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TO: William O'Connell, Director, Community Planning and Development, Buffalo, New York, 2CD

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, NY/NJ, 2AGA

SUBJECT: The City of Syracuse, NY, Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the operations of the City of Syracuse, NY, pertaining to its Community Development Block Grant (CDBG) program. We selected the City based on a risk analysis of upstate New York grantees, which identified Syracuse as high risk. The objectives of the audit were to determine whether the City administered its CDBG program effectively, efficiently, and economically in accordance with applicable rules and regulations. Specifically, we wanted to determine whether City officials had (1) established and implemented the necessary controls to ensure that program activities were adequately documented and administered in accordance with HUD regulations, and (2) expended CDBG funds for eligible activities.

What We Found

The City did not always administer its CDBG program in accordance with HUD regulations. Specifically, it had administrative weaknesses in its float loan program. City officials could not demonstrate that \$907,195 in float loan funds used to finance 11 new housing construction activities (1) were provided to qualified nonprofits; (2) were necessary, reasonable, and adequately supported; and (3) met a national objective. As a result, \$162,200 in ineligible costs and

\$744,995 in unsupported costs were incurred, and City officials' ability to ensure that CDBG program objectives were met was diminished.

Review of four CDBG Special Housing Program activities revealed that City officials did not ensure that national objectives were obtained; costs charged were necessary, reasonable, and adequately supported; and performance goals were achieved. As a result, ineligible costs of \$53,990 and unsupported costs of \$415,927 were incurred.

In addition, 38 CDBG activities administered by both the City and various subrecipients, budgeted for funding during program years 2004-2007, had been either not completed or not started due to a lack of controls. As a result, performance goals were not achieved for various activities for which \$408,282 in CDBG funds had not been drawn from the line of credit. We attribute these three deficiencies to City officials' not implementing adequate administrative control procedures to ensure compliance with CDBG program requirements.

What We Recommend

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to (1) repay from non-Federal funds the \$162,200 in ineligible float loan activity costs; (2) submit documentation to justify the unsupported float loan costs of \$744,995 and unsupported Special Housing Program costs of \$415,927, so that HUD can make an eligibility determination, and repay any amounts determined to be ineligible; (3) reallocate for other viable activities the \$408,282 in unused CDBG funding authority related to the 38 activities from program years 2004-2007 that had been either not completed or not started or return the unused funds to the U.S. Treasury; and (4) establish controls to ensure that costs are eligible and necessary before being charged to the program, program activities meet a national objective, and performance goals are accomplished.

For each recommendation in the body of the report 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 discussed the results of the review during the audit, provided a copy of the draft report to City officials, and requested their comments on September 14,, 2011. We held an exit conference on September 28, 2011, and City officials provided their written comments on October 4, 2011, at which time they disagreed with some of the issues in the findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: Administrative Weaknesses Existed in the City’s Float Loan Program	5
Finding 2: City Officials Did Not Always Comply With HUD Regulations When Disbursing CDBG Funds	12
Finding 3: Performance Goals for Certain CDBG Activities Were Not Always Achieved	18
Scope and Methodology	23
Internal Controls	25
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	27
B. Auditee Comments and OIG’s Evaluation	28

BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974, Public Law 93-383 as amended, 42 U.S.C. (United States Code) 5301. The program provides grants to State and local governments to aid in the development of viable urban communities. Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. To be eligible for funding, every CDBG-funded activity must meet one of the program's three national objectives. Specifically, every activity, except for program administration and planning, must

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The City of Syracuse, NY, is a CDBG entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) awarded the City more than \$6 million in CDBG funding in fiscal year 2008, more than \$6.1 million in 2009, and more than \$6.6 million in 2010. In addition, the City received more than \$1.6 million in funds under the American Recovery and Reinvestment Act of 2009. These funds are available to support a variety of activities directed at improving the physical condition of neighborhoods by providing housing rehabilitation and public improvements and facilities, fostering economic development by providing technical and financial assistance to local businesses and creating employment, or improving services for low- or moderate-income households. The City operates under a mayor-council form of government, and its CDBG activities are administered both in-house and by outside nonprofit organizations. The City is responsible for overseeing, monitoring, and managing CDBG activities. The files and records related to the City's CDBG program are maintained in City Hall, Syracuse, NY.

The objectives of the audit were to determine whether the City administered its CDBG program effectively, efficiently, and economically in accordance with applicable rules and regulations. Specifically, we wanted to determine whether City officials had (1) established and implemented the necessary controls to ensure that program activities were adequately documented and administered in accordance with HUD regulations, and (2) expended CDBG funds for eligible activities.

RESULTS OF AUDIT

Finding 1: Administrative Weaknesses Existed in the City's Float Loan Program

The City had administrative weaknesses in its float loan program. City officials could not demonstrate that \$907,195 in float loan funds used to finance 11 new housing construction activities (1) were provided to qualified nonprofits; (2) were necessary, reasonable, and adequately supported; and (3) met a national objective. Moreover, City officials did not administer the City's float loan program in accordance with program regulations. We attribute these deficiencies to City officials' general unfamiliarity with the float loan program requirements and the failure to establish administrative control procedures to ensure compliance with CDBG program requirements, including ensuring that costs were eligible and necessary before being charged to the program. As a result, \$162,200 in ineligible costs and \$744,995 in unsupported costs were incurred, and City officials' ability to ensure that CDBG program objectives were met was diminished.

Background

Regulations at 24 CFR (Code of Federal Regulation) 570.301(b) permit a grantee to use undisbursed funds in the line of credit within its CDBG program account, which are budgeted in statements or action plans for one or more activities that do not need the funds immediately for unfunded activities. Such funds are referred to as the "float," and an activity that uses such funds is called a float-funded activity. The float-funded activity must meet all of the requirements that apply to CDBG activities and generally must be expected to produce program income in an amount at least equal to the amount of the floated funds used and be repaid in 2.5 years.

The primary purpose of the City's new construction float loan program is to use CDBG funds secured by a letter of credit to provide area nonprofit organizations with zero percent construction financing for new single-family homes. These homes are then sold to an income-qualified buyer. The City administered 11 new construction float loan activities during the 2006 and 2007 program years reviewed. The weaknesses are discussed in detail below.

Inadequate Documentation Regarding the Qualifications of the Nonprofits Provided Funding

Section 570.207(b)(3) of the CDBG regulations states that CDBG funds may not be used for the construction of new permanent residential structures or for any program

to subsidize or assist new construction except when carried out by an eligible entity pursuant to section 570.204(a) of the CDBG regulations. More specifically, the entity must qualify as a community-based development organization (CBDO).

To qualify as a CBDO, the entity must, among other things, maintain at least 51 percent of its governing body's membership for low- and moderate-income residents, owners or senior officers of private establishments and other institutions located in and serving its geographic area of operation, or representatives of low- and moderate-income neighborhood organizations located in and servicing its geographic area of operation.

Contrary to this requirement, City officials did not maintain adequate documentation demonstrating that any of the three nonprofits provided CDBG funding for new housing construction qualified as a CBDO. While the program files did include some information as to the makeup of the board of directors, none of the files contained specific information to confirm that the board members met the requirements cited above. Moreover, in the City's 2007 summary of consolidated plan projects report to HUD, the City acknowledged that two of the three nonprofits that received new housing construction funding were not qualified CBDOs. Consequently, the City's new housing construction program did not comply with the CDBG regulations. Therefore, costs incurred were not supported, as there was a lack of documentation to demonstrate that the new housing construction activities were carried out by qualified CBDOs.

A total of \$907,195 in Federal Funds was disbursed for the 11 float loan new construction activities as follows:

Program year	Activity name	Federal funds disbursed	Notes
2007	Property A Tennyson Ave.	\$ 75,000	Ineligible
2007	Property B Sedgwick Street	90,000	
2007	Property C Palmer Ave.	93,087	
2007	Property D Palmer Ave.	78,087	
2007	Property E Palmer Ave.	93,087	
2007	Property F Palmer Ave.	93,087	
2006	Property G Howard Street	50,000	
2006	Property H Coolidge Ave.	84,247	
2006	Property I Coolidge Ave.	87,200	
2006	Property J Coolidge Ave.	81,200	
2006	Property K Coolidge Ave.	82,200	
Total		\$ 907,195	

Contrary to program requirements, because City officials did not maintain adequate documentation demonstrating that any of the three organizations provided CDBG funding for new housing construction qualified as a CBDO or maintain documents

to support that the costs incurred were reasonable and supported by financial records, these costs were questionable. Further in two cases, in addition to the lack of documented CBDO qualifications, the homeowners did not meet the income requirements (income was too high); therefore, these two cases were ineligible. In summary, of the \$907,195 in questioned costs incurred, two cases totaling \$162,200 (\$75,000 + \$87,200) were considered to be ineligible, and the remaining nine cases totaling \$744,995 were considered to be unsupported.

Costs Not Necessary, Reasonable, and Supported

City officials did not adequately monitor their new housing float loan program to ensure that construction costs were necessary, reasonable, and adequately supported. Specifically, in those instances in which the nonprofit chose a contractor to perform the work, no evidence was provided to show the method used to select the contractor, that the contractor selection was effective in promoting free and open competition, or that adequate controls were in place to monitor the costs charged for construction work for reasonableness. Additionally, in cases in which the nonprofit chose to be the general contractor on the new construction project, the proposed project costs were based on budgeted amounts, rather than documentation such as contracts and invoices as required. Moreover, for one of the new housing construction projects, the City was unable to provide the project files in support of the new housing construction costs; therefore, the total costs for the project could not be determined.

Apart from the above, for the 10 new construction float loan activities for which the City was able to provide the project files, City officials did not provide evidence that they performed any type of onsite monitoring of the construction work. Additionally, there was no evidence that City officials obtained property appraisals on the newly constructed homes to justify the reasonableness of the costs incurred. This issue is particularly important since the average purchase price was \$184,186, and during this same period, the National Association of Realtors reported that the median price of a home in Syracuse, NY, was \$105,950. Consequently, the City's control over the reasonableness and propriety of the costs incurred under its new housing construction float loan program were questionable.

Regulations at 24 CFR 570.506(h) provide details regarding the financial records that are to be maintained by the City to support how CDBG funds are expended. Such documentation must include, to the extent applicable, invoices, schedules containing comparisons of budgeted amounts and actual expenditures, construction progress schedules signed by appropriate parties, and other documentation appropriate to the nature of the activity.

Inadequate Documentation To Demonstrate That a CDBG National Objective Was Met

City officials were unable to provide documentation showing that new construction float loans met one of the three national objectives of benefiting low- and moderate-income persons, aiding in preventing or eliminating slums or blight, or addressing a need with particular urgency because existing conditions posed a serious and immediate threat to the health or welfare of the community. All of the float loans were listed in HUD's Integrated Disbursement and Information System as low-mod housing benefit, community development financial institution, or neighborhood revitalization strategy area activities that are carried out for the purpose of providing or improving permanent residential structures by a community development financial institution or pursuant to a HUD-approved neighborhood revitalization strategy.

However, examination of the project files showed that there was no documentation to show that the new construction activities undertaken by the nonprofits were part of a planned neighborhood revitalization project of sufficient size and scope to have an impact on the decline of a designated geographic location within the City's jurisdiction. Regulations at 24 CFR 570.204(a)(1) require that to qualify as an eligible activity, the new construction must be part of a neighborhood revitalization project of sufficient size and scope to have an impact on the decline of a designated geographic location within the jurisdiction of the City. To the contrary, inspection of the newly constructed properties showed that the neighborhoods as a whole consisted of many vacant and rundown properties, with no evidence that a neighborhood revitalization had occurred (see photographs for newly constructed and existing properties on Palmer Avenue). Inspection of the neighborhood identified many vacant and boarded-up houses in the area.



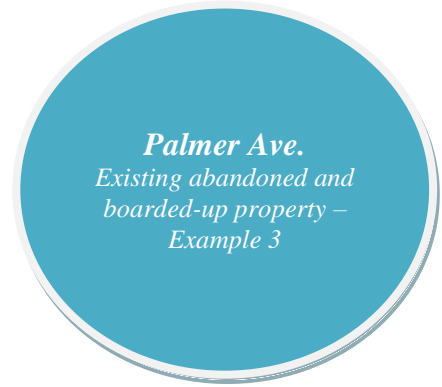
*Palmer Ave.
Newly constructed
property provided HUD
and other grant funds
\$118,087*



*Palmer Ave.
Existing abandoned and
boarded-up property –
Example 1*



*Palmer Ave.
Existing abandoned and
boarded-up property –
Example 2*



There was a lack of evidence to support that the City’s activities met a national objective, since new construction activities had to be of a sufficient scope to have made an impact on revitalizing a geographic area within the City and this did not appear to be the case.

Float Loan Program Not in Compliance With HUD Requirements

Regulations at 24 CFR 570.301(b) provide that a float-funded activity must meet all the requirements that apply to CDBG activities and generally must be expected to produce program income in an amount at least equal to the amount of the floated funds used. Contrary to this requirement, City officials did not administer their new housing float loan program in a manner that would provide for a return of program income in an amount at least equal to the amount of the floated funds used. As previously noted, the City’s new construction float loan program used CDBG funds secured by a letter of credit to provide nonprofits with zero percent construction financing for new single-family homes. The homes were then to be sold to an income-qualified buyer. Upon the sale of the home, part of the loan repayment was provided by the City in the form of a HOME Investment Partnerships Program or CDBG grant to the homeowner, thus the nonprofit was required to repay only a portion of the original amount loaned.

Moreover, the CDBG eligibility of the new housing activities carried out with float loans was not adequately supported since City officials were unable to document that the nonprofits that participated in the program qualified as CBDOs or that the activity met a national objective of the CDBG program.

Further, the project files lacked adequate detail on how potential homeowners qualified for or were selected for the program. There was no documentation showing whether this program, which provided for the purchase of a new home at a substantial discount, was advertised to the public at large or that the potential

homeowners were selected from a waiting list. Accordingly, City officials did not comply with applicable regulations for float-funded activities as required.

Conclusion

Review of the City's administration of its new home construction float loan activities, revealed that adequate controls to ensure compliance with applicable regulations for float-funded activities had not been established. Specifically, there was inadequate evidence that the nonprofit companies provided funding qualified as CBDOs; costs were necessary, reasonable and supported; and a CDBG national objective was met. As a result, \$162,200 in ineligible costs and \$744,995 in unsupported costs were incurred. We attribute these deficiencies to City officials' general unfamiliarity with HUD's regulations pertaining to float-funded activities and inadequate controls to ensure compliance with program requirements.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to

- 1A. Reimburse from non-Federal funds the ineligible costs incurred of \$162,200, of which \$87,200 was paid from HOME program funds and \$75,000 was paid from CDBG funds.
- 1B. Submit documentation to demonstrate that its new housing construction activities were carried out by qualified CBDOs and support the reasonableness of the \$744,995 in costs incurred so that HUD can make an eligibility determination. For any costs determined to be ineligible, HUD should require the City to reimburse the HOME program from non-Federal funds.
- 1C. Develop administrative control procedures to ensure compliance with CDBG program requirements, including ensuring that costs are eligible and necessary before being charged to the program.

Finding 2: City Officials Did Not Always Comply With HUD Regulations When Disbursing CDBG Funds

City officials did not always disburse CDBG funds in compliance with HUD requirements. Review of the four CDBG Special Housing Program activities, funded through the City's CDBG and Technical Assistance Grant programs, revealed that the City did not always adequately monitor and administer grant- and subgrant-supported activities to ensure the effective and efficient use of HUD resources. Specifically, City officials did not ensure that national objectives were attained; costs charged were necessary, reasonable, and adequately supported; and performance goals were achieved. These deficiencies were due to the lack of emphasis and insistence by management that procedures be in place to ensure that grant and subgrant activities were continuously and thoroughly monitored for compliance and progress, fully supported by adequate cost documentation, and performed and administered efficiently. As a result, ineligible costs of \$53,990 and unsupported costs of \$415,927 were incurred.

Background

Three of the four activities reviewed were administered by nonprofits, and the fourth was administered directly by the City. City officials were responsible for implementing controls and monitoring procedures to ensure compliance with all program requirements. However, there was a lack of documented monitoring by City officials for all the activities reviewed. The detailed results of the review and conclusions reached relating to each of the activities reviewed are contained in the following sections.

Activity 1 - Tully Street

City officials disbursed \$90,973, consisting of \$80,973 in CDBG funds and \$10,000 in Technical Assistance Grant funds, to subsidize and bring in line with the market value the total development costs of a newly constructed home on Tully Street, Syracuse, NY, without ensuring that a national objective of the CDBG program had been accomplished or that the costs incurred were reasonable and adequately supported. Regulations at 24 CFR 570.200(a)(2) require that each recipient ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives as contained in its certification. Moreover, Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1.a provides that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented.

For program year 2009, City officials identified the national objective for this activity in HUD's Integrated Disbursement and Information System as the

prevention or elimination of slums and blight. It appeared that City officials may have tied this activity to the national objective of slums and blight, rather than low-mod benefit, because the record showed that the owners of the newly constructed home had incomes that exceeded the low-mod limits established by HUD; therefore, the activity would not have met the low-mod benefit national objective. However, while the activity was listed as meeting the objective of slum and blight, it was not until October 2009 that the nonprofit's officials requested that City officials provide write-down funding for the newly constructed home, stating that they had demolished the previous structure located at the Tully Street address in February 2009. Consequently, since the former structure was demolished in February 2009, any slum and blight conditions would have been addressed at that time. Moreover, in March 2011, inspection of the Tully Street neighborhood found that the houses in that area generally appeared to be in good condition, further supporting that this area did not show signs of slum or blight conditions.

City officials also were not able to provide documentation for the \$90,973 in CDBG and Technical Assistance Grant funds used for this activity to show that the costs were necessary and reasonable and supported by proper source documents. For example, while the files contained a property cost summary report that referenced a construction contract for \$235,714, a 5 percent contingency fee of \$11,785, an additional nondescriptive 15 percent fee totaling \$37,305, and many other soft cost items, the files contained no detailed documentation in support of the costs identified on the property cost summary.

Thus, City officials had not implemented adequate controls to ensure that each of its CDBG-assisted activities met one of the three national objectives as contained in its certification, nor had they implemented adequate controls to ensure that costs incurred were necessary and reasonable for proper and efficient performance and administration of Federal awards or that costs were adequately documented. Therefore, the \$90,973 in funds used for this activity was considered unsupported pending an eligibility determination by HUD.

Activity 2 - East Kennedy Street

City officials disbursed \$227,765, consisting of \$44,500 in CDBG and \$183,265 in Technical Assistance Grant funds, in the form of loans to subsidize the sale of a two-family rental property by a nonprofit corporation without ensuring that the costs incurred were necessary, reasonable, and adequately supported or that a national objective of the CDBG program had been accomplished.

Regulations at 24 CFR 85.20(b)(2) provide that grantees and subgrantees must maintain records which 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,

obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Also, 24 CFR 85.20(b)(6) provides that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

OMB Circular A-87, Attachment A, Section C.1.a provides that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and costs must be adequately documented. Moreover, OMB Circular A-122, Attachment B, Section 16 provides that costs of fines and penalties resulting from violations of or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable.

Review of the files for the East Kennedy Street property revealed that \$44,500 in costs paid with CDBG funds was not related to the sale of the property. These costs included back taxes and water bills for other properties owned by the borrower. The costs also included a worker's compensation judgment that was owed by the purchaser to the State of New York that was incorporated into the closing for the East Kennedy Street property and paid from the CDBG loan proceeds. Since these costs were not related to the East Kennedy Street property, they would not represent necessary or reasonable costs of the activity, and, therefore, the \$44,500 was considered ineligible.

Additional HUD funds of \$183,265, consisting of \$42,792 from 2001 and \$140,473 from 2004 Technical Assistance Grants, provided as subsidy for the sale of the East Kennedy Street property and paid to the seller of the property, were considered unsupported pending a HUD eligibility determination since City officials were unable to provide adequate supporting documentation for the costs incurred. Specifically, there was no support for many of the line items shown on the HUD-1 settlement statement. For example, documentation was not provided to support funding sources, including the funding agency and applicable grant number, or for lines 205 SNI (Syracuse Neighborhood Initiative) and 207 developer's fee.

In addition, City officials did not provide documentation showing that the national objective of benefiting low- and moderate-income persons was met as required by regulations at 24 CFR 570.200(a)(2) because they were unable to provide a rental history for the property and income verification data for the occupants of the property to show that the property had been rented to low-income residents after the sale of the property.

In summary, for the East Kennedy Street activity, the \$44,500 in CDBG funds expended for costs that were not related to the property sold was considered ineligible. In addition, the \$183,265 in Technical Assistance Grants expended for this activity that lacked proper source documents for the costs incurred and

documentation to show that a national objective had been met, was considered unsupported pending a HUD eligibility determination.

Activity 3 - Cherry Street

City officials disbursed \$64,543 in CDBG funds to subsidize the sale of three rental properties from a local nonprofit entity to a private third-party investor without ensuring that a national objective of the CDBG program had been accomplished, costs incurred were adequately supported, and performance goals for the activity had been achieved.

Specifically, City officials did not provide property appraisals to support that the sales prices for the properties were reasonable, documentation verifying that the purchaser of the three properties qualified as a low-mod income individual, or property rental information for tenants that may have occupied the properties after the sale to ensure that the tenants were low-mod income qualified to support meeting a national objective. Therefore, the City did not adequately monitor the activity to ensure that performance goals were achieved.

Regulations at 24 CFR 570.501(b) provide that the recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts.

Since City officials were unable to provide documentation to show that \$64,543 in CDBG funds expended for the Cherry Street properties was necessary, reasonable, and adequately supported or met a national objective, the costs incurred for this activity were considered unsupported pending an eligibility determination by HUD.

Activity 4 – Hartson-Rowland

A total of \$86,636 in CDBG funds was used to pay for costs related to the cleanup of the properties, repairing or replacing water heaters and furnaces, and purchase of new washers and dryers to replace those that were damaged as a result of a water main break located on or near the area of Hartson and Rowland Streets without ensuring that the funds expended were eligible, necessary, reasonable, and adequately supported. In addition, City officials were unable to provide documentation showing that these activities met the listed national objectives of slum or blight spot benefits and low-mod housing benefits.

Regulations at 24 CFR 570.200(a)(2) require that each recipient ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives as contained in its certification. City officials indicated that they treated this activity as an emergency addressing an urgent need due to the damage caused by a water main break. However, a review of the files provided for this activity did not show that the recipient certified that the activity was designed to alleviate existing conditions, which posed a serious and immediate threat to the health or welfare of the community. The documents in the files also did not show that the event was of recent origin or had recently become urgent or that the recipient was unable to finance the activity on its own and that other sources of funding were not available as required by regulations at 24 CFR 570.208(c). Consequently, there was no assurance that the use of CDBG funds represented necessary or reasonable costs to the program or that a national objective of the program was attained.

Review of the disbursement documentation for the \$86,636 charged to CDBG activities relating to the water main break revealed that the costs included \$9,490 for the purchase of new washers and dryers. However, according to regulations at CFR 570.207(b)(1)(iii), the purchase of equipment, fixtures, motor vehicles, furnishings, or other personal property not an integral structural fixture is generally ineligible.

In summary, for the Hartson-Rowland activity, \$9,490 was determined to be ineligible, and the remaining \$77,146 was considered to be unsupported costs for which HUD will need to make an eligibility determination.

Conclusion

Review of the four CDBG Special Housing Program activities, funded through the City's CDBG and Technical Assistance Grant programs, revealed that the City did not adequately monitor and administer grant- and subgrant-supported activities to ensure the effective and efficient use of HUD resources. Specifically, City officials did not ensure that national objectives were attained; costs charged were necessary, reasonable, and adequately supported; and performance goals were achieved. These deficiencies were due to the lack of adequate controls over grant- and subgrant-supported activities. As a result, ineligible costs of \$53,990 and unsupported costs of \$415,927 were incurred.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to

- 2A. Repay from non-Federal funds the ineligible costs incurred of \$53,990 (44,500 related to the East Kennedy property and \$9,490 related to the Hartson-Rowland property).
- 2B. Submit documentation to justify the unsupported costs incurred of \$415,927 (\$90,973 related to the Tully Street property, \$183,265 related to the East Kennedy Street property, \$64,543 related to the Cherry Street properties, and \$77,146 related to the Hartson-Rowland Street properties) so that HUD can make an eligibility determination. For any costs determined to be ineligible, HUD should require the City to reimburse the CDBG program from non-Federal funds.
- 2C. Establish controls to ensure that grant- and subgrant-supported activities are adequately monitored and administered to provide assurance that funds have been used only for eligible activities that meet a national objective, costs incurred are necessary and reasonable, and performance goals are achieved.

Finding 3: Performance Goals for Certain CDBG Activities Were Not Always Achieved

As of February 1, 2011, the City had 38 CDBG activities, administered by both the City and various subrecipients, budgeted for funding during program years 2004-2007 that had been either not completed or not started. This condition existed because the City had not implemented controls to ensure that (1) CDBG activity performance goals were achieved, (2) Federal awards were administered effectively and efficiently, and (3) each of its activities assisted with CDBG funds met one of the three national objectives as contained in its certification. As a result, performance goals were not achieved for various activities for which \$408,282 in CDBG funds had not been drawn from the line of credit; therefore, these funds should be reallocated for other activities that are viable or returned to the U.S. Treasury.

CDBG Performance Goals Not Always Achieved

Review of the City’s grantee performance report, as contained in the Integrated Disbursement and Information System as of February 1, 2011, revealed that performance goals were not always achieved for CDBG activities.

As indicated in the following chart, the City had 38 budgeted CDBG activities for program years 2004-2007, which were administered by both the City and various subrecipients, that had been either not completed or not started as of February 1, 2011. For the 38 activities identified, \$408,282 in funds had not been drawn from the line of credit as follows:

City of Syracuse, NY - CDBG program open activities in fiscal year 2007 and earlier

Program year	Integrated Disbursement and Information System activity	Funded amount	Drawn thru 2/1/11	Balance available
2004	2601 - Parks and Recreation - Youth Pgms	\$50,031	\$0	\$50,031
2004	2602 - Parks and Recreation - On Summer Pgm	25,047	8,400	16,647
2004	0026 – Tomorrow’s Neighborhoods Today (TNT) Sector Escrows	16,000	5,198	10,802
2005	2803 - TNT Sector Escrows	16,000	10,216	5,784
2005	2807 - Fair Housing Enforcement Activities	50,000	49,772	228
2005	2811 - Housing Referral and Advocacy Pgm	8,848	6,286	2,562
2005	2812 - Project Summer Hope	25,000	24,264	736

Program year	Integrated Disbursement and Information System activity	Funded amount	Drawn thru 2/1/11	Balance available
2005	2816 - Parks and Recreation - Youth Pgm	50,031	0	50,031
2005	2818 - Parks & Rec - Plays On	25,047	24,750	297
2006	3092 - Arise-Home Access Program	40,000	39,901	99
2006	3104 - Home Headquarters - SHARP Pgm	70,000	60,505	9,495
2006	3105 - Home Headquarters - SHARP Pgm-PS	30,000	28,748	1,252
2006	3117 - ARISE - Housing Referral and Advocacy	8,848	1,242	7,606
2006	3125 - Dunbar Association - After School Pgm	15,000	12,500	2,500
2006	3137 - Spanish Action League - Career Services	15,000	14,805	195
2006	3138 - Spanish Action League - Housing Pgm	10,400	9,773	627
2006	3144 - Latinos Unidos - Southwest Community Ctr	3,000	2,422	578
2006	3182 - Parks and Recreation - Summer Evening Rec	20,000	0	20,000
2006	3183 - Parks and Recreation - Expanded Rec Prgm	25,000	20,000	5,000
2006	3184 - TNT Tomorrow's Neighborhoods Today-ESCR	16,000	10,157	5,843
2006	3228 - Planning and Contractual Services	50,000	3,926	46,074
2006	3318 - 700 Oswego Street-LALIGA	27,000	26,453	547
2006	3319 - Foreclosure Intervention Program	90,000	64,840	25,160
2007	3413 - Home Headquarters - Distressed Property Program	203,500	186,762	16,738
2007	3422 - Code Enforcement - Relocation Expenses	10,000	0	10,000
2007	3432 - Parks and Recreation - Expanded Pgm	25,000	20,000	5,000
2007	3434 - Parks and Recreation - "Plays On" Pgm	20,000	12,000	8,000
2007	3438 - Greater Love in Christ - Rehab Pgm	10,000	0	10,000
2007	3456 - Salud - Latinos United Against Disparities	24,148	0	24,148
2007	3458 - Southwest Community Center	348,000	329,498	18,502
2007	3460 - Westcott Kids Club	19,500	16,291	3,209
2007	3462 - YMCA - Residential Advisement Pgm	7,000	0	7,000

Program year	Integrated Disbursement and Information System activity	Funded amount	Drawn thru 2/1/11	Balance available
2007	3464 - SWCC - Latinos Unidos	10,000	3,000	7,000
2006	3601 - Salina Street South 5617	16,430	0	16,430
2007	3728 - Empire Avenue 219	6,490	0	6,490
2007	3746 - TNT Sector Escrows	16,000	11,641	4,359
2007	3945 - Wadsworth Street 317	3,989	0	3,989
2007	3953 - Kimber Avenue 130	5,323	0	5,323
Total				<u>\$408,282</u>

Regulations at 24 CFR 570.208 provide the basis for determining whether an activity meets a national objective, and activities that are not completed do not meet a national objective. Further, a 2003 HUD guide book, entitled “Ensuring Subrecipient Timeliness,” under the part labeled “Select Subrecipients and Activities That Will Meet Timeliness Standards” provides that communities that receive entitlement funds from the CDBG program are required to use their funds in a timely manner.

Since the above activities had not been started or completed, the City did not meet its performance goals and did not meet the national objectives of the activities. Therefore, the \$408,282 is questioned and should be reallocated to other eligible activities or returned to the U.S. Treasury.

Effective Program Administration

Based on the above activities that had not been completed or started for periods ranging from 2004 to 2007, City officials did not appear to have effectively and efficiently administered their CDBG funds. Regulations at 24 CFR 85.40(a) require that grantees be 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 achieved. Grantee monitoring must cover each program, function, or activity.

OMB Circular A-87, Attachment A, Section A.2.a provides that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

City officials’ lack of monitoring of subgrantees led to the condition described above. If proper monitoring had occurred, City officials could have effectively administered these activities, ensuring that funds were expended and activities were completed in a timely manner.

Apart from the above, City officials should consider a 2003 HUD guidance, entitled “Ensuring CDBG Subrecipient Timeliness,” which recommends that if a

proposed activity cannot be completed or nearly completed in 1 year, the project should be phased. An example of a project being phased is funding the design and engineering the first year and construction the next year. The guidance also provides that if funds are recaptured from a subrecipient, one option would be to reallocate the funds to existing, faster moving projects that can absorb the funds within the grant year or to projects with a shortfall of funds. Another option would be to reallocate funds to entities on a waiting list of potential subrecipients identified in the consolidated plan or elsewhere that did not receive awards because demand for CDBG funds exceeded the supply.

Meeting National Objectives

Regulations at 24 CFR 570.200 (a)(2) require that each recipient under the entitlement program ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives as contained in its certification. Criteria for determining whether an activity addresses one or more of these objectives are found in the regulations at 24 CFR 570.208. The national objectives include benefiting low- and moderate-income persons, addressing slums or blight, and meeting a particularly urgent community development need because existing conditions pose a serious and immediate threat to the health or welfare of the community. Therefore, as mentioned above, because little or no activity had taken place for the listed activities for an extended period, the national objectives were not accomplished. Thus, the undrawn funds should be either reprogrammed or used for activities that are viable and meet one of the national objectives or returned to the U.S. Treasury.

Conclusion

Since funding for the 38 CDBG activities identified above was available but had not been drawn during the last 3½ to 6½ years, the City did not ensure that program activities were accomplished in a timely manner, performance goals were achieved, or a national objective was met for the undrawn budgeted amounts as required by regulations at 24 CFR 570.208. Therefore, these funds should be reallocated to other activities that are viable or returned to the U.S. Treasury. This condition can be attributed to City officials' lack of monitoring of subgrantees to ensure that all program regulations were complied with.

Recommendations

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct City officials to

- 3A. Reallocate for other viable activities the \$408,282 in unused CDBG funding authority related to the 38 activities from program years 2004-2007 that have been either not completed or not started or return the unused funds to the U.S. Treasury.
- 3B. Implement controls to ensure that CDBG activity performance goals are achieved, Federal awards are administered effectively and efficiently, and each of its activities assisted with CDBG funds meets one of the three national objectives as contained in its certification.

SCOPE AND METHODOLOGY

The onsite audit work for this review was conducted at the City's offices, located in Syracuse, NY, between January and July 2011. Our audit scope covered the period January 1, 2008, through December 31, 2010, and was expanded as necessary. To accomplish the objectives, we

- Reviewed applicable HUD regulations, the Code of Federal Regulations, and other requirements and directives that govern the CDBG program.
- Reviewed the City's applicable policies and procedures used to administer CDBG activities.
- Reviewed the City's action plans, grant agreements, and agreements between the City and its subrecipients and contractors, including verifying whether national objectives were met.
- Interviewed City personnel responsible for administration of the City's CDBG program.
- Obtained and reviewed documentation from the City pertaining to CDBG activities reviewed.
- Reviewed HUD's monitoring reports and files for the City's CDBG program, including verifying any reported corrective actions.
- Reviewed independent public accountant audits and financial reporting, including analysis of noted findings and control weaknesses applicable to City operations including the CDBG program.
- Reviewed all costs charged to the CDBG program activities tested during the audit, along with the applicable supporting documentation provided.
- Reviewed information systems data from HUD's Integrated Disbursement and Information System (IDIS) for background and information purposes. We performed a minimum level of testing and found the the computer processed data to be adequate for our purposes.

During the audit, we reviewed various CDBG activities including float loans and grant- and subgrant-supported Special Housing Program activities. We also analyzed the City's progress in completing planned activities to determine whether performance goals were accomplished in a timely manner.

Specifically, for review of float loan activities, we selected a nonstatistical sample of 11 new construction float loans, consisting of all of the float loans made in program years 2006 and 2007. The City had not budgeted any float loan activities since program year 2007. Therefore, we reviewed 100 percent of the Federal funding totaling \$907,195 for the 11 activities.

To review the grant- and subgrant-supported Special Housing Program activities, we selected a nonstatistical sample of four activities budgeted for CDBG funding from program years 2005

through 2009. The total amount of CDBG funds budgeted from 2005 through 2009 for the City's Special Housing Program activities was \$796,480. Of that amount, the sample of four activities included CDBG costs of \$236,652, or about 32 percent of all CDBG Special Housing Program budgeted amounts for those program years. Other HUD funding sources were used to supplement additional costs associated with the sample of four Special Housing Program activities reviewed. Specifically, 2001, 2004, and 2005 Technical Assistance Grant funding of \$193,271 and additional CDBG funds of \$40,000 budgeted for the 2006 Home HeadQuarters Distressed Property Program activity were also disbursed in support of the four Special Housing Program activities reviewed. The total amount of Technical Assistance Grant funding awarded to the City for the related 2001, 2004, and 2005 grants amounted to more than \$20 million, while the 2006 HeadQuarters Distressed Property Program activity was budgeted for a total of \$203,500.

To analyze the progress of the City in completing planned activities to determine whether performance goals were accomplished in a timely manner, we reviewed the City's grantee performance report as contained in the Integrated Disbursement and Information System as of February 1, 2011, to determine whether performance goals had been achieved for CDBG activities. We reviewed all CDBG activities contained in the grantee performance report for program years 2007 and earlier to determine whether any of the activities had budgeted amounts that had not been drawn down from the line of credit as of February 1, 2011. The review showed that the City had 38 CDBG activities budgeted for funding from program years 2004-2007 that had been either not completed or not started. For the 38 activities identified, administered by both the City and various subrecipients, \$408,282 had yet to be drawn from the line of credit.

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 a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data and reporting - 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 applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- City officials did not have adequate controls over effectiveness and efficiency of operations when they did not ensure that 38 CDBG activities budgeted for funding during program years 2004-2007 had been started or completed as of February 1, 2011, and did not always ensure that CDBG-funded activities achieved a national objective of the program (see findings 1, 2, and 3).
- City officials did not have adequate controls over reliability of financial data and reporting when they did not adequately monitor grant and subgrant activities or maintain sufficient documentation in support of costs charged to CDBG activities (see findings 1 and 2).
- City officials did not have adequate controls over compliance with laws and regulations as they did not always comply with HUD regulations while disbursing CDBG funds (see findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$162,200		
1B		\$744,995	
2A	53,990		
2B		415,927	
3A			\$408,282
Total	<u>\$216,190</u>	<u>\$1,160,922</u>	<u>\$408,282</u>

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

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

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if City officials implement our recommendation and reallocate the more than \$400,000 in unused funds, they can assure HUD that these funds will be put to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Paul Driscoll
Commissioner

Ben Walsh
Deputy Commissioner

Sharon Owens
Deputy Commissioner



DEPARTMENT OF NEIGHBORHOOD AND BUSINESS DEVELOPMENT

Stephanie A. Miner, Mayor

TO: Edgar Moore, Regional Inspector General for Audit, NY-NJ Region, 2AGA
FROM: Paul Driscoll, Commissioner of Neighborhood and Business Development, City of Syracuse
SUBJECT: HUD Inspector General Report: "The City of Syracuse, NY, Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements"
DATE: October 3, 2011

The City of Syracuse (hereafter, "the City") provides the following comments to the findings and subcategories expressed in the "Results of the Audit" (hereafter, "the Report") portion of the aforementioned report:

Finding 1:

Corrective Action:

Comment 1

a. The City has since qualified two of the three entities as CBDO's, and will continue to certify these entities annually as CBDO's. Backup for that certification will be provided to the HUD Field Office.

Comment 2

b. The City will provide documentation that the one of the homebuyers (223-225 Coolidge Avenue) considered ineligible, was in fact eligible to receive HOME funds in the form of a permanent subsidy.

Comment 3

c. Bidding procedures are reviewed during the monitoring reviews conducted by the City on an agency basis rather than each individual project. Prior to the current administration, agency monitoring reviews were intermittent. Since January 2010, the City has instituted its own risk analysis of funded agencies to determine the agency monitoring prioritization. The schedule of conducted and planned monitoring agency visits will be provided to the HUD Field Office as evidence of this process.

Comment 4

d. Reimbursement for work completed on new construction projects was (and is) reviewed by a City-employed inspector. Vouchers are not paid until the Inspector initials the cover voucher indicating the work was completed satisfactorily. Currently this is done by a City Code Inspector in the employ of the Department of Neighborhood and Business Development (NBD). In response to the HUD Inspector General (IG)'s concerns, a new form that more explicitly documents the City's approval of work done has been incorporated into the voucher process. Sample documentation of the previous and new process will be provided to the HUD Field Office for their review.

Comment 5

e. When private financing is involved in the purchase of a CDBG-funded property, the City relies on the bank appraisal as justification of the value of the property. If no private financing is obtained, an extremely rare occurrence, the City requires the agency to obtain an independent appraisal of the property to establish value. Also, the City acknowledges that the cost of building

Ref to OIG Evaluation

Auditee Comments

Comment 6

new construction is higher than the median sale price of a home in the Syracuse area. However, there circumstances where infill development is necessary to recreate the streetscape to increase the value of surrounding properties thus warranting the added cost to one house. In general however, the current administration has taken the position that rehabilitation of existing property takes precedent over infill new construction and has ceased its operation of the New Construction Float Loan program prior to notification of the HUD IG audit.

f. The City acknowledges that documentation regarding the context of the revitalization efforts occurring around the new construction sites were lacking in the project files. However, the City does view these projects as components of a larger scope. To this end, the current administration has instituted the “block plan” approach to funding decisions. This approach requires the requesting entity to provide detail plans for every property on the block for which they are requesting funds even if the entity will have no direct involvement in each property. This, we feel, will both meet the requirement of 24 CFR 570.204(a)(1) while ensuring that federal funds have the maximum effect beyond the subject property.

Comment 7

g. The City takes strong objection to the charge that float loan funds were not returned as program income. Throughout the 20-year history of the City’s administration of the float loan program, every dollar was returned and reported as program income to HUD. This fact can has been unequivocally substantiated by the City’s Department of NBD as well as the Department of Finance and are confident that the HUD Field Office in Buffalo can confirm that all float loan funds have been paid back.

Comment 8

h. While proof of the eligibility of each prospective homebuyer is contained in each project file, the City agrees with the Report’s findings that the project files lacked City confirmation of the qualification of each individual homeowner. It was presumed that the backup documentation was sufficient. The City will now include an official sign-off by a City employee confirming that each prospective benefiting household does in fact meet HUD income guidelines and will not presume that the backup documentation alone is sufficient. As for selection of the benefiting households, the City relies on its neighborhood-based non-profit housing partners to ensure that affordable housing opportunities are made known to the least likely informed residents. Evidence of this is sought during the agency’s monitoring visit under the topic of affirmative marketing, not on a project by project basis.

Comment 9

Finding 2:
Activity 1 – 521 Tully Street
Corrective Action:

a. The City views the acquisition, demolition and subsequent new construction of the house at 521 Tully Street as the entire scope of the project. As such, the project did eliminate a blighting influence. The City has continually cited the Near West Side neighborhood as one of the most distressed areas not only of the City but of the entire region through its designation in its Consolidated Plan as a Revitalization neighborhood. Also, the City is currently awaiting approval by HUD that includes this neighborhood in its Neighborhood Revitalization Strategy Area (NRSA), a status it held previously with HUD. The City will also enclose recent local legislation that designates this neighborhood in its Urban Renewal Plan calling for enhanced code enforcement and investment in this neighborhood. The neighboring good conditions cited by the Report are a result of ongoing revitalization efforts funded by both CDBG and Technical Assistance grants. Thus, the City stands by its choice of the elimination slums and blight as the national objective it achieved.

Comment 10

b. The City will provide to HUD further detail on the costs associated with this project. The City does allow (and encourages) contingency fees as sound business practice. The 15% non-descriptive cost is a planning fee allowed under the Technical Assistance program to pay for the

Ref to OIG Evaluation

Auditee Comments

Comment 11

planning activities that includes meeting with surrounding residents to understand their housing issues and desires as these block plans are executed.

Activity 2 – 106 East Kennedy Street

Corrective Action:

- a. The City will review the use of the CDBG funds used in this transaction to determine whether the funds were used to satisfy items on properties other than 106 East Kennedy and report to the HUD Field Office its findings.
- b. The City will provide to the HUD Field Office detailed information on the noted line items cited in the Report regarding the HUD-1 settlement statement documenting the sale of 106 East Kennedy Street.
- c. The City will provide the HUD Field Office with up-to-date tenant data forms documenting the income of the current occupants of 106 East Kennedy Street.

Comment 12

Activity 3 – Cherry Street

Corrective Action:

- a. The City did not require appraisals of the properties involved in this transaction to avoid further soft costs related to this transaction. Rather, the City based the reasonableness of the purchase price on the City's assessed valuation of the property as well as its familiarity with sales prices in the Near East Side neighborhood, one of the Revitalization neighborhoods cited in the City's Consolidated Plan and part of the City's previous and proposed NRSAs.
- d. The City will provide the HUD Field Office with up-to-date tenant data forms documenting the income of the current occupants of each of the properties involved in this transaction.

Comment 13

Activity 4 – Hartson-Rowland

Corrective Action:

- a. Due to the length of time that has passed since the occurrence of this flooding situation, and the change of mayoral administrations that has occurred since, the City is unable to locate written evidence that the previous Mayor declared this an emergency even though this is how this activity is often referred. The City has taken the stance that those benefitting from the cleanup were presumed eligible for CDBG assistance based on the neighborhood in which they reside, a documented Revitalization neighborhood. The City will work with the HUD Field Office to determine whether this inference is warranted.
- b. The City agrees with the Report's findings on the purchase of new appliances as being an ineligible use of CDBG funds.

Comment 14

Finding 3:

Corrective Action:

- a. The City agrees with the Report's findings concerning the need to reallocate CDBG funds to eligible activities that will draw them in a timely fashion and that meet the community's priority needs. The City intends to request a formal reallocation of these funds either through a substantial amendment to its Consolidated Plan or with its submission of the 2012 Action Plan.

- Comment 1** City officials indicate they will provide documentation that they subsequently qualified two of the three entities as eligible CBDO's to HUD as part of the audit resolution process. However, HUD officials will need to make a determination if the three entities were eligible to receive funding when the activities took place.
- Comment 2** HUD officials will need to make a determination as to the eligibility of the costs based on the documentation to be provided by City officials.
- Comment 3** City officials indicate that since January 2010, they have implemented a risk based approach to monitoring and that they would provide a schedule of the planned monitoring to HUD. We believe additional controls need to be implemented to ensure compliance with procurement requirements and that effectively promote full and open competition.
- Comment 4** City officials indicate that the reimbursements for new construction were and are reviewed by a City inspector, and that a new form, which more explicitly documents the City's approval of the work done, will be used in the voucher process. Nevertheless, we believe additional controls and monitoring are needed to ensure that construction costs are necessary, reasonable and adequately supported.
- Comment 5** City officials indicate that appraisals were obtained for private and non-private financing of new construction. Although the costs of new construction are higher than the median sales price it is worth it because the new construction has increased the value of the surrounding properties. However, City officials were not able to provide appraisals for the properties provided funding and there was a lack of documentation to support the reasonableness of the costs incurred.
- Comment 6** City officials acknowledge the lack of documentation in its files regarding revitalization activities and have instituted new procedures, which require the requesting entity to provide detail plans for every property on the block for which funds are requested. The proposed action is responsive to the finding and HUD will have to determine the adequacy of corrective action as part of the audit resolution process.
- Comment 7** City officials contend that all float loan funds were repaid to the program and reported as program income. Float loans are supposed to be repaid from the activity that benefited from the float loan. However, these float loans were repaid in part using HOME and CDBG funds, which is not in compliance with the requirements for repayment of float loans.
- Comment 8** City officials indicate that there was proof of the eligibility of each prospective home owner, but that there was a lack of documentation that the information had been confirmed by City officials. City officials indicated that additional controls will be implemented to document that prospective participants' income eligibility is verified. The audit determined that the tenant files did not always contain proof

of tenant income eligibility and as a result \$162,200 disbursed for two over income purchasers was questioned. Furthermore, there was a lack of documentation of whether the program was advertised to the public at large or that the homeowners were selected from a waiting list. Therefore, HUD will have to determine the adequacy of the proposed corrective actions as part of the audit resolution process to ensure compliance with program requirements.

Comment 9 City officials indicated that the acquisition, demolition and subsequent new construction of this property was the entire scope of the project, which eliminated a blighted condition; therefore, the national objective of elimination of slums and blight was achieved. City officials stated that they cited this neighborhood as the most distressed of the City and Region in their Consolidated Plan, and they are awaiting HUD's approval to designate this area as a Neighborhood Revitalization Strategy Area (NRSA). Thus the neighboring good conditions were the result of ongoing revitalization funded by CDBG and Technical Assistance grants. While the activity was listed as meeting the objective of slum and blight, it was not until October 2009 that the nonprofit's officials requested that City officials provide write-down funding for the newly constructed home, stating that they had demolished the previous structure located at the Tully Street address in February 2009. Consequently, since the former structure was demolished in February 2009, any slum and blight conditions would have been addressed at that time. Moreover, in March 2011, inspection of the Tully Street neighborhood found that the houses in that area generally appeared to be in good condition, further supporting that this area did not show signs of slum or blighted conditions. Therefore, we do not accept the City's position that it views the acquisition, demolition and subsequent new construction of the house at 521 Tully Street as the entire scope of the project. Thus, the elimination of an abandoned property is not an automatic precursor to constructing a new home. Furthermore, records showed that the owners of the newly constructed home had incomes that exceeded the low-mod income limits established by HUD and therefore would not have met the low-mod benefit national objective. Thus, by failing to meet the low-mod income requirements and not being slum and blight, we consider the new home construction costs for this activity to be unsupported pending a HUD eligibility determination.

Comment 10 City officials indicated that they would provide HUD additional information on the costs associated with this activity and that they viewed contingency fees such as the 15 percent non-descriptive costs as a sound business practice and an allowable planning fee under the Technical Assistance program. However, City officials were not able to provide documentation for the \$90,973 in CDBG and Technical Assistance Grant funds used for this activity to show that the costs were necessary, reasonable, and supported by proper source documents. In addition, although City officials believe that the non-descriptive 15 percent fee is a good business practice, allowable under the Technical Assistance program, it should be noted that the non-descriptive fee totaled \$37,305, while the Technical Assistance funds invested in this activity only totaled 10,000. As such, HUD

officials will have to make a determination as to the eligibility of the costs for this activity as part of the audit resolution process.

- Comment 11** City officials indicated they would provide HUD information on the funds used for this property and income data for the current occupants of the property. The City officials' proposed actions are responsive to the finding.
- Comment 12** City officials indicated appraisals of the properties were not done to avoid further soft costs related to this transaction. Rather, the City based the reasonableness of the purchase price on the City's assessed valuation of the property as well as its familiarity with sales prices in the Near East Side neighborhood. In addition, they will provide HUD with up-to-date tenant data forms documenting the income of the current occupants of each of the properties. However, since City officials did not provide documentation to support the reasonableness of the costs, and the income levels of the occupants of the property, HUD will have to determine the eligibility and reasonableness of the costs as part of the audit resolution process.
- Comment 13** City officials indicate that although they were unable to locate documentation that the prior Mayor had declared this situation to be an emergency, they believe that this activity was eligible because the property is in a revitalization neighborhood. City officials also agreed that the costs for new appliances were not eligible; as such, they indicated that they would work with HUD to resolve this issue as part of the audit resolution process. Thus the actions of the City officials' are responsive to the finding.
- Comment 14** City officials agreed with finding 3 and will request a formal reallocation of these funds either through a substantial amendment to its Consolidated Plan or with its submission of the 2012 Action Plan. The City officials' actions are responsive to the finding.