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Audit Report Number 2008-NY-1006
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TO: Nancy Peacock, Director, Community Planning and Development, 2CD

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

SUBJECT: The City of Troy, New York, Did Not Always Administer Its Community Development Block Grant Program in Accordance with HUD Requirements

## HIGHLIGHTS

### What We Audited and Why

We audited the operations of the City of Troy, New York (City), pertaining to its administration of its Community Development Block Grant (CDBG) program. We selected the City for review based upon previous U.S. Department of Housing and Urban Development (HUD) on-site monitoring reviews and indicators from our internal audit of HUD's monitoring of the CDBG program, which identified concerns with the City's administration of the program. The objective of our audit was to determine whether the City administered its CDBG program in an effective and efficient manner in compliance with applicable HUD rules and regulations.

### What We Found

The City generally complied with HUD program requirements when administering its overall CDBG program; however, for certain areas, it did not always carry out its activities in an efficient and effective manner and comply with HUD regulations. Specifically, the City did not establish adequate procedures to ensure that its housing rehabilitation program was administered in accordance with program regulations. It could not always demonstrate that the homes funded through its rehabilitation program were brought into compliance

with the Lead Safe Housing Rule as required. Consequently, the City could not ensure that the homes did not pose lead-based paint hazards to young children. The City did not establish adequate procedures to ensure that costs for its street improvement activities were allowable and supported by adequate documentation. As a result, it expended funds for ineligible and unsupported costs for repairs to sidewalks, filling of cracks and potholes, and street repaving activities. Thus, assurances that the CDBG program objectives were met were diminished.

In addition, the City did not establish adequate administrative controls to ensure that costs associated with its public facilities activities were eligible, necessary, and supported by sufficient documentation. As a result, it expended funds for ineligible and unsupported costs for equipment and the rehabilitation of a City-owned police building and firehouse. Consequently, the City's ability to administer its programs efficiently and effectively and ensure that CDBG program objectives were met was diminished.

The City also did not establish adequate controls to ensure that program labor costs were adequately supported and that costs incurred were current and accurately recorded. As a result, it expended funds for unsupported labor and indirect costs without the assurance that these costs were eligible for the CDBG program. Thus, the lack of controls diminished budget oversight and increased the likelihood that program activity might be misclassified and reported to HUD incorrectly.

### **What We Recommend**

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development instruct the City to (1) reimburse the CDBG program from nonfederal funds the \$186,088 paid for ineligible program expenditures, (2) provide supporting documentation to justify the eligibility of more than \$1.2 million in CDBG disbursements or reimburse the program from nonfederal funds any amounts not supported, and (3) establish adequate procedures to ensure compliance with CDBG program requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We discussed the results of our review during the audit, provided a copy of the draft report to City officials, and requested their comments on March 26, 2008. We held an exit conference on April 15, 2008, and City officials provided their written comments on April 25, 2008, at which time they generally disagreed with our 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.

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## BACKGROUND AND OBJECTIVES

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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). 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 Troy (City) is a CDBG entitlement recipient that has administered more than \$2 million in CDBG funds annually. These funds are available to support a variety of activities directed at improving the physical condition of neighborhoods by providing housing or public improvements and facilities, creating employment, or improving services for low- and/or moderate-income households.

The City works with some outside nonprofit organizations to carry out its CDBG-funded programs; however, the majority of programs are administered in house by the City's Department of Planning, which is responsible for overseeing, monitoring, and supporting its CDBG activities. The files and records related to the City's CDBG programs are maintained in City Hall, located at One Monument Square, Troy, New York.

We audited the City's CDBG program based upon previous U.S. Department of Housing and Urban Development (HUD) on-site monitoring reviews and indicators from our internal audit of HUD's monitoring of the CDBG program (Report No. 2008-NY-0001, issued December 31, 2007), which identified concerns with the City's administration of the CDBG program. The objective of our audit was to determine whether the City administered its CDBG program in an effective and efficient manner in compliance with applicable HUD rules and regulations.

## RESULTS OF AUDIT

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### Finding 1: Administrative Weaknesses Existed in the City's Housing Rehabilitation Program

The City did not establish adequate procedures to ensure that its housing rehabilitation program was administered in compliance with program regulations. Specifically, our examination of 10 project files found that the City could not always demonstrate that the properties were brought into compliance with HUD's Lead Safe Housing Rule as required. Consequently, the City could not ensure that the properties did not pose lead-based paint hazards to young children, which is the mandate of the Lead Safe Housing Rule. We attribute these deficiencies to the City's general unfamiliarity with HUD's regulations on controlling lead-based paint hazards in properties receiving federal assistance. Accordingly, the \$185,125 expended on rehabilitation costs for these 10 projects is considered unsupported. In addition, the remaining unexpended budgeted balance of \$194,424 for this activity should be reprogrammed for other eligible program activities.

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#### Background

The primary purpose of the City's housing rehabilitation program is to eliminate housing code deficiencies by providing financial and technical assistance to low-to-moderate-income homeowners of one to four family homes. At the time of our review, the City had assisted approximately 46 homeowners with grants to bring their homes into compliance with the Housing Code of the City of Troy.

Regulations at 24 CFR (*Code of Federal Regulations*) 570.608 provide that CDBG funds used to assist housing must comply with the requirements of the Lead Safe Housing Rule at 24 CFR Part 35. The Lead Safe Housing Rule is designed to help ensure that all pre-1978 federally assisted housing does not pose lead-based paint hazards to young children. The regulation establishes procedures for evaluating whether a hazard may be present, controlling or eliminating the hazard, and notifying occupants of what was found and what was done in such housing. The Lead Safe Housing Rule took effect on September 15, 1999. Subparts B through R of the Lead Safe Housing Rule took effect on September 19, 2000.

HUD's lead-based paint requirements provide that at a minimum, the City must ensure that homeowners and tenants are provided a lead hazard information pamphlet, paint testing is performed on surfaces to be disturbed, and occupants are notified of the results of the evaluations. Thereafter, the requirements vary, based on the amount of CDBG funding per household unit; however, safe work practices and occupant protection are always required. For properties receiving more than \$5,000 and up to \$25,000 per unit in federal rehabilitation assistance,

the City must provide for (1) a risk assessment report by a qualified risk assessor, (2) interim controls to address all lead hazards, and (3) clearance of the worksite. Trained workers using lead-safe work practices must perform all construction work where lead-based paint is known or presumed present.

We selected a nonstatistical sample of 10 housing rehabilitation files for review. The rehabilitation assistance for these 10 properties, all built before 1978, averaged between \$4,900 and \$25,000 per dwelling unit. Our examination included a review of the documentation contained in the files to ensure compliance with the City's policies and procedures, along with HUD program requirements. Although the City generally administered its program as described in its own policies and procedures, it did not comply with HUD regulations and requirements pertaining to lead-based paint hazards.

Specifically, the City did not always ensure that (1) homeowners and tenants were provided a lead hazard information pamphlet before rehabilitation; (2) a risk assessment was performed when required and interim controls were performed on properties where lead hazards were identified; and (3) occupants were protected during the hazard reduction activities. Moreover, the City did not always ensure that the work was performed by a qualified contractor. The weaknesses are discussed in detail below.

### **Lead Hazard Information Pamphlet Not Always Provided to Tenants as Required**

Regulations at 24 CFR 35.910(b) requires the grantee to provide lead hazard information pamphlets to each occupied dwelling unit for which federal rehabilitation assistance is provided. Despite this requirement, we found two instances in which the homeowners were not provided the pamphlet until after the rehabilitation work had been performed. We also found three instances in which the homeowner was provided the pamphlet; however, there was no evidence in the files that the homeowner's tenant(s) was provided with the information in the pamphlet as required.

### **Risk Assessments Not Always Performed**

Based on the level of CDBG funding provided for each of the 10 properties included in our review, the City was to provide for paint testing or presume the presence of lead-based paint. Nine of the properties included in our sample received funding in excess of \$5,000 per dwelling unit, hence the regulations required that a risk assessment be performed in the dwelling units, in common areas servicing those units, and on exterior painted surfaces before the rehabilitation work began. Contrary to this requirement, the City did not always ensure that a risk assessment was performed.

Risk assessments were performed on only four of the nine properties for which they were required. Moreover, although lead risk hazards were identified in each of the four properties in which a risk assessment was conducted, the City did not always document its follow-up with interim controls to address the lead hazards as required. Only two of the properties had work done to address the lead hazards identified in the risk assessment. Documentation in the files also showed that only one of the two properties was later tested for clearance, the results of which showed that clearance had not been achieved. Additionally, the City did not always require that the rehabilitation work be performed by contractors trained in lead-safe work practices.

### **Occupants Possibly Not Protected during the Hazard Reduction Activities**

Regulations at 24 CFR 35.1345 establish procedures for protecting dwelling unit occupants and their belongings during hazard reduction activities. Occupants shall not be permitted to enter the worksite during hazard reduction activities until after hazard reduction work has been completed and clearance, if required, has been achieved. Occupants shall be temporarily relocated before and during hazard reduction work, except for the exceptions noted at 24 CFR 35.1345(a)(2)(i) through (iv).

Despite these requirements, we found no evidence that the occupants were relocated during the rehabilitation work. Moreover, we found no evidence to suggest that the occupants did not need to be relocated. As discussed above, we found one instance in which the results of testing showed that clearance had not been achieved. Despite clearance not having been achieved, the City's Bureau of Code Enforcement cleared the residence of all code violations and issued a certificate of compliance, thus closing the project as complete.

### **Conclusion**

Based on our review of the City's administration of its housing rehabilitation program, it is apparent that adequate controls to ensure compliance with the Lead Safe Housing Rule were not established. Since the City could not demonstrate that the program was administered in accordance with HUD program requirements, we consider the \$185,125 expended on rehabilitation costs for these 10 properties to be unsupported. In addition, the remaining unexpended budget balance of \$194,424 for this activity should be reprogrammed for other CDBG-eligible activities if the City cannot demonstrate that lead safe requirements will be followed.

## Recommendations

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

- 1A. Provide documentation to justify the \$185,125 in unsupported costs incurred so that HUD can make an eligibility determination and reimburse from nonfederal funds any unsupported costs determined to be ineligible.
- 1B. Reprogram the remaining unexpended balance of \$194,424 and put the funds to better use for other eligible program activities if the City cannot demonstrate that the lead safe requirements will be followed.
- 1C. Implement procedures to ensure that all of the properties funded under the City's housing rehabilitation program are brought into compliance with the Lead Safe Housing Rule.
- 1D. Establish program guidelines to ensure that requirements of the Lead Safe Housing Rule are consistently implemented.

## Finding 2: Ineligible and Unsupported Costs for Street Improvement Program Activities Were Charged to the CDBG Program

Contrary to HUD requirements, the City did not establish adequate procedures to ensure that costs for its street improvements activities were allowable and supported by adequate documentation. Specifically, the City expended \$152,172 for repairs to sidewalks and the filling of cracks and potholes on City streets, which is ineligible under CDBG regulations. In addition, it expended \$887,962 on street repaving activities that was not supported by adequate documentation to ensure that the costs were eligible under the CDBG program. As a result, assurances that CDBG program objectives were met were diminished.

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We examined all costs charged by the City to the CDBG program pertaining to street improvement activities during fiscal years 2005 and 2006. The purpose of the examination was to determine the reasonableness of the costs and the City's compliance with applicable program requirements. For each of the program years, weaknesses were identified that resulted in ineligible and/or unsupported costs being incurred.

### **Ineligible Costs Charged for Maintenance and Repair of Publicly Owned Streets**

Regulations at 24 CFR 570.207(b)(2) detail requirements regarding operating and maintenance expenses and provide that as a general rule, any expense associated with repairing, operating, or maintaining public facilities, improvements, and services is ineligible. Examples of ineligible operating and maintenance expenses include those contained in 24 CFR 570.207(b)(2)(i), which provides in part that the maintenance and repair of publicly owned streets, including the filling of potholes in streets and repairing of cracks in sidewalks, is ineligible.

Contrary to the above requirements, for fiscal year 2005, the City expended \$102,220 on materials to seal sidewalk cracks and fill street potholes. In addition, during fiscal year 2006, \$49,952 was expended on materials to seal sidewalk cracks. In total, the City expended \$152,172 for materials used to fill potholes in streets and repair cracks in sidewalks, which is ineligible according to CDBG regulations.

### **Inadequate Documentation to Demonstrate CDBG National Objective Met**

Our review of the documentation supporting the City's street resurfacing activities for fiscal program years 2005 and 2006 showed that CDBG funds were to be expended for work on targeted streets in program-eligible areas. In addition, the

City was to verify program accomplishments by having the City's Bureau of Engineering take before and after photos of all projects and perform routine inspections at least two to three times weekly.

An examination of the project files for each program year showed that the City did not maintain adequate documentation to demonstrate that its street resurfacing activities met one of the national objectives of the CDBG program as required by program regulations. Specifically, documentation maintained by the City to support the costs charged to street resurfacing did not always support that costs were expended on the targeted streets in program-eligible areas. Moreover, we found no documentation in the project files showing that the City's Bureau of Engineering took before and after photos of the street resurfacing projects or performed routine inspections as required.

In February 2006, the City's Department of Planning performed an internal monitoring review of the City's fiscal program year 2005 street improvement project. The report, signed by the commissioner of planning, noted that an annual inspection of streets to determine their need for paving, based on condition, had been supplanted by a complaint system under which City Council members determined which streets should be paved. The report went on to state that under this system, many streets that should have been paved were not and many others, the conditions of which did not warrant paving, were paved anyway. The report also noted that there was a lack of coordination between street paving activities and other neighborhood improvement actions. Therefore, the report raised concern that the City's paving program was a stand-alone activity that could be classified as a maintenance activity, thus ineligible for CDBG funding. To avoid being classified as a maintenance activity, the report recommended that the street improvement program be connected with other neighborhood improvement activities.

Despite the concerns and recommendations raised by the Department of Planning, the documentation supporting the City's fiscal years 2005 and 2006 street improvement programs showed no evidence that the concerns identified in the report were addressed or the recommendations acted upon. Consequently, street improvement costs of \$887,962, which includes \$150,000 in labor costs for street repaving activities performed by City employees, are considered unsupported pending a HUD eligibility determination.

## **Conclusion**

Despite the City's having performed a thorough monitoring review of its fiscal year 2005 street improvement program, corrective actions were not implemented. The City expended \$152,172 for ineligible maintenance and repairs of publicly owned streets and \$887,962 for unsupported street resurfacing activities, thus diminishing its ability to ensure that its program was administered in an efficient

and effective manner. We attribute these deficiencies to the City's not having adequate administrative controls to ensure compliance with CDBG regulations.

## **Recommendations**

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

- 2A. Reimburse from nonfederal funds the ineligible costs of \$152,172 related to the maintenance and repair of publicly owned streets.
- 2B. Provide documentation to justify the \$887,962 in unsupported street resurfacing costs incurred so that HUD can make an eligibility determination and reimburse from nonfederal funds any unsupported costs determined to be ineligible.
- 2C. 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 3: The City Expended CDBG Funds for Questionable Public Facilities Activities

Contrary to CDBG regulations, the City did not establish adequate administrative controls to ensure that costs associated with two public facilities activities were eligible, necessary, and supported by sufficient documentation before being charged to the CDBG program. Specifically, the City expended \$35,637 in questionable costs for sporting goods equipment from its Recreational Facilities Improvement grant. The purchase of equipment is ineligible under CDBG regulations. In addition, as part of its Public Neighborhood Facilities Improvement activity, the City expended or committed \$98,090 for maintenance and rehabilitation costs associated with a City-owned community police building and firehouse. Since the maintenance and rehabilitation costs may represent general government expenses as defined in CDBG regulations, these costs are considered unsupported. Consequently, the City's ability to administer its programs efficiently and effectively and ensure that CDBG program objectives were met was diminished. Based on the City's use of funds for public facilities activities, the remaining unexpended budgeted balance of \$94,450 for these two activities should be reprogrammed for other eligible CDBG program activities.

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To determine the adequacy of grantee administration and the eligibility of costs incurred, we selected two public facilities activities for review. The activities selected for review were the fiscal year 2005 Troy Recreational Facilities Improvement and the fiscal year 2007 Public Neighborhood Facilities Improvement grants. For each of the activities reviewed, administrative weaknesses were identified that resulted in costs having been incurred that were ineligible and/or unsupported. Particulars regarding the review of each activity are discussed below.

#### **Fiscal Year 2005 Troy Recreational Facilities Improvement Grant**

The City established the Troy Recreational Facilities Improvement activity as part of its fiscal year 2005 program year. The activity included a CDBG budget of \$85,000, of which \$70,000 was earmarked to renovate seven Troy recreational facilities, six of which were private and one that was public, contingent upon receipt of a matching grant from the Baseball Tomorrow Fund. The remaining budget of \$15,000 was reserved for the Troy Public Works Department to renovate Troy parks.

At the time of our review, the City had expended \$35,637 for the purchase of various equipment and materials. Most of the purchases represented costs associated with sporting goods equipment. Analysis of the project activity folder and review of the related disbursement documentation showed that all of the costs incurred were questionable as to their eligibility. According to CDBG

regulations, the purchase of equipment is ineligible under 24 CFR 570.207(b)(1)(iii).

Specifically, we identified \$33,916 in costs that are considered ineligible and \$1,721 in unsupported costs. The ineligible costs consist of the following:

\$23,374	Six portable basketball systems
7,217	20 picnic tables
1,600	Four portable basketball courts, materials, and labor
1,425	Three tabletop score boards
300	One used refrigerator
\$33,916	Total

In addition, the unsupported cost of \$1,721 was for the purchase of sporting goods materials and equipment for the Frear Park Recreational Facility. Since a portion of these purchases appears to be for materials, the costs are considered unsupported rather than ineligible, pending an eligibility determination.

In addition to the above, City officials verified that after the equipment purchases mentioned above, no inventory records were established, nor had any physical inventory verification been conducted. Consequently, the safeguarding of assets purchased with CDBG funds was diminished.

Based on the ineligible and unsupported use of program funds for this activity, we suggest that the remaining unexpended budget balance of \$49,363 be reprogrammed and put to better use for eligible purposes.

**Fiscal Year 2007 Public  
Neighborhood Facilities  
Improvement Grant**

As part of its fiscal 2007 program year, the City established a Public Neighborhood Facilities Improvement activity. CDBG funds budgeted for the activity amounted to \$156,161 and consisted of residual balances from previous inactive or completed activities transferred from prior program years. The activity was created to consist of but not be limited to possible improvements and repairs to the following: Bouton Road Fire House, Douw Street and 6<sup>th</sup> Avenue Community Police Substation, Riverfront Park stairs, Front Street pedestrian overpass, and other neighborhood facility improvements that might arise.

From June 15 through September 20, 2007, the City purchased or issued purchase requisitions for 28 transactions totaling \$111,074 for this activity. Of the 28 transactions, 25 totaling \$98,090 represent public facilities activities costs that are

questionable regarding their eligibility for CDBG funding and are, therefore, considered unsupported pending an eligibility determination. A detailed listing of the 25 unsupported transactions is contained in appendix C of this report.

The \$98,090 in unsupported costs consisted of purchases and commitments to purchase supplies and materials for the rehabilitation of a City-owned police substation, a new roof and roof repairs, and a new roof for a City-owned firehouse. Based on our analysis, the costs incurred appeared to characterize general government and maintenance expenses. According to CDBG regulations at 24 CFR 570.207(a)(2), expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part.

Based on the unsupported use of program funds for this activity, we suggest that the remaining unexpended budget balance of \$45,087 be put to better use and be reprogrammed for other eligible purposes.

## Conclusion

Based on our review of the City's administration of public facilities program activities, it is clear that adequate controls were not established to ensure that costs were eligible and necessary before being charged to the CDBG program. Consequently, the City expended \$33,916 for ineligible purposes and \$99,811 (\$1,721 + \$98,090) for unsupported costs that diminished its ability to effectively and efficiently administer CDBG program funding for public facilities activities. In addition, our review identified \$94,450 (\$49,363 + \$45,087) in cost savings.

## Recommendations

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

- 3A. Reimburse from nonfederal funds the \$33,916 related to the ineligible sporting goods equipment/materials.
- 3B. Provide documentation to justify the \$99,811 (\$1,721 + \$98,090) in unsupported costs incurred so that HUD can make an eligibility determination and reimburse from nonfederal funds any unsupported costs determined to be ineligible.
- 3C. Reprogram the remaining unexpended balance of \$94,450 (\$49,363 for the Troy Recreational Facilities Improvement activity and \$45,087 for the Public Neighborhood Facilities Improvement activity) and put the funds to better use for other eligible program activities.

- 3D. Establish and implement controls to ensure that costs are eligible and necessary before being charged to the CDBG program.
- 3E. Establish and implement controls to ensure that assets purchased with CDBG program funds are properly inventoried and safeguarded.

## Finding 4: The City's Controls over the Processing and Accounting for CDBG Payroll Costs Were Inadequate

Contrary to HUD requirements, the City did not establish adequate controls to ensure that all labor costs were adequately supported before incurrence and that costs incurred were current, complete, and accurately recorded. Specifically, our review of four activities found that (1) allocable payroll costs were inaccurately calculated, (2) activity accomplishments were not tracked or documented, and (3) payroll costs were not consistently processed or properly accounted for. As a result, unsupported costs of \$59,102 for labor and indirect costs were charged to the CDBG program. Consequently, the lack of controls diminished effective budget oversight while increasing the likelihood that CDBG activity might be misclassified and reported to HUD incorrectly.

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While a significant portion of costs charged to the City's CDBG program related to expenses for in-house payroll and related costs, generally the costs charged were adequately supported with documentation such as payroll journals, time sheets, and time cards; nonetheless, reportable conditions were identified. CDBG regulations at 24 CFR 85.22 provide cost principles for determining allowable costs. Specifically, to be allowable under federal awards, costs must be necessary, reasonable, and adequately documented. However, contrary to these regulations, some payroll costs charged to the City's CDBG program were not appropriately supported. The details are provided below.

### **Allocable Payroll Costs Were Inaccurately Calculated**

We reviewed the project files for four CDBG activities in which payroll and related costs were charged to the program. The payroll costs pertaining to the Civil Enforcement - Lenny Welcome activity for program year 2003/2004 were inaccurately calculated. Consequently, unsupported costs of \$59,102 for labor and indirect costs were charged to the CDBG program.

The Civil Enforcement - Lenny Welcome activity was established to foster crime awareness and prevention, pursue prosecution of criminals including owners of substandard housing, uphold fair housing standards to bring more units into code compliance, and prevent neighborhood deterioration while improving community safety and livability. To achieve these goals, the activity planned for Civil Enforcement to work in conjunction with traditional Code Enforcement and Community Policing to eliminate criminal activity and nuisances.

Project files disclosed that payroll and related costs totaling \$59,102 were charged to the Civil Enforcement – Lenny Welcome activity on January 20, 2005, although some of the documented payroll activity occurred as far back as 2003. Moreover, the City's method of calculating the allocable labor and fringe benefit costs was contrary to previous HUD instructions regarding the determination of

costs relating to labor charges incurred by City code enforcement employees. Specifically, rather than calculating the allocable costs based on HUD's approved factor of 1.8155 (\$15,102 direct labor x 1.8155 = \$27,418), the City calculated the costs based on a factor of 4.05 (\$15,102 x 4.05 = \$61,163). Although the City only charged \$59,102 to the program using the unapproved allocation base, it resulted in an additional \$31,684 (\$59,102 - \$27,418) being charged to the program.

**Program Activity  
Accomplishments Were Not  
Tracked or Documented**

In April 2006, City staff documented that the Integrated Disbursement and Information System reporting for the Civil Enforcement - Lenny Welcome activity needed to be completed and questioned what program accomplishments should be included in the Consolidated Annual Program Evaluation Report (CAPER). According to the internal documentation, the police department which administered part of the program, was unable to and did not provide the Department of Planning with information regarding activity accomplishments. Since no files existed regarding program accomplishment data, a member of the Department of Planning staff provided a sentence at the last minute to be included in the CAPER for activity accomplishment data. Further, the internal documentation concluded that the action taken by the Department of Planning was technically not allowable. Thus, if any money was spent during the program year, the program accomplishments needed to be documented, and the Department of Planning would be required to obtain the accomplishment data from the police department.

Although the City failed to (1) track and document activity progress while costs were being incurred and (2) verify any program accomplishments, it chose to prepare the CAPER narrative as required by HUD for reporting purposes. Specifically, under the CAPER section for the accomplishments narrative, the City provided a general statement describing why the Civil Enforcement – Lenny Welcome activity was established and the overall goals of the activity. However, this section of the CAPER did not contain any accomplishments for the activity. Therefore, it could not be determined, based on the project folder documentation and our discussions with City officials, whether the activity goals were accomplished or whether this activity met one of the CDBG national objectives. Therefore, this activity is considered unsupported pending an eligibility determination.

## **Payroll Costs Were Not Consistently Processed or Properly Accounted For**

Review of the City's controls over processing and accounting for CDBG-related labor costs also disclosed administrative weaknesses. In particular, the method of charging the CDBG program for payroll and related allocable costs was not applied consistently or in a timely manner. For instance, while most of the City's CDBG payroll was charged to either the CDBG Administration or Code Enforcement Administration activity line items, entries to book the costs varied from as few as two to as many as seven transactions in a given program year. Therefore, controls over budgeting, operations, and decision making, based on program activity status and progress, were diminished. For example, code enforcement labor costs incurred from July through December 2005 were not charged to the related CDBG activity until March 29, 2006. Hence, since CDBG payroll costs were continually incurred throughout each program year and since the City processed payroll on a biweekly basis, controls over budgeting and the ability to use budgeting as an effective analysis tool would be greatly improved if the City accrued and charged payroll costs to the program on a more consistent basis. Standards for Internal Control in the Federal Government, U.S. General Accountability Office/Accounting and Information Management Division (GAO/AIMD)-00-21.3.1, dated November 1999, provides that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

In addition to inconsistent payroll processing, inaccurate accounting for CDBG payroll costs also occurred. Specifically, while certain payroll-related costs were properly charged as program delivery costs, other payroll costs that should have been charged as program delivery were comingled with the CDBG Administration and Code Enforcement Administration activity line items. For instance, although the City established a CDBG Paint Program activity, we noted an example in 2006 in which labor costs of \$1,340 associated with the Paint Program were charged to the City's Code Enforcement Administration activity. Further, the review showed several instances in which the City identified costs as program delivery, but charged those costs to the CDBG Administration activity, although the City had already established a separate activity for CDBG administration program delivery. For example, in 2005, the City charged payroll costs of \$360,000 to its CDBG Administration activity and identified program delivery payroll costs of more than \$212,000. However, the City charged only \$50,000 to its CDBG Program Delivery activity.

CDBG program regulations at 24 CFR 85.20 provide the standards for financial management systems. The regulations require grantees to meet standards including that (1) accurate, current, and complete financial results of financially assisted activities must be disclosed; (2) records which adequately identify the source and application of funds provided for financially assisted activities must be

maintained; and (3) actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. The distinction of properly accounting for costs as either program delivery or administrative is important because CDBG program regulations place limitations on specific cost types that can be incurred, such as limiting administrative costs to 20 percent and public services costs to 15 percent of the total grant award. Therefore, inaccurate accounting could lead to the limitations being exceeded without detection. Moreover, misclassified accounting of program costs impacts the accuracy of data reported to HUD and entered into the Integrated Disbursement and Information System.

## **Conclusion**

The City did not establish adequate controls to ensure that labor costs were adequately supported before incurrence and that costs incurred were current, complete, and accurately recorded. As a result, unsupported costs of \$59,102 for labor and indirect costs were charged to the CDBG program without assurance that the costs were eligible and met the national objectives. Consequently, the lack of controls diminished effective budget oversight while increasing the likelihood that CDBG activity might be misclassified and reported to HUD incorrectly.

## **Recommendations**

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

- 4A. Provide documentation to justify the \$59,102 in unsupported costs incurred so that HUD can make an eligibility determination and reimburse from nonfederal funds any unsupported costs determined to be ineligible.
- 4B. Establish and implement controls to ensure that labor and related costs charged to the CDBG program are adequately supported before incurrence, that costs incurred are for activities that meet a national objective, and that costs incurred are current, complete, and accurately recorded.

## SCOPE AND METHODOLOGY

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Our review focused on whether the City complied with HUD regulations, procedures, and instructions related to the administration of its CDBG program. To accomplish our objectives, we reviewed relevant HUD regulations, guidebooks, and files and interviewed HUD officials to obtain an understanding of and identify HUD's concerns with the City's operations. In addition, we reviewed the City's policies, procedures, and practices and interviewed key personnel responsible for administration of the City's CDBG program.

For fiscal years 2004 through 2006 the City received approximately \$7 million in CDBG funding and at the time of our review, the City had expended \$5.6 million on CDBG activities, of which 16 activities were administered by the City. We selected five activities administered by the City that received the largest amount of CDBG funding. We reviewed the expenditures and related supporting documents for the activities to determine whether the expenditures met CDBG requirements, were reasonable, and complied with national objectives. We also examined the City's internal controls over its CDBG program.

The review covered the period from January 1, 2004, through July 31, 2007, and was extended as necessary. We performed audit work from August 2007 through January 2008 at the City's offices in Troy, New York. The review was conducted in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- 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 of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

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

- The City did not have adequate controls over its program operations when it did not implement adequate procedures to ensure that its housing rehabilitation program would meet all lead safe housing requirements (see finding 1).
- The City did not have adequate controls over compliance with laws and regulations, as it did not always comply with HUD regulations while disbursing CDBG funds (see findings 1, 2, 3, and 4).
- The City did not have an adequate system to ensure that resources were properly safeguarded when ineligible and unsupported costs were charged to the program and when it did not maintain adequate supporting documentation (see findings 1, 2, 3, and 4).

## 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		\$185,125	
1B			\$194,424
2A	\$152,172		
2B		\$887,962	
3A	\$33,916		
3B		\$99,811	
3C			\$94,450
4A		<u>\$59,102</u>	
Total	<u>\$186,088</u>	<u>\$1,232,000</u>	<u>\$288,874</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 polices 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 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the City implements our recommendations of reprogramming its unexpended balances for its housing rehabilitation program and Public Neighborhood Facilities Improvement and Troy Recreational Facilities Improvement activities and uses the funds for other eligible program activities, it will ensure a cost savings to its CDBG program.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

<p>Deborah A. Witkowski City Comptroller (518) 270-4631</p> <p>Joseph A. Mazzariello Deputy City Comptroller (518) 270-4552</p> <p>Tina K. Dimitriadis City Assessor (518) 270-4408</p>	<p>THE CITY OF <b>TROY</b></p> <p>Office of the City Comptroller</p>	<p>Harry J. Tutunjian Mayor</p> <p>Phone (518) 270-4401 Fax (518) 270-4609</p>
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April 21, 2008

Ms. Karen Campbell  
Assistant Regional Inspector General  
Office of Housing and Urban Development  
26 Federal Plaza Room 3430  
New York, NY 10278

Re: Draft Audit Report

Dear Ms. Campbell:

Enclosed please find the City of Troy's response to the draft audit report sent to Troy Mayor Tutunjian on March 26, 2008. As I mentioned at the exit conference, Timothy Mattice, Housing and Community Development Supervisor and myself just received a copy of the document and therefore appreciate the consideration granted in allowing an extension of time to respond.

In addition to the comments in the response, I also wanted you to be aware of the City's concerns related to the negative detailed content contained in the report. It should be noted that over the course of the audit (approximately 6 months) the City's interaction with the auditors were minimal. As a matter of fact, Mr. Mattice and I each met with the auditors less than a handful of times.

Furthermore, at the preliminary exit conference (January 31, 2008) the findings discussed were presented as follows:

- > Homeowners Code Compliance Program - finding related to the lead based paint safety rule
- > Street Improvements Project - missing before and after pictures
- > Public Facilities - Didn't see enough in "documentation" in file to substantiate the activity
- > In-house Labor - Budget control issues which related directly to the timeliness of draw-downs (the auditor explained the desire to see draw-downs completed on an at least monthly basis)
- > Code Employee charged to Civil Enforcement - missing program accomplishment data

Moreover, it should be noted, that during the course of the audit (with the exception of the \$59,102 item) the City was not made aware of the magnitude of costs that were being questioned and that were ultimately disclosed in the draft audit report. In fact, the majority of the findings that were presented during the preliminary exit conference were previously identified by the City through its own internal monitoring program, and in most cases had already addressed and cleared.

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City Hall, One Monument Square, Troy, New York 12180

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

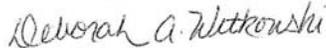
#### Auditee Comments

Ms. Karen Campbell  
Assistant Regional Inspector General  
Office of Housing and Urban Development  
Page 2  
April 21, 2008

Again, I sincerely thank you for the opportunity to respond to the draft audit report. If you should have any questions regarding this, or want to discuss further, please feel free to contact me at (518) 270-4631.

Very truly yours,

**CITY OF TROY, NEW YORK**



Deborah A. Witkowski  
City Comptroller

Enclosure(s)

cc: Mayor Harry J. Tutunjian  
Nancy A. Peacock, CPD Director – HUD Buffalo Office  
Timothy Mattice, Housing and Community Development Supervisor – City of Troy, NY

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Comment 2

**Finding 1:  
Administrative Weaknesses Existed  
in the City's Housing Rehabilitation Program**

The City of Troy disagrees with the statements and language contained in the first paragraph. The generalization of administrative weaknesses, inadequate program procedures, and unfamiliarity with HUD regulations is inaccurate and misleading. Although, the City admits to having a different interpretation of the Lead Housing Rule 17.1.2 [Exemptions], which led to certain homes of elderly residents with no children not having a lead risk assessment or clearance completed, this should in no way be confused with or compared to the overall administration of the housing program and to the procedures that are currently in place.

Comment 3

Moreover, although certain files may not have contained signed documents confirming that homeowners and/or tenants received lead pamphlets, the City clearly understands the importance of the distribution thereof and can ensure that each homeowner/tenant was at the very least presented a pamphlet.

Comment 4

Additionally, the City disputes the statement that a total number of homeowners who received grants were 70. In actuality, at the time of audit, there were 46 open grant projects, all of which were at various stages of completion (including stages of lead hazard reduction and clearance testing).

Comment 5

Furthermore, the City disagrees with the following statements:

- **City did not establish adequate procedure to ensure that its housing rehabilitation program was administered in compliance with program regulations**

In fact, the city spent several months prior to administering the housing rehabilitation program creating a separate housing department for the purpose of implementing this program. Even before the program officially began, the City created a detailed program policies and procedures document along with a 62-point checklist control sheet. It ensured a proper organizational structure including a housing supervisor, rehabilitation staff, monitors, and an account keeping staff member. To further exemplify its commitment to establishing and administering the program properly and to ensure compliance, the City conducts annual internal monitoring of its programs and maintains all HUD regulations on site.

Comment 6

- **Examination of 10 project files found that the City could not always demonstrate that the properties were brought into compliance with HUD's Lead Safe Rule as required**

Again it should be noted that during the audit period, all 46 rehabilitation files were open projects and were not deemed completed by the city. In summary, all projects were at various stages of completion including lead hazard reduction and clearance testing. Please note that the City is currently work towards achieving lead clearance on all 46 rehabilitation projects with a completion date of May 2008.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Comment 7

**Finding 1:  
Administrative Weaknesses Existed  
In the City's Housing Rehabilitation Program**  
Page 2

- **We attribute these deficiencies to the City's general unfamiliarity with HUD's regulations on controlling lead-based paint hazards in properties receiving federal assistance**  
This statement is contradictory to the training that City employees have received. In fact, all housing staff attended a lead training workshop, including a review of HUD regulations, administered by Spectrum Environmental Associates in April 2006. In addition, housing rehabilitation and code enforcement personnel have attended a certified lead safety-training program provided by Atrium Environment Health and Safety Services in August 2006. Finally, the City has a contract with a certified lead contractor (ATC Associates) for all housing rehabilitation related matters, including lead inspections, risk assessment and lead clearance.

Comment 8

- **The remaining unexpended budgeted balance of \$194,424 for this activity should be reprogrammed for other eligible program activities**  
The Housing Rehabilitation Program is vital to the improvement of the City's aging housing stock. The City's housing program has proven to be effective in supporting the City's zero tolerance code program, targeted neighborhood improvements, and the neighborhood through code enforcement program (NICE), and remain an essential means for low and moderate income homeowners to make the necessary repairs in order to stay in their homes. To reallocate the housing rehabilitation funds out of this program would cause a significant impact to the city's homeowners and its housing stock. Therefore, it is the City's position to maintain the Housing Rehabilitation Program.

Comment 9

- **Risk Assessment not always performed**  
Risk Assessments were performed on all properties with the exception of those with elderly homeowner with no children (Lead Hazards Exemption Rule, under the category of "Housing exclusively for the elderly or persons with disabilities"). The City interpreted the Exempt Lead Rule to include non-institutional residences of elderly homeowners with no children living in the home. Those effected by the City's interpretation were applicants 65 years or older with no children. The City is currently working with those applicants to achieve lead hazard clearance and will have all completed by May of 2008.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

**Comment 3**

**Finding 1:  
Administrative Weaknesses Existed  
In the City's Housing Rehabilitation Program**  
Page 3

➤ **Lead Hazard Information Pamphlet not always provided to tenants as required**

Again, the audit report should note that the dates on lead hazard notification documents might not represent the actual date the homeowner received the lead hazard pamphlet. Signatures in some instances were acquired after the homeowner received the lead pamphlet. Also, missing signatures on notification documents did not necessarily mean that the homeowner did not receive a lead pamphlet, but may have been checked off on the project control sheet instead.

**Comment 10**

In summary, the City believes it has the proper documentation to justify the \$185,125 in unsupported costs as eligible expenses, and is requesting that this finding be adjusted. In addition, the City is requesting the elimination of the recommendation to put the remaining balance of \$194,424 to better use. As indicated above, this program is vital and critical to ensure code compliance in low/mod areas and for low/mod income eligible residents.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Comment 11

**Finding 2:  
Ineligible and Unsupported Costs for Street Improvement Program  
Activities Were Charged to the CDBG Program**

The City of Troy disagrees that costs totaling \$152,172 were ineligible under 24 CFR 570.207 (b) (2) and CFR 570.207 (b) (2) (i). On the contrary, the City deemed the costs eligible as an interim assistance under CFR 570.201 (f).

Please note that the statement in the draft report indicating that, "during the 2006 fiscal year, \$49,952 was expended on materials to seal sidewalk cracks" is abhorrently misrepresented. Although the project was set up to include street and sidewalk improvements, the costs related to the \$49,952 purchase order were clearly for streets, were duly documented, were authorized as interim assistance, and deemed eligible under CFR 570.201 (f). As a matter of fact, the project file contained a report by two City inspectors documenting that the costs relative to the \$49,952 claim were "to seal joints and cracks that have opened in existing asphalt pavement of streets with otherwise reasonable good pavement condition and/or to stabilize existing streets until resurfacing work could be done in the following calendar year". The report further indicates that the repairs primarily target "major travel routes through CDBG eligible areas (CT401 through CT 410) and were necessary to preserve prior CDBG fund investment".

Furthermore, the City notes a similar misrepresentation for 2005 costs totaling approximately \$102,220 and described as "expended on materials to seal sidewalk cracks". Again, the City has documented the necessity "to seal joints and cracks that have opened in existing asphalt pavement of streets with otherwise reasonable good pavement condition and/or to stabilize existing streets until resurfacing work could be done in the following calendar year". Additionally, the City recognizes that the project file contained a hand-written "purchase order request" form noting that the purchase was for "sealing sidewalk cracks". Please be advised that a City administrative clerk issued the form and confirmed that the referencing notation (sealing sidewalk cracks) was merely a clerical error. In actuality, the City had no intention of sealing sidewalk cracks, and the copious back-up documentation included with this claim clearly references streets and travel routes within a CDBG low/mod area.

Comment 12

It should be further noted that the City of Troy had prior approval from the regional HUD Buffalo Office with respect to the processing of claims of the aforementioned nature. Documented in the project file is a request from the City which states, "while usually street repairs would not be CDBG eligible work, can a targeted program of crack sealing and repairs on side streets be considered part of a neighborhood improvement project under the street paving category". The regional HUD Buffalo Office responded that these types of "street improvements would be considered an eligible CDBG expense. Targeting street type repairs and reconstruction to income eligible target areas within the City (at least 51% I/m) would be eligible under CDBG".

Comment 13

Furthermore, the City does not support the claim that "inadequate documentation to demonstrate a CDBG National Objective was met" thus indicating \$887,962 as unsupported. Please note that in both the 2005 and 2006 project files, significant supporting documentation was included to verify that accomplishments were met in specific low/mod locations thereby satisfying the National Objective. Each of the fiscal year files contained detailed listings and census track maps confirming the CDBG

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

**Comment 14**

**Finding 2:  
Ineligible and Unsupported Costs for Street Improvement Program  
Activities Were Charged to the CDBG Program**  
Page 2

low/mod locations that were funded through this project and contributed to neighborhood improvement and enhancement of the quality of life for the residents.

Additionally, the City does agree that its own Planning Department had certain findings identical to those articulated in the draft audit report (finding #2), for the 2004/2005 street paving project. However, subsequent to the City's internal monitoring report (late 2006), the findings were cleared as a result of obtaining additional documentation and clarification from the City project managers. Some of the documentation requested is described above and was in the file during the course of the HUD audit period.

**Comment 15**

As a result, the City is respectfully requesting that this finding be adjusted to allow the \$152,172 in street improvement costs as eligible and to authorize costs of \$887,962 as supported. Conversely, the City recognizes that the 2005 and 2006 project files were lacking before and after photographs of the street resurfacing projects. This issue was noted in the City's own internal monitoring report contained in the file at the time of the HUD audit review. Consequently, and in support of HUD's recommendation to implement this task, the City has a plan to complete before and after photographs and can confirm that it is already adhering to it through a review of the 2007 Street Improvement project file.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

**Comment 16**

**Finding 3:  
The Expended CDBG Funds for Questionable Public Facilities Activities**

The City of Troy disagrees that costs totaling \$33,916 were ineligible under 24 CFR 570.207 (b) (1) (iii). In June 2006, the Troy Recreational Facilities Improvement Grant was revised to provide funding for the "conversion of and improvement of access to the recreational use and/or improvement of the recreational function of the existing Frear Park Ice Rink facility as a multi-use recreational center".

Improvements to the Frear Park Ice Rink facility included the purchase of "fixed, but portable" equipment, necessary to implement the conversion of an ice skating facility to a multi-season / multi-use recreation facility, that could serve low-mod income residents for more than one season of the year. The purchase of three pairs of basketball systems and related scoring equipment enabled the City to operate a basketball program at the site during the summer of 2006. Although these items could be considered "removable" based on seasonality usage, their purchase intent was "not proposed to be single use items" and "not proposed to be relocated to another location". In summary, these items are "fixed" to the Frear Park facility location, but are seasonally "portable" as necessary. To deal with the issue of tracking these "fixed but portable" equipment the City of Troy's Recreation Department was furnished with an "portable equipment inventory tracking form", which was developed to conform HUD's audit guidelines.

**Comment 17**

Secondly, the City of Troy disagrees with the language that "the City did not establish adequate administrative controls to ensure that costs associated with two public facilities activities were eligible, necessary, and supported by sufficient documentation being charged to the CDBG program". Specifically the City disagrees that the costs associated with the Public Neighborhood Facilities Improvement grant are unsupported and/or are related to general government and maintenance expenses.

In the case of the firehouse roof (\$60,000 cost incurred), please note that the CDBG project file was set up to consider replacing three City firehouse roofs. Two out of the three were eliminated from consideration and funded from City coffers, due to the fact that their location either housed administrative offices and/or their roof replacement was determined to be a general government/maintenance expense. However, in the case of the third (Bouton Road) firehouse roof replacement it was determined that this project was an emergency and that CDBG costs associated with it were justified and supported. Specifically, the City Engineer deemed the project an emergency due to the condition of deterioration caused by the leaking roof in an area directly above the overhead doors. This deterioration and leak caused the doors to "stick" and not open properly. Consequently, the fire truck and ambulance and their ability to service thereof, were significantly compromised putting the general public at great safety and health risk.

**Comment 18**

With regard to the costs related to the Police Station, it must be pointed out that **ALL** costs incurred for this project (during the audit period and thereafter) were for the rehabilitation of a newly acquired building that was to serve as a satellite sub-station for the Troy Police Department in a low/mod area. The facility was NOT designed to house administrative offices or to function for administrative purposes. The sole purpose of obtaining and rehabilitating the facility were to provide a greater police presence, an increased public access location, and to dramatically improve and enhance the quality of life in the North Central neighborhood.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

**Comment 18**

**Finding 3:  
The Expended CDBG Funds for Questionable Public Facilities Activities**  
Page 2

In addition, it should be noted that the City of Troy acquired the derelict building in the North Central area through foreclosure and targeted it for rehabilitation to further enhance many other programs (crime units task force, weed and seed, etc.) that were being focused in that area. The City provided it's own forced labor personnel (carpenters, electricians, and other public works employees) to rehabilitate the entire facility at no cost to CDBG or other grant funds. Furthermore, all of the costs charged to the project (\$84,636.46 at the time of this response) are directly related to rehabilitation and are NOT inclusive of costs associated with operations, maintenance, or purchases of construction equipment and other non-eligible supplies.

**Comment 19**

In summary, the City is respectfully requesting that this finding be adjusted to allow the \$33,916 in Recreational Facilities costs as eligible, to authorize costs of \$99,811 in the Facilities Improvement project as supported, and to eliminate the recommendation to put the remaining balance of \$94,450 to better use (these funds have been subsequently allocated to allow for completion of the Police Sub-station rehabilitation as explained above).

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Comment 20

**Finding 4:  
The City's Controls over the Processing and Accounting for  
CDBG Payroll Costs were Inadequate**

The City of Troy disagrees with the language that "the City did not establish controls to ensure labor costs were adequately supported before incurrence and that costs incurred were current". As a matter of fact, the policy of the City's Finance Office has been to NOT draw down any reimbursement for payroll/labor costs until all time sheets and payroll journals have been properly acquired and reviewed by several layers of the City's internal audit team. That being said, the City does agree that it can be more timely in its review and consequently in its draw downs, and is committed to implementing changes to ensure that is accomplished.

Comment 21

Additionally, the City disagrees that the payroll costs pertaining to the Civil Enforcement Activity for program year 2003/2004 were inaccurately calculated and "contrary to previous HUD instructions regarding the determination of costs relating to labor charges incurred by City Code Enforcement employees".

In actuality, the City of Troy had a previous "verbal agreement" with a former HUD Regional Financial Analyst to adjust down the allocation factor of Code Enforcement **Inspection** activities charged to Code Enforcement Administration to a factor of \$1.8155. This agreement was amenable to the City and followed for several years for inspection services only that were thereby charged to Code Administration. All other activities related to Code Enforcement (i.e. Civil Enforcement activities) were charged according to the most recently approved Cost Allocation Plan.

On the other hand, the City agrees that the Civil Enforcement activity file did not completely "track and document activity progress" and was duly noted by the City's staff in its own internal monitoring report.

Comment 22

In summary, the City is respectfully requesting that the language in the first paragraph of this finding be adjusted to more accurately reflect the fact that costs were adequately supported before incurrence. Again, the City's Finance Office conducts a thorough review of the time and payroll sheets and if it determines that costs are NOT supported by the CDBG program requirements then such costs remain charged to the City of Troy's general fund and are not reimbursed by CDBG funds. Furthermore, the City is requesting an adjustment to the recommendation 4(A) as the City has documentation to support the costs and calculate the expense using the 4.05 multiplier.

Lastly, the City would like to thank the U.S. Department of Housing and Urban Development Office of Inspector General for their review and advise that the City has implemented a system by which time sheets are reviewed on a more timely basis to ensure that labor and related costs charged to the CDBG program are adequately supported before incurrence, that costs incurred for activities that meet a national objective, and costs are current, complete, and accurately recorded.

## OIG EVALUATION OF AUDITEE COMMENTS

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- Comment 1** Officials for the City expressed concerns related to the negative content detailed in the report, minimal interaction with the OIG auditors, unawareness of the magnitude of questioned costs, and its own monitoring efforts. We remind the officials that the issues raised in the audit report are not intended to reflect a negative light on the City; however the issues are both valid and serious. The OIG auditors held numerous discussions with several City officials during the course of the audit to discuss the issues and deficiencies identified; including formal meetings held with City officials to discuss the results of the audit and the questioned costs prior to leaving the audit site, during pre-exit and exit conference meetings. Moreover, a number of HUD reports issued during the past several years have identified numerous significant deficiencies pertaining to the City's administration of its CDBG program. Thus, our conclusions are supported by factual evidence, and any corrective actions in place were recognized and taken into consideration.
- Comment 2** Officials for the City disagree with the statements and language contained in the first paragraph of finding 1, stating that the generalization of administrative weaknesses, inadequate program procedures and unfamiliarity with HUD regulations is inaccurate and misleading. The fact that the finding cites several items of noncompliance and the City could not always demonstrate that properties were brought into compliance with the requirements clearly supports our disclosure that adequate procedures were not in place to ensure that the City's housing rehabilitation program was administered in accordance with the requirements of HUD's Lead Safe Housing Rule. Further, the unfamiliarity with HUD regulations is evident by the official's admission to having a different interpretation of HUD's Lead Safe Housing Rule. Thus, the statements and language contained in the finding are accurate and not misleading.
- Comment 3** Officials for the City contend that although certain files may not have contained signed documents confirming that homeowners and/or tenants received lead pamphlets, the officials understand the importance of their distribution. In addition, officials contend that the dates on the notification documents may not represent the actual date the pamphlet was received by the homeowner. While it is encouraging that the City understands the importance of providing lead hazard information pamphlets, the City could not always demonstrate that homeowners and/or tenants were indeed provided the pamphlets as required. Accordingly, the City should ensure that the requirements of the Lead Safe Housing Rule are consistently implemented.
- Comment 4** Officials for the City contend that at the time of our audit there were 46 and not 70 open housing rehabilitation grant projects. During the exit conference we learned and subsequently confirmed that the list of housing rehabilitation projects provided during the audit contained homes that were not funded under the City's housing rehabilitation program. Accordingly, we have revised our report to

accurately reflect that the City had assisted approximately 46 homeowners with grants to bring their homes into compliance with the City's housing code.

- Comment 5** Officials for the City disagree with our disclosure that it did not establish adequate procedures to ensure that its housing rehabilitation program was administered in compliance with program regulations. Although officials' state that they created a policies and procedures document, along with a 62-point control checklist; the finding shows that the City did not adequately administer the program in a manner to ensure compliance with the requirements of the Lead Safe Housing Rule.
- Comment 6** Contrary to the assertion by City officials that all 46 rehabilitation projects were not completed, but rather were in various stages of completion; only one of the 10 projects included in our sample was open at the time of our review. In fact, the files for the remaining nine projects detailed that the projects were complete and included "Violations Corrected Notices" issued by the City's Bureau of Code Enforcement. Further, the City's program reports submitted to HUD noted that the projects were complete and brought into compliance with Lead Safety Rules.
- Comment 7** Officials for the City contend that the statement that the deficiencies identified were attributed to the City's general unfamiliarity with HUD's regulations is contradictory to the training that City employees have received. Nevertheless, although City officials were trained in 2006 on lead base paint hazards, the findings of the auditors reveal that these officials are still unfamiliar with or misinterpreted the Lead Safe Housing Rule; thus the statement is not contradictory.
- Comment 8** Officials for the City contend that the housing rehabilitation program is vital to the improvement of the City's aging housing stock and to reallocate the funds out of this program would cause a significant impact to the City's homeowners and its housing stock. We are not suggesting that the City's rehabilitation program is not important. Rather, we recommend that the remaining unexpended budgeted balance be reprogrammed for other CDBG eligible activities if the City cannot demonstrate that its housing program will be brought into compliance with the requirements of the Lead Safe Housing Rule.
- Comment 9** Contrary to the assertion by City officials that risk assessments were performed on all properties with the exception of those with elderly homeowner with no children; we found that risk assessments were performed on only four of the 10 properties included in our review. Moreover, only three of the properties in our sample represented elderly homeowners, yet they accounted for two of the four properties for which a risk assessment was performed.
- Comment 10** Officials for the City believe they have the documentation to justify the \$185,125 in unsupported costs as eligible expenses and request that the recommendation to reprogram \$194,424 to better use be eliminated. During the audit, officials were provided sufficient opportunity to provide supporting documentation; however,

the City did not adequately ensure compliance with regulations. Therefore, since sufficient documentation was not provided, the finding will not be adjusted and the recommendation to reprogram funds to better use for other eligible activities shall remain intact.

- Comment 11** Officials for the City contend that \$152,172 in costs to seal joint and cracks were authorized as interim assistance and thus eligible under 24 CFR Part 570.201(f), of the program regulations. However, as documented in the City's Comprehensive Annual Performance and Evaluation Report submitted to HUD for both of the applicable fiscal years, the City's street improvement program activities were approved as public facilities and improvements, eligible under 24 CFR Part 570.201(c) of the program regulations, and not as interim assistance activities as asserted by the City. Moreover, to qualify for interim assistance the City had to document that the streets were exhibiting objectively determinable signs of physical deterioration and should have made a determination that immediate action was needed to arrest the deterioration. Yet, as noted in the finding, the City was to verify program accomplishments by taking before and after photos of all street improvement projects; however, this was not done. Lastly, the City Department of Planning's internal monitoring report on its street improvement activities stated that the use of funds for crack sealing was a prohibited maintenance activity, and thus ineligible for CDBG funding.
- Comment 12** Officials for the City contend that its crack sealing and repair program was part of a neighborhood improvement project that was approved as eligible by HUD. However, we found that the monitoring report prepared by the City's Department of Planning noted that there was a lack of coordination between street paving activities and other neighborhood improvement actions, raising the concern that the City's paving program was a stand-alone activity that could be classified as a maintenance activity, and thus ineligible for CDBG funding.
- Comment 13** Officials for the City do not support the claim that documentation was inadequate to demonstrate a CDBG National Objective was met. However, we found that the City did not adequately support program accomplishments. Specifically, documentation maintained by the City to support the costs charged to street resurfacing did not always support that costs were expended on the targeted streets in program-eligible areas. Thus, the \$887,962 in street resurfacing costs remains unsupported.
- Comment 14** Officials for the City agree that its own Planning Department had certain findings similar to those in our report; however some of the findings were cleared. Our conclusions are supported by factual evidence, and corrective actions in place were recognized and taken into consideration.
- Comment 15** Officials for the City request that the finding be adjusted to allow the \$152,172 in street improvement costs as eligible and \$887,962 in street resurfacing costs as supported. The officials admit that their 2005 and 2006 project files were lacking the before and after photographs, and they agreed to our recommendation to

implement this task. However, as stated above in comments 11 and 13, the street improvement activities were ineligible for CDBG funding and the street resurfacing documentation was inadequate to demonstrate that a CDBG national Objective was met. Accordingly, the finding and recommendations have not been adjusted.

**Comment 16** Officials for the City disagree that \$33,916 in costs pertaining to the Troy Recreational Facilities Improvement Grants are ineligible since the grant was revised in June 2006 to provide funding for conversion and improvement of access to the recreational center. The officials state that the improvements included the purchase of equipment. The fact that the grant activity was revised does not change the fact that the activity is a Public Facilities activity, nor do the comments contest that the activity incurred costs for the purchase of sporting goods equipment. Thus, we remind the City that 24 CFR 570.207 (b) (1) (iii) provides that the purchase of equipment is ineligible.

**Comment 17** City officials disagree that the costs associated with the Public Neighborhood Facilities Improvement grant are unsupported and/or are related to general government and maintenance expenses. Nevertheless, they acknowledge that this activity was originally established to consider replacing three City firehouse roofs when they became aware that two of the three facilities housed administrative offices. As such, the City properly determined that replacing these two roofs would constitute a general government expense that is not eligible for CDBG funding. Moreover, City officials also did not demonstrate or document that the third roof replacement constituted an emergency to justify the use of CDBG funding, as per 24 CFR 570.201 (f) (2). Although officials proclaim that this roof replacement was an emergency that if not repaired would put the general public at a great safety and health risk. Documentation in the project activity files indicated that City officials first contemplated whether all or a portion of the activity could be classified as an interim emergency assistance project in December 2005. However, the purchase requisition for the firehouse roof was not executed until August 2007. Accordingly, it does not appear reasonable that the City would wait more than a year and a half to address an emergency.

**Comment 18** The City's statements suggest that the costs incurred for the Police Station were associated with rehabilitation and providing of public services. However, these statements are not responsive to the issues identified in the report. First, this activity does not meet the eligibility criteria for rehabilitation activities as defined in 24 CFR Part 570.202. Moreover, the City did not demonstrate that this activity would result in an increased level of public services as defined in 24 CFR Part 570.201 (e). The activity was established as a Public Facilities activity, and CDBG regulations provided at 24 CFR Part 570.207 (b) (2) do not allow for incurring expenses associated with repairing public facilities. Consequently, our conclusion that the costs incurred represent general government expenses is accurate.

- Comment 19** In summary officials for the City request that finding 3 be adjusted to allow the \$33,916 in Recreational Facilities project costs as eligible, \$99,811 in Facilities Improvement project costs as supported, and that the recommendation to reprogram \$94,450 to better use be eliminated. However, as cited above, the audit report accurately presents the facts and deficiencies noted. Nevertheless, based on comments received by HUD, we have revised the recommendations to include the implementation of controls to ensure that costs are eligible and necessary before being charged to the program, and assets purchased with program funds are properly inventoried and safeguarded.
- Comment 20** Officials for the City disagree that the City did not establish controls to ensure labor costs were adequately supported before incurrence and that costs incurred were not current. However, the officials agree to implement changes to ensure a more timely review prior to drawing down funds. As indicated in the audit report, the City has not ensured that labor costs incurred were current and charged to the CDBG program in a timely manner. The finding cites one of many examples where costs charged were not current or timely.
- Comment 21** Officials for the City disagree that the payroll costs pertaining to the Civil Enforcement Activity for program year 2003/2004 were inaccurately calculated and contrary to HUD instructions. Officials claim the City had a verbal agreement with a former HUD employee to adjust the allocation factor. However, during discussions with City officials (during the audit) regarding the basis of the allocation rate or factor used for the Civil Enforcement activity, at no time was an explanation provided as to why an allocation rate different from that prescribed by HUD was used to calculate costs charged to the activity. In addition, there is no record to support the claim of a verbal agreement with HUD. Further, since officials agreed that the Civil Enforcement activity was not adequately tracked or documented; the City could not demonstrate that the activity accomplished a national objective of the program. Therefore, the costs incurred for the activity are properly classified as unsupported.
- Comment 22** Officials for the City request that the language in the finding be adjusted to more accurately reflect the fact that costs were adequately supported before incurrence and that the recommendation also be adjusted. For the various reasons cited above, the audit report accurately reflects the facts and deficiencies noted; accordingly, we have not adjusted the finding.

## Appendix C

### SCHEDULE OF UNSUPPORTED PUBLIC FACILITIES MAINTENANCE AND REHABILITATION COSTS

Date	Amount	Purchase order number	Check number	Note
June 15, 2007	\$327.00	N/A	14938	(1)
June 29, 2007	1,219.59	N/A	15255	(1)
Aug. 17, 2007	272.90	70904	15350	(1)
Sept. 7, 2007	4,809.40	70922	15405	(1)
July 6, 2007	1,011.00	70972	15442	(1)
July 13, 2007	420.86	70904	15459	(1)
Aug. 10, 2007	60,000.00	Purchase requisition	N/A	(2)
Sept. 7, 2007	19,300.00	Purchase requisition	N/A	(3)
Sept. 7, 2007	253.94	70927	15665	(1)
Aug. 3, 2007	298.79	70977	15792	(1)
July 13, 2007	3,442.34	70922	15850	(1)
Aug. 10, 2007	218.25	70927	15883	(1)
Aug. 10, 2007	57.16	70904	15892	(1)
July 27, 2007	577.80	70903	16005	(1)
Aug. 10, 2007	263.58	70977	16030	(1)
Aug. 24, 2007	641.93	70977	16138	(1)
July 13, 2007	50.00	70903	16302	(1)
Aug. 3, 2007	21.80	70904	16312	(1)
Aug. 17, 2007	511.20	70904	16313	(1)
Aug. 24, 2007	78.76	70904	N/A	(1)
N/A	2,099.93	70922	N/A	(1)
July 16, 2007	500.00	70962	N/A	(1)
July 13, 2007	1,451.60	70998	N/A	(4)
N/A	217.29	71393	N/A	(1)
N/A	45.00	71394	N/A	(1)
<b>Total</b>	<b>\$98,090.12</b>			

Notes:

- N/A Not available or not applicable
- (1) Materials and/or equipment for police building
- (2) New roof for firehouse
- (3) New roof for police building
- (4) Roof repairs for police building