



Issue Date	June 25 , 2012
Audit Report Number	2012-SE-1004

TO: Jack Peters, Director, Office of Community Planning and Development, OAD

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: The City of Seattle, WA, Used Its CDBG-R Funds in Accordance With HUD and Recovery Act Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the City of Seattle’s Community Development Block Grant-Recovery (CDBG-R) program. Our objective was to determine whether the City used its CDBG-R funds in accordance with U.S. Department of Housing and Urban Development (HUD) and Recovery Act requirements and subgrantee expenditures were appropriate, eligible, and supported. We selected the City for review because it received \$3.26 million in CDBG-R funds, more than any other municipality in Region 10 (Alaska, Idaho, Oregon, and Washington).

### **What We Found**

The City used its CDBG-R funds in accordance with HUD and Recovery Act requirements and subgrantee expenditures were appropriate, eligible, and supported.

### **What We Recommend**

This report contains no recommendations, and no further action is necessary with respect to this report.

## **Auditee's Response**

We provided a draft report to the City on June 14, 2012. The City provided its comments on June 21, 2012 and expressed their appreciation of the review. The complete text of their response is in Appendix A of this report.

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## **BACKGROUND AND OBJECTIVE**

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The American Recovery and Reinvestment Act of 2009 became Public Law 111-5 on February 17, 2009. It provided for the creation and preservation of jobs, infrastructure investment, energy efficiency and science, assistance to the unemployed, State and local fiscal stabilization for the fiscal year ending September 30, 2009, and other purposes. Authorized under Title XII of the Recovery Act, the U.S. Department of Housing and Urban Development (HUD) allocated \$1 billion in Community Development Block Grant (CDBG) funds to State and local governments to carry out, on an expedited basis, eligible activities under the CDBG program. The CDBG program works to ensure decent affordable housing, provide services to the most vulnerable, and create jobs through the expansion and retention of businesses.

On August 12, 2009, the City of Seattle and HUD entered into a grant agreement for more than \$3.2 million in CDBG funds under the Recovery Act (CDBG-R). The City used the funds for two programs: (1) loans to small businesses to facilitate job creation and retention and serve disadvantaged communities and (2) loans for public facility improvements for expansion and rehabilitation of five structures serving populations hard hit by the ongoing economic recession.

Our objective was to determine whether the City used its CDBG-R funds in accordance with U.S. Department of Housing and Urban Development (HUD) and Recovery Act requirements and subgrantee expenditures were appropriate, eligible, and supported.

## RESULTS OF AUDIT

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### The City Used Its CDBG-R Funds in Accordance With HUD and Recovery Act Requirements

The City allocated almost \$3.23 million of its \$3.26 million CDBG-R grant to seven subgrantees as follows:

<b>Subgrantee</b>	<b>Purpose of subgrant</b>	<b>Amount</b>
Jewish Family Services	Food bank expansion and improvement	\$ 489,344
Pike Market Childcare and Preschool	Childcare center expansion and to bring entire facility up to code	250,000
Seattle Chinatown International District Preservation and Development	Nutrition services rehabilitation, renovation, and expansion	196,000
Housing Authority of Seattle	Weatherization and energy efficiency upgrades for two projects	850,000
Seattle Economic Development Fund	Provide loans to small businesses	695,000
Rainier Valley Community Development Fund	Provide loans to small businesses	250,000
Shorebank Enterprise Cascadia	Provide loans to small businesses	495,000
<b>Total subgrants</b>		<b>\$3,225,344</b>

We reviewed the City's procedures for awarding the subgrants and monitoring subgrantee expenditures and activities. We also visited all seven subgrantees and reviewed the activities funded by the City's CDBG-R grant (see Scope and Methodology). Our review determined that the City used its CDBG-R funds in compliance with HUD and Recovery Act requirements and its subgrantees adequately documented that CDBG-R expenditures were appropriate, eligible, and supported.

#### Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

## SCOPE AND METHODOLOGY

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We performed our review from March 8 through April 30, 2012. We performed our onsite audit work at the City's administrative offices at 700 5th Avenue, Seattle, WA, and seven subgrantee offices at various locations in Seattle. Our review covered the period August 12, 2009, through March 2, 2012.

To accomplish our audit objective, we

- Reviewed applicable laws, regulations, and HUD requirements;
- Reviewed the City's policies and procedures, monitoring, and internal controls;
- Interviewed City and subgrantee staff;
- Reviewed the supporting documentation for 1 of the 10 CDBG-R reports made by the City to Recovery.gov;
- Reviewed the City's grant agreement and its agreements with subgrantees;
- Reviewed subgrantee procurement documentation for all 5 facility improvement projects funded by the CDBG-R grant; and
- Visited all 5 facility improvement projects to determine whether the renovations and improvements were completed in accordance with subgrantee agreements.

We performed site visits to all 7 of the subgrantees and reviewed the files documenting 20 of 61 total subgrantee draws representing more than \$2 million of the more than \$3.2 million in subgrantee expenditures. The 20 draws selected for review consisted of the 2 highest dollar draws each from 5 of the subgrantees, 4 draws from another subgrantee, the only draw from the remaining subgrantee, the 2 highest dollar draws for administrative expenses, and 3 additional draws used for small business loans that defaulted. The review was designed to determine whether the expenditures were eligible and adequately supported.

We used the source documentation maintained by the City to compare to information in HUD's Integrated Disbursement and Information System. We did not rely on automated data to support our audit conclusions. All conclusions were based on source documentation reviewed during the audit.

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

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## Relevant Internal Controls

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

- Controls over the use of CDBG-R funds in 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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

## Appendix A

### AUDITEE COMMENTS

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**City of Seattle**  
Human Services Department

June 21, 2012

Ronald J. Hosking  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
Region X  
Federal Office Building  
909 First Avenue, Suite 126  
Seattle, WA 98104-1000

Re: Discussion Draft Audit Report on City of Seattle CDBG-R Program

Dear Mr. Hosking:

The City of Seattle appreciated the opportunity to work with the HUD Office of Inspector General auditors as they conducted their monitoring activities on the City's CDBG-R Program. We thank the Office of Inspector General for their review of our program and their conclusion that we are using CDBG-R funds in accordance with HUD and Recovery Act requirements.

Please contact me directly at (206) 684-0263 if you need additional assistance on this matter.

Sincerely,



Dannette R. Smith, Director  
Human Services Department  
City of Seattle