



Issue Date March 31, 2009

Audit Case Number 2009-AT-1004

TO: Gary Dimmick, Director, Office of Community Planning and Development, 4FD

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: The City of Durham, North Carolina, Did Not Adequately Administer Its
Community Development Block Grant Program

HIGHLIGHTS

What We Audited and Why

We audited the Community Development Block Grant (CDBG) program administered by the City of Durham, North Carolina (City). The objective of the audit was to determine whether the City administered its program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. We selected the City for review based on HUD's risk assessment and previous monitoring reviews.

What We Found

The City did not administer its CDBG program in accordance with all of HUD's requirements. Specifically, the City was deficient in (1) documenting national objectives, (2) monitoring, (3) procuring services, (4) reporting program income, and (5) preparing accurate consolidated annual performance and evaluation reports. These deficiencies occurred because the City lacked effective management controls over its CDBG program activities to ensure compliance with all applicable HUD requirements. As a result, it had no assurance that more than \$1.3 million in CDBG funds met HUD requirements.

What We Recommend

We recommend that the Director of the Greensboro Office of Community Planning and Development require the City to establish and implement effective written procedures for documenting compliance with HUD's requirements for (1) national objectives and monitoring, (2) procurement, (3) program income, and (4) preparing performance reports. We also recommend that HUD require the City to record unreported program income in HUD's Integrated Disbursements and Information System (system), expend the funds on eligible CDBG activities, and repay the interest earned on unreported program income. In addition, we recommend that HUD require the City to provide adequate supporting documentation to show that CDBG funds disbursed were awarded to the lowest responsive and responsible bidder, met one of the three national objectives, and were properly monitored.

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 draft report to the City on February 11, 2009, and discussed the findings with City officials at an exit conference on February 25, 2009. The City provided its written comments on March 2, 2009. The City expressed agreement with the finding and recommendations in both its written comments and during the exit conference.

The complete text of the City's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The City of Durham, North Carolina (City) receives annual Community Development Block Grant (CDBG) program funds from the U.S. Department of Housing and Urban Development (HUD). HUD awarded the City's CDBG program more than \$3.9 million in funding for fiscal years 2006 and 2007. The City is governed by a mayor and a six-member city council. A city manager appointed by the city council oversees the day-to-day functions of the City. The City administers the CDBG program through its Department of Community Development. A director manages the daily operations of the department, which maintains its records at 807 East Main Street, Suite 2-200, Durham, North Carolina.

The CDBG program is a flexible program that provides communities with resources to address a wide range of unique community development needs. It is regulated by 24 CFR [*Code of Federal Regulations*] Part 570. HUD determines the amount of each grant by using a formula comprised of several measures of community need, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas. All activities receiving CDBG funds must meet one of the following national objectives:

- Benefit low- and moderate-income persons.
- Prevent or eliminate slum or blight.
- Meet a recent, urgent community need for which other funds are not available.

We selected the City for review because previous HUD field office reviews had identified material deficiencies. In addition, our two audits of the City's HOME Investment Partnerships program identified material deficiencies in the City's administration of that program.

Our audit objective was to determine whether the City administered its CDBG program in accordance with applicable HUD requirements. Specifically, we wanted to determine whether the City complied with HUD's requirements related to (1) national objectives, (2) monitoring subrecipients and contractors, (3) procurement, and (4) recording and using program income.

RESULTS OF AUDIT

Finding 1: The City Did Not Adequately Administer Its CDBG Program

The City did not administer its CDBG program in accordance with all of HUD's requirements. Specifically, it was deficient in (1) documenting national objectives, (2) monitoring, (3) procuring services, (4) reporting program income, and (5) preparing an accurate consolidated annual performance and evaluation report (CAPER). These deficiencies occurred because the City lacked effective management controls over its program to ensure compliance with all of the applicable HUD requirements. As a result, it had no assurance that more than \$1.3 million in CDBG funds met the requirements.

National Objectives Were Not Documented

The City contracted with subrecipients to establish and administer some of its CDBG activities. In addition to the Department of Community Development, two other departments within the City were allocated CDBG funds for at least three activities. The City did not maintain adequate supporting documentation to demonstrate that four of the twelve activities reviewed met national objectives. This deficiency occurred because the City's policies and procedures were insufficient to ensure compliance with HUD's national objective requirements. As a result, the City could provide no assurance that \$380,290¹ in CDBG funds achieved the intended national objective. The regulations (24 CFR 570.506(b)) hold the City responsible for demonstrating that each activity meets a national objective.

The following examples illustrate the deficiencies noted during our review.

- Small business incubator. Since 2003, the City had contracted with a subrecipient to provide low- and moderate-income individuals a facility in which to start their businesses. The national objective was to benefit low- and moderate-income families. According to the contract, the City was to receive documentation, such as family size and income, affirming that low- and moderate-income individuals were being served. However, the City's files lacked evidence to support this requirement. When we brought this matter to the attention of City staff, they informed us that they had attempted to obtain this information from the subrecipient since 2007.

¹ The City expended \$418,305 for activities that did not clearly meet the intended national objective. We adjusted this amount by \$38,015 for activities which had both national objective and procurement issues in order to avoid double counting total questioned costs.

As of January 7, 2009, however, the subrecipient had not provided the City the requested information.

- Emergency relocation. The City, through another of its departments, provides relocation assistance to low-income residents whose homes have been deemed unsafe or condemned by the City. The national objective identified in the files stated that low- and moderate-income individuals outside the designated census tracts would benefit from this service. However, the documentation in the files did not support that designation. In addition, the support had been placed in the file after the activity was completed.
- Opportunity loans. The City, through another of its departments, provides loan funds to assist businesses located in low- and moderate-income census tracts. According to the established procedures, the national objective was to benefit low- and moderate-income individuals. However, the files did not contain documentation in support of the national objective.
- Homeowner rehabilitation. The City provides forgivable loans to elderly or disabled homeowners to perform substantial rehabilitation or urgent repairs to homes that are in severe condition. National objective information was not contained in the files upon initial review. However, once we informed the City, documentation was placed in three of the five files. As of January 7, 2009, documentation had not been placed in the other two files.

Monitoring Was Insufficient or Not Performed

The City failed to perform the required monitoring for at least eight activities. It did not perform the required monitoring for three subrecipients performing four activities, one activity performed by the Department of Community Development, and three activities performed by other City departments. As a result, the City had no assurance that \$493,096² in CDBG funds was properly monitored.

Regulations (24 CFR 85.40) assign grantees responsibility for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to assure compliance with applicable federal requirements and that performance goals are achieved. Grantee

² The City expended \$1,044,011 for activities that it did not properly monitor. We adjusted this amount by \$380,290 for activities which had both monitoring and national objective issues and by \$170,625 for activities which had both monitoring and procurement issues in order to avoid double counting total questioned costs.

monitoring must cover each program, function, or activity. The use of subrecipients does not relieve the City of this responsibility.

Below are examples of monitoring deficiencies associated with the different types of CDBG activities performed.

- Lead abatement training. Under this program, the subrecipient was to provide training to local contractors to repair 10 homes using lead-safe interim control methods. The only monitoring located in the file consisted of copies of pay requests. These were to be signed by the occupant, the contractor, and the project manager. However, the forms were not properly completed and did not contain sufficient information to be considered adequate monitoring.
- Infrastructure. This program was to perform all necessary actions to install the appropriate infrastructure to support the development of 33 lots. The only evidence of monitoring contained in the files consisted of forms that had been completed by a HUD Office of Community Planning and Development representative. The regulation states that the grantee is to perform the monitoring.
- Other City departments. The Department of Community Development allocated two other City departments CDBG funds for at least three activities. The City had assigned project managers to oversee the other departments' distribution of these funds. However, it had conducted no monitoring of these departments. One department's files contained a one-page monitoring checklist that provided little information.

The City did not have written monitoring procedures in place for subrecipients or activities administered by other City departments. For activities carried out by other City departments, the annual action plan required a memorandum of understanding among the departments. The plan stated that the assigned project manager should visit each project on a regular basis, with at least one visit dedicated to a file review, to ensure that the project was completed as required. A memorandum of understanding existed between the Department of Community Development and one other City department. However, it was not followed.

The City must develop written procedures to ensure that all required monitoring is completed. Since the City's Department of Community Development administers the majority of CDBG funds and has the most knowledge of HUD programs, it should provide monitoring and technical assistance to other City departments receiving CDBG funds.

Procurement Requirements Were Not Followed

The City administered a homeowner rehabilitation program and an urgent repair program for homeowners with incomes at or below 50 percent of the area median income. During our review period, the City procured contractors to rehabilitate 6 homes and repair 20 homes without following applicable procurement requirements. It paid the contractors \$366,479 in CDBG funds for this work. In addition, the City did not always ensure that subrecipients followed procurement requirements. These deficiencies occurred because the City did not have adequate written procedures to ensure compliance with procurement requirements. As a result, the City could not support that it carried out procurements using full and open competition, or properly solicited participation of minority and women-owned businesses or labor surplus area firms.

Under the homeowner rehabilitation program, the City granted deferred, forgivable loans of up to \$35,000 for elderly and disabled owner-occupants with incomes at or below 50 percent of the area median income. Under the urgent repair program, the City granted forgivable loans of up to \$10,000 to elderly or disabled homeowners to address conditions causing an imminent threat to the health and safety of the occupants or limiting their accessibility. The City procured contractors for the rehabilitation and urgent repair program in the same manner.

The City used the sealed bid method of procurement for its homeowner rehabilitation and urgent repair activities. Procurement regulations (24 CFR 85.36(d)(2)(ii)(A)) require that invitations for bids be publicly advertised when using the sealed bid method. The City was also required (24 CFR 85.36(e)) to take all necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms were used when possible. Affirmative steps include (1) placing qualified small and minority businesses and women's business enterprises on solicitation lists and (2) ensuring that small and minority businesses and women's business enterprises are solicited whenever they are potential sources. We reviewed the six homeowner rehabilitation activities and found that none were advertised as required to support full and open competition. In addition, the City had not maintained documentation to support that it had solicited participation of minority and women-owned businesses or labor surplus area firms.

Subrecipient Procurement

The City did not ensure that a subrecipient receiving \$3,456 in CDBG funds to demolish four substandard structures followed the proper procurement requirements. Section 15 of the subrecipient agreement required the subrecipient to conduct all procurement transactions in a manner so as to provide maximum, open, and free competition in accordance with the applicable regulations (24 CFR

570.502). The City's files contained no documentation showing how the procurement was conducted. At our request, the City obtained an explanation from the subrecipient. The subrecipient provided a letter stating that the contractor was chosen solely on the recommendation of another nonprofit organization.

Program Income Was Not Properly Recorded or Used

The City did not always record and use program income as required. In addition, it sometimes miscalculated program income. As a result, the City's reporting to HUD was incorrect, and it unnecessarily drew down \$125,278 in CDBG funds.

Program income should be recognized accurately and in a timely manner because the regulations (24 CFR 570.504(b)(2)(ii)) require that program income be disbursed for eligible activities before additional funds are drawn from the U.S. Treasury account. In addition, regulations (24 CFR 85.21(h)(2)(i)) require that interest earned on federal advances be returned to the agency.

The City generated program income through payments received from home-buyer mortgage assistance and small business loans. The loan servicing company provided a monthly report of loan activity to support the electronic transfer of payments to the City. The City's accounting department analyzed the data and recorded the payments in the appropriate program's account. The information was communicated to a Department of Community Development employee, who then entered the program income into HUD's system.

Unreported Income

The City did not record \$95,593 in CDBG program income for May and June 2006 into HUD's system. It continued to draw down grant funds when there were available program income funds and earned interest on the program income in its account. As of August 27, 2008, \$10,968 in interest had accrued on these funds.

During fiscal year 2007, the City, through its Neighborhood Improvement Services Department, used CDBG funds to demolish homes that were not maintained to city code. The City placed liens on the properties to recoup the funds used to demolish them. While the Neighborhood Improvement Services Department was aware that any funds recovered were program income, it was not aware, until our request for documentation, that some funds had been repaid. As a result, \$26,019 was not properly recorded in HUD's system, and the City continued to draw down grant funds when program income was available. As of January 13, 2009, \$715 in interest had accrued on these funds.

Program Income Miscalculations

Miscalculations, omissions, and double counting of some amounts resulted in the City's reporting incorrect amounts of program income for fiscal years 2006 and 2007. The City understated fiscal year 2006 program income by \$26,275. It then overstated fiscal year 2007 program income by \$22,609 in an attempt to correct the 2006 understatement. The net effect was a \$3,666 reporting understatement for the period.

The CAPER Contained Errors

Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan (24 CFR 91.520(a)). Throughout the course of our review, we used the City's CAPER as a source of information on the City's program. However, the CAPERs contained many deficiencies. There were

- Instances in which the itemized listing of amounts spent did not match the total listed for that activity;
- Instances in which the national objective listed in the CAPER did not match the national objective documented in the files;
- Incomplete descriptions documenting the individuals served and the purpose and results of various CDBG activities; and
- Two activities, which expended about \$200,000, that were not shown in the CAPER.

As a consequence of such deficiencies, the City could not assure HUD or the public that the information in the CAPER provided a complete, supported, and accurate portrayal of the use of HUD funds for the program year.

Conclusion

More than \$1.3 million for CDBG activities is subject to possible repayment because the City did not always follow the applicable HUD requirements. This condition occurred because the City lacked effective management controls over its CDBG program and activities to ensure compliance with all HUD requirements.

Recommendations

We recommend that the Director of HUD's Greensboro, North Carolina, Office of Community Planning and Development require the City to

- 1A. Provide and maintain documentation to support that CDBG program requirements were followed and national objectives were met for the four activities according to 24 CFR 570.506 or reimburse its program \$380,290 from nonfederal funds. The City disbursed \$418,305 for activities not clearly meeting a national objective. The remaining \$38,015 is included in recommendation 1E which addresses procurement issues.
- 1B. Develop, implement, and enforce written policies and procedures to ensure effective performance and compliance with federal regulations for meeting CDBG national objectives.
- 1C. Provide HUD with adequate documentation related to the \$493,096 in CDBG funds disbursed without proper monitoring. Any amounts determined to be ineligible should be reimbursed to the CDBG program from nonfederal funds. The City disbursed \$1,044,011 for activities that it did not properly monitor. The remaining funds are included in recommendation 1A (\$380,290) for activities not clearly meeting a national objective, and recommendation 1E (\$170,625) which addresses procurement issues.
- 1D. Implement written procedures, in accordance with HUD requirements, to ensure that the City performs and documents monitoring reviews of its CDBG activities as required.
- 1E. Provide adequate documentation to support that the \$366,479 in CDBG funds for homeowner rehabilitation activities for fiscal years 2006 and 2007 was awarded to the lowest responsive and responsible bidders. Any amounts determined to be ineligible should be reimbursed to the CDBG program from nonfederal funds.
- 1F. Develop and implement procedures to ensure that future services for homeowner rehabilitation are procured in accordance with requirements as they relate to (1) advertising to provide full and open competition, and (2) adequately documenting all necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms are used when possible.
- 1G. Provide adequate documentation to support that the subrecipient awarded the CDBG-funded demolition contract in fiscal year 2006 to the most reasonable and responsible bidder. The \$3,456 expended for this activity

is included in the \$493,096 of questioned costs in recommendation 1C since the City had also not properly monitored the subrecipient.

- 1H. Develop and implement procedures to ensure that all procurement transactions that subrecipients enter into as a result of CDBG funding will be conducted in a manner that provides full and open competition in accordance with federal requirements.
- 1I. Submit for review and approval a plan for improving controls among the City's departments so that program income will be consistently recorded and reported in accordance with HUD's requirements.
- 1J. Repay HUD \$11,683 or the current balance for interest the City earned on program income which was either not recorded in HUD's system or not recorded in a timely manner.
- 1K. Record \$125,278 in program income in HUD's system and expend the funds for eligible CDBG activities before drawing down additional funds.
- 1L. Develop and implement written procedures to ensure that the information placed in the CAPER is a complete, supported, and accurate portrayal of the use of HUD funds for the program year.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the City administered its CDBG program in accordance with applicable HUD requirements. Specifically, we wanted to determine whether the City complied with HUD's requirements related to (1) national objectives, (2) monitoring subrecipients and contractors, (3) procurement, and (4) recording and using program income. To accomplish our objective, we

- Obtained and reviewed relevant HUD regulations and City guidelines,
- Interviewed HUD and City officials,
- Reviewed monitoring reports,
- Reviewed applicable City files and records including general ledgers, and
- Reviewed the City's internal controls related to the administration of its CDBG program.

Monitoring and National Objective

Based on a list provided by the City, interviews with staff, and reviewing the CAPERs, we developed a list of 42 CDBG activities for the audit period. A sample of 14 activities was selected to ensure that each project manager had at least one project in the sample and each different type of national objective was reviewed. The results apply to the items reviewed only; we did not project them to the universe.

Procurement

We reviewed the files for all six homeowner rehabilitation contracts. Through interviews with the rehabilitation project manager, we determined that requests for bids included multiple jobs that included both the substantial rehabilitation and urgent repair programs. Therefore, no additional urgent repair program files were separately reviewed, but all costs, as applicable, were considered questioned costs.

Program Income

Based on our review of the program income records, we determined that the City had not reported program income for the months of May and June of 2006. To determine how much, if any, program income was received during that time, we obtained the general ledger for those months from the City's finance department. Based on the information provided, we determined that the City had not reported \$95,593 for these months in HUD's system. In addition, through interviews with City staff, we found that \$26,019 in program income from another City department had not been properly recorded in HUD's system. Miscalculations, omissions, and double counting of some amounts resulted in the City's understating an additional \$3,666 for the audit period. In total, \$125,278 in program income will be put to better use if it is recorded in the system and disbursed for CDBG-eligible activities as HUD requires.

The audit generally covered the period July 1, 2005, through June 30, 2007, but we extended the audit period when necessary to accomplish our objectives. We conducted our fieldwork from June 2008 through January 2009 at the City's offices in Durham, North Carolina.

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 objectives. We believe that the evidence obtained provides a reasonable bases for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are 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. They 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 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.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 that the following item is a significant weakness:

- The City lacked adequate controls over its CDBG program (see finding 1).

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		\$380,290	
1C		493,096	
1E		\$366,479	
1J	<u>\$11,683</u>	_____	
1K			<u>\$125,278</u>
Total	<u>\$11,683</u>	<u>\$1,239,865</u>	<u>\$125,278</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the City implements our recommendations, it will commit and use program income in its local account before drawing down program funds from its U.S. Treasury account. Once the City successfully improves its procedures and controls, this will be a recurring benefit.

Appendix B

AUDITEE COMMENTS

DURHAM



1869
CITY OF MEDICINE

CITY OF DURHAM

City Manager's Office

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March 2, 2009

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region 4 Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388

**Re: City of Durham Comment Letter
CDBG Program Audit**

Dear Mr. McKay:

The City of Durham has reviewed the draft audit report on its CDBG program and does not dispute any of the findings. The steps taken or that will be taken to correct the identified deficiencies are outlined below:

National Objectives Were Not Documented

Adequate national objective documentation was not maintained for four of the twelve activities that were reviewed – small business incubator, emergency relocation, opportunity loans and homeowner rehabilitation. The documentation missing from the homeowner rehabilitation files has been incorporated and we have notified the Departments of Neighborhood Improvement Services and Economic and Workforce Development that the Department of Community Development will assist them in correcting or completing documentation in the emergency relocation and opportunity loan files.

Good Things are Happening in Durham

Auditee Comments

Mr. James D. McKay
March 2, 2009
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Monitoring Was Insufficient or Not Performed

The audit of the City's HOME program identified a similar finding and a result, the written performance standards for Community Development project managers were amended to include the following:

- Within 30 days of receiving a subrecipient assignment, the project manager must meet with the subrecipient to finalize the project scope, review compliance and reporting requirements and prepare the contract for execution.
- Within 30 days of contract execution, the project manager must conduct a start-up visit with the subrecipient to ensure that all internal processes and procedures are in place and to answer any questions.
- No later than the third quarter of the contract period, the project manager must conduct an onsite monitoring visit unless an alternative monitoring schedule is approved.
- Within 30 days of final drawdown and/or contract completion, the project manager must issue a close out letter which speaks to the reconciled expenditure amount and compliance.

The City will develop additional written procedures to ensure that the required monitoring of subrecipients and other City Departments who are allocated HUD funding is completed.

Procurement Requirements Were Not Followed

The audit of the City's HOME program identified the same procurement deficiency in the housing rehabilitation program that the CDBG audit found in the rehabilitation and repair programs funded by CDBG. Corrective actions have already been taken in advertising the programs to potential bidders and in taking affirmative steps to reach small, minority and women-owned business enterprises. Additionally, the City will prepare and submit documentation to support that the CDBG funded rehabilitation and repair contracts were awarded to the most responsible firm with a proposal that was most advantageous to the program, considering price and other factors.

With respect to subrecipient procurement, the City will ensure that subrecipients are fully aware of and comply with the procurement requirements of the subrecipient agreements or contracts.

Auditee Comments

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March 2, 2009
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Program Income Was Not Properly Recorded or Used

Failure to properly record and use program income was also found during the audit of the HOME program and accordingly, improved procedures and controls have been put in place to ensure compliance with regard to expending and reporting program income. Additionally, we will submit for review and approval a plan for improving controls among City Departments so that program income will be consistently recorded and reported in accordance with HUD's requirements.

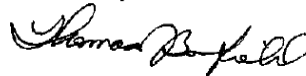
It should be noted that the interest earned on program income was wired to HUD in early January of this year and that the program income has been posted and drawn down in IDIS.

The CAPER Contained Errors

We acknowledge the errors that were found and we intend to develop and implement written procedures to ensure that the information placed in the CAPER is a complete and accurate portrayal of the use of HUD funds for the program year.

In anticipation of receiving your final audit report, City staff is already at work in addressing outstanding recommendations listed as 1A through 1L of the draft letter and where appropriate, we will provide follow-up information and documentation to the Greensboro field office. Should you have any questions or need additional information, please do not hesitate to let us know.

Sincerely,



Thomas J. Bonfield
City Manager

C: Mr. David Butcher, Assistant Regional Inspector General for Audit
Mr. Gary A. Dimmick, Director, Office of Community Planning and Development

Appendix C

FEDERAL REQUIREMENTS

Regulations at 24 CFR 570.506(b) state that each recipient shall establish and maintain sufficient records demonstrating that each activity undertaken meets one of the criteria set forth in section 570.208 (national objective).

Regulations at 24 CFR 85.40 state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to assure compliance with applicable federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity.

Regulations at 24 CFR 85.36(d)(2)(ii)(A) state that the invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time before the date set for opening the bids.

Regulations at 24 CFR 85.36(e) state that the grantee and subgrantee will take all necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms are used when possible. Affirmative steps include (1) placing qualified small and minority businesses and women's business enterprises on solicitation lists and (2) assuring that small and minority businesses and women's business enterprises are solicited whenever they are potential sources.

Regulations at 24 CFR 570.504(b)(2)(ii) state that substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

Regulations at 24 CFR 85.21(h)(2)(i) state that except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. [*United States Code*] 6501 *et seq*) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Regulations at 24 CFR 91.520(a) state that each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan.