



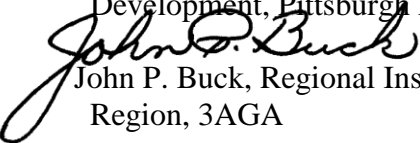
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Regional Inspector General for Audit

MEMORANDUM NO:
2009-PH-1802

September 23, 2009

MEMORANDUM FOR: John E. Tolbert III, Director, Office of Community Planning and Development, Pittsburgh Field Office, 3ED

FROM: 
John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The City of Altoona, Pennsylvania, Needs to Strengthen Its Capacity and Controls to Adequately Administer American Recovery and Reinvestment Act of 2009 Funding

INTRODUCTION

The City of Altoona (City) is scheduled to receive \$1.3 million under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act requires swift obligation and expenditure deadlines with stringent emphasis on accountability and transparency. As part of the U.S. Department of Housing and Urban Development's (HUD) commitment to ensure the proper use of these funds, we performed a review of the City's operation to evaluate its capacity and controls to administer this funding. We selected the City for this audit because it is scheduled to receive significant Recovery Act funds and because we are also performing related audit work with the City as a result of a previous citizen complaint. Our objective for this report was to determine whether the City had adequate capacity and controls to adequately administer Recovery Act funds.

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.

METHODOLOGY AND SCOPE

To accomplish our objective, we obtained and reviewed

- Public Law 111-5, the American Recovery and Reinvestment Act of 2009, dated February 17, 2009;
- HUD regulations at 24 CFR [*Code of Federal Regulations*] Parts 85, 570, and 576;
- Office of Management and Budget (OMB) Circular A-122;

Visit the Office of Inspector General's World Wide Web site at <http://www.hud.gov/offices/oig/>

- HUD’s Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, dated March 19, 2009, and Notice of Program Requirements for Community Development Block Grant Program – Funding under the American Recovery and Reinvestment Act of 2009, dated May 4, 2009;
- HUD Handbook 6500, Community Development Block Grant Program – Entitlement Grant Regulations, and HUD Handbook 6510.2, REV-2, Community Development Block Grant Program: Entitlement Grantee Performance Report Instructions;
- The City’s fiscal years 2003 through 2007 audited financial statements;
- HUD’s program grant agreements with the City;
- HUD’s Pittsburgh Office of Community Planning and Development’s monitoring reports from 2006 through 2008;
- The City’s 2008 action plan and substantial amendments for Recovery Act programs;
- The City’s Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) consolidated annual performance and evaluation report for program year 2007;
- The City’s accounting controls, procurement policies and practices, and monitoring policies to ensure that they were consistent with HUD requirements;
- The staffing of the City’s Department of Community and Economic Development and corresponding employee job responsibilities; and
- Audit workpapers from the HUD Office of Inspector General’s (OIG) ongoing audit of the City of Altoona’s CDBG program.

We conducted the audit from April through August 2009 at the City’s offices located at 1301 12th Street, Altoona, Pennsylvania. The audit covered the period January 2006 through March 2009. We expanded the scope of the audit as necessary. We discussed the City’s operations and our audit results with City officials and staff and officials from HUD’s Pittsburgh Office of Community Planning and Development. Under the Recovery Act, inspectors general are expected to be proactive and focus on prevention.

BACKGROUND

The Recovery Act became Public Law 111-5 on February 17, 2009. It established supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization for the fiscal year ending September 30, 2009, and for other purposes.

Authorized under Title XII of the Recovery Act, HUD allocated \$1 billion in CDBG-Recovery (CDBG-R) funds to states and local governments to carry out, on an expedited basis, eligible activities under the CDBG program. Also under Title XII of the Recovery Act, HUD allocated \$1.5 billion in Homelessness Prevention Rapid Re-Housing Program (HPRP) funds to grantees to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly rehoused and stabilized.

The City is governed by a mayor and a six-member council, elected to four-year terms. The City’s Department of Planning and Community Development administers the City’s community planning and development (CPD) programs. The City had received the following HUD program grants over the past six years:¹

Program	Amount
CDBG	\$13,208,843
HOME	\$2,657,793
Emergency Shelter Plus Grant (ESG)	\$531,049
Total	\$16,397,685

In addition to previous years’ funding, the City will receive more than \$1.3 million in Recovery Act funding allocations for two HUD programs:

Program	Amount
HPRP	\$819,718
CDBG entitlement grants	\$535,897
Total	\$1,355,615

The City reported that it plans to use its HPRP funding for financial assistance and housing relocation/stabilization services through eligible activities approved by HUD.² All four of the subrecipients that will receive HPRP funds have previously received grant funds under the City’s ESG program. The City also reported that it plans to use its CDBG-R funds to provide sidewalk infrastructure and single-family homeowner rehabilitation projects in CDBG-eligible census/block groups.

RESULTS OF REVIEW

The City needs to strengthen its capacity and controls to effectively administer funds provided to it under the Recovery Act. Our ongoing audit of the City’s CDBG program disclosed that the City improperly paid a subrecipient \$914,335 for expenditures that it could not demonstrate were eligible and it failed to adequately monitor the activities of the subrecipient. As stated above, the Recovery Act requires swift obligation and expenditure deadlines with stringent emphasis on accountability and transparency. Therefore, the City’s controls and monitoring procedures would not ensure that the Recovery Act funds would be used for eligible activities. The City also needs to evaluate its staffing to make sure it is adequate to administer Recovery Act funds properly.

¹The City’s program year runs from July 1 through June 30.

² HUD’s Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, dated March 19, 2009, details eligible program activities.

The City Paid \$914,335 for Unsupported CDBG Expenditures

A related concurrent audit, being performed as a result of a citizen complaint, disclosed that the City paid its subrecipient \$914,335 from January 1, 2003, through December 31, 2008, for expenditures that it could not demonstrate were eligible. The subrecipient was required to perform a variety of activities associated with the City's CDBG program. Some of the activities included administering the City's Economic Development Loan Fund Program, economic development monitoring, and the Blighted Property Maintenance Program.³ The subrecipient was to provide staffing to carry out activities of the City's Blighted Property Maintenance Program. The subrecipient's agreements with the City required it to maintain records providing a full description of each activity undertaken and financial records as required by 24 CFR 570.502.

Regulations at 24 CFR 570.506 also state that recipients must ensure that records (1) provide a full description of each activity undertaken; (2) demonstrate that each activity undertaken meets one of the national objectives of the CDBG program; (3) determine the eligibility of the activities; and (4) document the acquisition, improvement, use, or disposition of real property acquired or improved with CDBG assistance.

Lastly, OMB Circular A-122 requires non-profit organizations to maintain reports reflecting the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to awards. The Circular requires that the reports must reflect an after-the-fact determination of the actual activity of each employee. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

The City did not require the subrecipient to maintain this information. It could not provide records showing which properties were maintained or demolished by the subrecipient's Blighted Property Maintenance crew, what type of work was performed at each property, which staff did the work, how much time was charged to the work at each property, when the work was performed, and how the salaries were calculated for the staff who worked on the program activities. The City's CDBG manager acknowledged that the City did not require this information and trusted the subrecipient to perform eligible activities.

We will be addressing this matter in greater detail in a formal audit report on the City's CDBG program to be issued after this memorandum report.

The City's Controls Could Not Ensure That Recovery Act Funds Would Be Used for Eligible Activities

As discussed above, the City could often not support the eligibility of the activities of its CDBG program. The documentation it used to pay its subrecipient included timesheets for salaries paid and invoices for other miscellaneous expenditures (e.g., gas, vehicle leases, supplies, etc.).

³ The \$914,335 paid to the subrecipient was for the activities associated with the City's Blighted Property Maintenance Program.

However, the supporting documentation did not include information about the work performed or how the activities performed prevented slum and blight or met a national objective.

The City explained that it did not require the documentation because it trusted the subrecipient to perform eligible activities. Given the problems the ongoing audit identified and the City's explanation, we are concerned that the City may lack adequate capacity and controls to ensure accountability and transparency regarding the \$1.3 million it is scheduled to receive under the Recovery Act.

Previous HUD Monitoring Identified Ineligible Activity

The Pittsburgh Office of Community Planning and Development's monitoring of the City's CDBG program in March 2006 also identified ineligible use of HUD funds. HUD determined that the City paid more than \$87,000 for an activity that did not meet a national objective. The City agreed to reimburse HUD because it was unable to demonstrate that its installation of heating, ventilation, and air conditioning equipment at a transportation center complied with a HUD national objective.

The City Needs to Update and Follow Its Quarterly Monitoring Procedures

The City's HUD grant monitoring plans state that it will perform either annual on-site visits or desk reviews of its subrecipients. The City stated that it plans to monitor its Recovery Act funds in the same way it monitors its regular HUD grant subrecipients. In the City's substantial amendment plan submitted to HUD, it stated that it would provide quarterly reporting and monitoring sessions to be held with each Recovery Act subrecipient. However, its monitoring plans did not require quarterly reporting and monitoring sessions to be held with each subrecipient. The City needs to update its monitoring plans to include this requirement and consistently perform quarterly monitoring to ensure accountability and transparency of its Recovery Act funds.

The City Needs to Ensure That Its Staffing Is Adequate to Administer Recovery Act Funds

The City plans to have its fair housing officer administer its HPRP funds under the supervision of its emergency shelter grant supervisor. In its substantial amendment plan submitted to HUD, the City allocated \$94,576⁴ for the administration of the CDBG-R and HPRP funds. Since the City allocated \$94,576 for the administration of the funds and the Recovery Act requires grantees to use the funds in a manner that maximizes job creation, the City should evaluate its staffing and consider hiring additional staff rather than requiring its fair housing officer to perform additional duties.

Conclusion

The conditions found during our reviews provided strong evidence that the City lacked capacity and controls to effectively administer its Recovery Act funds. By improving its capacity and

⁴ The City allocated \$53,590 for the administration of the CDBG program and \$40,986 for HPRP.

controls, the City can ensure that \$1.3 million in Recovery Act funds will be used for the purposes intended.

RECOMMENDATIONS

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

- 1A. Implement controls to ensure that the Recovery Act funded activities are adequately supported and meet eligibility requirements.
- 1B. Update and implement written monitoring policies and procedures for all subrecipients, to include detailed monitoring and documentation requirements for Recovery Act funds, to ensure accountability and transparency.
- 1C. Evaluate its staffing and consider hiring additional staff to administer the funds.

AUDITEE RESPONSE

We provided the City a draft of this memorandum on August 24, 2009, and discussed it with the City at an exit conference on September 3, 2009. The City provided a written response on September 8, 2009. The City's response, along with our evaluation of that response, is included herein as appendix A.

Appendix A

REF TO OIG EVALUATION

AUDITEE COMMENTS



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JOSEPH F. WEAKLAND
CITY MANAGER

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September 8, 2009

John P. Buck, Regional Inspector General for Audit
Philadelphia Region, 3AGA
U. S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

RE: City of Altoona's Administration of the American Recovery & Reinvestment Act of 2009
Funding

Dear Mr. Buck:

Comment 1

The following is our response to your Department's review of the City's capacity to administer Recovery Act Funds. As you will note in our response, the only issue that the City feels has any merit is the recommendation that we should update and implement our written monitoring policies and procedures. We will consider this after consultation with the Pittsburgh Area HUD office.

CITY'S RESPONSE TO RECOMMENDATIONS

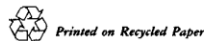
1A. Implement controls to ensure that the Recovery Act funded activities are adequately supported and meeting eligibility requirements.

Comment 2

The auditors' concerns regarding the City's ability to meet eligibility requirements is the result of their erroneous finding of a concurrent audit claiming that the city conducted an ineligible activity through a sub grantee agreement. As will be demonstrated to the auditors, this was clearly an eligible activity meeting the CDBG national objective of the elimination of slum and blight. The auditor in this case was unaware of the federal regulations pertaining to the acquisition, demolition and maintenance of properties on a spot basis. It is clearly documented in our files that these regulations were followed. In addition, the City has a long history of implementing the type of activities we are funding through recovery act funds, successfully meeting all HUD requirements and regulations.

1B. Update and implement written monitoring policies and procedures for all subrecipients, to include detailed monitoring and documentation requirements for Recovery Act funds, to ensure accountability and transparency.

City's Website: altoonapa.gov



Comment 1

This recommendation is not appropriate pertaining to the City's CDBG-R Program and the HPRP. The CDBG-R program involves no subrecipients and will be carried out totally in-house. The City is funding projects which it has a long track record of performing and performing well under the regulations. The HPRP funds do require the utilization of subrecipients; however, the City has been utilizing these four subrecipients since the inception of the Emergency Shelter Grant Program and has been monitoring these agencies on a regular basis. Monitoring reviews from HUD have found no monitoring deficiencies.

1C. Evaluate its staffing and consider hiring additional staff to administer the funds.

Comment 3

The administration of the Emergency Shelter Grant program, which is very similar to the HPRP program, has proven to be administered efficiently and without error since its inception. The City will be utilizing the same staff, with the addition of support staff for the implementation of the HPRP Program.

Comment 3

With respect to the CDBG-R funds, given the nature of the activities to be funded with these funds, current in-house staff is more than adequate to implement this program efficiently. The current staff is well-seasoned in overseeing housing rehabilitation projects and infrastructure projects, i.e., curb and sidewalk improvements.

Sincerely,



Joseph F. Weakland
City Manager
City of Altoona

JW/kc

CC: John E. Tolbert, Director, Office of Community Planning & Development

Comment 1 The City's position is not clear because it states upfront that it will consider implementing and updating its written monitoring policies and procedures and later in its response to recommendation 1B, it states that this is not appropriate. The audit evidence and previous HUD monitoring clearly showed that the City needs to update and implement improved monitoring plans to ensure accountability and transparency of its Recovery Act funding. It is also important to note that our review of the City's monitoring reports showed that its most recent evaluation of the subrecipient was completed over five years ago (June 2004).

Comment 2 The audit evidence showed that the City paid a subrecipient \$914,335 for expenditures that it could not demonstrate were eligible. We agree that the elimination of slum and blight meets a CDBG national objective and we are in fact aware of federal regulations pertaining to the acquisition, demolition, and maintenance of properties on a spot basis. However, the subrecipient's agreements with the City required it to maintain records providing a full description of each activity undertaken and financial records as required by 24 CFR 570.502. Additionally, regulations at 24 CFR 570.506 state that recipients must ensure that records (1) provide a full description of each activity undertaken; (2) demonstrate that each activity undertaken meets one of the national objectives of the CDBG program; (3) determine the eligibility of the activities; and (4) document the acquisition, improvement, use, or disposition of real property acquired or improved with CDBG assistance. Lastly, OMB Circular A-122 requires non-profit organizations to maintain reports reflecting the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to awards. After the audit exit conference the City provided a listing of properties that it demolished. However, the spreadsheet did not adequately document what type of work was performed at each property, which staff did the work, how much time was charged to the work at each property, when the work was performed, and how the salaries were calculated for the staff who worked on the program activities. The City explained that it did not require supporting documentation because it trusted its subrecipient to charge only for eligible activities. However, additional documentation is required to fully support these expenditures.

Comment 3 Given the problems the audit identified with accountability and transparency, we maintain that the City should evaluate its staffing and consider hiring additional staff rather than requiring its fair housing officer to perform additional duties.