



Issue Date April 1, 2009

Audit Report Number 2009-AT-1005

TO: Mary D. Presley, Director, HUD Atlanta Office of Community Planning and Development, 4AD

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

SUBJECT: The City of Augusta, Georgia, Did Not Comply with HOME Monitoring Requirements

HIGHLIGHTS

What We Audited and Why

We audited the City of Augusta's (City) HOME Investment Partnerships (HOME) program as part of the U.S. Department of Housing and Urban Development's (HUD) annual audit plan. We selected the City for review based on a HOME risk assessment we conducted. Our audit objectives were to determine whether the City complied with HOME program requirements for monitoring (1) HOME community housing development organizations (CHDO) and subrecipients and (2) the use of CHDOs' proceeds. This is the second of two audit reports on the HOME program.

What We Found

The City did not comply with the HOME requirements for performing its monitoring and follow-up reviews or have sufficient documentation to support that required reviews were conducted. In addition, it did not properly monitor the use of its CHDOs' proceeds. The City did not implement its procedures to ensure that the required monitoring and follow-up reviews were performed and documented. Also, City officials did not follow and enforce program monitoring

requirements. As a result, the City and HUD lacked assurance that HOME funds was spent for activities that were administered in compliance with program requirements, and CHDOs' proceeds and grant funds of \$105,049 were used for eligible program costs.

What We Recommend

We recommend that the Director of HUD's Atlanta Office of Community Planning and Development require the City to properly support or repay \$105,049 in questioned costs because of program violations. We also recommend that the Director require the City to establish and implement proper controls and procedures to ensure compliance with all program requirements.

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 our discussion draft audit report to the City on March 3, 2009. We held an exit conference on March 11, 2009. The City provided written comments on March 23, 2009, and generally agreed with our audit finding.

The complete text of the City's written response, along with our evaluation of that response, can be found in appendix B of this report. The City also provided attachments with its response that are available for review upon request.

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BACKGROUND AND OBJECTIVES

The City of Augusta's (City) government was created by legislative act in the state of Georgia from the unification of the two governments, the City of Augusta, Georgia, and Richmond County, Georgia. On June 20, 1995, the citizens of the City of Augusta and Richmond County voted to consolidate into one government named Augusta, Georgia. The officials for the new government were elected and took office on January 1, 1996. The unified government combined all functions and began financial operations on January 1, 1996.

The City is governed by a full-time mayor, with a term of four years, and a 10-member commission, serving on a part-time basis and elected to staggered terms of four years. The mayor and commission appoint an administrator who serves as a full-time administrative officer and is responsible for the daily operations of the government. The City's Housing and Community Development department is responsible for administering several programs including the Community Development Block Grant, HOME Investment Partnerships (HOME), Emergency Shelter Grant, and the Economic Development Initiative. The mission of the Augusta Housing and Community Development department is to create positive change by promoting self-sufficiency through partnership in economic development, quality housing, and neighborhood reinvestment.

Since 2003, the City has received more than \$8.2 million in HOME funding. HOME funding is allocated to eligible state and local governments to strengthen public-private partnerships and to increase the supply of decent, safe, and sanitary affordable housing to very low-income families. Participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new construction, and tenant-based rental assistance.

The U. S. Department of Housing and Urban Development's (HUD) Atlanta Office of Community Planning and Development in Atlanta, Georgia, is responsible for overseeing the City. HUD's most recent monitoring report, dated August 10, 2007, indicated that the City's HOME program did not operate at a level that ensured compliance with program requirements.

The City's independent public accountant report for fiscal year 2007 contained six current findings and five prior findings. The independent public accountant findings included noncompliance with subrecipient monitoring and cash management.

Our audit objectives were to determine whether the City complied with HOME program requirements for monitoring (1) HOME community housing development organizations (CHDO) and subrecipients and (2) the use of CHDOs' proceeds.

RESULTS OF AUDIT

Finding 1: The City Did Not Comply with HOME Monitoring Requirements

The City did not comply with the HOME requirements for performing its monitoring and follow-up reviews or have sufficient documentation to support that required reviews were conducted. In addition, it did not properly monitor the use of its CHDOs' proceeds. The City did not implement its procedures to ensure that the required monitoring and follow-up reviews were performed and documented. Also, City officials did not follow and enforce program monitoring requirements. As a result, the City and HUD lacked assurance that HOME funds was spent for activities that were administered in compliance with program requirements to benefit eligible HOME recipients and CHDOs' proceeds of \$105,049 were used for eligible program costs.

Monitoring Not Adequately Performed or Documented

The City contracted with various CHDOs and subrecipients to administer some of its HOME activities. Therefore, it was responsible for monitoring each CHDO and subrecipient annually, as well as obtaining their audit/financial reports. In addition, it was responsible for monitoring the sources, uses, and amount of proceeds generated by the CHDOs.

We reviewed the City's monitoring files for all six CHDOs and two subrecipients, and we visited three CHDOs with more than \$2.9 million in grants awarded by the City. The City did not properly perform the required programmatic and financial monitoring and follow-up reviews or maintain sufficient documentation to support the reviews of the CHDOs' and subrecipients' internal controls and financial records. In addition, adequate documentation was not available to support corrective actions taken to resolve findings and concerns. The City's files did not document the audit/financial reports as required by the contract between the City and the CHDOs.

For the reviews that were performed by the City, the files contained a letter to the CHDOs or subrecipients and the violations identified. However, the files did not document information on the follow-up reviews or the corrective actions taken.

Regulations at 24 CFR [*Code of Federal Regulations*] 92.504(a) state that the City is responsible for managing the day-to-day operations of its HOME program,

ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of state recipients, subrecipients, or contractors does not relieve the City of this responsibility. The City is required to conduct annual reviews of the performance of each contractor and subrecipient. Regulations at 24 CFR 92.508(6)(iii) state that at a minimum, the City must maintain records documenting required inspections, monitoring reviews, audits, and the resolution of any findings or concerns. By not properly monitoring the CHDOs and subrecipients, the City could not ensure that CHDOs and subrecipients complied with program requirements. Also, the City and HUD lacked assurance that HOME funds were used for eligible HOME activities and that the intended program benefits were realized.

In addition, the three CHDOs visited generated more than \$850,000 in proceeds. The City did not properly monitor the use of these proceeds, resulting in \$105,049 in proceeds and grant funds that were not properly supported as having been used for HOME-eligible activities. City officials stated that they were unaware of the amount of proceeds the CHDOs generated and how they used the funds. Notice CPD (Community Planning and Development) 97-9 requires the City to monitor the CHDOs' compliance with the terms of the written agreement regarding CHDO proceeds. Regulations at 24 CFR 92.508(a) require the City to establish and maintain sufficient records to enable HUD to determine compliance with program requirements. The \$105,049 consists of

- \$10,298 paid for unsupported demolition and clearance activities. One CHDO did not have invoices to support payments made to various individuals or documentation from the individuals identifying what work was performed and the property involved.
- \$94,751 paid for unsupported housing activities. The two other CHDOs did not have adequate documentation to show that affordable housing units were sold to individuals who met the required income limits.

City officials stated that they were aware of the requirement to monitor and resolve findings and concerns, but due to time constraints, the reviews and documentation were not always completed.

Conclusion

Overall, as a result of the City's not implementing procedures for monitoring its CHDOs and subrecipients and City officials' failure to follow and enforce program monitoring requirements, the City could not ensure that its HOME funds were used in compliance

with program requirements. In addition, CHDOs' proceeds of \$105,049 were spent for activities that were not supported as eligible program costs.

Recommendations

We recommend that the Director of HUD's Atlanta Office of Community Planning and Development

- 1A. Require the City to establish and implement acceptable procedures and controls to ensure that HOME activities are adequately monitored in a timely manner, to include identifying documentation to be maintained and obtaining the required audit/financial reports.
- 1B. Require the City to conduct quality control reviews to ensure compliance with the monitoring requirements for the six CHDOs and two subrecipients reviewed in this audit.
- 1C. Require the City to develop and implement procedures and controls to ensure that CHDO program proceeds are properly accounted for and used.
- 1D. Require the City to repay the program from nonfederal funds any portion of the \$105,049 in CHDOs' proceeds determined to be unsupported.

SCOPE AND METHODOLOGY

To accomplish our objectives, we

- Researched HUD handbooks, the *Code of Federal Regulations*, and other requirements and directives that govern the City's HOME program;
- Reviewed HUD's monitoring reports and files for the City's HOME program;
- Reviewed the City's HOME matching funds records;
- Reviewed the City's procedures and controls used to administer its HOME program activities;
- Interviewed officials of the Atlanta HUD Office of Community Planning and Development, the City, and CHDOs;
- Obtained and reviewed the City's annual audited financial statements and program and project files; and
- Reviewed the City's monitoring files for all six CHDOs and two subrecipients. We also conducted site visits and reviewed files at three CHDOs that had a high level of project activity and past HUD monitoring concerns. The three CHDOs received more than \$2.9 million in grant funds and generated proceeds of more than \$850,000 during the period.

We did not review and assess general and application controls over the City's information system. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included but were not limited to comparison of computer-processed data to written agreements, contracts, and other supporting documentation. We did not place reliance on the City's information and used other supporting documentation for the activities reviewed.

The review generally covered the period January 1, 2003, through December 31, 2008. We performed the review from September 2008 to January 2009 at the offices of the City's Housing and Community Development department and its HOME program recipients located in Augusta, Georgia, and the HUD Office of Community Planning and Development in Atlanta, Georgia. We adjusted the review period when necessary.

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 basis 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:

- Policies and procedures that management has implemented to reasonably ensure that resource uses are consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed 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 did not comply with HOME monitoring requirements (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1D	<u>\$105,049</u>
Total	<u>\$105,049</u>

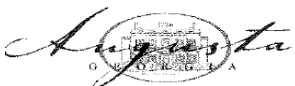
1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



1734
AUGUSTA
GEORGIA

HOUSING & COMMUNITY DEVELOPMENT
Chester A. Wheeler III
Director

March 23, 2009

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

RE: Response to Inspector General's Audit Report
City of Augusta, Georgia

Dear Mr. McKay,

Pursuant to the Audit Report issued by your office March 3, 2009 and the exit conference conducted with City officials on March 11, 2009, below are the City's responses to your recommendations:


The City did not comply with HOME Monitoring Requirements. Require the City to establish and implement acceptable procedures and controls to ensure that HOME activities are adequately monitored in a timely manner, to include identifying documentation to be maintained and obtaining the required audit/financial reports.

The City realizes their responsibility for managing the day-to-day operations of its HOME program. The City does have written monitoring procedures (Attachment # 1). Currently there are three employees that oversee the day-to-day operations of the HOME Program: Assistant Director – Housing, Housing Manager and Housing Coordinator. It is the responsibility of Housing Manager and Asst. Director – Housing to ensure that the HOME activities are adequately monitored.

\$ 10,298 paid for unsupported demolition and clearance activities. One CHDO did not have invoices to support payments made to various individuals or documentation from the individuals identifying what work was performed and the property involved.

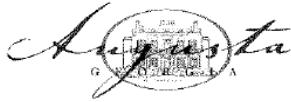
The CHDO has provided appropriate documentation to include invoices for demolition and clearance activities which is attached. The CHDO paid unemployed individuals within their designated area to perform cleaning duties to provide assistance to individuals that could not find employment (Attachment #2).

Augusta Housing & Community Development Department
925 Lancy-Walker Boulevard, 2nd Floor - Augusta, Georgia 30901
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Comment 1

Comment 2



HOUSING & COMMUNITY DEVELOPMENT

Chester A. Wheeler III
Director

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March 23, 2009
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\$94,751 paid for unsupported housing activities. The two other CHDOs did not have adequate documentation to show that affordable housing units were sold to individuals who met the required income limits.

1. CHDO - 821 Spruce Street

The CHDO has provided a copy of the homebuyer's 2004 Income Tax Return and a copy of her application showing the number of household members. The City has attached a copy of the 2005 HOME Income Limits to show that [REDACTED] was at the time eligible for the program. A copy of the Settlement Statement is also attached which shows the actual date of purchase. (Attachment # 3)

Comment 3

2. CHDO - 3804 Sheila Court

The reason why the CHDO excluded the \$39,863 from the total family income is because of an IRS Regulation (Attachment 4). This regulation states that a person who receives combat pay is excluded. Due to this interpretation the CHDO deemed the person eligible for the program.

Comment 4

We appreciate your patience and thank you and your staff for your continued support.

Should you have any questions or comments regarding this response, please contact me at (706) 821-1797 or CWheeler@augustaga.gov.

Sincerely,

Chester A. Wheeler, III
Director

CAW/lc

Enclosure

cc: Fred Russell, Administrator
Tameka Allen, Interim Deputy Administrator
Mary D. Presley, Director, HUD Atlanta Office of Community Planning and Development
Sonya Lucas, Office of Inspector General for Audit
Stella Taylor, HUD Atlanta, CPD

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OIG Evaluation of Auditee Comments

- Comment 1 The City acknowledges its responsibility for managing the day to day operations of its HOME program. The City did not perform the required monitoring and follow-up reviews or have sufficient documentation to support that monitoring and follow-up reviews were conducted, as required. The City stated that it has written monitoring procedures. The procedures were provided after we completed our site work. Thus, we did not verify the information. The City should provide its procedures to HUD.
- Comment 2 The City stated that the CHDO had appropriate documentation to include invoices for demolition and clearance activities. However, the information provided by the City did not properly support the payments. The invoices provided were not prepared or signed by the individuals who performed the work.
- Comment 3 The City stated the CHDO provided a copy of the homebuyer's 2004 income tax return and application which were used to determine the homebuyer's eligibility for the program. However, the source documentation used to qualify the homebuyer for the program was not sufficient. The City did not show that the CHDO obtained information regarding the homebuyer's income. In addition, we noted that the application showed four members in the household and the tax return showed one exemption. The CHDO qualified the homebuyer to participate in the program based on her income and the number of household members. We noted that the income for the other household members were not obtained and included in the income calculation.
- Comment 4 The City responded that the CHDO used an Internal Revenue Service regulation to define total family income. However, the City did not provide documentation to support that the method used was acceptable.