Issue Date August 4, 2008	
Audit Report Number 2008-FW-1012	

TO: David H. Long
Director, Community Planning and Development Division, 6ID

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of Tulsa, Oklahoma Allowed Its Largest Subrecipient to Expend $1.5 Million in Unsupported CDBG Funding

HIGHLIGHTS

What We Audited and Why

We audited the City of Tulsa's (City) Community Development Block Grant (CDBG) program due to a departmental request. Our initial objective was to determine whether the City expended CDBG funds in accordance with U. S. Department of Housing and Urban Development (HUD) rules and regulations. Based upon the initial results, we modified the objective to determine whether the City ensured that its largest subrecipient, the Tulsa Development Authority (Authority), expended CDBG funds within HUD rules and regulations for its acquisition, clearance, relocation, and disposition activities.

What We Found

While the City generally monitored other subrecipients, it did not monitor or supervise its largest subrecipient, the Authority. From October 1, 2005, through September 30, 2007, the Authority inappropriately expended $1.5 million for its CDBG acquisition, clearance, and relocation activities. However, it did not have specific disposition plans for its CDBG-acquired properties and only benefited the low- to moderate-income community "whenever possible." In addition, the

Authority's acquisition and clearance projects did not have the HUD-required environmental reviews.

What We Recommend

We recommend that the Director, Oklahoma City Office of Community Planning and Development require the City to

- Adopt written policies and procedures for its CDBG program for day-to-day operations that include procedures to ensure that it monitors all of its subrecipients in accordance with HUD and local requirements;
- Require the Authority to develop and implement specific plans for its future CDBG acquisitions and currently owned CDBG properties that will benefit the low- to moderate-income community as a whole and individually, which would put more than $8.9 million to better use;
- Support or repay more than $1.5 million for funds that the Authority could not support in performing its acquisition, clearance, relocation, and disposition activities; and
- Perform the necessary environmental reviews when acquiring or clearing land.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the City and HUD with our draft report on June 16, 2008. We held an exit conference with the City and HUD on July 1, 2008. The City provided its written response on July 17, 2008. The City agreed with the majority of the recommendations; however, it did not agree with our monetary recommendations.

The City's response and our evaluation of the response are located in Appendix B of this report. The City's response included schedules that are available upon request.

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BACKGROUND AND OBJECTIVES

The City of Tulsa, Oklahoma (City), was the third largest Community Development Block Grant (CDBG) recipient in the State of Oklahoma. Between October 2005 and September 2007, the City received more than $8 million in CDBG funds from the U. S. Department of Housing and Urban Development (HUD). During the audit period, various City divisions had responsibility for administering its CDBG program as follows:

- Until October 2006, the Urban Development Division;
- October 2006 to March 2008, the Working in Neighborhoods Division; and
- April 2008 to present, the Department of Grants Administration.

The primary objective of the CDBG program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons.

To carry out the program, the City granted CDBG funding to various subrecipients, including the Tulsa Development Authority (Authority), its largest subrecipient. The City accounted for the Authority on its comprehensive annual financial report as a discretely presented component unit. While the Authority was legally separate from the City, the City was financially accountable for and supplied staffing to the Authority. The Authority's primary source of funding was from the City's CDBG program. As a CDBG recipient, the City was responsible for the actions of its subrecipients.

Under the grant agreements, the Authority received CDBG funds for community improvement activities including land acquisition, clearance, and relocation. The Authority's purpose for these activities was to eliminate slum and blight and to provide low- and moderate-income households or areas with economic opportunities. As of September 30, 2007, the Authority owned approximately 160 properties throughout Tulsa that it acquired with CDBG funding.[1] It had owned some of the properties since 1966. However, its property list may not be accurate due to its conflicting information.

Our audit objective was to determine whether the City ensured that its largest subrecipient, the Authority, expended CDBG funds within HUD rules and regulations for its acquisition, clearance, relocation, and disposition activities.

[1] While the CDBG program did not exist until 1974, we included properties purchased under its predecessor, Model Cities program. Congress enacted the Model Cities program in 1966 with similar objectives to the CDBG program, which was to benefit the low- to moderate-income community.

RESULTS OF AUDIT

Finding: The Authority Did Not Support $1.5 million in CDBG Funding

The Authority failed to support $1.5 million in CDBG funding for acquisition, clearance, relocation, and disposition activities. For instance, its salaries and expenses that it charged to the City's CDBG program were disproportionate when compared to the planned activities in its consolidated annual plans. Further, while it had sector redevelopment/urban renewal plans, it did not have specific disposition plans for the properties it acquired. According to the Authority, it would benefit the low- to moderate-income community "whenever possible" when it sold or leased a property. Thus, its acquisition, clearance, relocation, and disposition activities did not comply with HUD requirements or benefit the low- to moderate-income community as required. This condition occurred because the City failed to monitor and supervise the Authority partly due to a lack of written policies and procedures and partly due to its relationship with the Authority. As a result, $1.5 million was not available to provide services to low- and moderate-income persons.

The Authority Could Not Support More Than $1.39 Million

The Authority could not support more than $1.39 million in salary expenditures, supplies, and other expenses. From October 2005 through September 2007, it spent approximately $1 million in salaries for its acquisition, clearance, relocation, disposition, and CDBG property management activities.[2]

A review of seven City/Authority employees' timesheets showed that while the employees worked on both CDBG and non-CDBG activities, they did not charge time in accordance with federal regulations.[3] Federal regulations required the employees working on both CDBG and non-CDBG grants to allocate time resembling actual results. One employee charged time in accordance with the budget. Other employees charged time to the relocation project in the same manner as they did the acquisition project.[4] The Authority needs to support that employees charged time resembling their actual work.

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[2] The City's consolidated annual plans and the contract between the City and the Authority were silent on the disposition and CDBG property management activities.

[3] Office of Management and Budget Circular A-87, attachment B(8).

[4] The Authority's acquisition project also included CDBG property management and disposition activities. In addition, the Authority did not perform relocation activities.

Further, the following chart shows a comparison of accomplishments and cost of the Authority's CDBG programs to similar activities by non-CDBG programs and reported goals for its CDBG programs.

Fund	Acquisitions	Dispositions	Clearances	Relocations	Salaries and benefits
CDBG	**5**	**14**[5]	**5**	**0**	**$1,006,939**
CDBG goals per consolidated annual plans	**50**	**Did not report**	**36**	**28**	**Budget $1,929,327**
1996 sales tax	**5**	**6**	**10**	**unknown**	**34,060**
Kendall/Whittier	**12**	**6**	**9**	**unknown**	**21,587**

While the Authority expended more than 50 percent of its acquisition, clearance, and relocation budget on salaries, the Authority completed only 10 percent of the planned acquisitions and less than 14 percent of the planned clearances. In addition, a comparison of accomplishments to the salaries showed an abnormal disparity between CDBG and non-CDBG land activities. Without proper allocation of employees' time and the disparity in cost charged to CDBG, the Authority failed to support more than $1 million in salary cost it charged to the City's CDBG program.

The remaining $384,428 in expenditures was unsupported due to the Authority's lack of specific disposition plans and not benefiting the low- to moderate-income community. Review of a sample of expenditures including office and property maintenance supplies, employee training, and temporary staffing concluded that the Authority could not support that the expenditures benefited its CDBG program. Additionally, it misclassified two expenditures: property clearance and water bills. Both expenditures were for non-CDBG properties. The Authority took action to correct the $6,725 in misclassifications.

The Authority did not have specific disposition plans for its land acquisitions.[6] Its executive director stated that it disposed of property in accordance with the urban renewal/sector redevelopment plans. However, these plans were general in nature and did not have a completion date with exception to redeveloping the entire sector. Despite the Authority's purpose of providing low- and moderate-income households or areas with economic opportunities, the Authority's executive director stated that it would benefit the low- to moderate-income community "whenever possible" when it disposed of CDBG-acquired lands.

5 The Authority sold all 14 properties at fair market value and did not retain documentation to support that the property benefited the low- to moderate-income community.

6 Title 24, Code of Federal Regulations (24 CFR) 570.208 (d)(1) states that a preliminary determination of the acquisition of real property activity addresses may be based on the planned use of the property after acquisition.

The Authority Accumulated Property

The Authority accumulated approximately 160 properties with CDBG funds, including some that it acquired in the 1960s. On June 30, 2007, the City valued the Authority's CDBG properties at almost $9 million. The Authority did not have specific plans for the end use of the individual properties. Further, because it did not sell or otherwise dispose of the properties, it continued to incur property maintenance costs, which it paid with CDBG funds. HUD regulations[7] state that when recipients or subrecipients acquire land with CDBG funds, they may temporarily maintain the land with CDBG funds. The Authority acquired 134 of its approximately 160 properties before 2000. It must develop end use plans for the disposition of each property consistent with CDBG national objectives and expend the resulting program income in accordance with HUD requirements. By complying with HUD requirements, the Authority could put approximately $9 million[8] to the intended use of benefiting the low- to moderate-income community.

The Authority accounted for its CDBG property management expenses under the CDBG acquisition fund. The City did not include the Authority's CDBG property management within its consolidated annual plans or the contract between the City and the Authority. It also did not report the accomplishments to HUD within its consolidated annual performance and evaluation report (CAPER).[9]

Further, the Authority sold or leased its CDBG property at fair market value without maintaining documentation to demonstrate how the property benefited the low- to moderate-income community. When it leased property, it did not maintain job creation or retention documentation for low- to moderate-income individuals.[10] Contrary to the Authority's actions, the City's CAPER stated that the City used 100 percent of its CDBG funds, which included funds provided to the Authority, to benefit low- to moderate-income persons.[11] The Authority's lack of specific disposition plans and benefit to low- to moderate-income persons did not meet the CDBG primary objective. As a result, the City provided HUD incorrect information, and HUD had no assurance that the City complied with meeting HUD's goals. The City needs to ensure that it provides HUD with accurate information and that its subrecipients use CDBG funds in compliance with HUD requirements.

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[7] 24 CFR 570.201(b).

[8] This represents a one time savings.

[9] The City prepares the CAPER to show HUD its accomplishments with the provided funds.

[10] 24 CFR 570.208(a)(4).

[11] 24 CFR 570.200 (a)(2) states that recipients must maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives. The Authority did not have documentation to support its use of funds for the low to moderate income national objective.

The City Underreported Program Income

The City underreported to HUD its program income for at least the 2007 fiscal year.[12] The City's CAPER for the 2007 fiscal year reported $9,133 in property rental income for the Authority. Authority officials denied that the Authority had used CDBG funds to purchase the properties that earned the rental income reported. However, its property inventory classified one of the properties as a CDBG-purchased property. During the same period, the Authority earned at least $106,415 in rental income from its CDBG properties and expended $47,228 in operation costs for the properties.[13] Therefore, it should have remitted a minimum of $59,187 in rental income to the City, which it should have reported to HUD.

While the Authority transferred $100,000 from one of its CDBG property management accounts to the City on March 31, 2008, to report earned program income, it did not reconcile the $100,000. HUD required the City, and by extension the Authority, to report accurate information on its CDBG activities. The City needs to ensure that the Authority properly accounts for and remits program income in accordance with its contract.[14]

City Did Not Perform Environmental Reviews

The City[15] did not perform the required environmental reviews for five properties that the Authority acquired and cleared from March 2006 through October 2007 at a cost of $108,490. According to its executive director, the Authority acquired all properties under the slum and blight national objective.

HUD's Office of Community Planning and Development staff performed two environmental monitoring reviews: one in February 2006 and the other in February 2008. The City did not respond to the February 2006 review and allowed the Authority to continue acquiring and clearing property without performing the necessary environmental reviews. HUD performed a followup review, which resulted in repeat findings from the February 2006 review. The City communicated with HUD concerning the 2008 environmental monitoring review.

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12 October 2006 through September 2007.

13 The Authority and the City need to ensure that the operation costs were eligible and in accordance with the lease agreements.

14 The contract between the City and the Authority required the Authority to remit program income to the City on a monthly basis.

15 The grant agreement between the City and HUD required that the recipient perform the necessary environmental reviews.

Without the necessary environmental reviews, the City failed to comply with HUD regulations. Therefore, the $108,490 spent on acquiring and clearing property was ineligible.

The City Did Not Monitor the Authority

The City did not monitor the Authority. It granted the Authority $3.28 million[16] of its $8 million in CDBG funding, which made the Authority its largest subrecipient. The City did not have local written policies and procedures for its day-to-day CDBG program operations and had an organizational identity of interest with the Authority.

The City's unwritten policy was for its Urban Development Division/Working in Neighborhoods Division to monitor subrecipients quarterly and to review and approve subrecipient requests for reimbursements. However, the City did not monitor the Authority quarterly, nor did it review and approve the Authority's payment requests. The City monitored the Authority for the first time in September 2007 and allowed it to submit payment requests directly to the City's grants accounting department, bypassing the review and approval process.

The City may not have monitored or supervised the Authority because it had an identity of interest with the Authority within its organizational structure. A City employee served in the dual capacity of Urban Development Division deputy director, responsible for monitoring, and the Authority's executive director. This employee supervised the employee who supervised the staff responsible for monitoring the City's CDBG subrecipients. Effectively, the Authority's executive director supervised the City employees responsible for monitoring the Authority.

The lack of monitoring and independent review of expenditures allowed the Authority to operate in a manner that did not primarily benefit the City's low- to moderate-income community. The City needs to monitor all of its subrecipients and ensure that an organizational identity of interest does not exist between it and its subrecipients.

Conclusion

The Authority failed to support $1.5 million of its CDBG funds for acquisition, clearance, relocation, and disposition activities. Without proper allocation of employees' time, which resulted in a disparity in cost charged to its CDBG grant, the Authority could not support more than $1 million in salary cost it charged to the City's CDBG program. Also, the Authority accumulated almost $9 million in property for which it did not have a specific end use that would benefit the City's

[16] Includes all of the Authority's CDBG activities.

low- to moderate-income community. In addition, the City did not report all of the Authority's rental program income and did not perform the necessary environmental reviews for property acquisition and clearance. As a result, the Authority's land activities did not comply with HUD regulations and may not have benefited the low- to moderate-income community.

The City aided the Authority in its noncompliance because it did not have local written policies and procedures and it had an organizational identity of interest that favored the Authority.

Recommendations

We recommend that the Oklahoma City Community Planning and Development Director require the City to

1A. Support or repay $1,391,367 in salary expenditures, supplies, and other expenses.

1B. Require the Authority to develop and implement specific plans for its future CDBG acquisitions and currently owned CDBG properties that will benefit the low- to moderate-income community as a whole and individually, which would put $8,982,150 to better use.

1C. Determine what properties the Authority purchased with CDBG funds and report program income earned from these properties as HUD requires and in accordance with the contract between the City and the Authority and ensure that the City expends the program income for eligible expenses.

1D. Repay the ineligible acquisitions and clearances totaling $108,490.

1E. Repay the misclassified activities, which resulted in misspending $6,725. This recommendation will be closed as the Authority has taken corrective action.

1F. Develop written policies and procedures for its CDBG program.

1G. Ensure that an organizational identity of interest does not exist between the City and any of its current or future subrecipients.

1H. Monitor all subrecipients, including the Authority, in accordance with HUD and local rules and regulations.

SCOPE AND METHODOLOGY

Our audit period covered October 2005 through October 2007. We expanded the audit period as appropriate. To accomplish the audit objective, we

- Reviewed City and Authority financial records and policies and procedures;
- Reviewed the City's audited financial statements, fiscal year 2007 comprehensive annual financial report, internal audit report concerning federal grant programs, consolidated annual plans, and consolidated annual performance and evaluation reports;
- Reviewed relevant federal regulations;
- Interviewed HUD and City staff; and
- Viewed eight CDBG-acquired properties that the Authority owned or had previously owned.

We initially selected six of 73 subrecipients to review. In addition to the six subrecipients, we included the Authority based on a July 2007 HUD monitoring review and an interview with City staff. We selected the Authority for further review due to the amount of salaries charged to CDBG acquisition, clearance, and relocation activities.

We reviewed a sample of the Authority's acquisition, clearance, relocation invoices and credit card purchases. The Authority had a total of 344 invoices and 432 credit card purchases for the acquisition, clearance, and relocation activities from October 2005 through September 2007. For the October 2005 through September 2006 invoices, we selected the known acquisitions, the two largest clearance expenditures, and all of the relocation expenditures. We selected ten items using EZ Quant to review the credit card purchases for the same time period. For the October 2006 through September 2007 invoices, we selected the three largest acquisition, two largest clearance, and all of the relocation expenditures. Finally, for the credit card purchases during the same time period, we selected the largest payment to each vendor if was equal to or more than $300 for the acquisitions, and the two largest clearance expenditures.

We performed fieldwork at the City's offices in Tulsa, Oklahoma, from November 2007 through May 2008. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Local CDBG policies and procedures that management has implemented to reasonably ensure that a program meets its objectives,
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations, and
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that it obtains, maintains, and fairly discloses valid and reliable data in reports.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The City did not have written CDBG policies and procedures, had an organizational identity of interest with the Authority, and failed to monitor the Authority;

- The City did not perform the necessary environmental reviews for CDBG acquisitions and clearances after HUD performed an environmental monitoring review and informed the City of the necessary steps; and

- The City did not accurately report the Authority's program income or accomplishments.

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		$1,391,367	
1B			$8,982,150
1D	$108,490		
1E	6,725		
Totals	**$115,215**	**$1,391,367**	**$8,982,150**

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 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, the amount represents funds that the City could use for the benefit of the low- to moderate-income community by having specific end uses for the Authority's 160 properties. This represents a one time savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

CITY OF Tulsa
A New Kind of Energy.

July 17, 2008

Gerald R Kirkland
Regional Inspector General
Office of Inspector General, Region VI
819 Taylor Street, Suite 134A09
Fort Worth, Texas

RE: Draft Audit Report Dated June 16, 2008.

Dear Mr. Kirkland:

This letter is the response of the City of Tulsa to the June 16, 2008, **Draft Audit Report,** relating to the performance of our subrecipient Tulsa Development Authority (TDA). We appreciate the opportunity to provide our response in writing and provide additional documentation before the final audit report is issued.

Finding: The Authority did not support $1.5 Million in CDBG funding.

Recommendation 1A. **Support or repay $1,391,367 in salary expenditures, supplies and other expenses.**
The City has attached documentation supporting the $1.39 million TDA spent in performing acquisition, clearance, relocation, property management and disposition activities. We request that the Director of the Oklahoma City Office of Community Planning and Development consider the following:

Comment 1

The assertion that TDA did not support their acquisition, clearance, relocation, and disposition expenditures, is based on a comparative chart on page 5 of the report. This comparison is not a valid comparison for the following reasons:

- The CDBG project acquisition costs included property management and disposition costs in the amounts of $256,182.10 and 332,528.18 respectively for a total cost of $588,710.28 for both program years. These costs should be deducted and considered separately for a valid evaluation of acquisition costs.
- 1996 sales tax project costs did not include some costs that were charged to other cost centers, such as the General Fund, which would increase the overall project delivery costs for this project. In addition, this type of acquisition does not require disposition costs because the titles of the properties acquired with Sales Tax funds are transferred to the City of Tulsa.

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- The Kendall-Whittier project costs did not include all those paid by the University of Tulsa, which would increase the overall project delivery costs for this project. In addition, this type of acquisition does not require disposition costs because the titles of the properties acquired with the University of Tulsa funds are transferred to them.
- Comparing TDA's slum and blight project delivery costs to other TDA projects of a different nature does not provide a valid measurement. Comparison to other slum and blight projects done by third parties, such as those completed by another city, would provide a better comparison.

The following is a summary of the $1,391,367 in question. Supporting documentation is attached hereto in schedules 1 through 6. This documentation provides information to enable a valid evaluation to be made.

TDA-CDBG EXPENDITURES

Program Years

Activity Cost	2005-2006	2006-2007	TOTAL
Acquisition	214,832	210,838	425,670
Relocation	41,187	36,115	77,302
Clearance	84,217	83,924	168,141
Disposition	163,277	169,251	332,528
Property Management	130,029	126,153	256,182
Administration	85,125	46,511	131,636
Unidentified			(92)
	718,667	672,792	1,391,367

With regard to TDA's activity benefiting the low- and moderate-income community, we believe TDA's activities meet the national objective for *Activities that aid in the prevention or elimination of slums or blight*, and comply with relevant requirements, as follow:

Comment 2

- The objective of TDA's activities reviewed in this audit is removal of slum and blight. This activity benefits all the low- and moderate-income households in the census tract by making the neighborhood safer and more attractive for economic development and arresting further decline in property values.
- The regulations require, where the acquisition is for the purpose of clearance to eliminate specific conditions of blight or physical decay, the clearance activity shall be considered the actual use of the property. Any subsequent use or disposition of the cleared property shall be treated as a "change of use" 24CFR §570.208(d)(1).

Comment 3

When the new use does not meet a national objective, change of use regulations require that the recipient's CDBG program be reimbursed the fair market value of the property. TDA has collected and remitted fair market value for sales or leases in compliance with 24CFR §570.505. The program income from these leases and sales has been included in the funding allocations made by our City Council during the annual allocation process.

Comment 4

Recommendation 1B. **Require the Authority to develop and implement specific plans for its future CDBG acquisitions and currently owned CDBG properties that will benefit the low- to moderate-income community as a whole and individually, which would put $8,982,150 to better use**

We agree with the recommendation that TDA develop and implement specific plans for its currently owned CDBG properties and ensure compliance with 24CFR §570.505. The plan will be finalized and approved by the TDA board by September 30, 2008. This plan will include, at a minimum:

- Identification of all the properties and any legal restrictions on use of the property, for example those in a floodplain or right of way. These properties will be transferred to the City. We estimate this will include 40 properties that have no market value.
- Identification and disposal of the remaining properties.

The City will require that any future TDA acquisition activities include a disposition plan. The Department of Grants Administration will monitor TDA activities to ensure compliance.

Comment 5

Recommendation 1C. **Determine what properties the Authority purchased with CDBG funds and report program income earned from these properties as HUD requires and in accordance with the contract between the City and the Authority and ensure that the City expends the program income for eligible expenditures.**

We disagree with the recommendation to determine what properties the Authority purchased with CDBG funds. These properties were identified in our accounting records as being purchased with CDBG funds. We agree with the recommendation to report program income (PI) earned from these properties on a timely basis as HUD requires and in accordance with the contract between the City and the Authority and ensure that the City expends the PI for eligible expenses.

We plan to do the following:

Comment 6

- The Fiscal Manager for Department of Grants Administration will review a detailed revenue report by the 10th working day of the month and validate that the program income is CDBG PI.
- Based on this report, the IDIS staff will request a journal voucher to transfer the cash from TDA to the City.
- IDIS staff will report the program income into IDIS.

This corrective action will be completed by August 1, 2008.

Recommendation 1D. **Repay the ineligible acquisitions and clearances totaling $108,490.**

Comment 7

We disagree with this recommendation. Environmental clearances were obtained from HUD and HUD released the funds without any further requirements. Although, additional HUD forms were not completed during the acquisition process, the forms would have disclosed that the properties are excluded under the Categorically Excluded Activities to be Reviewed Under the Related Federal Laws and Authorities 58.5 24 CFR Part 58.35(a). HUD Fort Worth office assisted us in creating a formal Environmental Review procedure and four members of our staff attended Environmental Review training earlier this year. In addition, our contract with TDA will specifically require approval from the Department of Grants Administration before any property is purchased using CDBG funds. The Department of Grants Administration will review potential purchases for compliance and perform the required environmental review.

Comment 8

Comment 9

Recommendation 1E. **Repay the misclassified activities, which resulted in misspending $6,725.**
We agree and corrective action is complete.

Recommendation 1F. **Develop written policies and procedures for its CDBG program.**
We agree with the recommendation. The Director of the Department of Grants Administration will develop and adopt written policies and procedures by December 31, 2008.

Recommendation 1G. **Ensure that an organizational identity of interest does not exist between the City and any of its current or future sub recipients.**
And
Recommendation 1H. **Monitor all sub recipients including the Authority, in accordance with HUD and local rules and regulations.**
We agree with recommendation 1G and 1H. The City formed the Department of Grants Administration on April 1, 2008. The duties of the department include monitoring all sub recipients in accordance with HUD and local requirements. Creation of this department removed monitoring duties from operating department staff and TDA, which resolves the organizational identity of interest.

Please let us know if you or your staff have any questions concerning our response, please do not hesitate to call or email Dafne Pharis at (918)596-2600 or dpharis@cityoftulsa.org.

Sincerely,

Susan Neal

Susan Neal, Director
Community Development and Education Initiative

Dafne Pharis

Dafne Pharis, Director
Department of Grants Administration

Enclosure

111 South Greenwood Suite 200, Tulsa, OK 74120 Office 918.596.2600 Fax 918.596.2608

OIG Evaluation of Auditee Comments

Comment 1 We modified our report to provide clarification concerning the accomplishments and costs associated with the Authority's acquisition, clearance, and relocation projects. The City provided additional information concerning the Authority's costs. However, it did not provide sufficient evidence to support that employees charged their time reflecting "an after-the-fact distribution of the actual activity" as required.[17] In further support that it did not comply with requirements, the City's response stated it expended $77,302 for relocation salaries to its CDBG grant, but it did not perform any CDBG relocations during the period.

The City provided a schedule that showed it was able to split the acquisition, property management, and disposition costs. However, if the Authority had adequate disposition plans, it would not have had to manage the number of properties it did and could have avoided the cost of maintaining these properties.

Comment 2 The Authority did not always have adequate documentation to support that it met the slum and blight national objective, even after a July 2007 HUD monitoring review finding. In addition, the Authority must provide supporting documentation that the activities also support a low to moderate income national objective.

Comment 3 We disagree with the City's assertion that the Authority collected and remitted fair market value for its sales and leases. Review of 14 dispositions concluded that the Authority used outdated[18] appraisals to support the fair market value of the property.

Comment 4 We commend the City for taking corrective actions in developing a plan for disposition of CDBG acquired properties.

Comment 5 The City believes it had an accurate listing of Authority properties purchased with CDBG funds. However, in at least one instance, the Authority refuted that a property on this list was purchased with CDBG funds. We maintain that the City needs to determine the properties the Authority purchased with CDBG funds.

Comment 6 We commend the City for developing a plan to ensure that the Authority remits program income and the City properly reports the program income into IDIS.

Comment 7 The City did not provide us with the environmental clearances that it referenced in its response. As stated in the report, HUD performed two environmental monitoring reviews and determined that the City did not comply with the required environmental regulations for fiscal years 2004 through 2007.

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17 Office of Management and Budget Circular A-87, attachment B(8).

18 The Authority used appraisals that were one and a half years to almost eight years old.

Comment 8 We commend the City developing written policies and procedures for its CDBG program.

Comment 9 We commend the City for eliminating the organizational identity of interest and separating the monitoring and operating functions.