



Hamilton County, OH

Community Development Block Grant Program

**Office of Audit, Region 5
Chicago, IL**

**Audit Report Number: 2018-CH-1008
September 27, 2018**



To: Jorgelle Lawson, Director of Community Planning and Development, 5ED
//signed//

From: Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: Hamilton County, OH, and People Working Cooperatively, Inc., Did Not Always Comply With HUD's Requirements in the Use of Community Development Block Grant Funds for a Housing Repair Services Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Hamilton County's subrecipient agreement with People Working Cooperatively, Inc., for a Community Development Block Grant-funded housing repair services program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 312-913-8499.



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Hamilton County, OH, and People Working Cooperatively, Inc., Did Not Always Comply With HUD's Requirements in the Use of Community Development Block Grant Funds for a Housing Repair Services Program

Highlights

What We Audited and Why

We audited Hamilton County's subrecipient agreement with People Working Cooperatively, Inc. (corporation), for a Community Development Block Grant-funded housing repair services program based on a request from the U.S. Department of Housing and Urban Development's (HUD) Columbus Office of Community Planning and Development concerning information the Office received regarding the program, which it did not have the resources to review. The audit was part of the activities in our fiscal year 2018 annual audit plan. Our objective was to determine whether the County and corporation complied with HUD's requirements in the use of Block Grant funds for the program.

What We Found

The County and corporation did not always comply with HUD's requirements in the use of Block Grant funds for the program. Specifically, the County did not ensure that (1) it required the corporation to submit source documentation before providing it with Block Grant funds for housing repair services, (2) it provided the corporation Block Grant funds for eligible program expenses, (3) two households were eligible for assistance under the program, (4) it properly documented compliance with HUD's environmental review procedures, (5) the corporation notified the County before completing a third emergency repair job for households within a grant year, (6) a member of a household associated with an accessibility modification was disabled, and (7) the corporation reduced all of the program income it received from its invoices for housing repair services. As a result, more than \$10,000 in Block Grant funds was not available for eligible expenses of the program, and HUD and the County lacked assurance that nearly \$13,000 in Block Grant funds was used in accordance with HUD's requirements.

What We Recommend

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the County to (1) reimburse its Block Grant program from non-Federal funds for inappropriate expenses, (2) support or reimburse its Block Grant program from non-Federal funds for expenses for which the corporation lacked sufficient documentation to support, and (3) implement adequate procedures and controls to address the weaknesses cited in this audit report.

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Background and Objective

Hamilton County is an entitlement grantee that received an annual allocation from the U.S. Department of Housing and Urban Development (HUD) of more than \$2.8 million in Community Development Block Grant funds in fiscal years 2015 through 2017. The Community Development Division within the County's Planning and Development Department administers the County's Block Grant program. The Community Development Division's mission is to provide quality affordable housing programs, community and economic development programs and services, and homelessness prevention programs throughout the County in accordance with Federal rules and regulations and as directed by the board of County commissioners. The County's records are located at 138 East Court Street, Cincinnati, OH.

The County entered into a subrecipient agreement with People Working Cooperatively, Inc. (corporation) to provide the corporation with \$665,000 in Block Grant funds for a housing repair services program for the period April 1, 2015, through March 31, 2016. The County renewed the subrecipient agreement in 2016 and 2017.¹ The program provides emergency and critical home repairs, including accessibility modifications, to very low-income homeowners, particularly homeowners who are elderly or have a disability. The County provided the corporation more than \$1.7 million in Block Grant funds for 1,668 housing repair service jobs that the corporation invoiced on April 2015 through November 2017 billing statements.²

Incorporated in 1975, the corporation is a non-profit organization serving low-income, elderly, and disabled homeowners. The corporation strengthens communities by providing professional, critical home repairs, weatherization, modification, and maintenance services. Its mission is to perform critical home repairs and services so that low-income homeowners can remain in their homes, living independently and healthier in a safe, sound environment. The corporation provides services to homeowners in Ohio, Indiana, and Kentucky, and its records are located at 4612 Paddock Road, Cincinnati, OH.

Our objective was to determine whether the County and corporation complied with HUD's requirements in the use of Block Grant funds for the program. Specifically, we wanted to determine whether (1) the County required the corporation to submit source documentation before providing it with Block Grant funds for housing repair services, (2) the County provided the corporation Block Grant funds for eligible expenses of the program, (3) households were eligible for assistance under the program, (4) the County properly documented compliance with HUD's environmental review procedures, (5) the corporation completed a third emergency repair job for households within a grant year without notifying the County, (6) at least one member of a

¹ The renewals included \$665,000 in Block Grant funds for the periods April 1, 2016, through March 31, 2017, and May 1, 2017, through March 31, 2018.

² The more than \$1.7 million included more than \$106,000 in program income that the corporation was allowed to retain and use for its program.

household associated with an accessibility modification was disabled, and (7) the County ensured that the corporation reduced program income it received from its invoices for housing repair services.

Results of Audit

Finding: The County and Corporation Did Not Always Comply With HUD's Requirements in the Use of Block Grant Funds for the Program

The County and corporation did not always comply with HUD's requirements in the use of Block Grant funds for the program.³ Specifically, the County did not ensure that (1) it required the corporation to submit source documentation before providing it with Block Grant funds for housing repair services, (2) it provided the corporation Block Grant funds for eligible program expenses, (3) two households were eligible for assistance under the program, (4) it properly documented compliance with HUD's environmental review procedures, (5) the corporation notified the County before completing a third emergency repair job for households within a grant year, (6) a member of a household associated with an accessibility modification was disabled, and (7) the corporation reduced all of the program income it received from invoices for housing repair services. These weaknesses occurred because the County and corporation lacked adequate procedures and controls to ensure compliance with HUD's requirements in the use of Block Grant funds for the program. As a result, more than \$10,000 in Block Grant funds was not available for eligible expenses of the program, and HUD and the County lacked assurance that nearly \$13,000 in Block Grant funds was used in accordance with HUD's requirements.

The County Did Not Require the Corporation To Submit Source Documentation

The County did not require the corporation to submit source documentation, such as invoices and time sheets, before providing Block Grant funds for the housing repair services as required by HUD's regulations at 24 CFR (Code of Federal Regulations) 570.506. As a result of our audit, the County began requesting source documentation in February 2018.

The County Did Not Ensure That Block Grant Funds Were Used for Eligible Expenses

The County Provided Block Grant Funds for Labor, Which Exceeded Actual Labor Costs

We reviewed the nearly \$15,400 in Block Grant funds the County provided to the corporation for labor associated with 21 of the 23 jobs reviewed. Contrary to regulations at 2 CFR 200.403 and 200.404, the amount provided exceeded actual labor costs by \$4,822 (31.3

percent). The subrecipient agreement allowed the corporation to charge the County a labor rate of nearly \$48 per hour. However, the corporation provided documentation showing that the hourly rate, including fringe benefits, for 35 of the corporation's 37 employees who charged time

The County provided Block Grant funds for labor, which exceeded actual labor costs by more than 31 percent.

³ See appendix C of this audit report for the applicable requirements.

to one or more of the jobs, was less than \$48. Therefore, the labor rate in the subrecipient agreement was improper. The County also inappropriately provided the corporation \$988 in Block Grant funds for indirect costs associated with the excessive labor costs.⁴ The County's community development administrator stated that the County assumed that the corporation provided the County with supporting documentation to justify the rate of nearly \$48. The community development administrator added that failing to ensure that the rate was reasonable and supported was an oversight by the County.

Although we did not perform a 100 percent review of the labor costs associated with all 1,668 jobs that the corporation invoiced on April 2015 through November 2017 billing statements, we estimated, based on the results of our representative sample of 20 of the 1,660 jobs that did not exceed \$3,000 in total costs,⁵ that the County provided the corporation more than \$317,000 in Block Grant funds for excessive labor costs associated with the remaining 1,640 jobs (1,660 - the 20 jobs reviewed). We estimated that the County also inappropriately provided the corporation nearly \$65,000 in Block Grant funds for indirect costs associated with the excessive labor costs.⁶

The Corporation Lacked Sufficient Documentation To Support That Costs for Materials and Services Were Reasonable and Included a Surcharge on Materials

We reviewed the nearly \$18,800 in Block Grant funds that the County provided to the corporation for materials and services associated with 20 of the 23 jobs reviewed. The corporation did not solicit competitive quotations or maintain sufficient documentation to support that costs were reasonable for nearly \$5,000 (26.4 percent) in materials and services as required by regulations at 2 CFR 200.320(a). The County's community development administrator and the corporation's president stated that the County and corporation were not aware of the level of documentation required to support that a cost was reasonable. The president added that due to the amount of materials and services acquired by the corporation, many of which were low in cost, obtaining documentation to support that each cost was reasonable would not be an efficient use of the corporation's time or resources. However, as a result of our audit, the corporation obtained and provided sufficient documentation to support that the costs for the nearly \$5,000 in materials and services were reasonable.

Further, the corporation inappropriately included a 4 percent surcharge on all materials for 16 jobs, which resulted in an overpayment of \$182. The corporation's president stated that assessing a surcharge on materials was a common business practice in the private sector. The corporation's previous contracts with the County included the surcharge, and the corporation was not aware that the surcharge was not included in the subrecipient agreement. According to the County's community development administrator, the County identified the surcharge during its November 2017 monitoring of the corporation. However, the County did not include the issue in its January 2018 monitoring letter to the corporation and did not provide support that it notified the corporation in writing that the surcharge was inappropriate until after we identified it in our

⁴ Indirect costs associated with the 23 jobs were nearly 20.5 percent of direct job costs.

⁵ See the Scope and Methodology section.

⁶ Indirect costs associated with the 1,640 jobs were nearly 20.5 percent of direct job costs.

audit. The corporation’s chief financial officer stated that as a result of our audit, the corporation did not include the 4 percent surcharge on materials in its January 2018 invoice for housing repair services and would include only actual costs for materials on future invoices.

The Corporation Lacked Sufficient Documentation To Support Indirect Costs

We reviewed the \$7,128 in Block Grant funds the County provided to the corporation for indirect costs associated with the 23 jobs. The following table shows the subrecipient agreement period for each applicable grant year, the number of jobs, and the amount of Block Grant funds the County provided to the corporation for indirect costs associated with the 23 jobs reviewed.

Subrecipient agreement period (grant year)	Number of jobs	Amount
April 1, 2015, through March 31, 2016 (2015)	13	\$4,800
April 1, 2016, through March 31, 2017 (2016)	6	1,699
May 1, 2017, through March 31, 2018 (2017)	4	629
Totals	23	7,128

The amount provided for the indirect costs was nearly 17 (16.998) percent of the corporation’s total job costs as allowed in the indirect cost allocation plan in the subrecipient agreement and continued in the renewals of the agreement.⁷ The indirect cost allocation plan was supported by the corporation’s consolidated statements of functional expenses, which showed that general and administrative expenses were approximately 17.7, 17.9, and 17.1 percent of the total functional expenses for the years ended December 31, 2014, 2015, and 2016, respectively.⁸ However, the general and administrative expenses for the years ended December 31, 2014 and 2015, included direct lobbying expenses. Further, the corporation did not allocate indirect costs to the direct lobbying expenses as required by regulations at 2 CFR 200.405(b).

In response to our audit, the corporation provided schedules showing the total general and administrative expenses without the direct lobbying expenses. Based on the schedules, the total general and administrative expenses were nearly 17 (16.999) and 17.1 percent of the total functional expenses for the years ended December 31, 2014 and 2015, respectively. However, the corporation’s chief financial officer said that a small portion of lobbying-related expenses would also be included as part of the salaries allocated to general and administrative expenses.⁹ The chief financial officer added that the amount would be difficult to determine.

⁷ Exhibit B of the subrecipient agreement stated that indirect costs would be 17 percent of the total costs of the program. This is nearly 20.5 percent of the direct costs.

⁸ The consolidated statements of functional expenses for the years ended December 31, 2014, 2015, and 2016, were used to support the indirect cost allocation plan in the subrecipient agreement, the 2016 renewal of the agreement, and the 2017 renewal of the agreement, respectively.

⁹ Such salaries would have included employees’ time spent reviewing and discussing lobbying activities and reviewing, processing, and paying lobbying invoices.

In addition, the corporation's general and administrative expenses for the years ended December 31, 2015 and 2016, also included rent paid for a warehouse in Indiana. However, according to the chief financial officer, the warehouse was not associated with the County and did not directly or indirectly benefit the County's Block Grant-funded program.

Therefore, the total general and administrative expenses without direct lobbying expenses and rent for the warehouse in Indiana, as applicable, were nearly 17 (16.999), 17.1 (17.068), and 17.1 (17.051) percent of the total functional expenses for the years ended December 31, 2014, 2015, and 2016, respectively.

Because a small portion of lobbying-related expenses would also be included as part of the salaries allocated to general and administrative expenses and the corporation did not allocate indirect costs to the direct lobbying expenses, we were unable to determine whether the County provided Block Grant funds for indirect costs that included lobbying-related expenses. However, it appeared that the County provided the corporation Block Grant funds for indirect costs, which included an unknown amount of lobbying-related expenses, during at least the subrecipient agreement period from April 1, 2015, through March 31, 2016. This is because the County provided Block Grant funds for indirect costs at a percentage of the corporation's total job costs (16.998), which was approximately the same as the percentage of the corporation's general and administrative expenses without direct lobbying expenses in relation to total functional expenses for the year ended December 31, 2014 (16.999).

The corporation's president stated that based on a history of clean financial statement audits, the corporation was not aware of changes that needed to be made to improve its accounting for indirect costs. The president added that the general and administrative expenses in the corporation's consolidated statements of functional expenses did not include a number of delivery costs critical to completing the subrecipient agreement and these expenses were neither directly nor indirectly reimbursed by the County. Therefore, the corporation disagreed that lobbying expenses were paid for through the subrecipient agreement. However, the corporation did not provide sufficient documentation to support these statements.

The County's community development administrator stated that the County did not realize that the corporation's indirect cost allocation plan included lobbying-related expenses because it had not conducted an indepth review of the plan. The community development administrator stated that future subrecipient agreements with the corporation would no longer include indirect costs as an eligible expense.

The Corporation Lacked Sufficient Documentation To Support Household Eligibility

The County did not ensure that the corporation provided housing repair services to eligible households as required by the subrecipient agreement. The corporation lacked sufficient documentation to support that households associated with 3 of the 23 jobs reviewed were eligible for assistance. Contrary to HUD's requirements, the corporation used income documentation that was more than 12 months old to calculate the income for the households associated with two jobs. The County provided the corporation \$2,080 in Block Grant funds for the two jobs (more than \$1,400 for job number 264535 + nearly \$700 for job number 316196).

Further, the corporation lacked sufficient documentation to support the household size associated with another job. The household's application, dated March 29, 2017, included four members. However, two of the members had been crossed out. In addition, a notarized letter, dated March 14, 2017, stated that the two individuals with their names crossed out were not part of the household. With only two members, the household was not income eligible. The corporation then provided a notarized letter, dated April 18, 2017, stating that one of the two individuals who was crossed out had zero income for the previous 12 months. The letter did not state that the individual was a member of the household. The corporation determined that the household was income eligible on April 27, 2017. As a result of our audit, the corporation obtained and provided a notarized letter, dated April 25, 2018, stating that the individual had moved back into the house in April 2017 and still lived in the house.

In addition, the corporation did not always verify household income as required by the subrecipient agreement. Although the corporation had notarized letters for two members of separate households stating that the members were not receiving income when their income was verified, the corporation calculated annual income using old wage and tax statements.

The corporation's director of administration services stated that the corporation recertified a household's income based on when the corporation originally certified the household's income rather than the age of the income documentation used in the original certification.

The County Did Not Comply With Environmental Review Procedures

The County determined that all 23 jobs reviewed were exempt activities under regulations at 24 CFR 58.34(a)(10). However, the repairs did not qualify as exempt under section 58.34(a)(10) because the activities were not necessary to control or arrest the effects from disasters or imminent threats to public safety.¹⁰ Twenty of the jobs qualified as categorically excluded activities under regulations at 24 CFR 58.35(b)(3). The remaining three jobs qualified as categorically excluded activities under regulations at 24 CFR 58.35(a)(3)(i). In documenting compliance for the jobs as exempt activities, the County met the requirement of documenting compliance with applicable requirements at 24 CFR 58.6. However, for the three jobs that qualified as categorically excluded activities at 24 CFR 58.35(a)(3)(i), it did not document compliance with applicable requirements at 24 CFR 58.5. As a result of our audit, the County provided corrected environmental review determinations for all 23 jobs.

Further, the County did not document its environmental review determinations before the start of each job as required by regulations at 24 CFR 58.22(b). It documented the environmental review determinations an average of 121 days after the jobs had started.

The County's community development administrator stated that the County and the contractor that conducted environmental reviews for the jobs associated with the housing repair services program lacked an adequate understanding of HUD's requirements regarding environmental

¹⁰ The repairs included such items as plumbing, heating, and electrical maintenance and repairs, and roof and system replacements in owner-occupied homes.

reviews. In addition, the County believed that the environmental review determinations were not required to be documented before work started for emergency repairs.

The County Was Not Properly Notified Before Third Emergency Repairs Were Completed

We also reviewed all 1,668 jobs for which the County provided the corporation Block Grant funds to determine whether the corporation completed a third emergency repair job for a household within a grant year without notifying the County. The County's community development administrator stated that when the subrecipient agreement limited emergency repairs to two for a household per year, year meant the grant year.

The County provided the corporation nearly \$35,000 in Block Grant funds for 44 third or fourth emergency repair jobs completed within a grant year. However, the corporation could not provide support showing that it notified the County before it completed 37 (84.1 percent) of the jobs totaling \$31,235 (90 percent).

The corporation's director of administrative services said that the corporation tracked emergency repair jobs by calendar year.¹¹ However, the County provided the corporation nearly \$33,000 in Block Grant funds for 34 third or fourth emergency repair jobs completed within a calendar year, and the corporation could not provide support showing that it notified the County before it completed 31 (91.2 percent) of the jobs totaling \$29,130 (89.6 percent).

According to the corporation's president, the corporation disregarded its responsibility to notify the County before it completed third emergency repairs based on a diminished relationship with the County. The County's community development administrator stated that the County assumed that the corporation notified the County of all third emergency repairs.

As a result of our audit, the County provided third emergency requests from the corporation, which it retroactively approved for all 37 of the third or fourth emergency repair jobs that were completed within a grant year for which the corporation could not provide support showing that it notified the County before it completed the jobs.

The Corporation Lacked Sufficient Documentation to Support That a Household Member Was Disabled

We selected all 11 jobs exceeding \$2,500 to determine whether the jobs were emergency or critical repairs and the corporation requested and received approval from the County if required. The County provided the corporation \$48,991 in Block Grant funds for the 11 jobs. Although the corporation listed 10 of the 11 jobs as emergency repairs in the documentation it provided to the County, the corporation stated that all 11 jobs should have been listed as critical repairs.

¹¹ Therefore, we also reviewed all 1,668 jobs to determine whether the corporation completed a third emergency repair job for a household within a calendar year without notifying the County. The purpose of this review was to determine whether the corporation was notifying the County before completing a third emergency repair job for a household based on calendar year rather than grant year due to a misunderstanding of the language in the subrecipient agreement.

Therefore, the jobs would not have been subject to the \$2,500 limit for emergency repairs. Further, the jobs did not exceed \$10,500, the limit for critical repairs.

In addition, the corporation stated that 8 of the 11 critical repair jobs, totaling \$28,087, included accessibility modifications for clients with physical disabilities. However, the corporation did not maintain sufficient documentation to support that a member of one of the households was physically disabled as required by regulations at 2 CFR 200.403 and in accordance with the subrecipient agreement. The County provided the corporation \$4,953 in Block Grant funds for the job (job number 285743).

The corporation's president stated that the corporation relied on visual evidence to support that a member of a household was physically disabled. The president added that the County did not ask for documentation to support physical disabilities.

Program Income Received Was Not Always Reduced From the Corporation's Invoices

The County did not ensure that the corporation reduced all of the program income it received from its invoices for housing repair services as required by the subrecipient agreement.

Although the corporation reduced its April 2015 through November 2017 invoices to the County by more than \$106,000 in program income from loan repayments, it did not include \$4,127 in interest from two loan repayments it received in August and December 2015 as program income. Therefore, the County inappropriately provided the corporation more than \$4,100 in Block Grant funds for housing repair services. The corporation's controller stated that he did not realize that program income included the interest on loans made using Block Grant funds.

Further, the corporation mistakenly reduced its 2015 invoices to the County by \$3,979. The nearly \$4,000 included income from loan repayments associated with other programs or other funding sources and adjustments that were not program income. The corporation then increased its January 2016 invoice by \$4,086 to account for the nearly \$4,000 that it mistakenly reduced from the 2015 invoices. However, the corporation generally could not explain the \$107 difference. According to the corporation's controller, the mistakes that occurred in 2015 were a result of new staff members who lacked the initial training to correctly account for program income.

As a result of our audit, the corporation reduced its January and February 2018 invoices to the County by \$107 and \$4,127, respectively. The County's community development administrator stated that the County would apply the amounts as credits to future invoices once we completed our review.

Conclusion

The weaknesses described above occurred because the County and corporation lacked adequate procedures and controls to ensure compliance with HUD's requirements in the use of Block Grant funds for the program. As a result, more than \$10,000 in Block Grant funds was not available for eligible expenses of the program, and HUD and the County lacked assurance that nearly \$13,000 in Block Grant funds was used in accordance with HUD's requirements.

Recommendations

We recommend that the Director of HUD's Columbus Office of Community Planning and Development require the County to

- 1A. Implement adequate procedures and controls to ensure that it obtains and reviews source documentation, such as invoices and time sheets, to support that expenses are eligible before providing Block Grant funds to the corporation for housing repair services.
- 1B. Reimburse its Block Grant program from non-Federal funds for the \$5,810 it provided to the corporation for labor that exceeded actual labor costs (more than \$4,800) and indirect costs associated with the excessive labor costs (nearly \$1,000).
- 1C. Review the labor costs associated with the remaining 1,645 (1,668 - 23 reviewed) jobs that we did not review to determine whether the Block Grant funds it provided the corporation for labor exceeded the actual labor costs for each job. If the labor exceeded the actual labor cost for a job, the County should reimburse its Block Grant program from non-Federal funds for the excessive labor costs and the indirect costs associated with the excessive labor costs that the County provided to the corporation.
- 1D. Implement adequate procedures and controls to ensure that it does not provide the corporation Block Grant funds for excessive labor costs.
- 1E. Implement adequate procedures and controls to ensure that sufficient documentation is maintained to support that the cost of materials and services acquired for the program is reasonable.
- 1F. Reimburse its Block Grant program from non-Federal funds for the \$182 it provided to the corporation for a 4 percent surcharge that was inappropriately included on all materials.
- 1G. Support or reimburse its Block Grant program from non-Federal funds for the \$6,140 it provided to the corporation for indirect costs for which the corporation lacked sufficient documentation to support whether the indirect costs included lobbying-related expenses.¹²
- 1H. Support or reimburse its Block Grant program from non-Federal funds for the \$1,541 it provided to the corporation for jobs for which the corporation lacked

¹² We did not include \$988 in Block Grant funds the County provided to the corporation for indirect costs for which the corporation lacked sufficient documentation to support whether the indirect costs included lobbying-related expenses because we included that amount in recommendation 1B.

sufficient income documentation to support that the households were eligible for assistance.¹³

- 1I. Implement adequate procedures and controls to ensure that sufficient income documentation is maintained to ensure that households are eligible for assistance under the program and income is verified in accordance with HUD's requirements and the subrecipient agreement.
- 1J. Implement adequate procedures and controls to ensure that it properly documents compliance with HUD's environmental review procedures before the start of each job.
- 1K. Implement adequate procedures and controls to ensure that third emergency repairs are documented in writing and reported to the County before completion of assistance in accordance with the subrecipient agreement.
- 1L. Support or reimburse its Block Grant program from non-Federal funds for the \$4,953 it provided to the corporation for one job for which the corporation lacked sufficient documentation to support that a member of the household was physically disabled.
- 1M. Implement adequate procedures and controls to ensure that sufficient documentation is maintained to support that accessibility modifications are provided only to households with at least one member who is physically disabled.
- 1N. Reimburse its Block Grant program from non-Federal funds for the \$4,127 it inappropriately provided to the corporation due to not ensuring that the corporation reduced all of its program income from its invoices for housing repair services.
- 1O. Support or reimburse its Block Grant program from non-Federal funds for the \$107 it provided to the corporation for the January 2016 invoice that the corporation generally could not explain.
- 1P. Implement adequate procedures and controls to ensure that the corporation reduces program income from its invoices for housing repair services.

¹³ We did not include \$539 in Block Grant funds the County provided to the corporation for jobs for which the corporation lacked sufficient income documentation to support that the households were eligible for assistance because we included \$532 in recommendation 1B and \$7 in recommendation 1F.

Scope and Methodology

We performed our onsite audit work between January and April 2018 at the County's administration building and the corporation's office located at 138 East Court Street, Cincinnati, OH, and 4612 Paddock Road, Cincinnati, OH, respectively. The audit covered the period April 2015 through December 2017.

To accomplish our objective, we reviewed

- Applicable laws, Federal regulations at 2 CFR Part 200, HUD's regulations at 24 CFR Parts 58 and 570, and HUD's grant agreements with the County for Block Grant funds.
- The County's consolidated plan for 2015 through 2019, audited financial statements, subrecipient agreement with the corporation for the program, renewals of the subrecipient agreement, procedures, financial records, monitoring reports for the corporation's program, and organizational charts.
- The corporation's accounting and financial records, audited financial statements, policies and procedures, program documentation, and organizational charts.

In addition, we interviewed employees of the County and corporation and HUD's staff.

The County provided the corporation more than \$1.7 million in Block Grant funds for 1,668 housing repair service jobs that the corporation invoiced on April 2015 through November 2017 billing statements.¹⁴

During our survey, we selected for review 23 of the jobs totaling nearly \$42,000 in Block Grant funds. First, we selected a representative nonstatistical sample of 20 of the jobs totaling more than \$21,000 from the 1,660 jobs that did not exceed \$3,000. We used a representative nonstatistical sample during the survey because the number of jobs was too large to review 100 percent, we were determining whether we should review additional jobs during our audit, and we were not projecting the results to the population that we did not review. We also selected a nonstatistical sample of three of the jobs totaling nearly \$21,000 from the remaining eight jobs. We used a nonstatistical sample because we knew enough about the population to identify a relatively small number of items of interest that were likely to be misstated or otherwise have a high risk and we were not projecting the results to the population that we did not review. We reviewed the following for the 23 jobs: expenses, including labor costs, materials and services, and indirect costs; household income; and environmental reviews. Based on our survey results, we decided not to review additional jobs.

¹⁴ The 1,668 jobs included 1,660 jobs that did not exceed \$3,000. The remaining eight jobs averaged approximately \$5,100 per job.

Further, we selected all 1,668 jobs for review to determine whether the corporation completed a third emergency repair job for a household within a grant year without notifying the County.

We also selected the 11 jobs that exceeded \$2,500 to determine whether the jobs were emergency or critical repairs and the corporation requested and received approval from the County if required. The County provided the corporation nearly \$49,000 for the 11 jobs.

We relied in part on computer-processed data generated by the corporation. Although we did not perform a detailed assessment of the reliability of the data, we performed minimal levels of testing and found the data to be adequately reliable for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

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

- effectiveness and efficiency of operations,
- relevance and reliability of information, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The County and corporation lacked adequate procedures and controls to ensure compliance with HUD's requirements in the use of Block Grant funds for the program (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1B	\$5,810	
1F	182	
1G		\$6,140
1H		1,541
1L		4,953
1N	4,127	
1O		107
Totals	10,119	12,741

- 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

COUNTY EXECUTIVE SUMMARY

History

The Executive Summary by Board of County Commissioners on behalf of Hamilton County Planning and Development Department ("County") is a summary of the County's responses to the findings presented in the Draft Audit Report. The Executive Summary was prepared by the County to address specific issues noted in the Draft Audit Report.

Hamilton County is an entitlement grantee that received an annual allocation from the U.S. Department of Housing and Urban Development ("HUD") roughly \$2.8 million in Community Development Block Grant ("CDBG") funds from 2015 through 2017.

The County and People Working Cooperatively ("Corporation") have had a working relationship with one another for more than 30 years. Over the course of that time, PWC has a history of clean audits from independent auditors. In April 2015, as part of the Community Development Block Grant Program ("CDBG"), the County and Corporation entered into a subrecipient agreement to provide the Corporation \$665,000 for housing repair services to low income residents of Hamilton County. The County renewed the subrecipient agreement in 2016 and 2017. The County provided the corporation around \$1.7 million in Block Grant funds for 1,668 housing repair service jobs from April 2015 through November 2017.

As a result of email correspondence between the Corporation and the HUD office in Columbus, the HUD's Office of Inspector General ("OIG") commenced this audit of the County and Corporation subrecipient agreement. The objective was to determine whether the County and the Corporation complied with HUD's requirements in the use of Block Grant funds for the program.

Audit Findings

The County acknowledges there are some legitimate issues identified by the OIG in its Draft Audit Report. However, the County also acknowledges there is no definitive statement from the OIG that the CDBG funds were inappropriately apportioned outside the scope of the grant.

Format of the Audit Responses

The responses by the County have been presented in the form of a conclusion and short narrative. This includes a determination of whether the County agrees, partially disagrees, or disagrees with each finding. As used in the response, the conclusions are defined as follows:

- Agree - The County agrees, in total, with the work performed, state or federal guidelines cited, and the conclusions reached by the OIG. As noted below, however, the County does not agree to any Finding for Recovery (FFR).

Comment 1

Comment 1

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Auditee Comments

- Partially agree - The County agrees, in part, with the work performed, state or federal guidelines cited, and the conclusions reached by the OIG.
- Partially disagree - The County disagrees, in part, with the work performed, the applicability of the state or federal guidelines cited, or the conclusions reached by the OIG.
- Disagree - The County disagrees, in total, with the work performed, the state or federal guidelines cited, as applicable, and the conclusions reached by the OIG

The County’s narratives to each of the findings in the Draft Audit Report can be found directly following each OIG finding. The County provided thorough responses to address issues that had been raised and to validate those issues or to determine where there may be professional disagreements with the conclusions reached by the OIG.

Summary of the County’s Responses to the OIG Draft Audit Report

Comment 2

1. The County did not require the Corporation to submit source documentation.

Response: **Disagree**; all invoices and attached documentation were properly maintained by the County in compliance with 24 CFR 570.506.

Comment 3

2. The County did not ensure Block Grant Funds were used for eligible expenses.

Response: **Partially agree**; other than a failure of the Corporation to provide adequate documentation to evidence the entire labor rate set forth in the subrecipient agreement with the County there is no assertion or evidence to show that the County failed to comply with the remaining criteria set forth in 2 CFR 200.403. Additionally, there has been no assertion, facts or evidence provided by the OIG to negate reasonableness of the labor consistent with the considerations described in 2 CFR 200.404.

Comment 4

3. The Corporation lacked sufficient documentation to support costs for materials and services were reasonable and included a surcharge on materials

Response: **Partially disagree** with OIG’s assertion that the Corporation lacked sufficient documentation to support a) that costs for material and services were reasonable, and b) the inclusion of a surcharge on materials

Comment 5

4. The Corporation lacked sufficient documentation to support indirect costs.

Response: **Partially agree**; The County acknowledges the corporation may not have allocated indirect costs to the direct lobbying expenses as required by regulations at 2 CFR 200.405(b). However, absent a detailed calculation from the OIG, the County is

**Ref to OIG
Evaluation**

Comment 5

Auditee Comments

unable to determine how much if any, of the funds asserted to be lobbying expenses that should be returned.

5. The Corporation lacked sufficient documentation to support household eligibility.

Response: **Agree** the Corporation may have failed to provide evidence that housing repair services were provided only to eligible households, as required by the subrecipient agreement.

6. The County did not comply with Environmental Review Procedures.

Response: **Agree**

7. The County was not properly notified before third party repairs were completed

Response: **Agree**

8. The Corporation lacked sufficient documentation to support that a household member was disabled.

Response: **Agree**; the County acknowledges the OIG's assessment that the Corporation may not have maintained sufficient documentation to support that a member of one of the households was physically disabled as required by regulations at 2 CFR 200.403.

9. Program Income received was not always reduced from the Corporation invoices.

Response: **Agree**; The County acknowledges the OIG's conclusion that the Corporation may not have reduced all of the program income it received from its invoices for housing repair services as required by the subrecipient agreement.

Conclusion

The County's narrative to the Draft Audit Report is to provide clarity to its position on the OIG's audit findings. While the County may agree with specific findings, the County maintains its subrecipient agreement required compliance with the majority of issues identified by the OIG. County has taken the necessary corrective actions for issues identified by the OIG and have instituted procedural safeguards for the future.

Comment 6

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

Comment 2

Comments 2
and 7

Comment 2

Comment 8

COUNTY NARRATIVE

1. County Did Not Require the Corporation to Submit Source Documentation.

The County respectfully disagrees with the OIG assessment that the County did not require the Corporation to submit source documentation for housing services as required by HUD’s regulations at 24 CFR 570.506.

The report asserts that the Corporation failed to submit source documentation, such as invoices and timesheets, prior to the payment of Block Grants funds by the County. HUD’s cited regulation at 24 CFR 570.506 requires a recipient to establish and *maintain* sufficient records to allow HUD to determine if a recipient has met the requirements of this part (emphasis added). Section II.D of the subrecipient agreement, in fact, required the Corporation to submit invoices or other reimbursable billing documents detailing the services rendered, including charge rates, number of hours, materials or supplies consumed, *and other information needed to support the invoice to the County* (emphasis added). The invoices submitted by the Corporation to the County included information necessary to support such invoice. The information submitted as a part of the invoicing process, included the following: i) summary document detailing the final charges to the County; ii) worksheet detailing job number, address, direct cost of providing service, associated indirect costs, total due from the County; iii) required reductions due to the Corporation’s receipt of program income; and iv) if necessary, a report of declined services for non-participating communities.

It should be further noted that Section VII of the subrecipient agreement required the Corporation to prepare and retain records for the period specified in 24 CFR 570.502, and permit access to the County, HUD and the Comptroller General to inspect, as deemed necessary, program records. The subrecipient agreement, inter alia, specifically required the Corporation to maintain final records and documentation sufficient to support the payment of expenses. The sufficiency of documentation that was ultimately provided by the Corporation is evident since there is no repayment amount associated with this finding.

Because all invoices and attached documentation were properly maintained by the County in compliance with 24 CFR 570.506, the County respectfully disagrees with this finding.

Corrective Action: Based upon the OIG’s assertion that source documentation is required at the time an invoice is submitted, beginning in February of 2018 and on an ongoing basis, the County specifically began requesting source documentation to be included as part of an invoice. Further, the County has suspended all payments to Corporation pending the receipt and review of the required source documentation. The source documentation requested is as follows:

- a. Work orders;

Ref to OIG Evaluation

Comment 8

Auditee Comments

- b. Staff time sheets (all times will be in 15 minutes increments);
- c. Actual evidence of actual payroll amounts and related fringe benefits
- d. Mileage odometer data; and
- e. Receipts for materials and supplies, etc.

2. **The County Did Not Ensure that Block Grant Funds Were Used for Eligible Expenses**

The County partially agrees with the OIG conclusion that the County provided Block Grant Funds for labor that exceeded actual labor costs.

The OIG Report asserts that contrary to regulations at 2 CFR 200.403 and 200.404, the subrecipient agreement allowed the Corporation to charge the County a labor rate of nearly \$48 per hour in excess of actual labor costs.

The subrecipient agreement set forth a labor rate of \$47.75 per hour. Based upon the documentation provided by the Corporation to the OIG, the hourly labor rate, including fringe benefits, for 35 of the Corporation's 37 employees that charged time to one or more of the jobs reviewed by the OIG was less than the \$47.75 rate. The OIG report determined the labor rate was not substantiated by the Corporation. Consequently the OIG report concluded that \$4,899 in labor costs plus \$1,003 in associated indirect costs were not permitted.

The County does not dispute costs chargeable to a federal award are governed by 2 CFR 200.403 and 2 CFR 200.404. 2 CFR 200.403 provides that costs must meet the following eight (8) general criteria in order to be allowable under Federal awards:

- a. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- d. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

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Auditee Comments

Comment 3

Comments 3 and 9

- e. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period ;
- g. Be adequately documented.

Other than a failure of the Corporation to provide adequate documentation to evidence the *entire* labor rate set forth in the subrecipient agreement with the County (emphasis added); there is no assertion or evidence to show that the County failed to comply with the remaining criteria set forth in 2 CFR 200.403. The OIG's statement that the County did not ensure that Block Grant funds were used for eligible expenses is without merit. While the OIG determined there was an issue related to the documentation of the complete labor cost, there are no facts or evidence provided by the OIG to suggest the expenses could not have been paid under the subrecipient agreement, if complete substantiation had been available. In this same regard, the OIG did not question the type or character of the cost in relation to the subrecipient agreement. Consequently, the County respectfully disagrees with the OIG statement that labor was not an eligible expense that could be paid for with Block Grant funds

As for the reasonableness of the labor costs set forth in the subrecipient agreement, 2 CFR 200.404 provides, in pertinent part, that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In ascertaining if a cost is reasonable, consideration should be given to the following:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- c. Market prices for comparable goods or services for the geographic area.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where

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Evaluation**

Auditee Comments

Comment 3

applicable its students or membership, the public at large, and the Federal government.

- e. Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Comments 3
and 9

The sole assertion of the OIG report, in relation to this cost, is the failure of the Corporation to provide adequate documentation to evidence the *entire* labor rate that was set forth in the subrecipient agreement (emphasis added). There has been no assertion, facts or evidence provided by the OIG to negate reasonableness of the labor consistent with the considerations described in 2 CFR 200.404. To the contrary, the County was provided a report from KZF Design to suggest the costs were in correlation with the regional industry standard.¹ This correspondence supports reasonableness of the County's payment of a \$47.75 labor rate and to trades workers.

Consequently, the County respectfully disagrees with the OIG statement that labor was not an eligible expense that could be paid for with Block Grant funds.

Corrective Action:

Comment 10

The County has and will continue to request documentation from the Corporation in order to review labor rates. If required, the County will undertake to perform a complete review of the labor costs associated with all 1,668 jobs that the Corporation invoiced for April 2015 through November 2017 along with associated indirect costs. The County continues to explore that possibility of using an outside accounting firm to ensure completeness of calculations of the labor rate.

Comment 10

County will update contract terms and conditions in future contracts to state that County will only compensate subrecipients for the actual labor rate of those performing services. If appropriate, County would consider a statistical sample.

3. The Corporation Lacked Sufficient Documentation to Support that Costs for Material and Services were Reasonable and Included a Surcharge on Materials.

Comment 4

The County partially disagrees with OIG's assertion that the Corporation lacked sufficient documentation to support a) that costs for material and services were reasonable, and b) the inclusion of a surcharge on materials

¹ The report was referenced by PWC in a letter to the County. The County obtained the report through the City and can be made available upon request.

**Ref to OIG
Evaluation**

Auditee Comments

Comments 4
and 11
Comment 4

Comment 12

- a. The OIG report states the Corporation did not solicit competitive quotations or maintain sufficient documentation to support the costs were reasonable pursuant to 2 CFR 200.320(a). 2 CFR 200.67 provides that a micro-purchase is a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. Non-Federal entities², such as the Corporation, use such procedures in order to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost.³ 2 CFR 200.320(a) provides that “micropurchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.” As discussed in Finding #2, 2 CFR 200.404 provides, in pertinent part, that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The costs of the materials purchased by the County ranged from as low as 89 cents to as high as \$565.

Contrary to the OIG Report and consistent with the cited regulation, the Corporation was *not* required to seek competitive quotations for the purchases described in this finding. There have been no assertions, facts, or evidence provided by the OIG to negate reasonableness of the cost of the materials and supplies consistent with the considerations described in 2 CFR 200.404. The sufficiency of documentation that was ultimately provided by Corporation is evident since there is no repayment amount associated with a finding that the costs were not reasonable.

- b. The County agrees with OIG’s assessment that the Corporation inappropriately included a four (4) percent surcharge resulting in an overpayment of \$182.

Corrective Action:

Beginning in February of 2018, and on an ongoing basis, the County specifically began requesting source documentation to be included as part of an invoice. Future contracts will stipulate that no surcharge can be added to material and services.

4. The Corporation Lacked Sufficient Documentation to Support Indirect Costs.

The County partially agrees with the OIG’s assessment that the Corporation lacked sufficient documentation to support indirect costs.

² 2 CFR 200.69 defines, in pertinent part, a non-Federal entity as a nonprofit organization that carries out a Federal award as a recipient or subrecipient.

³ 2 CFR 200.320(a) states procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed \$3,000.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 5

The OIG Report asserts the Corporation's general and administrative expenses' used to calculate permitted indirect costs included direct lobbying. Consequently, the Corporation did not allocate indirect costs to the direct lobbying expenses as required by 2 CFR 200.405(b).

The County acknowledges the corporation may not have allocated indirect costs to the direct lobbying expenses as required by regulations at 2 CFR 200.405(b) which states, "all activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs." The OIG Report indicates the Corporation's Chief Financial Officer explained to OIG that a small portion lobbying of related expenses would be a part of the salaries allocated to general and administrative expenses.

The OIG Report also states it was unable to determine whether the County provided Block Grant funds for indirect costs that included lobbying expenses. However, the OIG Report presumes the County provided Block Grant funds for lobbying related expenses during the subrecipient agreement period from April 1, 2015 through March 31, 2016. The OIG explains the County provided Block Grant funds for indirect costs at a percentage of the corporation's total job costs (16.998), which was approximately the same as the percentage of the corporation's general and administrative expenses without direct lobbying expenses in relation to total functional expenses for the year ended December 31, 2014 (16.999).

Absent a detailed calculation from the OIG, the County is unable to determine how much if any, of the funds asserted to be lobbying expenses that should be returned. Consequently, the County respectfully disagrees with this finding.

Comment 13

The County is willing to work with the Corporation to ascertain whether the Corporation used Block Grant funds for indirect costs that included lobbying expenses. Further, the County is continuing to work with the Corporation to support the Corporation's assertion that the consolidated statements of functional expenses did not include a number of delivery costs that were neither directly nor indirectly reimbursed by the County. In this same regard, the County will work with the Corporation to determine issues related to rent for a warehouse in Indiana that was included in the Corporation's general and administrative expenses for the years ended December 31, 2015 ad 2016.

Corrective Action:

Comment 13

The County has determined that future contracts will not permit the payment of indirect costs; only direct costs will be reimbursed as billed with source documentation included as a part of each monthly invoice.

5. The Corporation Lacked Sufficient Documentation to Support Household Eligibility

**Ref to OIG
Evaluation**

Auditee Comments

Comment 14

The OIG Report indicates the County did not ensure that the Corporation provided housing repair services to eligible households as required by the subrecipient agreement.

As a subrecipient of the County, the Corporation was required to determine eligibility for housing repairs. The County agrees the Corporation may have failed to provide evidence that housing repair services were provided only to eligible households, as required by the subrecipient agreement.

Corrective Action:

Any future contract will specify that income calculations will be based on current information, including anticipated income. In addition, the County will ensure all reported financial information, including but not limited to reported income, is within the previous twelve months.

6. The County did not comply with Environmental Review Procedures.

The County agrees with the conclusion in the OIG Report.

The OIG Report asserts that the County did not fully comply with the Environmental Review Procedures at 24 CFR 58.34. Specifically, the OIG Report indicates the 23 jobs reviewed were considered exempt activities by the County pursuant to 24 CFR 58.34(a)(10). However, the OIG determined that since the repairs were not necessary to control or arrest the effects from disasters or imminent threats to public safety, the repairs did not qualify as exempt under 24 CFR 58.34(a)(10). Instead, the OIG found that 20 of the jobs were categorically excluded activities under 24 CFR 58.35(b)(3) while the remaining 3 jobs were categorically excluded activities under 24 CFR 58.35(a)(3)(i). For these 3 jobs, the OIG asserted the County did not document compliance under 24 CFR 58.5. However, in documenting compliance for the jobs as exempt activities, the OIG did determine the County met the requirements at 24 CFR 58.6. Although environmental reviews are required before the start of each job, as a result of the audit, the County provided corrected environmental review determinations for all 23 jobs.

Corrective Action:

Any future contracts will include language that environmental reviews will be completed prior to work being started for all jobs except for those jobs in which necessity requires completion within 24 hours of the request. The County will develop policies and procedures that will outline processes for sharing addresses and scope of work for each work order.

7. The County was not Properly Notified before Third Emergency Repairs were completed.

The County acknowledges and agrees with the OIG's assessment that at the time of the audit the Corporation did not provide documentation evidencing the Corporation notified the County

Comment 15

**Ref to OIG
Evaluation**

Auditee Comments

Comment 16

before it completed a third emergency repair job for a household with either a grant or calendar year as required by the subrecipient agreement.

Pursuant to Exhibit A of the subrecipient agreement, the Corporation was required to notify the County of “the need for third emergencies in exceptional cases must be documented in writing and reported to the County prior to completion of assistance.” According to the OIG Report, the Corporation reported to OIG it disregarded its responsibility to notify the County before it completed third emergency repairs based on a diminished relationship with the County.

The County, in good faith, expected that the Corporation would comply with the provisions of the subrecipient agreement in relation to these types of repairs. The County originally provided for fax notification and later permitted email notification. Consequently, all needed notification processes were in place and available to the Corporation. Regardless of the manner in which the Corporation purportedly described the nature of the relationship with the County, at no time did the County expect that the provisions of the subrecipient agreement would not be complied with. Additionally, this has not prevented the Corporation from contacting the County with other communications during this time period.

Corrective Action:

On an ongoing basis, the County plans to only allow two (2) emergency repair requests per grant year. Furthermore, monthly reports will include the number of repairs completed per year for each address.

8. **The Corporation Lacked Sufficient Documentation to Support that a Household Member was disabled.**

The County acknowledges and agrees with the OIG’s assessment that the Corporation may not have maintained sufficient documentation to support that a member of one of the households was physically disabled as required by regulations at 2 CFR 200.403.

The County required the Corporation to document a household member was disabled. Pursuant to Exhibit A of the subrecipient agreement, critical repairs would, “include accessibility modifications for persons with physical disabilities, *as certified by PWC*” (emphasis added).

Comment 17

Although the OIG Report states the Corporation did not maintain sufficient documentation, the County will continue to work with the Corporation to locate the documentation to support that the member in question was disabled.

Corrective Action:

Comment 17

Future contracts will clarify that when accessibility modifications are included in work orders, verification must be included from a medical professional to document the physical disability of

**Ref to OIG
Evaluation**

Comment 17

Auditee Comments

at least one household member. Policies and procedures will outline what is acceptable to meet this requirement.

9. Program Income Was Not Always Reduced from the Corporation's Invoices.

The County agrees with the OIG's conclusion that the Corporation may not have reduced all of the program income it received from its invoices for housing repair services as required by the subrecipient agreement.

24 CFR 570.500(1)(v) provides that payments of principal and interest on loans made using CDBG funds shall be included in program income. The OIG's report states the Corporation did not include \$4,127 in interest from two loan payments it received in August and December 2015 as program income, consequently causing the County to improperly provide more than \$4,100 in Block Grant funds for housing repair services. Section III (B) of the subrecipient agreement along with Exhibit B requires all program income received from Block Grant funded activities to be considered program income and subject to 24 CFR 570.504 of the CDBG regulations. Therefore, the County did require the Corporation to include the interest from loan repayments as part of the program income.

The County acknowledges and agrees with the OIG's assessment that the Corporation may have mistakenly reduced its 2015 invoices and then inaccurately increased its January 2016 invoice resulting in an extra charge of \$107.

Although the County planned to credit the \$4,127 and \$107 amounts against any future invoices that it receives from the Corporation; the OIG recommends the County reimburse the money directly.

Corrective Action:

The County will work to confirm that all future invoices include monthly loan portfolio reports showing payments made, loan balances and loan due dates.

Signed:

Date:

//Signed// _____

9/12/18 _____

Comment 18

OIG Evaluation of Auditee Comments

- Comment 1 It is not clear what the County meant when it stated that we did not make a definitive statement that Block Grant funds were inappropriately apportioned outside the scope of the grant. However, as stated in the audit report, the County and corporation did not always comply with HUD's requirements in the use of Block Grant funds for the program. Specifically, the County did not ensure that (1) it required the corporation to submit source documentation before providing it with Block Grant funds for housing repair services, (2) it provided the corporation Block Grant funds for eligible program expenses, (3) two households were eligible for assistance under the program, (4) it properly documented compliance with HUD's environmental review procedures, (5) the corporation notified the County before completing a third emergency repair job for households within a grant year, (6) a member of a household associated with an accessibility modification was disabled, and (7) the corporation reduced all of the program income it received from its invoices for housing repair services. As a result, more than \$10,000 in Block Grant funds was not available for eligible expenses of the program, and HUD and the County lacked assurance that nearly \$13,000 in Block Grant funds was used in accordance with HUD's requirements. Regulations at 24 CFR 570.501(b) state that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of subrecipients or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise.
- Comment 2 The corporation submitted billing statements to the County that included the corporation's invoices to the County and detailed supporting schedules that showed the work the corporation completed under the program. However, the billing statements did not include source documentation, such as invoices from vendors and time sheets for the corporation's employees, to support the corporation's invoices to the County and detailed supporting schedules. Therefore, the County did not maintain sufficient documentation to enable HUD to determine whether the corporation met the requirements of 24 CFR Part 570. Further, the County did not require the corporation to submit source documentation, such as invoices and time sheets, before providing Block Grant funds for the housing repair services as required by HUD's regulations at 24 CFR 570.506.
- Comment 3 The corporation provided documentation showing that the hourly rate, including fringe benefits, for 35 of the corporation's 37 employees who charged time to one or more of the jobs, was less than \$48. Regulations at 2 CFR 200.403 require all Federal award costs to be reasonable. Section 200.404 states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the

decision was made to incur the cost. It was not prudent for the County to provide Block Grant funds to the corporation for labor that exceeded actual labor costs. Therefore, contrary to regulations at 2 CFR 200.403 and 200.404, the amount of Block Grant funds the County provided the corporation for labor exceeded actual labor costs by more than \$4,800. Further, the labor rate in the subrecipient agreement was improper.

- Comment 4 Regulations at 2 CFR 200.320(a) state that micropurchases may be awarded without soliciting competitive quotations **if** the non-Federal entity considers the price to be reasonable. The corporation did not maintain sufficient documentation to support that costs were reasonable for nearly \$5,000 in materials and services. Further, it did not solicit competitive quotations for the costs. Therefore, the corporation did not solicit competitive quotations or maintain sufficient documentation to support that costs were reasonable for nearly \$5,000 in materials and services as required by regulations at 2 CFR 200.320(a).
- Comment 5 Because a small portion of lobbying-related expenses would also be included as part of the salaries allocated to general and administrative expenses and the corporation did not allocate indirect costs to the direct lobbying expenses, we were unable to determine whether the County provided Block Grant funds for indirect costs that included lobbying-related expenses. Therefore, the corporation lacked sufficient documentation to support indirect costs.
- Comment 6 The County should work with HUD's Columbus Office of Community Planning and Development to resolve the recommendations in the audit report.
- Comment 7 The corporation maintained and provided the OIG with source documentation such as invoices and time sheets to support the billing statements it submitted to the County. However, if the County would have obtained and reviewed sufficient source documentation, such as invoices and receipts for materials, before providing Block Grant funds to the corporation for housing repair services, it may not have overpaid the corporation \$182 associated with a 4 percent surcharge the corporation inappropriately included on materials.
- Comment 8 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendation 1A.
- Comment 9 The audit report did not state that labor was not an eligible expense that could be paid with Block Grant funds.
- Comment 10 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendations 1B, 1C, and 1D, including reimbursing its Block Grant program from non-Federal funds for the \$5,810 it provided to the corporation for labor that exceeded actual labor costs (more than \$4,800) and indirect costs associated with the excessive labor costs (nearly \$1,000).

- Comment 11 The audit report does not state that the corporation was required to seek competitive quotations for the materials and services.
- Comment 12 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendations 1E and 1F, including reimbursing its Block Grant program from non-Federal funds for the \$182 it provided to the corporation for a 4 percent surcharge that was inappropriately included on all materials.
- Comment 13 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendation 1G, including supporting or reimbursing its Block Grant program from non-Federal funds for the \$6,140 it provided to the corporation for indirect costs for which the corporation lacked sufficient documentation to support whether the indirect costs included lobbying-related expenses.
- Comment 14 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendations 1H and 1I, including supporting or reimbursing its Block Grant program from non-Federal funds for the \$1,541 it provided to the corporation for jobs for which the corporation lacked sufficient income documentation to support that the households were eligible for assistance.
- Comment 15 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendation 1J.
- Comment 16 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendation 1K.
- Comment 17 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendations 1L and 1M, including supporting or reimbursing its Block Grant program from non-Federal funds for the \$4,953 it provided to the corporation for one job for which the corporation lacked sufficient documentation to support that a member of the household was physically disabled.
- Comment 18 The County should work with HUD's Columbus Office of Community Planning and Development to resolve recommendations 1N, 1O, and 1P, including (1) reimbursing its Block Grant program from non-Federal funds for the \$4,127 it inappropriately provided to the corporation due to not ensuring that the corporation reduced all of its program income from its invoices for housing repair services and (2) supporting or reimbursing its Block Grant program from non-Federal funds for the \$107 it provided to the corporation for the January 2016 invoice that the corporation generally could not explain.

Appendix C

Applicable Requirements

Regulations at 2 CFR 200.320(a) state that micropurchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

Regulations at 2 CFR 200.403 require all Federal award costs to be reasonable and adequately documented. Section 200.404 states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Regulations at 2 CFR 200.405(b) state that all activities which benefit from the non-Federal entity's indirect cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

Regulations at 2 CFR 200.450(c) regarding lobbying state that nonprofit organizations' costs associated with the following activities are unallowable: (1) attempts to influence the outcome of any Federal, State, or local election, referendum, initiative, or similar procedure through in-kind or cash contributions, endorsements, publicity, or similar activity; (2) establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections in the United States; and (3) any attempt to influence the introduction of Federal or State legislation or the enactment or modification of any pending Federal or State legislation through communication with any member or employee of Congress or the State legislature.

Appendix A, section C.1, of 2 CFR Part 225¹⁵ requires all Federal award costs to be reasonable and adequately documented. Section C.2 states that a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Regulations at 24 CFR 58.22(b) state that if an activity is exempt or categorically excluded, no request for release of funds is required and the recipient may undertake the activity immediately after the responsible entity has documented its determination as required but the recipient must comply with the applicable requirements in 24 CFR 58.6.

Regulations at 24 CFR 58.34(a)(10) state that exempt activities include assistance for temporary or permanent improvements that do not alter environmental conditions and are limited to protection, repair, or restoration activities necessary only to control or arrest the effects from disasters or imminent threats to public safety, including those resulting from physical deterioration.

¹⁵ Office of Management and Budget Circular A-87 was relocated to 2 CFR Part 225.

Regulations at 24 CFR 58.35 require compliance with the other applicable Federal environmental laws and authorities listed in 24 CFR 58.5 for any categorical exclusion listed in section 58.35(a). Section 58.35(a)(3)(i) states that rehabilitation of buildings and improvements, in the case of a building for residential use in which the density is not increased by more than four units and the land use is not changed, qualify as categorically excluded activities that are subject to 24 CFR 58.5. Section 58.35(b)(3) states that operating costs, including maintenance, security, operation, utilities, furnishings, equipment, supplies, and other incidental costs, qualify as categorically excluded activities that are not subject to 24 CFR 58.5.

Regulations at 24 CFR 570.200(a)(4) state that the environmental review procedures in 24 CFR Part 58 must be completed for each activity or project as applicable.

Regulations at 24 CFR 570.501(b) state that a recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of subrecipients or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts and for taking appropriate action when performance problems arise.

As of April 1, 2015, regulations at 24 CFR 570.502(a) stated that recipients that are governmental entities must comply with Office of Management and Budget Circular A-87. As of April 1, 2016, regulations at 24 CFR 570.502(a) state that grantees and subrecipients must comply with 2 CFR Part 200, uniform administrative requirements, costs principles, and audit requirements for Federal awards.

Regulations at 24 CFR 570.503(a) state that before disbursing any Block Grant funds to a subrecipient, the recipient must sign a written agreement with the subrecipient. The agreement will remain in effect during any period in which the subrecipient has control over Block Grant funds, including program income.

Regulations at 24 CFR 570.506 state that each recipient must establish and maintain sufficient records to enable HUD to determine whether the recipient has met the requirements of 24 CFR Part 570.

The answer to a Block Grant entitlement frequently asked question, dated May 2015, states that Block Grant policy allows income information to be up to 12 months old.

Section VIII.B. of the subrecipient agreement stated that the corporation must comply with the regulations at 2 CFR Part 200, effective on December 26, 2014.

Exhibit A, section I, of the subrecipient agreement stated that the maximum allowable estimated cost of an emergency repair without County approval was \$2,500. Further, emergency repairs would be limited to two for a household per year. The need for a third emergency repair in exceptional cases must be documented in writing and reported to the County before completion of assistance. The maximum allowable cost of a critical repair without County approval was \$10,500. Further, critical repairs would include accessibility modifications for persons with physical disabilities as certified by the corporation.

Exhibit A, section I, of the subrecipient agreement stated that owner occupants of property not exceeding three dwelling units per building whose household income in the previous 12-month period did not exceed 50 percent of the median income for the County by family size as defined by HUD's income limits would be eligible for assistance. If there had been a recent substantial change in income due to unemployment, projected income for the following 3 months would be used.

Exhibit B of the subrecipient agreement stated that program income would be retained by the corporation and used to provide additional eligible services. Program income would be shown as credits on the corporation's monthly invoices for payment of services provided.