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Audit Report Number 2009-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 Rome, 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 Rome, New York (City), pertaining to its administration of its Community Development Block Grant (CDBG) program. We selected the City for review based upon U.S. Department of Housing and Urban Development (HUD) monitoring reports, risk scores, and indicators identified from our internal audit of HUD's monitoring of the CDBG program, which identified concerns with the City's administration of the program. The objectives of our audit were to determine whether the City (1) administered its CDBG program effectively, efficiently, and economically in accordance with applicable rules and regulations and (2) expended CDBG funds for eligible activities that met a national objective of the program.

### **What We Found**

The City did not always carry out its activities effectively, efficiently, and economically in compliance with HUD regulations. Further, it expended CDBG funds for activities that did not meet a national objective of the program. Specifically, the City did not adequately monitor a subrecipient-administered economic development revolving loan fund activity to ensure that performance

goals were achieved. As a result, the revolving loan fund activity expended program funds in an inefficient manner that did not effectively address program objectives. Consequently, the activity was deprived of program income that could have been used to make additional loans and create more jobs.

In addition, the City did not establish adequate administrative and management controls to ensure that costs associated with a public facilities subrecipient and self-administered street improvement activities were eligible and met a national objective of the CDBG program. As a result, it expended funds for ineligible and unsupported costs for the planned renovation of a building previously owned by a subrecipient and for the purchase of ornamental streetlights. 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 performance goals for subrecipient-supported activities were achieved. As a result, no progress had been made on a subrecipient rehabilitation and preservation activity, and a national program objective was not met, thus depriving other worthwhile activities of program resources.

### **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 \$140,523 paid for ineligible program expenditures, (2) provide supporting documentation to justify the eligibility of \$58,036 in questionable CDBG disbursements or reimburse the program from nonfederal funds any amounts not supported, (3) establish procedures to ensure adequate monitoring of subrecipient-administered activities, and (4) comply 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 January 5, 2009. City officials agreed with our findings and provided their written comments during the exit conference held on January 15, 2009. 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

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Background and Objectives	4
Results of Audit	
Finding 1: The City Did Not Adequately Monitor a Subrecipient-Administered Economic Development Revolving Loan Fund Activity	5
Finding 2: The City Expended CDBG Funds for Ineligible Public Facilities Activity Costs	8
Finding 3: Questionable Street Improvement Costs Were Charged to the CDBG Program	11
Finding 4: The City Did Not Ensure That a Subrecipient Rehabilitation and Preservation Activity Was Administered Effectively	14
Scope and Methodology	16
Internal Controls	17
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	19
B. Auditee Comments and OIG's Evaluation	20

## 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 Rome (City) is a CDBG entitlement recipient that administers more than \$1 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.

In addition to programs administered in house by the City's Department of Community Development, the City works with several outside nonprofit organizations to carry out its CDBG-funded programs. It 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 198 North Washington Street, Rome, New York.

We audited the City's CDBG program based on a review of HUD monitoring reports, community planning and development risk scores, and indicators identified during our internal audit of HUD's monitoring of the CDBG program. The objectives of our audit were to determine whether the City (1) administered its CDBG program effectively, efficiently, and economically in accordance with applicable rules and regulations and (2) expended CDBG funds for eligible activities that met a national objective of the program.

## RESULTS OF AUDIT

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### Finding 1: The City Did Not Adequately Monitor a Subrecipient-Administered Economic Development Revolving Loan Fund Activity

The City did not adequately monitor a subrecipient to ensure that performance goals were achieved for its economic development revolving loan fund activity, which is contrary to HUD regulations. Approximately 60 percent of the loan funds disbursed were provided to businesses that either failed to create the number of jobs anticipated or created no jobs at all. Further, \$192,328 in loan principal was written off as uncollectible, thus depriving the activity of program income that could have been used to make additional loans and create jobs. We attribute these deficiencies to the lack of adequate monitoring and oversight by the City of its subrecipient. As a result, the loan fund activity expended program funds in an inefficient manner that did not effectively address program objectives.

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#### Background

In 1981, the City established the Rome Industrial Development Corporation (Corporation) Community Reinvestment Revolving Loan Fund (loan fund) activity as a subrecipient-administered economic development activity. The funding for the loan fund activity consists of revenues generated by loan repayments, as well as periodic investment of various program year funding allocations awarded through the City's CDBG program. According to the City's consolidated annual performance and evaluation report, the loan fund activity provides loans to new or existing businesses for plant rehabilitation, expansion, equipment, or operating capital. The national objective for the loan fund activity is to create jobs for low- and moderate-income individuals. Therefore, procedures established by the Corporation provide that all loans made must lead to the creation of employment. The goal is that at least 51 percent of the new jobs must be made available to low- and moderate-income individuals. Loan approvals are dependent upon the circumstances and the loan amount requested.

#### Revolving Loan Fund Activity Deprived of Program Income

As part of its administration of the CDBG program, the City is responsible for the monitoring of its subrecipients. Regulations at 24 CFR (*Code of Federal Regulations*) 85.40(a) provide that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with

applicable federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity. Despite the requirements, the City did not adequately monitor the efficiency or effectiveness of the Corporation's administration of the loan fund activity. The lack of monitoring allowed CDBG funds to be expended on loans which did not create jobs or further overall program objectives.

Analysis of the Corporation's loan fund portfolio showed that as of April 2008, 37 loans were active during the audit period and/or had been written off since 2002, and 26 of the 37 loans failed to create the number of jobs anticipated. Further, 18 of the 26 loans did not create any jobs. Statistics on the loan fund portfolio are detailed below.

Number of loans	Jobs anticipated	Jobs created	Description	Loan amount	Percentage of total funds disbursed
18	40	0	Loans with no job creation	\$257,658	33%
8	29	14	Loans not meeting job creation goals	\$213,274	27%
11	33	40	Loans that met job creation goals	\$307,678	40%
37	102	54		\$778,610	100%

As indicated in the table above, only 40 percent of the total funds disbursed met job creation goals. Nearly 60 percent of loan funds disbursed were provided to businesses that either created no jobs at all or failed to create the number of jobs anticipated. This is contrary to the Corporation's procedure which provided that all loans made must lead to the creation of employment. The ineffective performance of the loan portfolio also jeopardized the City's ability to continue to meet program national objectives.

At the end of the audit, there were 10 active loans with outstanding principal balances due of \$109,167 that could be used for other eligible activities. Since 2002, the Corporation had written off as bad debt \$192,328 in unpaid balances due for 15 of the 37 loans cited above. Consequently, the revolving loan fund was deprived of funding in the amount of \$192,328 that could have been used to fund additional loans or other eligible activities.

## Conclusion

As evidenced by the deficiencies cited above, the Corporation's loan fund activity was not administered effectively or efficiently to ensure that the goal of job creation was achieved. The City did not establish controls to ensure adequate monitoring and oversight of its subrecipient. Therefore, it should cancel this activity and reprogram the remaining \$227,568 in available funds, representing \$182,568 in undisbursed program funds held by the subrecipient plus \$45,000 in

unexpended CDBG budgeted balances for program years 2004 and 2005, to be used for other eligible activities. In addition, the City should assume administration of the remaining 10 active loans with outstanding principal balances due of \$109,167 plus interest and put these funds to better use for other eligible activities as the loan repayments are made.

## Recommendations

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

- 1A. Cancel the loan fund activity and reprogram the remaining \$227,568 in available funds (\$182,568 in undisbursed program funds held by the subrecipient and \$45,000 in unexpended CDBG budgeted balances for program years 2004 and 2005) to be put to better use for other eligible activities.
- 1B. Take over the administration of the remaining 10 active loans with outstanding principal balances due of \$109,167 plus interest and put these funds to better use for other eligible activities as the loan repayments are made.
- 1C. Establish and implement controls to ensure adequate monitoring of subrecipient-administered activities.
- 1D. Establish and implement controls to ensure that CDBG funds are properly safeguarded.

## Finding 2: The City Expended CDBG Funds for Ineligible Public Facilities Activity Costs

The City expended CDBG funds for ineligible public facilities activity costs, which is contrary to HUD regulations. Specifically, over the course of several program years, the City provided CDBG funding to the Mohawk Valley Community Action Agency (Agency) to assist in the development and renovation of a former school building. The Agency expended \$140,523 in CDBG funds, primarily for professional services associated with the planned building renovations. However, it sold the building to a third party and did not accomplish a national objective of the CDBG program, thus effectively canceling the activity. This resulted because the City did not establish adequate procedures to ensure that costs associated with a public facilities subrecipient activity were eligible and met a national objective of the CDBG program. Since the \$140,523 was not reimbursed to the City by the Agency as required, the costs are considered ineligible. Further, since the building was sold, the remaining unexpended budgeted balance of \$39,577 should be reprogrammed for other eligible CDBG program activities.

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### Background

The Agency is a human services organization established in 1966. It provides services pertaining to child development, family resources, runaway and homeless youth, and housing. In its CDBG funding applications to the City, the Agency proposed relocating its main office facilities to the vacant Columbus School site, improving the current site structure, modernizing the facility, and making it a more attractive, secure part of the neighborhood. The plans called for the vacant former school site to house the Agency's headquarters, offering services and programs to all families in the community. It was to allow for the continuation and expansion of services and bring additional full-time professional jobs to the City. The facility was to be open to the public and available for use by community groups and businesses.

In June 2002, the Agency purchased the vacant former Columbus School building (shown below) from the City of Rome School District.



**Public Facilities Subrecipient  
Activity Funded under the  
City's CDBG Program**

As part of its administration of the CDBG program, the City awarded funding under the category of “public facilities and improvements” to its subrecipient, the Agency, to assist it in the development and renovation of a vacant former school building that it owned. The renovated building was to become Agency’s new headquarters. Shown below is a financial summary of the CDBG funds provided and expended for the renovation project.

CDBG program year	Original budget	Revised budget	Expenditures	Remaining balance
1999	\$30,000	\$30,000	\$30,000	\$0
2000	50,000	12,508	12,508	0
2001	50,000	87,492	87,492	0
2004	55,000	45,100	10,523	34,577
2005	5,000	5,000	0	5,000
Totals	\$190,000	\$180,100	\$140,523	\$39,577

The funding provided by the City to the Agency was earmarked for several purposes, including demolition, construction, renovation, and related fees. However, \$140,523 expended on the project was primarily for professional services costs associated with the planned development and renovation of the building.

**Subrecipient Renovation  
Project Activity Canceled**

The Agency was awarded a revised total amount of \$180,100 in CDBG funds for its renovation project activity. During the period November 1999 through October 2004, the Agency expended \$140,523 for various costs associated with the project. In 2004, its board of directors decided to abandon the renovation project. Accordingly, in February 2005, the Agency sought to dispose of the building and notified the HUD Buffalo field office of its desire to sell the former school building. On or about June 28, 2007, the building was sold, and the Agency transferred title to a third party.

As a result of the Agency’s action to abandon the renovation project and transfer title of the building to a third party, the CDBG funds expended on this activity did not meet a national objective of the CDBG program. In December 2007, the City was advised by HUD that all project funds should be repaid since no national objective was met.

CDBG regulations at 24CFR 570.200(a)(2) provide that each recipient under the Entitlement and HUD-administered Small Cities programs must ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives contained in its certification. The criteria for determining whether an activity addresses one or more of these objectives are provided in 24 CFR 570.208.

The project agreement between the City and the Agency provides that the recipient agrees to refund to the City all community development funds expended by the recipient should the eligible use of the recipient property change by sale or disposal of said real property. The City's corporation counsel contacted the Agency on several occasions regarding repayment of the \$140,523 in CDBG funds expended; however, the Agency had not returned the funds to the City. Consequently, the \$140,523 in costs incurred for this renovation activity was considered ineligible. Further, since the expenditures for this activity were ineligible, the remaining unexpended budgeted balance of \$39,577 should be re-programmed for other eligible CDBG program activities.

## Conclusion

The City used its CDBG program to pay for ineligible public facilities expenses, which diminished the attainment of program goals and deprived other worthwhile activities of needed program resources. We attribute these deficiencies to the fact that the City did not establish adequate administrative controls to ensure that proposed activities were feasible before funding the Agency's application. Accordingly, the \$140,523 in professional services associated with the planned building renovations was considered ineligible. In addition, the remaining unexpended budgeted balance of \$39,577 should be reprogrammed for other eligible CDBG program activities, thus putting these funds to better use.

## 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 \$140,523 in ineligible costs pertaining to professional services associated with the planned renovations of a building previously owned by a subrecipient.
- 2B. Reprogram the remaining unexpended balance of \$39,577 for the public facilities activity and put the funds to better use for other eligible program activities.
- 2C. Establish controls to ensure that funded activities are feasible and that costs charged are eligible and meet a national objective of the CDBG program.

## Finding 3: Questionable Street Improvement Costs Were Charged to the CDBG Program

Questionable street improvement costs were charged to the CDBG program. Specifically, the City purchased 24 ornamental street light units and bases at a cost of \$58,036 that were earmarked for installation on two different street projects. Sixteen of the units had not been installed and had remained in storage for approximately two years, while the remaining eight units were installed in an area zoned by the City as a business and industrial park. Contrary to HUD regulations, the City did not establish adequate management controls to ensure that CDBG purchases were fully supported and met a national objective of the program before expending funds and charging the activity. As a result, unsupported costs were incurred, and the City's ability to ensure that CDBG program objectives were met were diminished.

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### Unsupported Costs Charged for Ornamental Street Lights and Bases

An examination of costs charged to the City's 2004 street improvement activity found that while most of the costs appeared to be reasonable and adequately supported, two transactions totaling \$58,036 for the purchase of ornamental street light units and bases were found to be questionable as to their eligibility. Specifically, in October 2006, the City purchased 24 ornamental street light units and bases at a cost of \$58,036 that were earmarked for installation at two different street projects. Sixteen of the units were purchased for the South James Street project, but those units had not been installed and had remained in the City's storage facility for 21 months, thus failing to meet a national objective of the program.

CDBG regulations at 24 CFR 570.200(a)(2) provide that each recipient under the Entitlement and HUD-administered Small Cities programs must ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives contained in its certification. The criteria for determining whether an activity addresses one or more of these objectives are provided in 24 CFR 570.208.

The remaining eight street light units were installed as part of the City's Mill Street project; however, they were installed in an area zoned by the City as a business and industrial park, based on the City's district zoning map. A physical inspection of the installed streetlights on Mill Street showed that the lights were primarily installed on the street adjacent to the City's Department of Public Works facility and other business facilities located in the area, as shown in the photographs below.



Department of Public Works facility located on the right side of the photograph.



Local business facilities located on the left side of the photograph.

To be eligible as a low- and moderate-income person's area benefit activity, the purchased streetlights would have to be installed in a primarily residential area. For the reasons cited, the \$58,036 expended for the streetlights and bases is considered unsupported pending a HUD eligibility determination.

Regulations at 24 CFR 570.208(a)(1) provides that for activities claiming to benefit low- and moderate-income persons as area benefit activities, the activity benefits must be available to all residents in a particular area in which at least 51 percent of the residents are low- and moderate-income persons. Such an area need not have boundaries in common with census tracts or other officially recognized boundaries but must be the entire area served by the activity. An activity that serves an area that is not primarily residential in character does not qualify under this rule.

## Conclusion

The City had not established adequate management controls to ensure that purchases made with CDBG funds were fully supported and met a national objective of the program before expending funds and charging the activity. In particular, the City's purchase of 24 ornamental street light units and bases at a cost of \$58,036 did not meet a national objective of the program. Specifically, 16 units that were placed in storage for 21 months provided no benefit to the community, while the remaining eight units were installed in a location that did not support the claimed low- to moderate-income area benefit. Therefore, the City's ability to ensure that CDBG program objectives were met were diminished. We attribute these deficiencies to the City's not having adequate management 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

- 3A. Provide additional documentation to justify the \$58,036 in unsupported ornamental streetlight costs incurred so that HUD can make an eligibility determination. Any unsupported costs determined to be ineligible should be reimbursed from nonfederal funds.
- 3B. Establish procedures to ensure that CDBG purchases are fully supported and meet a national objective of the program before expending funds and charging the activity.

## Finding 4: The City Did Not Ensure That a Subrecipient Rehabilitation and Preservation Activity Was Administered Effectively

The City did not ensure that a subrecipient rehabilitation and preservation activity was administered effectively. Specifically, in establishing the Rome Capitol Theatre activity, the City provided funding to repair and rehabilitate various aspects of the historic theatre. However, the activity was slow in expending the \$55,000 in CDBG funds awarded for program years 2003 and 2004. Contrary to HUD regulations, the City did not establish adequate controls to ensure that performance goals for subrecipient-supported activities were achieved. As a result, no progress had been made on the activity, and a national objective had not been met, thus depriving other worthwhile activities of needed program resources. Accordingly, the \$55,000 in unexpended budgeted CDBG funds should be reprogrammed for other CDBG-eligible uses and put to better use.

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### Background

The City established the Rome Capitol Theatre activity as a rehabilitation and preservation activity to provide funding to repair and rehabilitate various aspects of the historic structure that houses the theatre. Since 2002, the City had awarded the activity a total of \$112,000 in CDBG funds but had expended only \$20,000. Further, \$35,000 awarded to the activity in 2003 and \$20,000 awarded in 2004 had not been drawn down by the subrecipient, although in 2006 the subrecipient identified priority needs for the intended use of funds for this activity as described in the City's consolidated annual performance and evaluation report. City officials acknowledged that no progress had been made regarding the activity's funding commitments for program years 2003 and 2004.

### City's Oversight of Rehabilitation Activity Not Effective

The City did not ensure the timely administration of its CDBG-funded rehabilitation and preservation activities as required. Regulations at 24 CFR 85.40 provide that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Also, grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are achieved.

Despite the Rome Capitol Theatre's lack of progress for activities funded in 2003 and 2004, the City awarded it an additional \$37,000 from its 2007 CDBG program. However, unlike previous funding agreements, the 2007 agreement contained provisions for recapturing funds not expended within a specified time. City officials were aware of the problems associated with nonperforming

activities and had received technical assistance from HUD regarding ways to address their slow-progressing and inactive activities.

## **Conclusion**

Since the City did not ensure the timely administration of its CDBG-funded rehabilitation and preservation activities for program years 2003 and 2004, a national objective was not met. This deficiency was caused by the City's not establishing adequate controls to ensure that performance goals for subrecipient-supported activities were achieved. Consequently, the \$55,000 in unexpended CDBG funds budgeted for these activities should be reprogrammed for other CDBG-eligible uses and put to better use.

## **Recommendations**

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

- 4A. Reprogram the \$55,000 in unexpended program funds for the theatre rehabilitation and preservation activity and put the funds to better use for other eligible program activities.
- 4B. Establish controls to ensure that the performance goals for subrecipient-supported activities are achieved in a timely manner.

## 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 the administration of the City's CDBG program.

For fiscal years 2004 through 2007, the City received approximately \$5 million in CDBG funding. We selected a non statistical sample of five activities valued at \$1.3 million and representing 26 percent of the program areas administered by the City for review from the City's consolidated annual performance and evaluation reports. We reviewed the expenditures and related supporting documents for the activities to determine whether the expenditures met CDBG requirements, were reasonable, and complied with the national objectives. We also examined the City's internal controls over its CDBG program.

The review covered the period January 1, 2004, through March 31, 2008, and was extended as necessary. We performed audit work from April through September 2008 at the City's offices located at City Hall, 198 North Washington Street, Rome, New York. We performed our review 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

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

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

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

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## Relevant Internal Controls

We determined that 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 that the following items are significant weaknesses:

- The City did not have adequate controls over its program operations when it did not establish adequate administrative controls to ensure that costs associated with a public facilities subrecipient activity were eligible and met a national objective of the CDBG program (see finding 2).
- 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 2, and 3).

## 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			\$227,568
1B			109,167
2A	\$140,523		
2B			39,577
3A		\$58,036	
4A			55,000
Total	<u>\$140,523</u>	<u>\$58,036</u>	<u>\$431,312</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 subsidy 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 the City implements our recommendations for reprogramming its unexpended balances for its revolving loan fund, public facilities, and rehabilitation and preservation 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

### Ref to OIG Evaluation

### Auditee Comments

JAMES F. BROWN  
Mayor



Diane Shoemaker  
Director

#### DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

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January 15, 2009

Mr. Edgar Moore  
Regional Inspector General for Audit Office of Inspector General  
U.S. Department of Housing and Urban Development  
26 Federal Plaza, Suite 3430  
New York, NY 10278

**RE: Comments on Draft Audit Report on City of Rome CDBG Program**

Thank you for the opportunity to comment on the draft audit report concerning the Community Development Block Grant (CDBG) in Rome, NY. Below, please find our comments for your evaluation and potential inclusion in the report.

The City of Rome agrees with the findings, conclusions, and recommendations as stated in the Audit Report. The comments contained herein will reflect this general sentiment, while hopefully providing a certain degree of clarification, insight and perspective.

Please note that the audit experience with your staff reinforced to City staff the critical nature of solid policies and procedures as they relate to Federal funding and programs. As demonstrated to your audit staff, the City administration also recognizes the urgency to reevaluate past practices and programs and to take measures to fundamentally improve the overall quality and accountability of our CDBG program.

Over the past few years, Rome has experienced a total reorganization of staff and their responsibilities. Though staff turnover may be the norm in local government, how Rome has reacted to the change is notable. The City's administration is focused on creating a productive partnership with the HUD Buffalo office and the edification of our employees to enable them to implement changes; as well as being prepared to adapt to current and expected socioeconomic conditions.

We have attached our comments, as they specifically address the findings cited in the report, 1-4 inclusive. Your staff auditor Richard Roseboom conducted himself in a professional manner at all times during the process, and he also took time to explain the reasons, implications and desired end results of the audit. We certainly appreciate his constructive approach to interacting with our staff and his notable efforts to adapt to our daily office procedures and demands.

We look forward to a 2009 filled with change and progress. We also look forward to working closely with HUD to make our program more effective.

Sincerely,

Diane Shoemaker  
Director of Community and Economic Development

### Comment 1

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

- 2 -

**APPENDIX B  
AUDITEE COMMENTS AND OIG's EVALUATION**

***Finding #1: The City did not adequately monitor a subrecipient-administered Economic Development Revolving Loan Fund Activity.***

Present City of Rome and Rome Industrial Development Corporation (RIDC) staff are acutely aware that the City-funded Community Reinvestment Loan Fund failed to ultimately meet goals for job creation and program income generation. We believe that RIDC had great intentions (when they worked with the City administration in 1974) to design a program that could be administered in such a manner to stimulate job creation and economic development in the City.

However, working with HUD Buffalo as a result of several years of monitoring efforts, a present day and realistic assessment of the program tells us that the potential failure rate of the program is far greater than the potential for success. Due to environmental conditions, socio-economic factors, and outdated and/or unrealistic underwriting guidelines, there are fundamental flaws in the program designed by our predecessors.

Upstate New York is experiencing economic growth at a rate well-below the national average; and Rome is no exception. Since an estimated 80+% of new businesses fail in the first three years, it would seem that the proverbial deck is stacked against small and start-up businesses in general and even more so in this region. We strongly believe that these are precisely the reasons why a stronger and more targeted business loan or grant program should be designed to address what we understand to be limiting factors to microenterprise development in Rome, New York.

For the past several years there has been very little activity in the fund (few new loans) which has enabled us to study the program - its flaws, benefits and need. We are confident that we can develop a successful revolving loan program that not only has goals for job creation, but also performance standards, incentives for growth, and procedures for recapture of the principle. Working with the Rome Main Streets Alliance, Rome Industrial Development Corporation, Mohawk Valley EDGE and the Genesis Group, we are conducting an in-house market study to identify specific factors that are causing the failure of small and start-up businesses and the sectors of the local economy poised for success and/or growth.

In the meantime, and in an effort to establish tighter controls that ensure CDBG funds are safeguarded, we are working with HUD Buffalo to cancel this activity, reprogram the existing available funds (including program income) and assume administration of the remaining active loans.

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**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

- 3 -

***Finding #2: The City expended CDBG funds for Ineligible Public Facilities Activity Costs.***

The City of Rome’s current administration is aware of and in the process of correcting this finding. It is evident to all parties that when Mohawk Valley Community Action Agency (MVCAA) sold the building – thereby abandoning the intended use – the project automatically became ineligible. The City of Rome, upon learning of the sale, took the following decisive measures:

- Began the process of reprogramming the unexpended balance of \$39,577 according to the HUD guidelines; and
- Began the legal proceedings to recapture the expended \$140,523. The case is currently part of legal proceedings and no settlement, to date, has been reached.

We are aware that past City staff worked with both HUD Buffalo and MVCAA to justify expenses with an end goal and a national objective in mind. We also were party to meetings with the organization to determine available avenues to enable them to continue the project in an effort to meet the national objective. However, we are aware that the region’s unstable economic conditions and environmental concerns discovered while progressing the project contributed to unsuccessful closure of this activity.

To date, with assistance from HUD Buffalo, we have re-programmed unused funding and are working on efforts to assist with the repayment of the expended project funding. Moving forward, we have measures in place (including environmental, CDBG eligibility and objective training, building inventories, etc.) to assist both the City and its subrecipients ensure that projects are feasible, realistic, and eligible – prior to funding.

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**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

- 4 -

***Finding #3: Questionable Street Improvement Costs were charged to the CDBG program.***

The City of Rome is working with HUD Buffalo to clarify the definition of an "Area Benefit Activity" as it applies to Rome projects already underway. Standard policy in the past has been to make significant improvements to streets that benefited a known neighborhood or population in certain need of improved pedestrian access, lighting, or utilities. Typically, 99% of these activities fall within the boundaries of block groups that averaged at least 51% low-to-moderate income (LMI) households.

In this particular case, the intended purpose was to improve pedestrian access and safety to residents of "East Rome," a neighborhood best defined geographically by Census Tract 0225.00; specifically, block groups 02 and 05. These block groups have LMI percentages of 63.7% and 69.3%, respectively. By connecting their neighborhoods to the waterfront, our intention was to improve access to recreational and commercial opportunities; while expanding the opportunity for retail and "main street" business growth and vitality.

Regarding the lights in storage, Rome had intended to install them in a S. Rome neighborhood for safety, pedestrian benefit and overall neighborhood improvement. However, before the lights could be installed, the City partnered with Housing Visions (a low-income housing group) to begin implementation of an \$8 million demolition and reconstruction of the intended neighborhood. The remaining lights will be installed as planned as the project progresses.

Working with your staff, we have a more concrete understanding of the deployment of "Area Benefit" funding. Although the City of Rome intended to provide residents with a direct benefit of the improvements, we stand ready to work with HUD Buffalo to provide the necessary documentation and justification to this end. We will also work to justify the expenses associated with the lighting in storage.

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**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

- 5 -

***Finding #4: The City did not ensure that a subrecipient Rehabilitation and Preservation Activity was administered effectively.***

The City of Rome has been working diligently to correct past practices which limited the City's ability to provide timely administration and closure of activities.

It is apparent that, in the past, inadequate funding was allocated to complete the scope of work proposed by a number of projects like the Capitol Theatre. Rather than implement the project in multiple, manageable phases, the sub recipient, with approvals from the City, chose to bank on the availability of future funding opportunities to complete the "large" project.

With this in mind, concurrent with the HUD Buffalo audit and your audit, the City intensively worked with the subrecipient to complete Phase I of the rehabilitation and preservation project. To date, 100% of prior years' funding (2003-2005) has been effectively deployed on the rehabilitation and restoration effort. The City is presently working with the subrecipient to compile the final project report for IDIS records.

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**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

- 6 -

**Conclusions**

The City of Rome agrees with each of the findings, conclusions, and recommendations contained in the Audit Report. It is also important to note that, as cited in the report, the findings were specific to activities that were funded and administered between the years of 1999-2005. Since that time, the City of Rome has been working consistently with the Buffalo HUD office to implement measures that ensure:

- 1) the integrity of program development;
- 2) frequency and duration of subrecipient monitoring;
- 3) accuracy of compliance determination;
- 4) opportunities for staff training; and
- 5) the quality of overall project management and documentation.

The City of Rome is confident that current policies and procedures governing the administration of Rome's CDBG program are much stronger and complete to those of prior years. Changes in personnel, organizational structure, and overall philosophy regarding program delivery has drastically changed since 2005. The Mayor has worked with our department to improve both our capacity and innovation required to run a more effective and categorically compliant program.

As we enter the planning year of a new Five Year Consolidated Plan (2010-2014), this audit report will be a motivating force in careful and consistent development of our program scope and methodology. It is abundantly clear to us that, as we determine community needs and frame our spending plan(s), it is equally important to enact administrative controls to ensure thorough monitoring and categorical eligibility of funding allocations.

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## **OIG Evaluation of Auditee Comments**

**Comment 1** Officials for the City agree with the audit report findings, conclusions, and recommendations, and have provided their comments to reflect general sentiment.