



Issue Date August 14, 2009
Audit Report Number 2009-DE-1004

TO: LeRoy Brown, Director, Office of Community Planning and Development, 8AD  
//signed//  
FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA  
SUBJECT: The City of Thornton, Colorado, Did Not Sufficiently Document That Its  
Community Development Block Grant Projects Met a National Objective

## **HIGHLIGHTS**

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

We audited the City of Thornton (City) to determine whether it used its Community Development Block Grant (CDBG) funds for projects that met a national objective. We audited the City because it receives its CDBG funding from Adams County, Colorado, and our recent audit of Adams County identified significant deficiencies that could have also been present in the City.

### **What We Found**

The City did not maintain sufficient records demonstrating that each CDBG activity met a national objective. Of the 10 CDBG projects reviewed, the City sufficiently documented that five of the projects met a national objective. However, for four projects that the City certified met the national objective based on area benefit, it did not identify the specific area to be benefited by the activity, it did not document that at least 51 percent of the residents in the area were low- and moderate-income persons, and it did not document that the area was primarily residential. For the remaining project, it did not certify what national objective the project would meet and did not document that a national objective was ultimately met.

## **What We Recommend**

We recommend that HUD require the City to provide documentation supporting that the five CDBG projects met a national objective. We also recommend that HUD require the City to establish and implement effective policies and procedures to ensure that it maintains adequate documentation to support compliance with the CDBG national objective 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 the discussion draft of the audit report to the City on July 30, 2009, and requested its comments by August 13, 2009. The City provided its written response on August 10, 2009. The City generally concurred with the finding and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in the appendix of this report.

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## **BACKGROUND AND OBJECTIVE**

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The purpose of the Community Development Block Grant (CDBG) program is to provide assistance to grantees to ensure decent affordable housing, to provide community services, and to create jobs through expansion and retention of businesses. All CDBG activities must meet one of the following national objectives:

- 1) Benefit low- and moderate-income persons,
- 2) Aid in the prevention or elimination of slums and blight, or
- 3) Meet community development needs having a particular urgency.

In 2007 and 2008 the U.S. Department of Housing and Urban Development (HUD) allocated more than \$3.7 billion and more than \$3.5 billion, respectively, in CDBG funds nationwide. Approximately 5 percent of the CDBG funding was allocated to Colorado grantees, more than \$2 million of which was allocated annually to Adams County. Through participation in the Adams County Urban County Consortium, the City of Thornton (City) receives an annual allocation of CDBG funding from Adams County. Since 2004, Adams County has allocated approximately 30 percent of its CDBG funds to the City. Between January 1, 2007, and March 31, 2009, the City expended more than \$1.4 million in CDBG funds.

The objective of the audit was to determine whether the City used its CDBG funds for projects that met national objectives.

## RESULTS OF AUDIT

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### Finding : The City Did Not Maintain Sufficient Records Documenting That Its CDBG Projects Met National Objectives

The City did not maintain sufficient records demonstrating that each CDBG activity met a national objective. This condition occurred because the City did not develop written policies and procedures to ensure that each project met a national objective. As a result, the City did not have assurance that its CDBG projects benefited the intended low- and moderate-income persons.

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#### The City Did Not Maintain Records

The City did not maintain sufficient records demonstrating that each CDBG activity met a national objective. Of the 10 CDBG projects reviewed, the City sufficiently documented that five of the projects met a national objective. However, for four projects that the City certified met the national objective based on area benefit, it did not identify the specific area to be benefited by the activity, it did not document that at least 51 percent of the residents in the area were low- and moderate-income persons, and it did not document that the area was primarily residential. These four CDBG projects were

Project name	Year	Expended amount
Accessibility Improvements	2006	\$160,840
	2007	\$143,534
	2008	\$169,422
Bus Stop Improvements	2007	\$7,856
Streetscape Improvements	2008	\$61,288
Neighborhood Association Development	2008	\$32,479

Additionally, the City did not certify what national objective one of the projects would meet and did not document that a national objective was met. This project was the 2006 Foreclosure Prevention project, which expended \$4,070 in CDBG funds.

The requirements for determining whether a CDBG project complies with a national objective and the documentation required are stated in 24 CFR (*Code of Federal Regulations*) 570.208 and 570.506. The grant recipient is required to document the area that is benefited, the income characteristics of the families in the service area, and that the area is primarily residential when the project is to benefit an area with at least 51 percent low- and moderate-income residents.

The intergovernmental agreement and the activity agreements between Adams County and the City require the City to maintain documentation in accordance with applicable federal laws and regulations and that supports compliance with a national objective.

### **The City Had No Written Policies and Procedures**

The City did not develop written policies and procedures to ensure that each project met a national objective. Instead of developing its own policies and procedures, the City relied on Adams County to provide accurate guidance regarding its CDBG projects.

During our audit, the City attempted to provide adequate documentation and had begun working with HUD to sufficiently document that a national objective was met.

### **The City Lacked Assurance**

The City did not have assurance that its CDBG projects benefited the intended low- and moderate-income persons. By not documenting the potential benefit before the start of the projects, the City could have expended \$579,489 in CDBG funds to perform projects that did not meet a national objective or benefit low- and moderate-income persons.

### **Recommendations**

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

- 1A. Require the City to provide documentation supporting that the five CDBG projects met a national objective.
- 1B. Require the City to establish and implement effective policies and procedures to ensure that it maintains adequate documentation to support compliance with the CDBG national objective requirements.

## SCOPE AND METHODOLOGY

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Our audit period was April 1, 2007, to March 31, 2009. We expanded our scope as necessary to evaluate all pertinent information. Between January 1, 2007, and March 31, 2009, the City had 10 CDBG projects with expenditures totaling more than \$1.4 million. We reviewed the City's financial services division, contract and purchasing division, and neighborhood services division records for all 10 of these CDBG projects.

To accomplish our objectives, we

- Reviewed HUD regulations and reference materials related to CDBG requirements.
- Reviewed the City's accounting and contracting policies and procedures.
- Reviewed the intergovernmental agreement between Adams County and the City.
- Reviewed each CDBG project's CDBG award letter/activity agreement between Adams County and the City.
- Interviewed the City's staff to obtain information regarding its policies and procedures.
- Met with Denver HUD Office of Community Planning and Development staff.

We used data provided by the City to obtain a list of the CDBG-funded projects and the amount of expenditures for our audit period. We did not rely on this list for any of our conclusions. All conclusions were based on source documentation reviewed during the audit. We did not use computer-generated data as audit evidence to support our audit conclusions.

We performed our on-site audit work from May through June 2009 at the City's offices at 9500 Civic Center Drive, Thornton, Colorado.

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

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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.

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## Relevant Internal Controls

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

- Management's controls for ensuring that CDBG funds were used to meet a national objective.
- Management's controls for ensuring that expenditures were for eligible purposes and properly supported.

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 did not have adequate policies and procedures to ensure it documented that its CDBG projects met a national objective.



## APPENDIX

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments



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August 10, 2009

Mr. Frederick Smith  
Assistant Regional Inspector General for Audit  
HUD OIGA, UMB Plaza Building  
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Denver, CO 80202-4801

RE: Audit Report Number 2009-DE-100X – City of Thornton comments

Dear Mr. Smith,

The City of Thornton concurs with the recommendations of the 2009 audit of the City's Community Development Block Grant program, and respectfully submits the following comments

The City of Thornton understands based on discussions with OIG audit staff that the finding contained in this report is considered "minor" and does not indicate inappropriate spending and/or misspending of any grant funds but instead a deficiency in the amount of documentation maintained to support how the spending of the funds met the goals of the program. The City recognizes the need to improve its documentation policies and procedures, as recommended by the audit finding. Currently, the City is in the process of drafting policies and procedures in connection with its application to HUD for Entitlement in 2010. The City will work with HUD to ensure that documentation will be adequate on future projects.

**The City did not maintain records.**

The City of Thornton is a participating jurisdiction under the Adams County "Entitlement". As the Entitlement, the County required Thornton to submit applications for proposed CDBG-funded projects. The County indicated that they were responsible as the Entitlement for final approval of each proposed program or service. In the award letter for each of these approved projects, the County determines the activity category and which national objective each project falls under. Based upon the audit finding, the City has discovered that the County did not accurately categorize some of the projects in question. Therefore, it is the City's understanding that the finding may be partially attributed to incomplete, inaccurate and/or deficient guidance from the County and that OIG audit staff also believe this may have been the case.

#### Comment 1

**Comment 2**

As a sub-grantee, the City was instructed to work with the County for guidance on compliance. The City was not afforded the opportunity to receive technical assistance directly from HUD to ensure the City was appropriately following relevant rules for documentation. The City worked with the County closely and was informed that our policies and procedures for documentation were meeting the national objective. In the first quarter of 2007, the County conducted a CDBG monitoring exercise at the City. The following quote is taken directly from the letter dated May 9, 2007 from the County, signed by the Grants Program Manager, *"The scope of the review focused on compliance with national objectives, eligibility, record keeping and verification of performance. Based on my visit I have determined that your agency is currently in compliance with the areas monitored."* A copy of this letter was provided to the auditors.

**The City had no written policies and procedures.**

The City followed the Entitlement jurisdiction's policies and procedures as provided in trainings by the County. The City is currently in the process of working with HUD to develop its own policies and procedures to ensure compliance with CDBG guidelines for future projects.

**The City lacked assurance.**

The City's CDBG-funded projects have benefited the low and moderate income populations in Thornton. However, at the time of this audit the City did not have the documentation in the format requested by the auditors. The City is currently working with HUD to ensure the data is in the correct format that meets CDBG requirements.

Please feel free to call the City should you have any questions regarding these comments.  
Thank you.

Sincerely,

  
David Boyd  
Finance Director

cc: File

**OIG Evaluation of Auditee Comments**

**Comment 1** Even though Adams County provided incomplete, inaccurate, and/or deficient guidance, the City still had the responsibility to document the national objective and should have had its own policies and procedures.

**Comment 2** We agree that the City has already begun working with HUD to ensure that their CDBG program meets HUD documentation requirements in the future.