to reasonably ensure that the program meets its objective(s),
- controls over the relevance and reliability of operational and financial information, and
- controls over compliance with laws and regulations.

We assessed the relevant controls identified above.

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

## **Significant Deficiency**

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

- The City did not have adequate oversight of its former grants manager and appropriate internal controls to ensure that NSP funds were properly administered. Specifically, City staff was not adequately supervised, adequate records were not maintained, and there was no separation of duties for NSP-related tasks.

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A	\$457,192	
1B	280,979	
1C	73,400	
1D		\$8,919
<b>Totals</b>	<b>811,571</b>	<b>8,919</b>

- 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 MARGATE**  
Together We Make It Great

**City Commission**  
Mayor: Aileen R. Schwartz  
Vice Mayor: Anthony N. Caggiano  
Lesa Peerman  
Tammy Ruzzano  
Joanne Simone

**City Manager**  
Samuel A. May

**Interim City Attorney**  
Garen, Cheraf,  
Doody & Esraf, P.A.

**City Clerk**  
Joseph J. Kavanagh

May 9, 2018

Nikita N. Irons  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
75 Ted Turner Drive, Room 330  
Atlanta, GA 30303-3388

Sent by email to: [NIrons@hudoig.gov](mailto:NIrons@hudoig.gov)

Dear Ms. Irons:

The City did not conduct an investigation or audit to the extent that U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) investigated this matter. As such, the City does not have the benefit of reviewing all of the information that HUD OIG compiled in order to prepare the Audit Report. The City has requested from the State Attorneys' Office the documentation that was used to convict the former Grants Manager, but to date this information has not been received. In addition, the City is still completing the reconciliation of all transactions related to the grant program during the term of her employment.

With that in mind, and pursuant to your request in your April 13, 2018 letter, the following are the City of Margate's comments regarding the findings in the HUD OIG draft audit report:

**HUD Finding: The City Did Not Properly Administer Its Neighborhood Stabilization Program Grants in Accordance with Program Regulations**

The City acknowledges that the former grants manager, [REDACTED], contributed to the overall mismanagement/fraud of program funds and allowed contractors to violate regulations. The City requests that this finding indicate that the HUD OIG is referring to a former grants manager and provide her name, since there is and have been other grants managers for the City.

No system of internal controls is foolproof and there is no systematic way to ensure that all fraud instances will be detected. When collusion occurs, two or more individuals have acted together by cooperating to circumvent controls. Collusion occurred between the former grants manager and various contractors hired to complete the housing projects.

It is management's duty to investigate thoroughly any indication that fraud may have occurred which is exactly what the City did when it launched a police investigation into this matter upon noticing irregularities. In addition to

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Comment 1

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

the police investigation, a forensic auditor and construction expert were hired to sort through the entire grant process. City employees also spent numerous hours researching, pulling documentation, analyzing transactions, and preparing files to turn over to experts for their research/conclusions. City management immediately notified City officials, auditors, public, and any other affected parties that this investigation was occurring and that potential fraud may be involved. The City was a victim to the fraud perpetrated by the former grants manager and the contractors.

The former grants manager, who pled guilty to official misconduct, bid tampering, and grand theft of the second degree, was sentenced to eighteen months in state prison. Per the State Attorneys' Office any restitution will begin upon her release from prison when she meets with a probation officer and a monthly amount of restitution payment will be set. While Ms. [REDACTED] through her attorney agreed to restitution of \$880,000, she must have the ability to pay and the City cannot force her to pay an amount greater than the evidence shows she can pay which may be dependent upon her health and income. A hearing on her ability to pay, after her release from prison, will most likely occur.

#### **HUD Finding: Procurement Activities Were Not Adequately Performed**

The City does not concur with the HUD OIG finding that the City. "...did not ensure that (1) services were properly procured..." (e.s.) since the procurement section of the City's Code, during the time period of the audit, specifically excluded services. The City noticed that other finding statements are written so broad as if applicable to each and every property and expenditure under the NSP1 and NSP3 programs rather than to specific instances or expenditures that did not follow program guidelines.

The City does not agree that the air conditioning equipment and services and engineering services should be disallowed. While procurement may or may not have been followed in all instances, it is provable that materials and/or services were provided to the grant recipients at a reasonable cost. In addition, while the audit states that the City did not conduct adequate cost analyses to justify increases in contract price – it is evident that low income households received homes and did benefit from this program. While some costs were later determined to be fraudulent, the City does not believe the entire questioned amount of each and every overage did not result in any benefit to the homeowners.

Comment 3

Comment 4

The City had been previously monitored by HUD for compliance with applicable laws and regulation during this time frame and this item was not a specific finding when various properties were reviewed during the monitoring process. In addition, both previous and subsequent monitoring reviews also did not identify any deficiencies with purchasing procedures. These HUD monitoring reports and annual external Single Audit reviews were used by

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 4

management as references on the performance of the programs and the staff who were administering them. Therefore, the City does not concur with this finding.

The monitoring report did recommend that the City should develop and/or update internal policies and procedures in accordance with the requirements, laws, rules, and regulations of managing and implementing its CPD programs. In response, the City utilized a HUD approved vendor for technical assistance to develop new policies and procedures.

Recent discussions with the Miami HUD Office have provided the City with a better understanding that the monitoring reports are not intended to review all aspects of compliance or to be substituted for any internal controls and procedures utilized by the City.

Comment 5

**HUD Finding: The National Objective Was Not Met**

The City is preparing to sell as-is 1012 [REDACTED] to a non-NSP eligible recipient. Once the sale has been completed, the City will be returning all NSP funds expended for this property. Once the sale is completed, the property will no longer be a NSP funded home and this finding will be resolved as the home will no longer be classified as same.

**HUD Finding: Rehabilitation Costs were Not Allowable and Adequately Supported**

Comment 6

The City does not have all the audit workpapers related to this, but believes that the properties listed were a result of the fraud and collusion between the former grants manager and the contractors.

**HUD Finding: Program Income and Properties Were Not Accurately Reported in HUD's DRGR System**

Comment 7

The City has been working with the City's Consultant, CDE Experts, to enter accurate and complete data in the DRGR reporting system.

**HUD Finding: The City Did Not Have Adequate Oversight and Internal Controls**

Comment 8

The City appreciates that the HUD OIG recognizes the City's efforts, which includes, but is not limited to hiring a new grants manager tasked with reconciling State and Federal funds and updating written policies and procedures, as well as providing for supervision of the new grants manager by the City Manager's Office, to ensure the deficiencies did not continue.

Also, the former Finance Director retired in May 2014, the former Purchasing Manager retired in April 2016, the former Grants Manager was terminated in

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 8

September 2015, and the former Economic Development Director (responsible for direct oversight) resigned in July 2017. As a result of new management in the Finance Department and the implementation of increased internal controls and policy changes, certain transactions which were later determined to be fraudulent were detected and future losses were prevented. Procedure manuals are in the process of being updated with the City's new finance and purchasing requirements. Current management is committed to following all applicable rules and regulations and has turned over the daily administration of the housing grants to the Broward County Housing Finance and Community Redevelopment Division.

#### HUD Recommendations:

The amount of money recommended for repayment to the program would obviously cause the City a tremendous financial hardship and would negatively impact the City's finances. The City's long-term outlook shows a continued use of reserves to balance the City's budgets. In addition, any additional money needed to fund the budget would not be sustainable and would cause a significant drop in required acceptable reserves. Again, we ask HUD to remember that the City was also a victim of this fraud/ collusion and fought to punish the appropriate parties.

The City is committed to implementing recommendations and to comply with all applicable grant guidelines and regulations to continue to ensure low income residents receive affordable housing opportunities as directed by the program.

The City values the ongoing working relationship and support provided by the HUD Field Office personnel in Miami and we look forward to working with them to resolve any outstanding issues.

Thank you to the HUD OIG auditors for all their help throughout this process and for including the City's comments in preparing the final audit report.

Sincerely,



Samuel A. May  
City Manager

SAM/np

Cc: Interim City Attorney  
Assistant City Manager  
Finance Director  
Grants Manager

Comment 9

## OIG Evaluation of Auditee Comments

- Comment 1 The City requested that OIG specify the former grant manager's name in the report. However, according to our reporting guidelines, we are not allowed to disclose personal information, such as names and addresses in the body of the report. The report does distinguish that the OIG is referring to the "former" grants manager.
- Comment 2 The City indicated that no system of internal controls is foolproof and there is no systematic way to ensure that all fraud instances will be detected. In addition, the City mentioned that once noticing irregularities, it launched a police investigation, hired a forensic auditor, notified affected parties, and spent numerous hours pulling documents and analyzing transactions. We acknowledge the City's efforts to address discrepancies as discussed in the body of the report.
- Comment 3 The City does not agree that services were improperly procured. However, as discussed in the results section of the report, the City did not adhere to procurement requirements including the request for proposals, obtaining quotes, and ensuring contracts were in place before services being rendered. In addition, there were instances in which the City's former grants manager signed contracts related to the NSP3 properties without the authority to do so.
- Comment 4 The City indicated that HUD monitoring reviews did not identify deficiencies disclosed in the audit report and that they relied on HUD monitoring reports and annual external single audit reviews as references on performance of the programs and the staff who were administering it. While we cannot speak on behalf of HUD in relation to its monitoring reviews, we maintain the position that it is the City's responsibility to ensure that it has adequate internal controls to safeguard grant funds.
- Comment 5 OIG acknowledges the City's plan to sell property 1012 and return all NSP funds expended on this property. The City should work with HUD during the management decision process to ensure recommendation 1B is fully implemented.
- Comment 6 The City indicated it did not have audit work papers related to unsupported and ineligible rehabilitation costs. We advise the City to refer to the draft finding outline provided on March 8, 2018, for details on questioned costs which included a listing of all properties, contractors and amounts related to all unsupported and ineligible costs reported.
- Comment 7 OIG acknowledges that the City is working with a consultant to ensure that information reported in HUD's DRGR system is complete and accurate. The City should work with HUD during the management decision process to ensure recommendations 1E and 1F are fully implemented.

- Comment 8 The City indicated that in addition to hiring a new grants manager and updating its written policies and procedures, it has also increased its internal controls, hired new management in its Finance Department, and turned over the daily administration of the housing grant to the Broward County Housing Finance and Community Redevelopment Division. We acknowledge the City's efforts in addressing the mismanagement of funds and its commitment to comply with applicable grant guidelines and regulations.
- Comment 9 The City is concerned with the amount of money recommended for repayment to the program. While we acknowledge the City's concerns, ineligible costs identified throughout the review are recommended for repayment. The City will have the opportunity to work with HUD during the management decision process to address the funds questioned in the report.

## Appendix C

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### List of NSP 1 and NSP 3 Properties

No.	Property <sup>9</sup>	Reviewed	Not reviewed
<b>NSP 1</b>			
1	610	X	
2	821	X	
3	950	X	
4	1012	X	
5	1304		X
6	1504		X <sup>10</sup>
7	1601		X
8	2565		X
9	2585	X	
10	2657		X
11	5518		X
12	5712		X
13	5801		X
14	5881		X
15	6156		X
<b>NSP 3</b>			
16	935	X	
17	1402	X	
18	4952		X
19	5100	X	
20	5816	X	
21	6531	X	
22	6570	X	
23	7915	X	
	<b>Count</b>	<b>12</b>	<b>11</b>

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<sup>9</sup> The property street number was used to identify properties.

<sup>10</sup> During our review, the City was in the process of returning funds back to HUD for property 1504. As of May 1, 2018, the City has returned the funds paid for this property to HUD but has not recorded it in DRGR.