



City of South Gate, CA

Community Development Block Grant Program

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

**Audit Report Number: 2018-LA-1003
March 29, 2018**





To: William 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 South Gate, CA, Did Not Administer Its Community Development Block Grant Program in Accordance With HUD 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 South Gate'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: 2018-LA-1003

Date: March 29, 2018

The City of South Gate, 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 South Gate's Community Development Block Grant (CDBG) program. We selected the City based on our risk analysis of Los Angeles area grantees and prior monitoring concerns identified by the U.S. Department of Housing and Urban Development (HUD) with the City's code enforcement activities. The objective of the audit was to determine whether the City administered its CDBG funds in accordance with HUD requirements, focusing on code enforcement and graffiti abatement activities.

What We Found

The City did not administer CDBG funds in accordance with HUD requirements. Specifically, it (1) did not meet HUD's code enforcement requirements and (2) did not ensure that code enforcement and graffiti abatement salary and benefits costs were adequately supported. This condition occurred because the City did not correctly interpret and implement code enforcement program requirements and did not have adequate policies and procedures to ensure that code enforcement and graffiti abatement salaries and benefits were accurately calculated and recorded. As a result, it used \$811,325 in CDBG funds for unsupported code enforcement costs and \$285,496 for unsupported graffiti removal costs.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to (1) provide documentation to support the eligibility of \$811,325 in code enforcement costs and \$285,496 in graffiti abatement costs or repay the program from non-Federal funds; (2) develop and implement policies and procedures to ensure that code enforcement and graffiti abatement salaries and benefits are accurately charged to CDBG grants; and (3) develop and implement a targeted code enforcement strategy that would specify deteriorating or deteriorated areas where code enforcement would be expected to arrest decline, including a description of public or private improvements, rehabilitation, or services that would help facilitate code enforcement.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding 1: The City Did Not Administer Its Code Enforcement Program in Accordance With Requirements.....	4
Finding 2: The City Did Not Administer Its Graffiti Abatement Program in Accordance With Requirements.....	8
Scope and Methodology.....	10
Internal Controls.....	12
Appendixes.....	13
A. Schedule of Questioned Costs	13
B. Auditee Comments and OIG’s Evaluation.....	14
C. Criteria.....	17
D. Schedule of Unsupported Expenses.....	19

Background and Objective

The City of South Gate, CA, receives annual Community Development Block Grant (CDBG) entitlement allocation funds from the U.S. Department of Housing and Urban Development (HUD). The City uses its annual CDBG allocation to fund projects and activities undertaken by City departments and community-based service providers specifically to address the housing and community development needs of low- and moderate-income persons in South Gate. Federal regulations at 24 CFR (Code of Federal Regulations) 570.208 require that CDBG funds be used for eligible activities that meet one of three national objectives:

- provide benefit to low- and moderate-income persons,
- aid in the prevention or elimination of slums or blight, or
- meet a need having a particular urgency.

The City's Community Development Department is responsible for the administration and oversight of the CDBG program. The City's planning, implementation, and evaluation of its use of CDBG funds are guided by the framework established by HUD's CDBG regulations and are integrated into the City's consolidated plans. The City received the following CDBG program funds for fiscal years 2014 to 2016:

Fiscal year	Amount
July 1, 2014, to June 30, 2015	\$1,466,189
July 1, 2015, to June 30, 2016	1,437,034
July 1, 2016, to June 30, 2017	1,393,866
Total CDBG funds	4,297,089

In 2015, HUD monitored the City's 2013-14 program year CDBG activities and found that the City's CDBG-funded code enforcement activity lacked (1) a definition of deteriorating or deteriorated areas, (2) a comprehensive strategy showing an effort to arrest the decline of the areas where the code enforcement activities were taking place, and (3) records to show that CDBG-funded code enforcement activities were confined to areas designated as deteriorating or deteriorated. HUD identified the issue as a concern but requested a response to the review's findings and concerns. In June 2016, the City emailed an outline of its code enforcement strategy, which included a broad definition of a deteriorated area. The email did not specify which areas would be targeted, only that they would be low- to moderate-income areas and deteriorated.

Our audit objective was to determine whether the City administered its CDBG funds in accordance with HUD requirements, focusing on code enforcement and graffiti abatement activities.

Results of Audit

Finding 1: The City Did Not Administer Its Code Enforcement Program in Accordance With Requirements

The City did not administer CDBG-funded code enforcement activities in accordance with HUD requirements. Specifically, it did not meet HUD’s code enforcement requirements and did not ensure that code enforcement salary and benefits costs were adequately supported. This condition occurred because the City did not correctly interpret and implement HUD regulations and guidance, which required the City to restrict its code enforcement activities to deteriorated or deteriorating areas. In addition, the City did not have adequate policies and procedures to ensure that code enforcement salaries and benefits were accurately calculated and recorded. As a result, it spent \$811,325 on unsupported code enforcement costs.

The City’s Code Enforcement Activities Did Not Meet HUD’s 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 (appendix C).¹ In addition, 24 CFR 570.207(a)(2) prohibits the use of CDBG funds for general government expenses (appendix C). The City drew down \$811,325 in CDBG funds for code enforcement activity between July 1, 2014, and June 30, 2017. However, its identification of deteriorated areas and code enforcement plan and strategy were inadequate.

- The City used its low- and moderate-income census tracts map to target its CDBG code enforcement but did not identify deteriorated areas where code enforcement activity would be expected to arrest decline as required in 24 CFR 570.202(c). Neither the City’s resolution nor its strategy included a description of deteriorated conditions in specific areas. Instead, target areas identified in the resolution were described as a “primarily residential area where a minimum of 51 percent of the residents in those areas are low- and moderate-income.” These were the low- and moderate-income area benefit areas that would be used to determine code enforcement eligibility.
- The City did not specifically identify how its code enforcement would be used in conjunction with public or private improvements, rehabilitation, or services that would arrest decline. The City’s strategy stated that its “code enforcement program will work with the Community Development and Public Works departments to arrest the deterioration of the area and develop a comprehensive approach to improving the target

¹ HUD further clarified and reinforced the requirements under Office of Community Planning and Development (CPD) Notice CPD-14-016 (appendix C).

areas.” Our discussion with the City disclosed that it had no set programs (rehabilitation, construction, etc.) working in conjunction with CDBG code enforcement to arrest decline in a deteriorated area or areas. In addition, there were no performance metrics for tracking the progress of the City’s code enforcement efforts.

- Daily inspection logs completed by inspectors identified specific violations at each location, but the areas inspected were based on the census tracts where at least 51 percent of the residents were low or moderate income rather than specific, designated deteriorating or deteriorated areas.

The City did not adequately distinguish between CDBG code enforcement activities and its regular responsibilities as a unit of general local government. Instead, it used the CDBG funds to supplement its general code enforcement activities, which were its regular responsibilities as a unit of general local government. Therefore, the City could not support that the \$811,325 drawn for code enforcement met program requirements (appendix D).

The City Did Not Ensure That Code Enforcement Payroll Was Adequately Supported

HUD regulations at 2 CFR 200.430 state that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and must be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated (appendix C). However, there were significant discrepancies between the City’s code enforcement payroll expenditure charged to CDBG and the related source documentation.

CDBG full-time salaries contained in the City’s expenditure detail report for our initial sample period of January 1 to February 28, 2017, did not adequately reconcile to timesheets and pay stubs. As a result, the \$24,493 in payroll was not adequately supported.

Additional sample voucher testing found that \$134,661 in code enforcement salaries and benefits was not adequately supported due to unexplained variances among hours reported on timesheets, inspection logs, and the City’s Labor Distribution Report.²

- May 1 Through June 30, 2016 - \$43,820
Three of four code enforcement officers reviewed recorded fewer hours on their timesheets than were recorded on the City’s Labor Distribution Report. The same code enforcement officers also recorded less time on their daily inspection logs than was recorded on the Labor Distribution Report.

² The Labor Distribution Report should support salaries and benefits in the City’s Expenditure Detail Report. The Expenditure Detail Report is the document used to support CDBG grant costs.

- January 1 Through March 31, 2016 - \$47,547
All four code enforcement officers reviewed recorded fewer hours on their timesheets than were recorded on the City's Labor Distribution Report. Two of the officers had no timesheets to support their time. Three of four code enforcement officers recorded fewer hours on their daily inspection logs than were recorded on the Labor Distribution Report.
- March 1 Through April 30, 2017 - \$43,294
Three of four code enforcement officers reviewed recorded fewer hours on their timesheets than were recorded on the Labor Distribution Report. All four code enforcement officers reviewed recorded fewer hours on their daily inspection logs than were recorded on the City's Labor Distribution Report.

In addition, the City did not provide all requested supporting payroll documents for two sample vouchers for the periods July 1 to November 30, 2014 (\$84,201), and July 1 to December 31, 2016 (\$142,593). As a result, an additional \$226,794 was unsupported.

The City's code enforcement supervisors and department heads reviewed and approved timesheets with missing expenditure account numbers. In some instances, the related salary amounts were allocated using budgeted percentages, which would cause inconsistencies between source documentation and reports used to support CDBG grant costs. The written finance procedures provided by the City did not address any of these practices or accounting for CDBG grant funds in general. As a result, HUD had no assurance that \$385,948³ (\$24,493 + \$134,661 + \$226,794) in funds spent on the City's CDBG-funded code enforcement activities was accurately accounted for and charged to the grant.

Conclusion

The City did not administer CDBG funds in accordance with HUD-CDBG regulations and guidelines. The City used its low- to moderate-income census tracts map to target its CDBG code enforcement and did not identify deteriorated areas. It also did not have set programs working in conjunction with CDBG code enforcement to arrest decline in a deteriorated area or areas. In addition, code enforcement salaries and benefits charged to the grants were not adequately supported. As a result, HUD did not have adequate assurance that \$811,325 in grant funds was used for eligible purposes.

³ The questioned salary and benefits amounts are also included in the \$811,325 amount questioned in the prior section (appendix D).

Recommendations

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

- 1A. Provide documentation to support the \$811,325 in code enforcement costs (activities 591, 619, and 645), including meeting code enforcement and salary and benefit requirements,⁴ or repay the program from non-Federal funds.
- 1B. Develop and implement a targeted code enforcement strategy that specifies deteriorating or deteriorated areas where code enforcement would be expected to arrest decline. The strategy should include a description of public or private improvements, rehabilitation, or services that would help facilitate code enforcement and also include performance metrics to track progress.
- 1C. Develop and implement policies and procedures to ensure that code enforcement salaries and benefits are charged and documented in accordance with program requirements.

⁴ The questioned salary and benefits sample amount of \$385,948 is included in the total code enforcement costs of \$811,325 (appendix D).

Finding 2: The City Did Not Administer Its Graffiti Abatement Program in Accordance With Requirements

The City did not administer CDBG funds in accordance with HUD requirements. Specifically, it did not ensure that graffiti abatement costs, primarily salaries and benefits, were supported and properly allocated. This condition occurred because the City did not have adequate policies and procedures to ensure that graffiti abatement salaries and benefits were accurately charged or allocated to the grants. As a result, it spent \$285,496 on unsupported costs.

The City's Graffiti Abatement Costs Were Not Supported and Properly Allocated

HUD regulations at 2 CFR 200.403 state that CDBG costs must be adequately documented to be allowable under Federal awards. Also, regulations at 2 CFR 200.430 state that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and must be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated (appendix C). The City drew down \$391,859 in CDBG funds for the graffiti abatement expenditures incurred between July 1, 2014, and June 30, 2017. However, it did not ensure that \$285,496 spent on its CDBG-funded graffiti abatement activities was accurate, adequately documented, and properly allocated to the grant (appendix D).

There were discrepancies between the hours charged to the grant and the hours recorded on the employee daily work reports for the same period. Although graffiti abatement employees created daily log reports showing how their hours were spent between CDBG and non-CDBG projects,⁵ the City did not use the information from the daily log reports to support the amount of the drawdown.

- Fiscal Year 2014-2015 - \$174,068
Although graffiti abatement employees created daily log reports showing how their hours were allocated to CDBG and non-CDBG projects, the City did not use the information from the daily log reports to support the amount of the drawdown. The City charged two-thirds of the allocation from a total that was not clearly identified in the supporting documents provided.⁶ As a result, the graffiti costs charged to CDBG for fiscal year 2014-2015 were unsupported.
- Fiscal Year 2015-2016 - \$40,432
There was a discrepancy of a net 104 additional hours charged for the two vouchers reviewed,⁷ which were not included in the daily work reports. Some staff members had more hours while others had fewer hours charged than the amounts recorded on daily

⁵ The City performed graffiti abatement in both eligible low- and moderate-income areas and non-CDBG eligible areas.

⁶ The \$174,068 included both payroll and nonpayroll amounts in which the unsupported two-thirds allocation was applied to the voucher.

⁷ One voucher was for \$36,229, and the second was \$4,203 (appendix D).

work reports and timesheets, calling the total payroll draws into question. In addition, the City did not provide support for additional hours charged for labor costs in the expenditures report not being included in the labor detail report provided.

- Fiscal Year 2016-2017 - \$70,996

There was a discrepancy of a net 56 additional hours charged for the two vouchers reviewed,⁸ which were not included in the daily work reports. Some staff members had more hours while others had fewer hours charged than the amounts reported on daily work reports and timesheets, calling the entire payroll charge into question.

Employee daily work reports were reviewed and approved by a public works supervisor; however, the City did not have a clear explanation for why the hours recorded in these reports were not used to determine salaries and benefits charged to the vouchers. The written finance policies and procedures provided by the City did not address any of these practices or accounting for CDBG grant funds in general.

As a result, HUD had no assurance that funds spent on the City's CDBG-funded graffiti abatement activities were accurately accounted for and charged to the grant. Overall, \$285,496 in graffiti abatement expenditures, primarily salaries and benefits, was questionable due to discrepancies between the hours charged to the grant and the hours recorded in the employee daily work reports and due to the City's use of an unsupported allocation percentage.

Conclusion

The City did not administer CDBG funds in accordance with HUD requirements. It did not ensure that funds spent on its CDBG graffiti abatement activities were accurate, adequately documented, and properly allocated to the grants. The City did not have adequate policies and procedures to ensure that graffiti abatement expenditures, including salaries and benefits, were consistent in source documents, accurately calculated, and properly allocated. As a result, HUD did not have adequate assurance that \$285,496 in grant funds was used for eligible purposes.

Recommendations

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

- 2A. Provide documentation to support \$285,496 in graffiti abatement expenditures or repay the program from non-Federal funds (appendix D).
- 2B. Develop and implement procedures and controls to ensure that graffiti abatement expenditures, including salaries and benefits, are accurately charged to CDBG grants and properly supported.

⁸ One voucher was for \$48,756, and the second was for \$22,240 (appendix D).

Scope and Methodology

We performed our audit work at South Gate City Hall located at 8650 California Avenue, South Gate, CA, from June 14 to December 14, 2017. Our review generally covered the period July 1, 2014, to June 30, 2017, 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, and action plans.
- Reviewed CDBG subrecipient and City-sponsored funding agreements.
- Reviewed reports from HUD's Integrated Disbursement and Information System⁹ to obtain CDBG disbursements for the audit period.
- Reviewed drawdowns (vouchers) and supporting documentation for sampled program expenses.
- Reviewed the City's audited financial statements for fiscal years 2014, 2015, and 2016.

The audit universe consisted of 36 vouchers totaling more than \$4.6 million in expenditures for the period July 1, 2014, through June 30, 2017. We used nonstatistical sample selection for our review. We selected a total of 13 vouchers for review, 4 vouchers for the survey phase and 9 vouchers for the audit phase, for a combined total of more than \$3.1 million. During the survey, we sampled one voucher for each calendar year between 2014 and 2017 and selected the vouchers with total amounts closest to the average voucher total cost. For the audit phase, we selected nine vouchers, focusing on vouchers with expenditures that were areas of concern identified in the survey, including code enforcement, graffiti abatement, and sidewalk improvements. Further review of the City's sidewalk improvements project showed that the potential issue found during the survey was not systemic and no material questioned costs were paid with CDBG funds. Our audit results were limited to the vouchers in our sample and cannot be projected to the universe. However, the consistent issues with the code enforcement costs,

⁹ HUD's Integrated Disbursement and Information System (IDIS) is a nationwide database that provides HUD with current information regarding the program activities underway across the Nation. HUD uses this information to report to Congress and to monitor grantees. IDIS is the drawdown and reporting system for CDBG.

discussions with City staff, and the lack of adequate policies and procedures resulted in our questioning the entire code enforcement for the audit period.

We found that data contained in source documentation provided by the City agreed with data contained in the HUD's Line of Credit Control System.¹⁰ Therefore, we assessed the data from the City to be sufficiently reliable for our use during the audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹⁰ The Line of Credit Control System is HUD's primary grant disbursement system, handling disbursements for most HUD programs.

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 – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance 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 Deficiencies

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

- The City did not have adequate policies and procedures to ensure that CDBG funds spent for code enforcement were in accordance with program requirements (finding 1).
- The City did not have adequate procedures and controls to ensure that CDBG funds spent for graffiti abatement were in accordance with program requirements (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$ 811,325
2A	285,496
Totals	1,096,821

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve legal interpretation or clarification of departmental policies and procedures. In this instance, the unsupported costs included (1) \$811,325 for code enforcement costs without documentation supporting that areas worked by code enforcement staff were deteriorated and the City had no set programs working in conjunction with CDBG code enforcement to arrest decline in a deteriorated area or areas and (2) \$285,496 for graffiti abatement expenditures, mostly payroll, without adequate supporting documentation (appendix D).

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



City of South Gate
8650 CALIFORNIA AVENUE • SOUTH GATE, CA 90280-3075 • (323) 563-9503
FAX (323) 569-2678 • mflad@sogate.org

MICHAEL S. FLAD
CITY MANAGER

March 14, 2018

Tanya E. Schulze, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General (OIG)
Office of Audit (Region 9)
300 N. Los Angeles St., Suite 4070
Los Angeles, CA 90012

Re: City of South Gate Response to HUD-OIG Audit Report

Dear Ms. Schulze:

We at the City of South Gate appreciate your time in meeting with us to discuss the draft audit report prepared by HUD's Office of Inspector General ("OIG"), and the opportunity to review and provide comments to the OIG's findings and recommendations.

The City was surprised by the audit results and the OIG's findings and recommendations. The City believes it has expended Community Development Block Grant Program funds in compliance with federal regulations and with direction received by the City from HUD's Los Angeles Office of Community Planning and Development. The City will work to provide documentation that confirms this compliance.

The City of South Gate respectfully submits the following specific responses to the OIG's findings and recommendations contained in the draft audit report:

City Response to OIG Recommendations 1A, 1B and 1C:

1A. The City will endeavor to provide documentation to support the costs associated with the \$811,325 in question for code enforcement, including meeting code enforcement and salary and benefit requirements.

1B. The City will work with HUD's Los Angeles Office of Community Planning and Development to develop and implement a targeted code enforcement strategy. Once finalized, the strategy will be taken to City Council for approval. The strategy will define the term "deteriorated area" using various adverse physical and economic factors observed during the development. It will describe quantifiable measurements to determine the effectiveness of the program and will make a concerted effort to make referrals to the

4626072.1 -- L235.37

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

other programs working in conjunction with Code Enforcement to arrest decline of the area.

- 1C. The City will work with HUD's Los Angeles Office of Community Planning and Development to develop and implement policies and procedures to ensure code enforcement salaries and benefits are charged and documented in accordance with program requirements. These policies and procedures will be incorporated into the City's CDBG Policies and Procedures Manual.*

Comment 3

City Response to OIG Recommendations 2A and 2B:

- 2A. The City will endeavor to provide documentation to support the costs associated with the \$285,496 in question for graffiti abatement.*
- 2B. The City will work with HUD's Los Angeles Office of Community Planning and Development to develop and implement policies and procedures to ensure graffiti abatement expenditures, including salaries and benefits, are accurately charged to the CDBG grant and are properly supported. These policies and procedures will be incorporated into the City's CDBG Policies and Procedures Manual.*

Comment 4

As noted above, the City believes it has expended CDBG funds in compliance with Federal regulations as well as direction from HUD. The City will work to provide documentation that confirms this compliance. The City welcomes the opportunity to improve our administration of the Code Enforcement and Graffiti Abatement programs that are provided through the HUD-OIG review and process, and we look forward to working with HUD to resolve the findings above. If you need additional information or have any questions, please contact Mr. Joe Perez, Director of Community Development at (323) 563-9566.

Sincerely,



Michael Flad
City Manager

OIG Evaluation of Auditee Comments

Comment 1 We acknowledge the City's belief that it had expended CDBG program funds in compliance with Federal regulations under directions received from HUD's Los Angeles Office of Community Planning and Development. However, although a HUD Community Planning and Development representative informed the City that its resolution and general strategy appeared to be in compliance with HUD guidance, the documentation submitted to HUD did not include a description of deteriorated conditions in specific areas. Instead, target areas identified in the resolution were described as a "primarily residential area where a minimum of 51 percent of the residents in those areas are low- and moderate-income." In addition, HUD did not subsequently fully assess or confirm how the City actually implemented the program. We found that the City's code enforcement resolution and strategy did not actually change how it conducted its code enforcement program, and that there was inadequate support for salaries and benefits charged to the program.

The City expressed surprise concerning the audit results. However, we discussed the code enforcement matters with the City staff during audit field work, and repeatedly requested documentation for the unsupported costs identified in finding 1. We also provided finding outlines to the City identifying the issues 25 days before sending the draft report and later conducting an exit conference.

Comment 2 We acknowledge the City's commitment in taking the steps necessary to address the issues with its code enforcement identified in the report. We also appreciate the City taking corrective action to develop and implement a targeted code enforcement strategy and policies and procedures to ensure that code enforcement salaries and benefits are charged and documented in accordance with program requirements. 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 3 We appreciate the City taking corrective action to develop and implement policies and procedures to ensure that graffiti abatement expenditures, including salaries and benefits, are accurately charged to the CDBG grant and properly supported.

Comment 4 We acknowledge the City's belief that it had expended CDBG program funds in compliance with federal regulations under direction received from HUD's Los Angeles Office of Community Planning and Development. The City will have the opportunity to provide additional documentation to HUD as part of the audit resolution process. We also appreciate the City's commitment to resolve the findings.

Appendix C

Criteria

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 570.207(a) – Ineligible Activities. (2) General government expenses. Except as otherwise specifically authorized in this subpart or under 2 CFR part 200, subpart E, expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

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:

(g) Be adequately documented.

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:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Office of Community Planning and Development (CPD) 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: CDBG funds may be used for the costs for inspection of 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. 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 or if the use of CDBG funding appears excessive in relation to the community's overall enforcement program. ...However, § 570.207(a) (2) prohibits grantees from using CDBG funds for general government expenses.

IX. Recordkeeping Requirements.

The Entitlement CDBG program regulations at § 570.506 identify records that must be kept by grantees carrying out CDBG-assisted activities. The State CDBG program regulations at § 570.490(a) and (b) identify records that states and units of general local government must maintain and provides that the content of records maintained by the state shall be as jointly agreed upon by HUD and the states.

The lack of time distribution records and documentation to demonstrate use of CDBG funds for code enforcement in eligible areas has been a significant problem for some grantees. Not having complete and accurate documentation has resulted in monitoring findings and disallowed costs. Grantees have been required to repay significant sums of money from non-federal funds because they did not maintain records delineating the deteriorated or deteriorating areas, or records demonstrating that the CDBG program only paid for code enforcement costs in those areas. To avoid this problem, grantees should ensure that their records and documentation demonstrate activity eligibility, national objective compliance, allowability of costs, and cost reasonableness. In addition, grantees must ensure that their time distribution records regarding time spent conducting code enforcement in eligible areas is accurate. Having this information readily available is critical for grantees to avoid monitoring findings and disallowed costs....

In addition, grantees must also have records that demonstrate how activities meet the criteria for national objectives in §§ 570.208 or 570.483. 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.

Appendix D

Schedule of Unsupported Expenses

Project ID	Expense description	Unsupported amount
	Code enforcement	
591	Fiscal year 2014-2015 – entire year Includes sample salary and benefits of <ul style="list-style-type: none"> • 7/1/2014 to 11/30/2014: \$84,201 	\$249,424
619	Fiscal year 2015-2016 – entire year Includes sample salary and benefits of <ul style="list-style-type: none"> • 1/1/2016 to 3/31/2016: 47,547 • 5/1/2016 to 6/30/2016: 43,820 	261,902
645	Fiscal year 2016-2017 – entire year Includes sample salary and benefits of <ul style="list-style-type: none"> • 7/1/2016 to 12/31/2016: 142,593 • 1/1/2017 to 2/28/2017: 24,493 • 3/1/2017 to 4/30/2017: 43,294 	300,000
	Total unsupported code enforcement¹¹	811,325
	Graffiti abatement	
592	Fiscal year 2014-2015 – entire year	174,068
624	Fiscal year 2015-2016 – drawdown 2016-2	4,203
624	Fiscal year 2015-2016 – drawdown 2016-7	36,229
651	Fiscal year 2016-2017 – drawdown 2017-4	22,240
651	Fiscal year 2016-2017 – drawdown 2017-2	48,756
	Total unsupported graffiti abatement	285,496
	Total unsupported	1,096,821

¹¹ \$1 difference due to rounding.