



Issue Date	November 3, 2009
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Audit Report Number	2010-CH-1002
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TO: Jeanette Harris, Director of Community Planning and Development, 5FD

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The City of Saginaw, Michigan, Lacked Adequate Controls over Its Community Development Block Grant-Funded Demolition Activities

HIGHLIGHTS

What We Audited and Why

We audited the City of Saginaw's (City) Community Development Block Grant (Block Grant) program-funded demolition activities. The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the City based upon a request from the U.S. Department of Housing and Urban Development's (HUD) Detroit Office of Community Planning and Development. Our audit objective was to determine whether the City effectively administered its Block Grant program-funded demolition activities.

What We Found

The City did not effectively administer its Block Grant program-funded demolition activities. It lacked sufficient information for demolition activities to support nearly \$138,000 in Block Grant funds used for demolition activity costs, did not request reimbursement from property owners and/or place liens on properties for more than \$80,000 in Block Grant funds used for demolition activities, and did not provide sufficient documentation to support that it was not required to request reimbursement from property owners and/or place liens on properties for nearly \$51,000 in Block Grant funds used for demolition activities.

We informed the director of the City's Department of Development (Department) and the Director of HUD's Detroit Office of Community Planning and Development of a minor deficiency through a memorandum, dated November 3, 2009.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Community Planning and Development require the City to (1) provide sufficient supporting documentation or reimburse its Block Grant program from nonfederal funds for the nearly \$138,000 in Block Grant funds used for unsupported expenses, (2) reimburse its Block Grant program more than \$80,000 from nonfederal funds for the demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties, (3) provide sufficient supporting documentation or reimburse its Block Grant program from nonfederal funds for the nearly \$51,000 in Block Grant funds used for the demolition activities for which the City did not provide sufficient documentation to support that it was not required to request reimbursement from property owners and/or place liens on properties, and (4) implement adequate procedures and controls to address the finding cited in this audit report.

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 and supporting schedules to the director of the City's Department, the City's mayor, and HUD's staff during the audit. We held an exit conference with the City's director on September 22, 2009.

We asked the City's director to provide comments on our discussion draft audit report by September 28, 2009. The director provided written comments, dated September 25, 2009. The director partially agreed with the finding. The complete text of the written comments, except for two attachments that were not necessary to understand the director's comments, along with our evaluation of that response, can be found in appendix B of this audit report. We provided the Director of HUD's Detroit Office of Community Planning and Development with a complete copy of the City's written comments plus the two attachments.

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BACKGROUND AND OBJECTIVE

The Block Grant program. Authorized under Title 1 of the Housing and Community Development Act of 1974, as amended, the Community Development Block Grant (Block Grant) program is funded to assist in the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. All Block Grant activities must meet one of the following national objectives: benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet certain community development needs having a particular urgency.

The City. Organized under the laws of the State of Michigan, the City of Saginaw (City) is governed by a mayor and an eight-member council, elected to four-year terms. The council designated the City's Department of Development (Department) as the lead agency to administer the City's Block Grant program. The Department includes the Community Development and Block Grant Division, which administers federal funds to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The City's program records are located at 1315 South Washington Avenue, Saginaw, Michigan.

The following table shows the amount of Block Grant funds the U.S. Department of Housing and Urban Development (HUD) awarded the City for its program years 2007 through 2009.

Program year	Block Grant funds
2007	\$2,558,091
2008	2,556,090
2009	2,461,205
Total	<u>\$7,575,386</u>

Our audit objective was to determine whether the City effectively administered its Block Grant program-funded demolition activities.

RESULTS OF AUDIT

Finding: Controls over the City's Block Grant-Funded Demolition Activities Were Inadequate

The City did not maintain an adequate system of controls over its Block Grant-funded demolition activities. It lacked sufficient information for demolition activities to support the Block Grant funds used for demolition activity costs, did not request reimbursement from property owners and/or place liens on properties for the Block Grant funds used for 23 demolition activities, and did not provide sufficient documentation to support that it was not required to request reimbursement from property owners and/or place liens on properties for the Block Grant funds used for 16 demolition activities. This condition occurred because the City lacked adequate procedures and controls to ensure that it followed federal requirements and its code of ordinances. As a result, it was unable to support its use of nearly \$138,000 in Block Grant funds for demolition activity expenses, lost more than \$80,000 in Block Grant program income from demolition activities, and was unable to support that it was not required to request reimbursement from property owners and/or place liens on properties for nearly \$51,000 in Block Grant funds used for demolition activities.

The City Lacked Information to Support Nearly \$138,000 in Demolition Activity Costs

We selected for review 110 of the City's Block Grant-funded demolition activities completed from July 1, 2007, through December 31, 2008. The City drew down \$362,784 in Block Grant funds for the 110 demolition activities. It lacked sufficient information for 91 of the 110 demolition activities to support nearly \$138,000 in Block Grant funds used for demolition activity expenses. HUD's regulations at 24 CFR (*Code of Federal Regulations*) 570.506(h) require grantees to maintain evidence to support how Block Grant funds are expended, and Office of Management and Budget Circular A-87 requires all costs to be necessary, reasonable, and adequately documented.

The City could not provide documentation to support the measurements for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, garages, and/or exterior concrete existed. The following table shows the type of demolition work, the number of demolition activities, and the amount of Block Grant funds for which the City lacked sufficient documentation for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, garages, and/or exterior concrete existed.

Type of demolition work	Demolition activities	Block Grant funds
Buildings	37	\$71,426
Asbestos	35	26,592
Below-grade concrete	35	20,452
Debris	27	8,108
Exterior concrete	36	7,464
Garages	12	3,492
Total		\$137,534

The City Did Not Request Reimbursement for Nearly \$131,000 in Block Grant Funds Used for Demolition Activities

Contrary to the City’s code of ordinances, the City did not request reimbursement from the property owners or place liens on the properties for the costs of the demolition work. Section 151.117 of the City’s code of ordinances states that a property owner will reimburse the City for the cost of the demolition work or the City will place a lien on the property, or any other property the property owner has in the state of Michigan, for the cost of the demolition work. Section 151.131 allows the chief inspector of the Department’s Inspection Division to grant modifications of the requirements in chapter 151 of the code of ordinances for individual cases. However, no modification shall be approved unless the chief inspector shall find that a special individual reason makes the strict letter of chapter 151 impractical and that the modification is in conformity with the intent and purpose of chapter 151. The details of any modification shall be recorded and entered in the files of the Inspections Division.

Of the 110 demolition activities reviewed, the Saginaw County Land Bank, Saginaw County, or the City owned 71 of the properties at the time or soon after the demolition work was completed. The remaining 39 properties were owned by individuals or companies. Further, the property owners of at least 26 of the 39 properties owned additional properties in the state of Michigan. However, the City did not request the property owners to reimburse the City or place liens on the properties for the \$130,835 in Block Grant funds used for the 39 demolition activities. In addition, the City had 16 of the 39 property owners sign waivers relinquishing their rights to receive notices and hearings required by the City’s Dangerous Building Office in exchange for not being held liable for the costs of the demolition work. The City used \$50,691 in Block Grant funds for demolition work at the 16 properties. The director of the Department stated that in cases where health and safety have been viewed as a significant risk, the City utilized the modification exemption in section 151.131 of the City’s code of ordinances for the 16 properties. However, the City did not provide documentation to support the chief inspector found that special individual reasons made the strict letter of section 151.117 of the

code of ordinances impractical and that the modification was in conformity with the intent and purpose of chapter 151 of the code of ordinances. Further, one property owner signed a waiver relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office and agreed to pay for the costs incurred by the City to have the building demolished.

Of the nearly \$131,000 in Block Grant funds used for demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties, \$35,608 was also included in the nearly \$138,000 in Block Grant funds used for demolition activity costs for which the City lacked sufficient information.

The City Lacked Adequate Procedures and Controls

These weaknesses occurred because the City lacked adequate procedures and controls to ensure that it followed federal requirements and its code of ordinances.

The City did not have policies and procedures that included the type of documentation (1) required to be maintained in the City's files for demolition activities or (2) covered under section 151.117 of the City's code of ordinances. The code of ordinances requires a property owner to reimburse the City for the cost of the demolition work or the City will place a lien on the property, or any other property the property owner has in the State of Michigan, for the cost of the demolition work. The City had the property owners sign waivers relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office in exchange for not being held liable for the costs of the demolition work to save on court and publishing costs.

Conclusion

As previously mentioned, the City lacked adequate procedures and controls for its Block Grant-funded demolition activities. It lacked sufficient information for 91 demolition activities to support the Block Grant funds used for demolition activity costs, did not request reimbursement from property owners and/or place liens on properties for the Block Grant funds used for 23 demolition activities, and did not provide sufficient documentation to support that it was not required to request reimbursement from property owners and/or place liens on properties for the Block Grant funds used for 16 demolition activities. As a result, it was unable to support its use of nearly \$138,000 in Block Grant funds for demolition activity costs, lost more than \$80,000 in Block Grant program income from demolition activities, and was unable to support that it was not required to request reimbursement from property owners and/or place liens on properties for nearly \$51,000 in Block Grant funds used for demolition activities.

Recommendations

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

- 1A. Provide sufficient supporting documentation or reimburse its Block Grant program from nonfederal funds, as appropriate, for the \$137,534 in Block Grant funds used for unsupported costs cited in the finding.
- 1B. Reimburse its Block Grant program \$80,144 (\$130,835 in Block Grant funds used for the 39 demolition activities less \$50,691 in Block Grant funds used for the 16 demolition activities in which the City had the property owners sign waivers relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office in exchange for not being held liable for the costs of the demolition work) from nonfederal funds for the 23 demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties and did not have property owners sign waivers.
- 1C. Provide sufficient documentation to support that the chief inspector granted modifications of the requirements in section 151.117 of the City's code of ordinances for the 16 properties in which the City had the property owners sign waivers relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office in exchange for not being held liable for the costs of the demolition work. The documentation must also support that the chief inspector found that special individual reasons made the strict letter of section 151.117 impractical and that the modification was in conformity with the intent and purpose of chapter 151 of the code of ordinances. If the City cannot provide sufficient supporting documentation, it should reimburse its Block Grant program \$50,691 from nonfederal funds for the 16 demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties.
- 1D. Implement adequate procedures and controls to (1) ensure that Block Grant funds are used for eligible demolition activity costs and (2) request property owners to reimburse the City and/or place liens on the properties for Block Grant funds used for demolition activities. The procedures and controls should include but not be limited to implementing adequate written policies and procedures to ensure that the City (1) maintains sufficient information for demolition activities to support the Block Grant funds used for eligible demolition activity costs and (2) requests reimbursement from property owners and/or places liens on properties for the Block Grant funds used for demolition activities, as appropriate.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; HUD's regulations at 24 CFR Parts 5, 58, 85, and 570; the United States Environmental Protection Agency's regulations at 40 CFR Part 61; Office of Management Budget Circular A-87; HUD's Environmental Review Guide for Block Grant Programs; Michigan Compiled Laws; and HUD's Block Grant agreements with the City.
- The City's accounting records, annual audited financial statements for 2008, data from HUD's Integrated Disbursement and Information System, demolition activity files, computerized databases, policies and procedures, code of ordinances, council meeting minutes, consolidated community development plan, annual action plans, consolidated community development organization charts, and consolidated annual performance and evaluation reports.
- HUD's files for the City.

We also interviewed the City's employees, State of Michigan staff, a demolition activity contractor's employee, and HUD's staff.

We selected 110 of the City's 154 Block Grant-funded demolition activities completed from July 1, 2007, through December 31, 2008. The 110 demolition activities were selected to determine whether the City used Block Grant funds for demolition activities in accordance with HUD's requirements and effectively administered its Block Grant program-funded demolition activities.

We performed our on-site audit work from February through August 2009 at the City's offices located at 1315 South Washington Avenue, Saginaw, Michigan. The audit covered the period July 2007 through December 2008 and was expanded as determined necessary.

We performed our 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 reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on the audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives 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.

Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- 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 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 internal 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 procedures and controls to ensure that it complied with federal requirements and its code of ordinances in regard to (1) providing sufficient information for demolition activities to support the Block Grant funds used for demolition activity costs and (2) requesting reimbursement from property owners and/or placing liens on properties for the Block Grant funds used for demolition activities (see finding).

Separate Communication of Minor Deficiency

We informed the director of the City's Department and the Director of HUD's Detroit Office of Community Planning and Development of a minor deficiency through a memorandum, dated November 3, 2009.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$137,534
1B	<u>\$80,144</u>	
1C		<u>\$50,691</u>
Totals	<u>\$80,144</u>	<u>\$188,225</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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

 CITY OF SAGINAW TRANSMITTED ON 9/25/2009 VIA U.S.P.S. PRIORITY MAIL	
September 25, 2009	RECEIVED 2009 SEP 29 AM 9:48 HUD - OIG OFFICE OF AUDIT CHICAGO, ILLINOIS
U.S. Department of Housing and Urban Development Office of Inspector General for Audit Region V Ralph H. Metcalf Building Attn: Brent G. Bowen 77 West Jackson Boulevard Suite 2646 Chicago, IL 60604-3507	
RE: 2009-CH-102X	
Dear Mr. Bowen,	
Please accept the following report as the City of Saginaw's response to your draft audit letter dated September 14, 2009. Prior to getting into the details of our response I would first like to thank you and your staff for your professionalism in dealing with me and our team in conducting the audit of our CDBG Demolitions program. While this experience has been trying for all, we have maintained a professional working relationship as we attempted to resolve the issues of concern. Judith Storrs, your Senior Auditor has provided valuable technical assistance in addition to much needed clarity on expectations as she had carried out her assignment.	
In order to fully address the issues raised by your office I will review each of the issues in three categories as reported. We will open with our summary position. The categories to be discussed in further detail are as follows:	
<ol style="list-style-type: none">(1) Explanation and/or response to the disallowed costs outlined in the table on page 5 of your report,(2) Explanation of the use of waivers in the blight elimination process and the recovery of program income. As a part of this we will discuss our local ordinance governing these activities(3) Review the discrepancies you reported in our spreadsheets and internal records as outlined on page 7 paragraph 1 of the report.	
<u>Summary Response</u>	
<u>Audit Finding 1-The city's controls over its block grant funded demolition activities were inadequate. The city lacked information to support nearly \$142,000 in demolition cost activity.</u> The city agrees with the audit conclusion for the audit period in question on the subject of controls. The city notified the Detroit field office verbally of problems discovered in cost estimating during the audit period. There were formal reports of findings submitted on March 28, 2008 and a response to a request for additional information on July 14, 2008. Finally a response to a request to detail all charges to the HUD accounts be detailed dating back to 2003 was submitted December 15, 2008. System weaknesses were identified and a proposal for cash settlement submitted. It should be noted that new procedures were implemented for demolitions immediately	

Ref to OIG Evaluation

Auditee Comments

Comment 1

upon discovery of this issue and personnel changes made. Additional amendments to the process have taken place based upon discussion with the auditor. The audit sample involves work done prior to this implementation of the new procedures. We do not agree with the proposed monetary settlement. We are in the process of securing additional details on items raised in the audit to further justify the cost involved such as asbestos removal, concrete and debris. In summary all of the areas of deficiency that have been identified in the audit report are correctible by providing additional justification and detail in our files with the exception of debris charges which occurred prior to February 2008 and concrete removal work which was paid for but was not completed, for this we accept full responsibility. Steps to be taken are discussed below.

Comment 2

Audit Finding 2-The city did not request reimbursement for nearly \$131,000 in block grant funds used for demolition activities. We **disagree** with this finding. The finding that we are in violation of our own ordinance is particularly disconcerting. There are discretionary provisions in our local ordinance that allow for variances in approach to blight removal which are at the discretion of the Chief Inspector. This is covered below. Regarding the issue of more effectively capturing program income suggestions, we will proceed with the changes outlined in the detail to recover funds through the lien process. This has been verbally committed to our HUD representative.

Comment 3

Audit Finding 3-The city's system for identifying the total cost per demolition activity was not accurate. We **disagree** with this finding. The city does have a system in place. The city uses Sungard Public Sector software to account for all expenditures by fund, account, and project where applicable. This finding is related to spreadsheets which were requested during the audit and were not intended to convey all cost associated with the demolitions project. Details are covered below along with appropriate attachments.

Comment 4

Audit Finding 4- The City lacked adequate controls to ensure that it followed federal requirements and its code of ordinances. We both **agree and disagree** with this finding. While we recognize that prior to February 2008 our procedures and controls left room for some level of error it is also important to recognize that those activities which occurred after February 2008 resulted in not inadequacies related to documentation of or methods of calculations. The citation indicating that the policy of using waivers relieving property owners of certain cost is in violation of our own ordinance is incorrect as the ordinance contains a modification provision which clearly allows discretion and variance.

Comment 2

CATEGORY 1 Disallowed Costs

The Audit Report identifies six activities with various reasons for disallowing costs associated with each activity. The finding that we are in violation of our own ordinance is particularly disconcerting, and frankly surprised us in that our local ordinance has a discretionary provision and therefore a local management decision as to the method and approach used to effectively implement our blight elimination activities.

**Comment 5
Comment 2**

BUILDINGS

The audit report indicates that there were 37 demolition projects in your sampling with deficiencies in and/or lack of documentation of the method of calculation that were completed to justify expenses associated with the demolition of these structures. After careful review of the spreadsheets provided by the auditor it is apparent that all except one of these deficiencies occurred prior to February 2008. This project was located at 133 S. 14th. This time is very significant because it approximates the time our annual

Ref to OIG Evaluation

Auditee Comments

Comment 6

audit reported out concerns with the cost estimating process for demolitions in the previous year. This was the point when the city proactively reported to the HUD Detroit office of the problem, put in new processes and made personnel changes. We then conducted a detailed study of the activity with a team appointed by our City Manager and led by our City Attorney. All properties demolished were re-calculated per our property cards in the assessor's office, differences noted and settlements proposed where we had overruns. At the end of an extensive investigation we proposed a financial settlement to HUD based on a study that took us back to 2003. In the course of this the demolitions process was rewritten to include additional documentation and an internal audit process put in place. The audit sample does include data from our revised processes that are working very well and open to full examination at any time. We have further amended the process where various photographs of waste are taken for our files to demonstrate work has indeed been completed. This work has required a significant additional investment in man-hours in order to meet the auditor's definition of adequacy. In fact the cost of the additional documentation alone raises serious economic concerns as related to the overall demolition cost, particularly on small blighted units.

We fully recognize at this point the files from the early audit period did not contain all the desired details. This has been corrected as we have previously reported. There is the issue of reasonableness of cost that we will address and secure additional documentation in a timeframe noted later in the report. In order to complete a response and recognizing the complex nature of exacting the quantities of removable materials, we will not have all the details in this short response time. We have made the request of our contractors to provide us with the details of materials removed and disposed.

The report did show one property occurring after the February 2008 process changes, the preparatory work was done under the old system and did not meet the documentation expectations. We are confident as we get the details from our contractors both methods will show costs within a reasonable range when costs are compared to others doing similar work. The current process on all demolitions meets or exceeds the documentation requirements.

While we do recognize that our previous policies, procedures and methods as they relate to determining and documenting demolition costs did leave room for error it is important to recognize that during the period that is the subject of the audit, Saginaw was experiencing an influx of demolition funds from a variety of sources with essentially no changes in staffing levels to accommodate the additional work load which significantly increased the opportunity for errors and flaws in documentation and records. While this is not meant to be an excuse it certainly is a factor, which must be recognized.

Comment 7

It appears from your report that the auditor used new methods of calculating demolition costs in determining the level of error in projects that were calculated using old methods. Because of the complex nature of calculating the exact cubic volume of a structure it is certainly possible for there to be differing results depending on the level of detail and accuracy of the person completing the calculations. It is certainly recognized that our current method of calculation and file management system is far more accurate and reliable, however the previous method with its flaws still resulted in costs that were necessary and reasonable based on industry standards for this type of work.

Comment 6

Documentation which is lacking in pre February 2008 files is currently being prepared for review, however due to the short time allotted to respond to this audit report we were unable at this time to provide documentation.

Ref to OIG Evaluation

Auditee Comments

Comment 8

ASBESTOS

Based on the spreadsheet provided by the auditor it appears that all projects, which required asbestos abatement prior to demolition, are being disallowed. It is not clear based on the "Draft Audit Finding Outline" why these costs are being disallowed. The City is prepared to provide any documentation necessary to satisfy any reporting requirements to your staff, as this information should be readily available.

BELOW GRADE CONCRETE

The City of Saginaw historically did not remove any below grade concrete as it was not required by ordinance and therefore our agreement with our demolition contractor only required that the concrete be removed to a point two feet below grade. Saginaw was designated as a "Cities of Promise" by the governor and that included the City in the blight elimination initiative for the state. The program was directed by the Michigan State Housing and Development Authority and provided some match funding for blight removal. The program objective requires the removal of below grade concrete in view of possible new home construction. This requirement was not in our current demolitions contract. This contract is valid for a period of up to three years and, thus it was necessary for adjustments to be made in order to meet the requirements of the MSHDA grant agreement. Pursuant to our purchasing ordinance the "Department Head" has the discretion to process change orders based on unforeseen circumstances up to 10% of the amount of the contract. See Excerpt from our purchasing ordinance below. (See attachment A for a complete copy of our purchasing ordinance).

(5) The Department Head and/or his/her designee, with the approval of the Finance Director and/or Budget Administrator, may allow for an increase or decrease in cost not to exceed 10% of the total purchase order contract for goods, non-professional services, supplies, materials, equipment, etc., due to unforeseen circumstances, necessity or redundancy not contemplated in the bid. Such increase or decrease shall be mutually agreed upon in writing between the Department Head, and/or his/her designee (with the approval of the Finance Director and/or Budget Administrator) and the Contractor.

Comment 9

Documentation for below grade concrete is generated based on the exterior measurements of the structure and evidence from our assessor's records indicating the presence of a basement or crawlspace. It is unreasonable to require photographs of these spaces due to the fact that one they are below grade. Also, these buildings are generally unsafe for entry. In view of the health and safety risks to our employees, we have not required our employee's photograph below grade spaces for documentation purposes. It is our belief that we complied with the requirements of our ordinance and that these charges are necessary, reasonable, and adequately documented.

EXTERIOR CONCRETE

Comment 10

We accept full responsibility for all exterior concrete that was not completely removed and payments made. We recognize a weakness in follow-up on this issue. The City of Saginaw is pursuing reimbursement from the contractor that was paid for this work. The previous Chief Inspector for the city did review these open concerns with the contractor

Ref to OIG Evaluation

Auditee Comments

Comment 10

in February of 2009. We expect full reimbursement of the work completed, although the contractor no longer does business for the city. All necessary steps are being used to have the work completed or the city refunded any amounts paid for the work. We expect to fully credit the account for the amount in question in a period no longer than 12 months from the date of the acceptance of this understanding. Other surface concrete charges based on the audit report will be documented via aerial photography complete with measurements and placed in the file. We commit to having this work completed by calendar year end 2009.

DEBRIS

Additional debris charges fall into the same category as below grade concrete in that they were unforeseen charges and therefore the department head has the discretion based on the purchasing ordinance to institute a change order for their removal.

It is recognized in some cases that there are no photographs or evidence to support these charges for those cases prior to Feb 2008 and there is no way to provide supporting documentation other than testimony from the inspector at the time that the work was completed. These payments were made based on invoices from the contractor and approved by the dangerous building inspector. The expectation after our internal review and that of the auditor is that additional documentation must be required. In that regard, the city implemented an additional step in February of 2008 that provides photographs to the file of the debris to justify the charges. We found no consistent benchmarks or standard acceptable practices to deal with this issue in our research. The issue of reasonableness in documentation is clearly at issue. The charges are now based on a per cubic yard cost that was mutually agreed upon pursuant to and authorized by our purchasing ordinance.

GARAGES

Again, all of the garages identified in the audit report are pre Feb 2008 and were calculated based on a different method of calculation therefore providing slightly different results as is indicated in our answer above for buildings. We can verify that the garages existed per our assessor's records. We do not have on record historical demolition permits for any of these properties further indicating that the structure in fact did exist. The final inspection of the property reveals that no garage is present on the property therefore indicating the work had been completed. We will use these assessor card measurements to ascertain the reasonableness of the charges. We can provide that information as a response to the final report. In cases where those cost are beyond reasonable, we will credit the account accordingly. Again, our current process addresses this issue with the required proper documentation.

**Comment 7
Comment 11**

CATEGORY 2

WAIVERS

Ref to OIG Evaluation

Auditee Comments

Comment 2

The issue of using waivers is raised in the report and the city is accused of violating its own ordinance, thus payment on the properties involved should be disallowed. The City of Saginaw began using waivers to expedite the demolition process a number of years ago under the approval and direction of the City Attorney. As you may know many times when local governments receive grants for demolition they come with deadlines for completion. When a property owner relinquishes their rights to receive notice they are giving the city permission to demolish their building. Researched legal counsel opinion confirms they have the right to do. This is documented in our ordinance and results in an expedited process. The goals of demolition are the removal of blight from our neighborhoods, improve health and safety in our community and provide available land for development. Our initiative on blight removal is targeted to reach these ends on an accelerated basis. We have achieved major cleanup in demolishing unsafe houses and abandoned properties used for illegal drug distribution. The use of waivers allows us to accelerate our program. We have cleaned up 90% of the blight in our target area by using this tool effectively. Our ordinance does state the method of collection for these demolition services; we feel that our resources are better utilized in other areas specific to blight elimination. The issue of who owns the property after demolition is raised in the report. It is not our goal to be in the real estate business. In cases where the properties are considered strategic for future development we accumulate them in the county land bank. In cases where health and safety have been viewed as a significant risk we have utilized the "Modification" section of our ordinance (Section 151.131 See excerpt below).

Comment 2

"Whenever there are practical difficulties involved in carrying out the provisions of this chapter the Chief Inspector may, as the Chief Inspector deems to be appropriate under the circumstances, grant modifications for individual cases."

Our interpretation of this section of our own ordinance authorizes the Chief Inspector to modify the provisions the ordinance. This section only limits this authority if the modification has an adverse affect on the life safety provisions of the ordinance. It is our belief that a modification in this case actually increases the life safety for our residents and therefore is allowed by the ordinance. The practical difficulty involved is the fact that blight removal cannot occur quickly enough to sustain the residency of surrounding property owners and negatively impacts the health and safety of our residents, law enforcement personnel, inspections division employees, and fire fighters in view of the involved process required to demolish property owned by others.

Comment 2

Historically, the City has not been very successful in the collection of these charges as many of the owners are below the poverty level and the funds are not collectible. The pursuit of this effort clearly raises the issue of diminishing returns unless the property is strategic to our objectives. The use of waivers in all actuality saves the City many costs in both completing the Dangerous Building process and in resources expended to attempt collection and they expedite the blight removal process that is ultimately our goal. Therefore in those special cases where the property owner agrees to forego the hearings and processes outlined in our ordinance the accomplishment of our blight reduction goals is expedited. This is clearly allowed by our own ordinance and therefore no violation was committed in this case.

We have discussed the issue of liens on properties with our HUD representative. We fully understand the value of program income that may be obtained in some lien

Ref to OIG Evaluation

Auditee Comments

**Comments 2
and 12**

processing. As we have confirmed in our conversation with our HUD representative, we are committed to effectively gaining program income per that discussion. In that regard, the City of Saginaw typically seeks reimbursement through its special assessment process as outlined in our Code of Ordinances in those cases where a modification has not been granted. While this was not made apparent during the time of the audit, we are currently in the process completion stage of a process to place a special assessment on these properties. This process must be utilized for a lien to be placed on the property. Upon completion of this process we will have satisfied the requirements of the ordinance as it relates to those properties that were not publicly owned and a waiver or modification was not granted. This is a phased in process and it is expected that this process will be completed by the end of calendar year 2010, resolving this matter. In the meantime our current activity is heavily focused on land bank properties.

CATEGORY 3 Spreadsheets and demolition cost identification

Comment 3

The report charges, the city's system for identifying the total cost per demolition was not accurate, referencing a city spreadsheet. The city disagrees with this finding.

The City does indeed have an accurate system in place to identify the amount of CDBG funds used in the demolition activity. The city uses Sungard Public Sector software to account for all expenditures by fund, account, and project where applicable. After the Detroit field office reviewed the reports from the City of Saginaw's financial software on the demolitions problem, they requested several spreadsheets be prepared to help simplify their monitoring process. The spreadsheets were compiled to show expenditures for various time frames, and to answer other specific questions of the field office. This was not to replace the reports generated from the Sungard reports. Please find attached (Attachment B) a demand report from the City of Saginaw's Sungard software clearly showing expenditures were in excess of \$406,000.00 as stated in the audit report.

RECOMMENDATION 1A

With the exception of charges for debris prior to Feb 2008 all documentation can be provided to satisfy the requirements of O.M.B. 87. We are proceeding with compilation of said documentation on an accelerated basis. Further the city will take responsibility for any incomplete work mentioned in the report and will credit the account appropriately in cases where work is not completed by calendar year end. We ask the indulgence of HUD to allow us the critical time needed to complete this work.

**Comment 12
Comments 2
and 12**

RECOMMENDATION 1B

This recommendation infers that the City of Saginaw will never make these requests for reimbursement. There is no statute of limitations on these charges. The City of Saginaw is pursuing these charges via the special assessment process as provided for in the code of ordinances for the 23 properties that were not completed via the waiver. The 16 properties that were completed with waivers that relieved the owner of the charges for demolition again were completed under the modification section (151.131) and therefore no further discussion should be required. Special Assessments for all HUD funded demolitions shall be completed by the end of calendar year 2010. This process will resolve any deficiencies that were identified in complying with our own Dangerous Building Ordinance and therefore should resolve this portion of the finding.

Ref to OIG Evaluation

Auditee Comments

Comment 13

Comment 14

Comment 10

Comment 13

Comment 14

RECOMMENDATION 1C

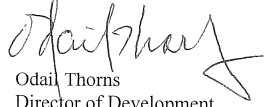
After review of the Audit Spreadsheet of the 110 properties it became apparent that the City of Saginaw has improved significantly in its filing system and methods of calculation. This is based on a review of the dates of the projects and virtually all of the noted deficiencies occurred before Feb 2008. Those projects that occurred after Feb 2008 meet or exceed auditors test with the exception of below grade concrete charges that is explained in detail above. However, while we have made many improvements in these areas we still need to document our policies and procedures as they relate to demolitions. Over the next 6 months we will complete a blight removal policy manual that outlines all of the necessary procedures that must be followed in order to meet all federal, state, and local requirements. This manual will consist of an audit checklist indicating the necessary documentation required for auditing purposes and the file will not be closed until such time as it is complete and meets the expectations of our field office in Detroit.

In summary, we acknowledge that our policies, procedures, and methods of processing demolition actives prior to February 2008 caused errors in our costing process. We proactively reported this in various forms as soon as we learned of the issues through our annual audit. While our overall cost per unit was not excessive per benchmarks we fully recognized our errors and proposed credits to address calculated overcharges. There certainly was some level of error however the outcome from these activities was both necessary and reasonable. The areas in which we see no resolution are those cases which involved debris removal and those cases in which the City paid our contractor for concrete removal work which was never completed and we accept full responsibility for those costs amounting to \$14828.87. It is our belief that all other areas of deficiency can be corrected and documentation can and will be supplied to the Detroit Field Office.

The audit report is very useful in that it demonstrates that the improvements that we have made since February 2008 have significantly impacted both our performance and the accuracy and reliability of our work. It is with this knowledge that we are now comfortable in what expectations and standards that we must meet and will continue to make these procedures a permanent part of our day to day operations by memorializing them in a written policy manual which provides guidance to all staff involved in the administration of this very important function.

We look forward to the resolution of this matter in the very near future upon completion of the corrective action as identified above. Again we appreciate your time and attention to this matter and appreciate the guidance your staff has provided us in improving our demolition program.

Sincerely,



Odai Thorns
Director of Development

Cc. Darnell Earley, City Manager
Joyce Seals, Mayor

OIG's Evaluation of Auditee Comments

Comment 1 The City did not provide us with additional revisions to its policies and procedures during the audit.

Comment 2 We removed from the report that the City's code of ordinances did not contain language authorizing the waiving of the requirements in Section 151.117 of the code regarding reimbursement for the cost of demolition work or placement of a lien for the cost of demolition work.

We revised the report to state the following:

- Section 151.131 of the City's code of ordinances states that whenever there are practical difficulties involved in carrying out the provisions of chapter 151 of the code of ordinances, the chief inspector of the Department's Inspection Division may, as the chief inspector deems to be appropriate under the circumstances, grant modifications for individual cases. No modification shall be approved unless the chief inspector shall first find that a special individual reason makes the strict letter of chapter 151 impractical and that the modification is in conformity with the intent and purpose of chapter 151. Such modification may be granted only when the modification does not lessen any fire protection requirements, compromise structural integrity, or otherwise adversely affect any other safety requirements. The details of any modification shall be recorded and entered in the files of the Inspections Division.
- The City used \$50,691 in Block Grant funds for demolition work at the 16 properties. The director of the Department stated that in cases in which health and safety have been viewed as a significant risk, the City used the modification exemption in section 151.131 of the City's code of ordinances for the 16 properties. However, the City did not provide documentation to support that the chief inspector found that special individual reasons made the strict letter of chapter 151 impractical and that the modification was in conformity with the intent and purpose of chapter 151.

We revised recommendation 1B to state, "Reimburse its Block Grant program \$80,144 (\$130,835 in Block Grant funds used for the 39 demolition activities less \$50,691 in Block Grant funds used for the 16 demolition activities in which the City had the property owners sign waivers relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office in exchange for not being held liable for the costs of the demolition work) from nonfederal funds for the 23 demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties and did not have property owners sign waivers.

We moved recommendation 1C to recommendation 1D and added a new recommendation 1C to state the following:

- Provide sufficient documentation to support that the chief inspector granted modifications of the requirements in section 151.117 for the 16 properties for which the City had the property owners sign waivers relinquishing their rights to receive notices and hearings required by the City's Dangerous Building Office in exchange for not being held liable for the costs of the demolition work. The documentation must also support that the chief inspector found that special individual reasons made the strict letter of section 151.117 impractical and that the modification was in conformity with the intent and purpose of chapter 151. If the City cannot provide sufficient supporting documentation, it should reimburse its Block Grant program \$50,691 from nonfederal funds for the 16 demolition activities for which the City did not request the property owners to reimburse the City or place liens on the properties.

Comment 3 We removed the following from the report:

- The City did not have a system in place that appropriately identified the amount of Block Grant funds used for each demolition activity under its Block Grant program. It maintained a spreadsheet that contained the total cost per demolition activity under its Block Grant program. However, of the 110 demolition activities reviewed, 103 were incorrectly recorded in its spreadsheet. The City's spreadsheet inappropriately showed that the City used nearly \$399,000 in Block Grant funds for the 110 demolition activities when it actually used more than \$406,000 in Block Grant funds for those activities.

We also revised recommendation 1D to reflect the revisions.

Comment 4 Of the 110 demolition activities reviewed, 54 were completed after February 2008. The City lacked sufficient information for 38 of the 54 demolition activities completed after February 2008. The City could not provide documentation to support the measurements for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, and/or exterior concrete existed.

Comment 5 The City lacked sufficient information for 91 demolition activities. It could not provide documentation to support the measurements for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, garages, and/or exterior concrete existed.

Comment 6 We agree that after February 2008, the City significantly improved its procedures for maintaining documentation to support the measurements for demolition work regarding buildings and that buildings existed. However, the City lacked sufficient information for 38 of the 54 demolition activities completed after

February 2008. The City could not provide documentation to support the measurements for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, and/or exterior concrete existed.

Comment 7 We did not question any of the demolition activities due to the City's method of calculating demolition costs.

Comment 8 We did not question all of the Block Grant funds associated with asbestos work. We questioned \$26,592 in Grant funds for which the City lacked sufficient documentation to support the amount of asbestos or that asbestos existed.

Comment 9 The City could not provide documentation to support the measurements for the demolition work on below-grade concrete and/or that below-grade concrete existed. Further, exterior measurements of a structure and evidence from the City's Assessor's Office indicating the presence of a basement or crawlspace are not sufficient documentation to support the measurements for the demolition work on below-grade concrete. In addition, the City did not provide documentation to support that buildings were not safe to enter to determine and document the actual measurements for the demolition work on below-grade concrete and/or that below-grade concrete existed.

Comment 10 The City previously provided documentation to support that it reduced subsequent payments to contactors for \$4,010 of the Block Grant funds used for exterior concrete costs. Therefore, we revised the schedule on page 6 of the audit report to only include 36 demolition activities and \$7,464 in Block Grant funds for which the City lacked sufficient documentation for the demolition work regarding exterior concrete and/or that exterior concrete existed.

In addition, we revised the report to state that the City lacked sufficient information for 91 of the 110 demolition activities to support nearly \$138,000 in Block Grant funds used for demolition activity expenses.

We also revised recommendation 1A to reflect the revisions.

Comment 11 The City could not provide documentation to support the measurements for the demolition work on garages and/or that garages existed. Records from the City's Assessor's Office indicating the presence of garages and a lack of demolition permits are not sufficient documentation to support the measurements for the demolition work regarding garages and/or that garages existed.

Comment 12 The City's commitment to place liens on the 23 properties may resolve the issue of the City not requesting the property owners to reimburse the City or placing liens on the properties. Therefore, the City may not have to reimburse its Block Grant program \$80,144 from nonfederal funds for the 23 demolition activities. However, some of the properties may no longer be owned by the individuals or

companies who owned the properties at the time of the demolition work, and the City may not be able to place liens on all of the properties.

Comment 13 We agree that after February 2008, the City significantly improved its procedures for maintaining documentation to support the measurements for demolition work regarding buildings, debris, and garages and that buildings, debris, and garages existed. However, the City lacked sufficient information for 38 of the 54 demolition activities completed after February 2008. The City could not provide documentation to support the measurements for the demolition work and/or that buildings, below-grade concrete, debris, asbestos, and/or exterior concrete existed.

Comment 14 The City's planned actions should improve its procedures and controls over its use of Block Grant funds for demolition activities if implemented.

Appendix C

FEDERAL, STATE, AND CITY REQUIREMENTS

HUD's regulations at 24 CFR 85.20(b)(1) state that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. Section 85.20(b)(2) requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligation, unobligated balances, assets, liabilities, outlays or expenditures, and income. Section 85.20(b)(4) states that financial information must be related to performance or productivity data. Section 85.20(b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

HUD's regulations at 24 CFR 85.22(b) state that allowable costs for state, local, or Indian tribal governments will be determined in accordance with cost principles contained in Office of Management and Budget Circular A-87.

HUD's regulations at 24 CFR 85.36(b)(2) state that grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

HUD's regulations at 24 CFR 85.40(a) 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 ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

HUD's regulations at 24 CFR 91.225(b)(8) state that for jurisdictions that seek funding under the Block Grant program, the jurisdiction is required to certify that the jurisdiction will comply with applicable laws.

HUD's regulations at 24 CFR 570.302 state that in order for a grantee to receive its annual Block Grant entitlement grant, a grantee must submit a consolidated plan in accordance with 24 CFR Part 91.

HUD's regulations at 24 CFR 570.303 state that the jurisdiction must make the certifications that are set forth in 24 CFR Part 91 as part of the jurisdiction's consolidated plan.

HUD's regulations at 24 CFR 570.502(a) state that recipients that are governmental entities shall comply with Office of Management and Budget Circular A-87. Section 570.502(a)(4) states that recipients that are governmental entities shall comply with 24 CFR 85.20, except for section 85.20(a). Section 570.502(a)(6) states that recipients that are governmental entities shall comply with 24 CFR 85.22. Section 570.502(a)(12) states that recipients that are governmental entities

shall comply with 24 CFR 85.36, except for section 85.36(a). Section 570.502(a)(14) states that recipients that are governmental entities shall comply with 24 CFR 85.40, except for sections 85.40(b) through (d) and (f).

HUD's regulations at 24 CFR 570.506 state that recipients shall establish and maintain sufficient records to enable HUD to determine whether the recipients have met the requirements of 24 CFR Part 570. Section 570.506(a) states that recipients need to maintain records providing a full description of each activity assisted with Block Grant funds; the amount of Block Grant funds budgeted, obligated, and expended for the activities; and the provisions under which the activities are eligible. Section 570.506(h) states that recipients need to maintain financial records in accordance with the applicable requirements in section 570.502. Recipients shall maintain evidence to support how Block Grant funds are expended. The documentation must include invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties, and/or other documentation appropriate to the nature of the activity, as applicable.

Attachment A, section C.1, of Office of Management and Budget Circular A-87, revised May 10, 2004, requires all costs to be necessary, reasonable, and adequately documented.

In the City's 2007 through 2008 and 2008 through 2009 action plans, which are part of its consolidated plans, the city manager certified that for the City's Block Grant program, it would comply with applicable laws.

Section 125.541(5) of the Michigan Compiled Laws states that the cost of the demolition or maintaining the grounds adjoining the building or structure incurred by the city to bring the property into conformance with the Housing Law of Michigan Act shall be reimbursed to the city by the owner or party in interest in whose name the property appears. Section 125.541(6) states that the owner in whose name the property appears upon the last local tax assessment records shall be notified of the amount of such cost by first class mail at the address shown on the records. If the owner fails to pay the same within 30 days after mailing by the assessor of the notice of the amount thereof, the city shall have a lien for the cost incurred by the city to bring the property into conformance with the Housing Law of Michigan Act. Section 125.541(7) states that the city may also bring an action against the owner of the property for the full cost. A city shall have a lien for the amount of a judgment obtained under section 125.541.

Section 338.3207 of the Michigan Compiled Laws states that an asbestos abatement contractor shall not engage in any activity involving the demolition, renovation, or encapsulation of friable asbestos materials without first receiving a license from the State of Michigan's Department of Consumer and Industry Services. Section 338.3220 states that an asbestos abatement contractor shall notify the State of Michigan's Department of Consumer and Industry Services in writing at least 10 days before beginning an asbestos abatement project exceeding 10 linear feet or 15 square feet, or both, of friable asbestos materials.

Section 151.117(B) of the City's code of ordinances states that the cost of the demolition; maintaining the grounds adjoining the building or structure; and mailing, recording, and publication incurred by the City to bring the property into conformance with the subchapter in the City's code

of ordinances regarding dangerous buildings shall be reimbursed to the City by the owner or party in interest in whose name the property appears. This includes owners who have an interest when the proceedings commence or who acquire their interest during the pendency of the proceedings. Section 151.117(C) states that the owner in whose name the property appears upon the last local tax assessment records and within the records of the register of deeds shall be notified of the amount of such cost by first class mail at the address shown on the records. If the owner fails to pay the same within 30 days after mailing by the assessor of the notice of the amount thereof, the City shall have a lien for the cost incurred by the City to bring the property into conformance with the City's code of ordinances regarding dangerous buildings. Section 151.117(D) states that the City may also bring an action against the owner of the property. The City shall have a lien for the amount of the judgment against the owner's interest in all real property located in the state of Michigan that is owned in whole or part by the owner of the property against whom the judgment is obtained.

Section 151.131 of the City's code of ordinances states that whenever there are practical difficulties involved in carrying out the provisions of chapter 151 of the code of ordinances, the chief inspector of the Department's Inspection Division may, as the chief inspector deems to be appropriate under the circumstances, grant modifications for individual cases. No modification shall be approved unless the chief inspector shall first find that a special individual reason makes the strict letter of chapter 151 impractical and that the modification is in conformity with the intent and purpose of chapter 151. Such modification may be granted only when the modification does not lessen any fire protection requirements, compromise structural integrity, or otherwise adversely affect any other safety requirements. The details of any modification shall be recorded and entered in the files of the Inspections Division.