



U. S. Department of Housing and Urban Development  
Office of Inspector General  
New York/New Jersey Office  
26 Federal Plaza – Room 3430  
New York, NY 10278-0068

**MEMORANDUM NO. 2009-NY-1801**

September 8, 2009

**MEMORANDUM FOR:** Vincent Hom, Director, Community Planning and Development,  
2ADM1

*Edgar Moore*

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

**SUBJECT:** The City of Little Falls, New York, Urban Renewal Agency, Small Cities Community  
Development Block Grant and HOME Programs, Complaint No. HL-09-0090

**INTRODUCTION**

We completed a review of the City of Little Falls, New York's (the City) Small Cities Community Development Block Grant (CDBG), and HOME Programs administered by its Urban Renewal Agency (URA). We selected the City for review based on a hotline complaint referral from the Office of Inspector General (OIG) Program Integrity (Hotline) Division. The complaint alleges mismanagement of HUD funding for the CDBG and HOME programs administered by the City and its Urban Renewal Agency. The objectives of our review were to determine the merits of the hotline complaint, specifically whether the City of Little Falls and its Urban Renewal Agency complied with HUD requirements while administering its CDBG and HOME programs.

In accordance with HUD Handbook 2000.06, REV-3, within 60 days, please provide us, for each recommendation in this memorandum, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required 90 days and 120 days after this memorandum is issued for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of this review.

Should you or your staff have any questions, please contact Karen A. Campbell, Assistant Regional Inspector General for Audit, at (212) 542-7977.

**METHODOLOGY AND SCOPE**

The review covered the period of January 1, 2007, through March 2009, and was extended as necessary. We performed our review work from February 2009 through May 2009 at the City of Little Falls and its URA offices, located at 659 East Main Street, Little Falls, New York. Our

review included obtaining background information from applicable HUD and State regulations and program records, interviewing City and URA staff, reviewing prior Independent Public Accountants (IPA) audits, reviewing correspondence from HUD and the State of New York, and selecting and testing limited nonstatistical samples of transactions relating to the allegations. The results of the sample testing only apply to the items tested and are not to be projected.

**BACKGROUND**

On October 15, 2008, a complainant filed a Hotline complaint with HUD OIG’s Program Integrity (Hotline) Division. On October 27, 2008, the case was referred to the OIG Assistant Inspector General for Audit. Subsequently, on February 10, 2009 we commenced a review to determine the merits of the complaint allegations. In general, the complaint alleged mismanagement of HUD funding by the City of Little Falls, New York, and its Urban Renewal Agency. Specifically, the complaint included 13 allegations that were reviewed as discussed in the Results of Review subsection that follows.

For many years, the City of Little Falls has been the recipient of HUD funded Small Cities grants awarded by the State of New York’s Office of Community Renewal. The Office of Community Renewal was created under state law within the New York State Housing Trust Fund Corporation, a public benefit corporation, to administer and monitor the CDBG Program for the State of New York. The New York State program provides financial assistance to eligible cities, towns, and villages with populations fewer than 50,000 and counties with an area population under 200,000, in order to develop viable communities by providing decent, affordable housing, and suitable living environments, as well as expanding economic opportunities, principally for persons of low and moderate income.

Recent HUD-funded grants awarded to the City during the years from 2000 through 2008 include:

<b>Year</b>	<b>Amount</b>	<b>Award Type</b>
2000	\$ 400,000	Economic Development
2002	750,000	Comprehensive
2003	300,000	Economic Development
2004	700,000	Economic Development
2004	350,000	Comprehensive
2005	400,000	HOME
2006	400,000	Housing Rehabilitation
2008	650,000	Comprehensive
<b>Total</b>	<b>\$3,950,000</b>	

To locally administer its HUD-funded grants the City has opted to use its Urban Renewal Agency (URA). The Little Falls URA was established in 1963 under New York State Law §575. The municipal urban renewal agency constitutes a corporate and political body that is perpetual in duration and consists of not less than three and not more than five members including the mayor. Four members of the board are appointed by the mayor, and the mayor acts as the fifth member. Additional members of the URA are also appointed by the mayor with the

concurring approval of the city council. Currently, the URA employs one full-time employee, holding the position of program coordinator.

## **RESULTS OF REVIEW**

Each of the thirteen specific allegations raised in the complaint have merit, as described in the below analysis of each allegation:

### **Allegation # 1**

Funding for each of the URA's seven bank accounts were not adequately controlled.

The complaint alleges that City funds were comingled between the various URA accounts and bills were being paid from comingled accounts with the highest available balances and/or without regard to the proper funding source or program responsible for the costs, draw downs were not current, and the first electronic transfer (drawdown) of CDBG funds for the Housing Rehabilitation Program was never credited to the CDBG cash account.

The review disclosed that the URA had routinely comingled funds between its various cash accounts and expended funds without regard to the proper funding source or program responsible for the costs. To date, none of the URA cash accounts have been reconciled to determine the accurate sources and uses of funds as they relate to specific grant awards. Moreover, draw downs for the City's 2006 Housing Rehabilitation grant were not always made timely, and the first draw down in December 2006 was deposited in a URA program income cash account rather than the CDBG cash account. During the review in February 2009, the URA Program Coordinator confirmed that the funds from the first draw down remain in the program income account and have not been transferred to the CDBG cash account.

The New York State Office of Community Renewal's Community Development Block Grant Program Grant Administration Manual (NYS CDBG Grant Manual) Chapter 3, Section C. 2, provides that separate accounting records must be maintained for each NYS CDBG project so that revenues and expenditures can be readily identified. Moreover, Chapter 3, Section C.2., refers to regulations at 24 CFR 85.20 (b) (2), which provides that recipients and sub recipients must maintain accounting records, which adequately identify the source and application of funds provided for financially assisted activities. Accordingly, this allegation has merit.

### **Allegation # 2**

The URA's HOME Program funding was frozen because required forms were not submitted to the State.

The initial review determined that the City's HOME program funding had been frozen by the State due to discrepancies on a HOME funded disbursement request submitted by the URA. According to documentation from the State, the funding would be frozen until such time that the URA provided additional documentation to explain/address the discrepancies. Thus, the

allegation has merit. However, during the course of the onsite review, the URA was able to provide satisfactory documentation to the State regarding the discrepancies, resulting in a return of the City's HOME program funds.

### **Allegation # 3**

Code Enforcement inspection and completion forms for both the CDBG program and the HOME program have not been prepared or submitted to the State.

The City did not always maintain adequate documentation showing that final inspections and completion reports were prepared on housing projects that were determined to be completed. The allegation that the forms were not prepared has merit, however although the forms were not submitted to the State, this does not appear to be a requirement. According to New York State's Grant Administration Manual, applicable to the CDBG program, and the HOME Disbursement and Reporting Instructions, applicable to the HOME program, the City is responsible for maintaining complete project files, including inspection reports and completion forms for each unit funded under their housing rehabilitation program(s).

### **Allegation # 4**

The URA has not been able to provide evidence to show that it is adhering to the guidelines in the New York State Public Authorities Act, as amended in 2005.

The City's URA was not able to provide evidence that it complied with the New York State Public Authorities Act, as amended in 2005. A primary purpose of the Act is to codify in statute certain basic principles of effective corporate governance and to promote the understanding and adoption of these principles by State and local public authorities. For example, there was no evidence that the URA had adopted a code of ethics and mission statement, established written operating procedures and personnel policies or internal control procedures, as required by the Act. Accordingly, the allegation has merit.

### **Allegation # 5**

Lead Base Paint issues within case files.

The complaint alleges that there was no evidence of clearance exam reports in the files, summary notices issued within 15 days of lead inspection activities, and risk assessments being sent to the property owners. Our review found that the City appeared to be aware of their responsibilities regarding lead compliance with homes receiving HUD funds, including the use of contractors who have been trained and certified as having completed a lead based paint training course pursuant to 24 CFR Part 35. Nevertheless, the files did not reflect that all homes provided rehabilitation under HUD funded programs were currently in compliance with the Lead Safety Rule. Specifically, we found instances where the documents referred to in the complaint were not included in the project files, as required. Accordingly, the allegation has merit.

The NYS CDBG Grant Manual, Chapter 6, Section III, paragraph G provides that recipients must maintain files containing evidence of notifications, evaluation, disclosure, inspections, testing and abatements, work practices, and clearance for at least three years. In addition, paragraph 9 of the HOME Disbursement and Reporting Instructions requires recipients to maintain complete project files to include all lead paint hazard documentation.

#### **Allegation # 6**

##### Other rehabilitation project deficiencies.

The complaint alleges that, for the City's 2006 Small Cities CDBG program, inspection reports and building permits were missing, certain projects were deleted initially and then added on as change orders to certain contracts rather than given to the original low bidder, contracted amounts could not always be determined because contracts were unclear due to deletions and change orders, case files were missing deferred loan agreements, there was unclear separation between single and multiple unit houses, construction on all projects was not complete as of August 29, 2008, and construction for two properties had not yet begun.

The review concluded that the URA had not always maintained adequate documentation in the project files for the homes funded under the City's 2006 Small Cities Program. Specifically, the URA had not maintained adequate records to ensure compliance with all applicable CDBG program and New York State grant administration requirements. Accordingly, this allegation has merit.

#### **Allegation # 7**

##### URA is a separate entity and should not handle monies disbursed by the CDBG or HOME programs.

The complaint alleges that the URA is a separate entity and that there is no clear documentation detailing the roles of the URA. We verified that the URA is a separate organization as created under New York State law. Moreover, the agency was unable to provide us with any agreement between the URA and the City regarding its roles and responsibilities relating to the administration of HUD grant funds awarded to the City. Further, the URA staff consists of only one employee who has sole control over the administration, receipt, and disbursement of grant funds. Consequently, since the City, and not the URA, is the recipient of HUD-funded grants awarded by the State of New York, the review concluded that this allegation has merit and that CDBG and HOME grant funding should not be directly controlled by the URA as currently exists.

The NYS CDBG Grant Manual, Chapter 1 Section II provides that if a recipient chooses not to directly administer the CDBG project, they must enter into a contract for services that describes the division of grant management responsibilities. Moreover, Chapter 3 Section II C of the NYS CDBG Grant Manual provides that the recipient is responsible for establishing and maintaining a system of internal controls to protect the integrity of grant funds. To the greatest extent possible,

the system should provide for adequate separation of duties so that no one individual has authority over all fiscal functions.

### **Allegation # 8**

The State Program Income Plan (PIP) account is supposed to be a CDBG program income account, but it has not been recorded properly or reported to the State correctly.

Our review disclosed that the URA had been utilizing the State PIP cash account as a general fund, and that the URA had failed to establish adequate accounting records to record and report on program income earned on a grant specific basis. In addition to the fact that the cash balance in the State PIP account was commingled, reconciled amounts for program income have not yet been determined by the URA or reported to the State. Consequently, we have concluded that while the State PIP account is supposed to be a program income account, it was in fact being utilized as a general fund, and to date, the account's sources and uses of funds has not been reconciled. Also, a 2008 State request that the URA provide them with program income data relating to various grants awarded to the URA by the State since 2000 has not yet been determined by the URA nor provided to the State. Thus, the allegation has merit.

Chapter 3 Section II C of the NYS CDBG Grant Manual provides that separate accounting records must be maintained for each NYS CDBG project so that NYS CDBG revenues and expenditures can be readily identified. Regulations at 24 CFR 85.20 (b) (2) provide that recipients and sub recipients must maintain accounting records, which adequately identify the source and application of funds provided for financially assisted activities.

### **Allegation # 9**

Program income has not been disbursed prior to draw down of grant funds.

Our review concluded that program income was not always disbursed prior to the drawdown of additional grant funds. For instance, we verified that \$91,685 was drawn down from the City's 2006 CDBG Housing Rehabilitation Grant in December 2007. Subsequently, in January 2008, \$69,560 of the \$91,685 was transferred to the URA's State Program Income Plan cash account, and the remaining \$22,125 was transferred to the URA's Revolving Loan Fund cash account (also called the HUD Program Income Plan cash account). At the time of the drawdowns, the State Program Income Plan cash account had a balance of \$50,000 and the revolving Loan Fund cash account had a balance of \$7,000. Consequently, it appears that program income was not always disbursed prior to the drawdown of additional grant funding. Thus, the allegation has merit.

Chapter 3 Section IV A of the NYS CDBG Grant Manual provides that the Office of Community Renewal shall require recipients to the maximum extent feasible, to disburse program income that is subject to the requirements of 24 CFR 570.489 before requesting additional funds from the Office of Community Renewal for activities.

## **Allegation # 10**

A separate ledger for the CDBG program has not been maintained.

Our review disclosed that the URA did not maintain a general ledger to account for activity by grants received. Rather, the URA's automated accounting records consist of "Quick Books" accounting software that is only being used to track disbursements and receipts by bank account. Notwithstanding, we verified that the "Quick Books" software used has the ability to produce a General Ledger. However, the URA did not established General Ledger accounts to properly account for transactions by specific grants received. We informed the URA that since their accounting software has the capabilities to establish proper General Ledger accounts; they should seek advice from their contracted consultants and establish general ledger accounts that can properly account for activities on a grant specific basis. Nonetheless, since the URA bank accounts are currently commingled and since a functioning general ledger had not been established, there is no assurance that grant funds are being adequately controlled or accounted for, or that grant expenditures are eligible when paid. Accordingly, this allegation has merit.

Chapter 3 Section II C of the NYS CDBG Grant Manual provides that separate accounting records must be maintained for each NYS CDBG project so that revenues and expenditures can be readily identified. Regulations at 24 CFR 85.20 (b) (2) provides that recipients and sub recipients must maintain accounting records, which adequately identify the source and application of funds provided for financially assisted activities.

## **Allegation # 11**

Budget modifications have not been prepared that may have been needed.

Our review determined that budget modifications have not always been prepared that may have been needed. Specifically, we reviewed the URA's available budget files and noted three instances where budgets were modified internally by the URA, but formal modifications were not prepared and/or approved by the State or HUD. For example, the URA established and submitted to HUD a program income budget for 2007 activities amounting to \$105,000. Of that, \$60,000 was budgeted for a Veteran's Memorial Park Improvements activity as a match for a State-funded Canal Harbor grant. Subsequently, on March 19, 2009, the Mayor directed that City funds will be provided for the \$60,000 match. As such, the URA should modify its 2007 Program Income Budget by re-allocating the funding for other eligible activities and submit it to HUD for approval. However, it should be noted that until we brought this issue to the attention of the URA, they were unaware that they would need to modify their budget. At the time of our review, the budget had not been modified, nor had HUD been notified that the budget will need to be modified, thus, this allegation has merit.

Regulations at 24 CFR 570.427 requires that grantees shall request prior HUD approval for all program amendments involving new activities or alteration of existing activities that will significantly change the scope, location, or objectives of the approved activities or beneficiaries. Thus, since the URA decided to eliminate the \$60,000 activity from the total budget of \$105,000, this would constitute a significant change in scope.

Further, Chapter 7 Section I of the NYS CDBG Grant Manual provides that during the administration of a grant, recipients may need to modify the Office of Community Renewal's approved program budget in order to more effectively administer the grant and to meet the needs of the community and project. A formal request is required when a change in the funding of an activity exceeds \$5,000. If the budget modification represents more than 25%, a program amendment is required. Formal budget modifications require recipients to submit a written request from the Chief Elected Official explaining the reason and the impact of the modification to the project and its proposed accomplishments.

## **Allegation # 12**

### **Administrative funds may have been drawn down prematurely.**

Our review disclosed that administrative funds had, at times, been drawn down prematurely. For example, we noted correspondence from the State regarding the City's 2004 Small Cities Comprehensive grant stating that recent draws had been questioned as to the proportion of funds being drawn, and that administrative and program delivery costs should be drawn roughly proportionate to the main activities. Moreover, we reviewed the draw downs associated with the City's 2006 Housing Rehabilitation Grant and found that for the first 12 of 13 draw downs made on the grant, the City drew down administrative funding in disproportion to the main grant activity (Housing Rehabilitation). For instance, the cumulative amounts budgeted for administration was 5.5 percent of the total grant amount, however draw downs through draw number 12 exceeded the 5.5 percent limit for these items. As such, from the time of draw number 1, dated December 13, 2006, through the time of draw number 12, dated September 10, 2008, or for approximately 21 months, the City drew down funding for administration at a rate that exceeded the 5.5 percent budgetary limit for these items of cost. It was not until the final 13<sup>th</sup> draw that the total amounts drawn for administration was equal to the budgeted limit of 5.5 percent for administrative costs. Nonetheless, the history of the drawdowns for this grant does confirm that throughout the time that the grant was active, the City drew down funds for administrative costs prematurely, and at a rate that exceeded budgetary limits. Thus, this allegation has merit.

Apart from the above, our analysis of the City's 2006 Housing Rehabilitation Grant showed that for the first seven draw downs, the amount drawn for administration and program delivery exceeded the 20% threshold identified in Chapter 1 of the NYS Small Cities Grant Administration Manual.

Chapter 1 Section IV of the NYS CDBG Grant Manual provides that Office of Community Renewal will process funds in accordance with recipients' program schedule. Requests for administration and program delivery expenditures that exceed the budgeted amount accumulated for that quarter or exceed 20% of the program activity expended will not be processed for payment.

### **Allegation # 13**

An agreement between the URA and the City regarding a \$60,000 State-funded Canal Grant could not be located or provided.

The complaint alleges that an agreement between the URA and the City regarding a \$60,000 State-funded Canal grant could not be located or provided, thus, the grant was apparently made to the City and not the URA; therefore, the City would be responsible for the \$60,000 match. The review concluded that the allegation did have merit since the agreement between the URA and the City was not located. However, based on actions undertaken by the City, the matter of what entity would provide the matching funds for the State grant appears to have been resolved. On May 19, 2009, the Mayor informed the URA that the City of Little Falls would provide the \$60,000 in matching funds for the State grant.

### **CONCLUSION**

Each of the allegations reviewed were substantiated and determined to have merit. The City and its URA have begun to address the allegations and are attempting to correct deficiencies that exist within their HUD funded programs. For example, the City has recently contracted with a consultant to provide technical assistance, the URA program coordinator and board members have attended training, and the URA is in the process of upgrading their accounting software so that proper fund accounting procedures can be implemented. Nonetheless, our review of the URA's operations determined that the agency's books and records could not be relied upon to provide current or accurate data, and are considered not auditable at this time. Thus, the substantiated allegations have generated recommended corrective or administrative actions to ensure that the City and its URA are adequately administering its Small Cities CDBG and HOME program grants in compliance with applicable requirements.

### **RECOMMENDATIONS**

We recommend that the Director of HUD's New York City Office of Community Planning and Development instruct the State of New York's Office of Community Renewal and Housing Trust Corporation to coordinate their efforts to

- 1A. Conduct a comprehensive monitoring of the City of Little Falls and its URA to ensure that it is adequately administering its HUD-funded Small Cities CDBG grants in compliance with applicable HUD and State of New York requirements.

We also recommend that HUD instruct the State of New York's Office of Community Renewal and Housing Trust Corporation to coordinate their efforts to require the City and its URA to

- 1B. Fully reconcile the sources and uses of all grant funds for each CDBG project and cash account that it administers, and develop procedures to ensure that the appropriate cash accounts are used for grant income and expense transactions.

- 1C. Implement procedures to ensure that grant funds are drawn down in a timely manner and are credited to the appropriate cash account, so that the proper cash accounts are used for grant expenses in accordance with the grant agreement.
- 1D. Develop administrative control procedures to ensure compliance with all HOME program disbursement and reporting requirements.
- 1E. Establish procedures to ensure the proper monitoring and maintenance of CDBG and HOME program activity files to ensure compliance with all applicable CDBG and HOME program and New York State grant administration requirements
- 1F. Implement procedures to ensure the requirements of the New York State Public Authorities Act are adopted and adhered to.
- 1G. Implement procedures to ensure that all properties funded under the City's housing rehabilitation program(s) are brought into compliance with the Lead Safe Housing Rule at 24 CFR (*Code of Federal Regulations*) Part 35.
- 1H. Establish program guidelines to ensure that the requirements of the Lead Safe Housing Rule are consistently implemented.
- 1I. Execute a contract between the City and its URA for services that describes the division of grant management's responsibilities.
- 1J. Establish internal controls that provide for adequate separation of duties so that no one individual has authority over all fiscal functions.
- 1K. Establish procedures to ensure the accuracy and reliability of accounting data and to ensure that assets are adequately safeguarded.
- 1L. Account for, reconcile, and report on all program income earned on grants awarded to the URA by the State since 2000 as previously requested by the State.
- 1M. Implement procedures to ensure that program income is disbursed before requesting additional funds from the New York State Office of Community Renewal for activities.
- 1N. Establish a functioning general ledger for recording resources, liabilities, and equity for all HUD funded grants and program income transactions.
- 1O. Establish procedures to ensure that budgets are modified timely as needed and are approved by the funding agency when required.
- 1P. Establish procedures to ensure that draw downs for administrative costs are within program limits and are in proportion to the main activities.

# AUDITEE COMMENTS AND OIG'S EVALUATION

## Ref to OIG Evaluation

## Auditee Comments



OFFICE OF  
**MAYOR**  
659 E. Main Street  
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Office: (315) 823-0001 Fax: (315) 823-0580

Hon. Robert J. Peters, Sr.  
Mayor  
Home: (315) 823-4907

August 19, 2009

Karen A. Campbell, Assistant Regional Inspector General  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
New York/New Jersey Office  
26 Federal Plaza – Room 3430  
New York, NY 10278-0068

Dear Ms. Campbell:

The City of Little Falls has received a copy of the draft Audit Memorandum No. 2099-NY-XXXX that summarizes the results of a review of the City of Little Falls Urban Renewal Agency's administration of its Small Cities Community Development Block Grant and HOME programs.

I have reviewed the report and have no significant disagreements on the allegations, details, and recommendations.

We have begun to take the following corrective steps to address these issues:

1. We have sent requests for proposals for auditing services and for the implementation of a new financial system and to provide initial set-up and training of Urban Renewal Agency staff. The accounting system we are seeking would allow for the tracking of all funding, budgeting control and reporting, internal controls, and all system requirements regarding financial management of the NYS Community Development Block Grant.
2. Hired new grant consultants to administer federal and state grant programs and assist with the creation of new forms, policies, and procedures.

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## **Comment 1**

# AUDITEE COMMENTS AND OIG'S EVALUATION

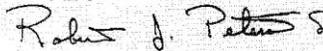
## Ref to OIG Evaluation

## Auditee Comments

### Comment 1

3. The City has procured the services of a lead-based paint testing company that utilizes XRF technology in its testing, ensuring more comprehensive and accurate results that will be used to identify lead-based paint hazards that must be addressed as part of any future federally-funded rehabilitation program. We are also making sure that all participating contractors have undertaken the required "safe work practices" course in accordance with the federal lead-based paint regulations, and that home and property owners receive appropriate information regarding lead-based paint hazards and how to properly maintain their homes even after a local rehabilitation project is completed.
  
4. The community development consultant we hired in December 2008 has hired as an independent contractor a new Rehabilitation Coordinator to oversee federally funded rehabilitation projects in Little Falls. Currently, the Coordinator is working with our consultant to complete projects approved through a 2005 HOME grant that will expire in the coming months. Although we do not have any new rehabilitation funding at this time, this arrangement allows our consultant to directly oversee the activities of the Rehabilitation Coordinator in accordance with a Schedule and Budget approved by the City, and the consultant then must report on those activities to the City and Urban Renewal Agency. We believe this arrangement will provide better daily oversight of rehabilitation projects and increased accountability for work scopes, inspections, and other aspects of local rehabilitation programs than under previous programs administered more directly by the Urban Renewal Agency.
  
5. Board members have attended Public Authority training; staff has begun utilizing the PARIS system, created Audit and Governance committees.

Sincerely,



Robert J. Peters, Sr.  
Mayor

### **OIG Evaluation of Auditee Comments**

**Comment 1** Officials for the City have no significant disagreements on the allegations, details, and recommendations presented in the audit memorandum. The corrective actions taken by the officials are responsive to our review.