



U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Regional Inspector General for Audit

MEMORANDUM NO:
2009-PH-1801

August 28, 2009

MEMORANDUM FOR: Nadab O. Bynum, Director, Office of Community Planning and Development, Philadelphia Regional Office, 3AD

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The City of Bethlehem, Pennsylvania, Had the Capacity to Effectively Administer Community Planning and Development Funds Provided under the American Recovery and Reinvestment Act of 2009

INTRODUCTION

We audited the City of Bethlehem, Pennsylvania's (City) community planning and development program. On March 6, 2009, the U.S. Department of Housing and Urban Development (HUD) awarded the City \$1.1 million under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for its community planning and development program. The U.S. Office of Management and Budget directed the Inspectors General to perform audits to ensure that funds provided under the Recovery Act are used for their intended purposes. Our objective was to determine whether the City had the capacity to effectively administer its community planning and development funds provided under the Recovery Act according to applicable requirements.

METHODOLOGY AND SCOPE

To accomplish our objective, we obtained and reviewed

- HUD Office of Inspector General (OIG) audit report 2009-PH-1005, The City of Bethlehem, Pennsylvania, Generally Administered Its Community Development Block Grant Program in Accordance with HUD Requirements, dated February 2, 2009.
- Public Law 111-5, the American Recovery and Reinvestment Act of 2009, dated February 17, 2009.
- HUD regulations at 24 CFR [*Code of Federal Regulations*] Parts 85 and 570.

Visit the Office of Inspector General's World Wide Web site at <http://www.hud.gov/offices/oig/>

- HUD's Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program [Homeless Prevention] Grantees under the American Recovery and Reinvestment Act of 2009, dated March 19, 2009, and Notice of Program Requirements for Community Development Block Grant Program – Funding under the American Recovery and Reinvestment Act of 2009, dated May 5, 2009.
- HUD Handbook 6500, Community Development Block Grant Program – Entitlement Grant Regulations, and HUD Handbook 6510.2, REV-2, Community Development Block Grant Program: Entitlement Grantee Performance Report Instructions.
- Resolution No. 2009-96 of the Council of the City of Bethlehem and related changes/revisions to the City's program year 2008 action plans to include its activities funded under the Recovery Act.
- The City's fiscal year 2007 audited financial statements.
- The City's Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) consolidated annual performance and evaluation report for program year 2008 and its CDBG activity summary report for program year 2009, as of April 2009.
- The City's accounting controls, personnel policies, procurement policies and practices, and monitoring policies to ensure that they were consistent with HUD requirements.
- The staffing level of the City's Department of Community and Economic Development and corresponding employee job responsibilities. In addition, we reviewed the responsibilities of the City's Department of Public Works and its Department of Parks and Recreation because these City departments will be involved in implementing the activities funded with Recovery Act funds.
- A contract for services related to a program year 2008 CDBG street reconstruction activity to determine whether the City followed its procurement policy and HUD's procurement regulations.
- A program year 2008 CDBG activity carried out by the City to determine whether the activity was eligible and supported by appropriate documentation.
- Program guidelines for the City's four major ongoing loan programs related to housing rehabilitation and economic development activities.

We also identified and tested relevant internal controls that the City had implemented regarding management and accounting, and we discussed the City's operations with its staff and officials from HUD's Philadelphia Regional Office of Community Planning and Development.

We conducted the audit from April through August 2009 at the City's offices located at 10 East Church Street, Bethlehem, Pennsylvania, and our office located in Philadelphia, Pennsylvania.

Our audit generally covered the period February through April 2009. We expanded the scope of the audit as necessary.

BACKGROUND

On February 17, 2009, President Obama signed the Recovery Act into law. The purpose of the Recovery Act is to

- Preserve and create jobs and promote economic recovery,
- Assist those most impacted by the recession,
- Provide investments needed to increase economic efficiency by spurring technological advances in science and health,
- Invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits, and
- Stabilize state and local government budgets to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Under the Recovery Act, HUD is allocating nearly \$1 billion to approximately 1,200 state and local governments through its CDBG program to target their own community development priorities. In addition, through its Homelessness Prevention Fund, HUD is allocating nearly \$1.5 billion to state and local governments to help rapidly rehouse homeless persons and families who enter shelters. In addition, the fund is intended to significantly expand efforts to prevent homelessness among those facing a sudden economic crisis. On March 6, 2009, HUD awarded the City \$449,326 in CDBG funds and \$687,480 in Homelessness Prevention funds under the Recovery Act. The City plans to use

- \$353,517 of the CDBG funds to install street lights in a low- and moderate-income neighborhood.
- \$95,809 of the CDBG funds to assist in the initial phase of a project to construct a bicycling and walking path with street crossings, landscaping, and lighting through the heart of a low- and moderate-income urban neighborhood.
- \$687,480 of its Homelessness Prevention funds to provide homelessness prevention services through nonprofit organizations.

The City was incorporated in 1962 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. It is a third-class city, as defined by the state statutes. It operates under a mayor-council form of government and provides a full range of services including public safety, roads, sanitation, health, culture and recreation, and general government services. The City administers its community planning and development programs through its Department of Community and Economic Development. A director oversees the daily

operations of the department, which maintains its records at 10 East Church Street, Bethlehem, Pennsylvania. HUD has designated the City of Bethlehem an entitlement community eligible to receive community planning and development funds from HUD annually. In fiscal years 2006 through 2009, HUD awarded the City \$1.7 million in CDBG funds. HUD had not previously awarded Homelessness Prevention funds to the City.

RESULTS OF REVIEW

The City had the capacity to effectively administer community planning and development funds provided to it under the Recovery Act according to the applicable requirements. The City had adequate internal control procedures pertaining to accounting controls, staffing levels, personnel operating policies, monitoring of subrecipients, procurement of goods and services, and establishment of program guidelines that are in compliance with HUD requirements. A recent HUD OIG audit and other reviews disclosed no major problems with the City's program. The City is planning to use its Recovery Act funds on eligible activities that meet the objectives of the programs and the Recovery Act.

Previous HUD OIG Audit Concluded That the City Generally Administered Its CDBG Program in Accordance with HUD Requirements

We audited the City's CDBG program as a result of a citizen complaint and issued audit report 2009-PH-1005, dated February 2, 2009. Our audit objective was to determine whether the City administered its program in compliance with HUD requirements. We focused our review on whether the City (1) had adequate internal controls over its management process, accounting, and data processing; (2) used program funds for eligible activities; (3) used funds to meet the program's national objectives; and (4) properly accounted for program income. We concluded that the City generally administered its program in compliance with HUD requirements. Specifically, we concluded that

- The City's internal controls and financial management system were adequate,
- The City made expenditures for eligible activities,
- The City's expenditures met the program's national objectives, and
- The City properly accounted for program income.

HUD Monitoring Disclosed No Major Problems Affecting Capacity

HUD completed its most recent monitoring of the City's community planning and development program in September 2006. The scope of HUD's on-site monitoring review was the City's HOME program. HUD identified two minor issues of concern related to the City's administration of the program. These minor issues do not negatively affect the City's capacity to implement its Recovery Act activities.

The City's Audited Financial Statements Disclosed No Major Problems Affecting Capacity

The City's independent auditor issued an unqualified opinion on the City's financial statements for the year ending December 31, 2007. In the August 2008 audit report, the independent auditor reported three findings. Two of the findings were related to non-HUD funds. The third finding related to a minor issue. This issue does not negatively affect the City's capacity to implement its Recovery Act activities.

The City Had Adequate Policies and Procedures Governing Its Operations

- The City had an adequate procurement policy that complied with HUD requirements.
- The City had an adequate personnel policy in place for all of its employees.
- The City had established adequate procedures to monitor subrecipients of CDBG funds, and it maintained documentation to demonstrate that it monitored its subrecipients.
- The City had established program guidelines for all four of its major ongoing loan programs related to housing rehabilitation and economic development activities. The economic development activities included building repairs (façade improvements) and gap financing related to creating and/or retaining low- to moderate-income jobs for residents.

The City Had Adequate Staff

The City had adequate staff to implement its Recovery Act activities. The City administers its community planning and development program through its Department of Community and Economic Development. Eleven employees assigned to the department's housing rehabilitation and economic development programs as well as administrative staff work on the City's CDBG program. The City provided a listing of the employees who charged time to the CDBG program and the corresponding duties and responsibilities of their positions. The City's Department of Administration is responsible for the financial aspects of the CDBG program. The City plans to have employees from its Department of Public Works oversee the construction work related to the street light installation activity funded with Recovery Act funds.

The City Followed Established Procurement Policies and Procedures

We reviewed documentation related to a contract for a program year 2008 CDBG street reconstruction activity to determine whether the City followed its procurement policy and HUD's procurement regulations. The City followed its procurement policy and HUD requirements related to this contract. The City received an adequate number of bids, tabulated them, and awarded the contract to the lowest bidder.

The City Expended CDBG Funds for Eligible Activities

We reviewed a program year 2008 CDBG activity carried out by the City to determine whether the activity was eligible and supported by appropriate documentation. The City had adequate documentation to support its disbursement of \$100,000 and demonstrate that the activity was eligible to be funded according to HUD regulations. In program year 2008, the City included an activity to pay for part of the costs to renovate the dormitory at the Bethlehem YMCA. The amount of funds related to the activity was \$100,000. The project involved the substantial renovation of the existing single-room occupancy units on the second and third floors of the building into larger single-room occupancy units and efficiency units for homeless, disabled, unemployed, and/or working poor single adults.

AUDITEE RESPONSE

We provided the City a draft of this memorandum on August 12, 2009, and discussed it with the City at an exit conference on August 19, 2009. The City provided a written response on August 21, 2009, agreeing with the content of the memorandum. The City's response is included herein as appendix A.

RECOMMENDATIONS

Since we did not identify any deficiencies, there are no recommendations.

Appendix A

AUDITEE COMMENTS

City of Bethlehem

INDUSTRY EDUCATION RELIGION MUSIC RECREATION
AN EQUAL OPPORTUNITY EMPLOYER

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

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August 21, 2009

John P. Buck, Regional Inspector General for Audit
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Dear Mr. Buck,

The purpose of this letter is to acknowledge receipt of the Draft Audit Report sent to us by your office. My staff and I have reviewed the draft and are in agreement with the findings of the Office of the Inspector General that the City of Bethlehem indeed does have the capacity to effectively administer the HUD funds being provided under the Recovery Act. On behalf of the city of Bethlehem, I accept the OIG audit report as prepared.

It is my understanding that upon your receipt of this letter, steps will be taken to finalize and post the report. We await receipt of the final report. Thank you.

Sincerely,

Tony Hanna
Director of Community and Economic Development

TH/da

Cc: I. Woodward
D. Albright

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